



Into the unknown

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The pall of economic despondency that South America once experienced has been spread across Europe. In last month's column (*Dances of Destiny*) I wrote about bail-outs and bouzoukis and now David Cameron, the United Kingdom's prime minister, has contributed to the alliteration by speaking of big bazookas: he feels that military-style shock tactics are needed to combat the eurozone crisis. He is right and nine years ago, in the very first Latin Letter (Issue 132), I wrote that Argentina was both a political (the country had five presidents in two weeks) and economic tinderbox which required the nettle to be grasped and fundamental reforms to be faced, two realities Greeks today have to accept; in other words, the restoration of realistic monetary and fiscal policies. Argentina's government took its medicine, surprising the sceptics and showing yet again that the unknown remains at the heart of Latin American affairs.

One common feature which Greece shares not just with Argentina but with much of Latin America is a public sector that is too big and which needs to be trimmed. What Bertrand Russell said in 1922 rings true today: "The State is a collection of officials, different for different purposes, drawing comfortable incomes so long as the status quo is preserved. The only alteration they are likely to desire in the status quo is an increase of bureaucracy and of the power of the bureaucrats". There are some one million Greeks employed in the wider public sector, many of them in posts which they cannot be fired from because those jobs are constitutionally protected. In fact, the Greek writer, Nikos Dimou, has said that until the economic implosion, the dream of most Greeks was to get a state job; by doing so "they knew that it was not only a job for life but involved little work". These words ring in the ears of many Latin American presidents, as they battle bloated levels of bureaucracy in their own countries.

Brazil, however, which is growing in regional and international influence, scores high on diplomatic, if not administrative, skills. When France was dominant in the art of diplomacy, it gave the emerging United States of America the Statue of Liberty as a gift; now Brazil has given Perú a statue that is similar to Christ the Redeemer, the magnificent statue that stands atop Corcovado Mountain from which a magnificent view of Rio de Janeiro, as well as Sugarloaf Mountain and the distant beaches of Copacabana and Ipanema, can be enjoyed. The Cristo del Pacifico statue, standing on a hill in Lima, was sculpted in Brazil and the USD 1 million cost of it was financed almost entirely by Odebrecht, the Brazilian company which constructed the Interoceanic highway (see *Come Together*, issue 218), the continent's first coast-to-coast paved road. The statue shows Jesus standing with outstretched, welcoming arms, but in the case of Perú I suggest that it symbolises more earthly ambitions: Brazil's embrace of the growing political and economic ties between the two countries.

It is also a further example of Brazilian statecraft with its "soft power" approach. Instead of bully boy tactics within its sphere of influence (the country comprises half the continent's landmass) Brazil has taken an approach which emulates the beliefs of Richard Cobden (1804 – 1865) a successful British businessman who moved easily into local, national and international politics during the latter part of England's industrial revolution; he travelled to Europe, the US and the Near East and the essays he wrote are a treasure trove of sound political logic. Cobden believed wholeheartedly that, as he put it, it has only been through the non-aggressive victories of mercantile traffic, rather than by armed force, that states yield to the supremacy of more successful nations; so it was that the US took the mantle of global primacy from the British.

The Kingdom of the Dragon, with four times the population of the US, is beginning to

gently nudge the West's super power in similar fashion because China, too, is an advocate of soft power. Many of its leading intellectuals who are affiliated with think-tanks and elite universities that advise politicians in fact argue that the late iconic Chinese leader, Deng Xiaoping, was right to say that China should bide its time, build its economy and "hide the brightness, nourish obscurity". This can't be said of Hugo Chávez whose dream must be to rule like Porfirio Díaz did, the absolute ruler of Mexico for a total of 35 years; in the four-year interregnum when he didn't, the president's role was held by his puppet, Manuel González. Such leaders survive on their wits, but as the late William Ralph Inge, Anglican prelate and author put it, "a man may build himself a throne of bayonets, but he cannot sit upon it", just as the Mexican discovered.

Díaz invited foreign capital from the US and Europe and then went about playing one power against the other. In similar fashion, he courted two domestic, ruling elites comprising a group of European-educated intellectuals and another made up of landowners, businessmen and generals who supported Mexican entrepreneurs, as opposed to foreign capitalists who were suspected of being encouraged by the intellectuals. Díaz was doomed, and he fell from power, when he lost his skill as ringmaster of the political circus after favouring one group over the other.

Will Perú's new president follow the unexpected, but triumphant, political path of Lula, the name by which Brazil's former president, Luiz Inácio Lula da Silva is known? There is every indication that he will do so and that the partnership between Brazil and South America's fastest growing big economy will become even stronger; it is a further example of the regional integration that this column has focused on before. Brazil and Perú have built a relationship which continues with both countries' new presidents, following on from Lula's cultivation (started in 2005) of an alliance with former Peruvian presidents Alejandro Toledo and Alan García. Brazilian investment in Perú is expected to reach USD15 billion – USD5 billion more than China is thought to be investing.

But just as Brazil worries over Chinese influence, many Peruvians share similar concerns in the case of Brazil. Perú's 2010

Nobel laureate, Mario Vargas Llosa, a writer whose themes focus on revolution, individual endurance and the structures of power, said he would try to survive the Nobel Prize: perhaps he will find Brazil's growing presence to be even more challenging. Although Llosa reluctantly voted for Peru's new president in the end, believing Ollanta Humala was the lesser of two evils (Asparagus and Aspirations, Issue 219), I believe the choice was right and whatever the pressure Peruvians may fret over, Brazil's astute application of diplomacy has meant that the relationship, and its economic benefits for both countries, has flourished, at least up to this point in time. I don't think such subtlety could have been achieved by any other regional country, except perhaps Chile, and especially, further afield, not by the US.

Brazil will need to fine-tune its economy like its diplomacy, after having had to introduce capital controls and raise interest rates. Every large town in Brazil has at least one shopping centre and there is no shortage of customers. But as this column has frequently warned, much of the region's prosperity is driven by commodities; consider this: if 2005 commodity prices prevailed today, Brazil's USD23 billion trade surplus would be a USD20 billion deficit. But Brazil is not just all about iron ore and soya, because two-thirds of gross domestic product comprises services, and local consumer demand is going one way, which is up. Worryingly, however, those shopping centres may be full but Brazilians, on average, are spending a quarter of their disposable income on debt payments. The real is probably the most overvalued international big currency, fuelling cheaper imports and consumer spending, with bank credit growing at 20% per annum.

While Brazil faces its own challenges, Perú can benefit from closer economic union with Brazil, especially if there is a shift towards lower commodity prices. But for now balancing Perú's books, as opposed to the relationship with Brasilia, is certainly an easier task. Unlike in the past, however, it is Brazil, and not bayonets, that has the potential of making a Peruvian president sit uncomfortable on his throne.

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