

Islands in the Stream

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Although politics are steadier in Mexico than Brazil, the National Action Party which governed for seven decades is not down and out and recently President Enrique Peña Nieto's Institutional Revolutionary Party was hammered in 12 states following elections for governors. And since 2000 no president has enjoyed the luxury of having a majority in Congress. In Latin America this situation is frequently the albatross around a president's neck. The Mexican president's party could be vulnerable to a resurgent National Action Party in presidential elections in 2018 if "normal populism" returns, a term coined by Moisés Naím of the Carnegie endowment for International Peace, as opposed to the "super populism" as he calls it, seen in Venezuela and previously in Argentina. Meanwhile, the economy – if not exciting – is solid, with a dozen Mexican states growing at Asian rates.

It does seem that for now, at least, Latin America, as one commentator put it, is under new management. This contention was supported by the recent election of Pedro Pablo Kuczynski, a wise head on old shoulders, as Peru's new president, after he defeated, albeit narrowly, Keiko Fujimori, a right wing populist and daughter of a disgraced former president who languishes in jail. The outcome of the vote actually bettered the narrow margin of the UK Brexit vote – 50.01% to 49.9%. It doesn't get closer than that. The economist-turned-president has a similar sensible approach to that of Mauricio Macri, Argentina's new president, and wants to push for public investment and infrastructure development. Importantly, the country is in a pretty good economic position with fiscal reserves of around 15% of GDP and international reserves at 30% of GDP.

The skeleton in the cupboard from the bad old days, as we know, is Venezuela which is an embarrassment to the other countries because it has now descended into a dictatorship at a time when an economic slowdown has inclined regional governments to orthodoxy; after all, regional output is expected to shrink for a second year in a row, which has not happened since the lost decade of the 1980s. It was fine for populist governments at the turn of the century when they were riding the crest of a wave during a global commodity boom, now replaced by commodity gloom. In Venezuela's case the finance commission of the opposition-controlled National Assembly has estimated that 17 years of Chavismo has seen more than USD425 billion of public money either stolen or wasted.

On the issue of worldwide resentment towards the elitist class, there is also a fury over malfeasance by those in public office. Examples of political corruption in the region abound and include the Petrobras USD3 billion kickback scheme which has led to the arrest of senior Brazilian law makers. In another extraordinary example, José López, who for 12 years was secretary of public works in Argentina, was arrested while trying to bury just over USD9 million in cash in various currencies, including yen, under cover of night in a convent. Armed with an automatic rifle, he was seen in the western suburb of Buenos Aires as he climbed over the convent's gate after having thrown bulging black bin liners over a wall. Mr. López claimed that he was making a donation. Nun but the brave? Sorry sisters. He is just a further example of the chicanery surrounding former President Cristina Fernández who now faces the prospect of jail as more damning facts come to light. She has lost influence and been deserted by most of her Peronist movement; if Panama has its papers, Argentina has its paper tigress.

There are external factors that will impact right across Latin America, in the coming years, regardless of what happens in the region itself and no matter how effective the present drive for clean politics might be. In two words, China and the United States of America. In the case of China, with its apolitical stance and policy of non-interference in a country's internal affairs, this has meant that it has followed the Sergio Leone principle: directing the good, the bad and the ugly and, like the director of Spaghetti westerns fame, turning it into a great success.

Back in July, ("The Problem with Parrots" – Issue 268) I wrote about islands representing some 5% of the world's surface, but the islands of influence that China is creating are destined to exceed that global percentage, as the country moves more into the mainstream of geopolitics and also the global economy. According to The Banker, which ranks the top 1,000 banks by Tier-1 capital holdings (essentially common stock and retained earnings), Chinese banks now occupy four of the top five places.

China's strategy has been, and continues to be, to first create such islands of influence in Latin America upon which they continue to build, and which, unlike those actual islands in the South China Sea, have not caused a political firestorm. The spokesperson of the Chinese Embassy in the United Kingdom argues that his country is the oldest in the region and that the sovereignty claim has a concrete, historical and legal foundation; perhaps had the expanse of ocean been known as the South Asia Sea this might have countered the claim more forcefully.

The US fears the rise of China as a military force just as the UK did Germany a century ago; let's hope that if China stays in the doghouse that whoever occupies the White House next year will not be caught by the "Thucydides' trap", named after the Greek historian who observed that the war between Athens and Sparta in the fifth century BC resulted from Sparta's fear of an emerging, powerful Greece.

Whilst it is true that renewing old Latin American ties has proceeded at a snail's pace in the case of the US, we have to appreciate that it has had its attention deflected by crisis after crisis in the Middle East and elsewhere – not to mention the lure of Asian trade. But a very positive move was made when rapprochement with Cuba occurred and also after President Obama flew this year to Argentina and met with its new president, Mauricio Macri. Any efforts, however, at playing catch-up with the Chinese will involve years of patient diplomacy. This brings me back to Donald Trump who stands in stark contrast to that doyenne of the Democratic party, Hilary Clinton, and who is a personification of present-day Washington politics.

Should Mr. Trump succeed and occupy the White House in January next year, would those diplomatic efforts in Cuba be at risk? Anyway, I suspect that the Chinese can go on quietly developing their islands of influence and which won't, in metaphorical terms, be buzzed by Pentagon surveillance drones. Ecuadorian President Rafael Correa commented cynically that he welcomes a Trump triumph. "It's good for Latin America because it's bad for the US". Perhaps, but it most certainly wouldn't be too good for Cuba, if, as I say, he wins and calls for a better deal before US restrictions are relaxed further.

The US recognises that Asia is where the engines of growth are humming, not in Europe, which desperately needs an engine overhaul and which many politicians in Washington see as a vast museum which houses the West's repository of culture and history once having had a profound

influence beyond European borders. And as Emma Lazarus wrote in her sonnet, *New Colossus*, inspired at the time by the planned Statue of Liberty, “Keep, ancient lands, your storied pomp!”

There’s no civilisation more ancient than China’s and one which, through the centuries, has had its share of ostentation and ceremony. Just as I emphasised last month at the Offshore Investment symposium in Oxford’s Jesus College, understanding different cultures when trade or politics are involved is not just recommended, it is vital; long-term relationships depend upon it if they are to flourish. Perhaps because of this realisation the Chinese government is publishing etiquette guides, now that more than 70 million mainland Chinese citizens travelled overseas last year. They are concerned that China’s “soft power” approach could be tarnished by unruly or obnoxious behaviour displayed by its citizens.

In Oxford I had been talking about Latin American culture, but it would be good if the American government published a similar guide for its citizens flying south of the border. Come to think of it, the Americans should produce one also for China, to be ready by January 2017; it could be of much more long-term international importance.