Felipe Monteiro, a professor at INSEAD and senior fellow at Wharton's Mack Institute, forecasts that 2015 will be neither a good year, nor a chaotic year for Brazil. "It is important to counterbalance [negative forecasts] with the observation that while Brazil's exports are heavily commodity-dependent, most of Brazil's GDP does not come from exports. Exports are only a small portion of the GDP."

Thus, the deterioration in the "terms of trade" of Brazil — the ratio of export prices to import prices — "does not necessarily mean that there it will have a big impact on the Brazilian GDP," Monteiro notes.

What does Monteiro expect Brazilian policymakers and politicians to focus on in 2015? "My expectation is that it will be a 'spring cleaning' year, in which you have to put things in order, and take some measures that are not popular, but which are important" in terms of managing Brazil's fiscal challenges. Monteiro says it "was a good sign" that Brazilian President Dilma Rousseff recently chose Joaquim Levy as the country's new minister of finance. "My expectation is that if Levy is allowed to do what he is supposed to do, and what he has in mind for doing, then it will be a year of making important decisions that have an impact from 2016 onward." Global commodity prices are expected to remain weak, and "everyone expects that the US will finally increase interest rates, which will have an impact on flows of investment into the region," Monteiro notes.

"It won't be a year where you see a lot of drastic measures or a lot of volatility, especially for Brazil," Monteiro adds. Instead, "This will be a year for getting things right and getting organized. A year for changing the public accounts — sometimes, creating taxes, some increases in taxes — not only gasoline taxes, but maybe on some sectors that now have some tax breaks. They will take a serious look at how they can create more revenues. Levy is a very well respected, serious man with a very good track record, who has worked inside the private sector," Monteiro points out. Levy has a similar background to economist Arminio Fraga, who was slated to become the minister of finance of Aecio Neves, the pro-business presidential candidate whom Dilma defeated last fall. "Levy is a US-trained economist who will just try to get the job done" right, rather than focus on politics, Monteiro predicts.

For his part, Guillen takes a cautious view of Brazil's prospects under the new finance minister. "Let's see what he does. One minister by himself won't be able to change everything. Right now, the biggest danger in Brazil is if markets continue to be jittery about emerging economies," Guillen notes. "Brazil is vulnerable because it has a deficit in current account. Brazil needs the arrival of portfolio capital; it needs portfolio investments to keep pouring money into the country. That's why they are keeping interest rates so high. Normally, with stagnation, you would lower interest rates. You would try to stimulate investing by companies by making it cheaper … but they are keeping rates high because they want to make sure that those portfolio investors continue to bring money to Brazil. The real danger is that maybe if the situation doesn't change in the next year or so, for the better, investors will start to get out" of the country.
Knowledge@Wharton 2The Importance of Mexican Reform

What will 2015 bring for Mexico? Guillen points out that in recent years, the country's economy "has made progress on a number of fronts. What really helps Mexico is if the US economy does well." As Mexico has industrialized, its export balance has become less and less dependent on commodity prices, and more dependent on global markets to buy its manufactured goods, especially vehicles and electronics equipment.

Total US imports from Mexico rose 603% between 1993, the year before NAFTA was enacted, and 2013. Nowadays, only two of Mexico's top ten exports are commodities — crude oil (13% of total exports) and gold (2.4%). By contrast, nine out of Brazil's ten largest categories of exports are commodities: iron ore, crude petroleum, soybeans, raw sugar, poultry, soybean meal, coffee, corn and refined petroleum. The only manufactured-good category to make Brazil's list is aircraft, which amounted to 2.1% of its total exports in 2013.

Mexico is also much better positioned to take advantage of the rebound in the US economy. About 70% of Mexico's total exports are shipped to the United States, whereas only about 2% of US exports are shipped to China. While China has become Brazil's largest single export market, China still buys only 17% of total Brazilian exports, making Brazil far less dependent on China's economy than Mexico is on the US economy. Mexico's exports to the United States in 2013 amounted to $244 billion, more than six times the $41.3 billion total value of Brazil's exports to China.

Mexico's economic expansion will be buoyed by the continued rapid growth of its automotive sector. In 2014 alone, Honda began production at a new $800 million plant in Guanajuato state; Mazda opened its first plant in North America, a $770 million facility also in Guanajuato, and Kia announced plans for a new $1 billion plant in Nuevo Leon. Other major firms preparing to open new plants in Mexico include Audi and BMW. Guillen notes that these investors "are not going to go anywhere" else, because their plants are "becoming increasingly more competitive" with auto factories elsewhere in the world. He adds that Mexican plants "also have another advantage; they have cheap energy coming from North America."

Like Brazil, however, Mexico faces political challenges that could cloud its prospects for faster growth. Guillen notes: "Mexico's new president [Enrique Pena Nieto] came to office with a very ambitious agenda. But it has become stalled, in part because of opposition, and then [more recently] because of these scandals" following the apparent massacre of 43 college students last year. Reforms are critical, because Mexico has a lot of potential in certain industries that would attract a lot more foreign investment if they were deregulated, he adds. Overall, notes Guillen, "a lot of changes are going on in Mexico; for the most part, the future looks better than the recent past, but I am not 100% optimistic about it. There are a lot of issues."

Venezuela's Slippery Slope

Of all the countries endangered by declining oil prices, Venezuela stands out as the most vulnerable. In 2012 and 2013, petroleum products accounted for 96% of its total exports in terms of dollar value. Could a default be just around the corner? "Venezuela is in a

very difficult situation," Guillen says. "They have 60% inflation, and it is a country that, from a political point of view, is totally divided between supporters of the government and the opposition. If the price of oil remains low, it is quite likely that there will be a change [in leadership] because the government has no credibility" and the loss of oil wealth has made it difficult for the government to buy votes any longer. "We're going to have to watch Venezuela carefully; it all depends on whether prices for oil remain at these levels."
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Monteiro expects something significant will happen in Venezuela within the next year to 18 months because "Venezuela cannot sustain its debt" if oil prices remain at current levels. "It is going to be very interesting to watch the impact. As much as Brazil, Argentina, Ecuador and Mexico are dependent [on oil], Venezuela is even more highly dependent on oil."

If oil prices remain low, it will also make it harder for Venezuela to subsidize Cuba's communist government by supplying cheap energy. "Cuba, in the short-run, stands to lose if the price of oil continues [to be] low," notes Guillen, raising pressure on the government of Cuban leader Raul Castro to make some sort of progress in terms of opening doors for the business community and other traditional opponents of his regime.

Unless the US Congress lifts the trade embargo on Cuba, prospects for normalizing trade and investment relations between the two nations are limited. "We need the US Congress to start lifting parts of the embargo," Guillen says. "The president can only do limited things. The issue for those members of Congress who want to start lifting the embargo is to see some political progress in Cuba." Although some political dissidents have been released from prison, the Cuban regime "will want to keep things under control," he says. However, there are a number of things the government there can do to demonstrate that they are making a genuine effort to move forward.

Despite all the hype about Cuba's prospects, the embargo continues for the short-term, points out David Lewis, vice-president of Manchester Trade, a Washington DC-based trade consultancy. One sector with significant potential is the tourism industry, he says, in part because "Cuba is even closer than the Bahamas" to the United States. Despite the shortage of hotel rooms in Cuba, eventually, "cruise ships can do overnight excursions to Cuba. The beauty of cruise ships is that you can anchor in the harbor and [the tourists can] stay in their rooms," as is the common practice in Haiti, where hotels are also in short supply. No wonder, over the past four or five years, various US cruise industry firms have been looking at the possibilities in anticipation of addressing decades of pent-up demand for a major new Caribbean destination.