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Preamble

September's quarterly mostly comprises extracts from the speech which I gave this month at Jesus College in Oxford when the 26th annual symposium, organised by Offshore Investment magazine, was held. Regular readers will be familiar already with the key themes and thoughts interwoven into the text. History, however, takes a back seat this time, despite my belief, like Winston Churchill had, that "a good knowledge of history is a quiver full of arrows in a debate".

Despair and Extinction

Every year James Ward puts on the Boring Conference. What are some of the topics? One talk was about sneezing and another about electric hand-dryers. This is most certainly not a symposium about boring things as you have already discovered. James says that the trick to giving a boring speech is that even if the title is breathtakingly bland, like mine, the content shouldn't be. I will attempt to meet his standards.

In 2013 here in Oxford I quoted Woody Allen, that sage of the cinema, at the start of my talk. I felt it appropriate. Regrettably, I still do. "More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray we have the wisdom to choose correctly".

Having said that, the optimism was palpable concerning Brazil three years ago and with the demise of Hugo Chávez that year a ray of light shone momentarily that Venezuela might emerge from the political pit which it had fallen into. Today the

Brazilian basket case is all too apparent to see by everyone and rather than the Olympic Games, it is the political fun and games that most Brazilians are focused on. As for Venezuela, that pit has just got deeper.

Argentina, however, appears to have found a saviour and Perú a wise head on old shoulders, but as for Venezuela, Nicolás Maduro, an ardent Hugo Chávez acolyte, who is now president, has not secured a firm political footing; quite the opposite, he seems to be caught in quicksand with just one inevitable result as he flails his arms.

The likes of Argentina have cast off the yolk of leftist dogma. Mauricio Macri, a right wing business tycoon, and Argentina's new president, in the first two months in power had more than 27,000 civil servants fired; duties on mining exports have been removed and state subsidies on essential services have been lifted. We're talking macri economics versus macro economics. He is sweeping clean after the populist rule by Cristina Fernández and her late husband, Néstor Kirchner. Macri may have been president of Boca Juniors football club in Buenos Aires for 12 years but he has no intention of playing ball with the old political establishment. Further north and for the first time in over a decade a Venezuelan president, in this instance Nicolás Maduro, a clone of Hugo Chávez, is confronting a first ever opposition-controlled parliament. And President Rafael Correa in Ecuador has faced staged mass protests by the country's indigenous and workers movement.

But despite politics and economics representing a seesaw on the subcontinent, one which has no



handles to hold on to, the region continues to play a more international role so understanding the Latin psyche will become increasingly relevant for both businessmen and those foreign professionals who see the subcontinent as a new and profitable frontier.

Machiavelli speaks of the unremitting malice of fortune; certainly the economies across the world have been, and continue to be, hostage to it. None more so than those in South America. It's biggest economy, Brazil, is experiencing a recession with such a ferocity not known in more than three decades, some say ever, and with the accompanying political pantomime only in the first act, there is no clear end in sight: whose legs are guiding the pantomime horse?

Brazil's economy is far from solid: more like the consistency of a soufflé with street protestors demanding "More Argentina, less Venezuela". In June the government reported that GDP had contracted 0.3 per cent in real terms in the first quarter of this year and it is 5.4 per cent smaller than it was a year earlier. The country has an interim president whilst Dilma Rousseff battles impeachment charges which may have been resolved or not before I deliver this talk. Economic and political uncertainty permeates every corner of society. A poll released in April showed that 63 per cent of respondents across this huge country described Dilma Rousseff's government as "bad or terrible".

Michael Temer, the interim president, like President Macri, wants to introduce sensible economic policymaking. Public spending is a challenge, not to mention reforming archaic labour laws and the Byzantine tax code. All very well, but the interim president has himself been implicated in past corruption scandals and who is a constitutional lawyer having been a congressman since 1987. Let's just hope that his own personal constitution can handle the heat.

In 2015 the economy shrank by 3.8 per cent, its worst annual performance since 1981. Inflation was nearly 11 per cent at the end of last year, a 12-year

high, and unemployment reached 9 per cent. GDP is expected to decline by a similar rate as it did in 2015. Unemployment and inflation is expected to continue to rise, just like the anger of the people who, not unlike many citizens in the West, have become acutely aware of the demarcation line between themselves and the rich.

This is a country with a government that needs to refer to a dictionary to grasp the clear meaning of efficiency. A survey in June published by IMD, a Swiss business school, placed Brazil last out of 61 countries in the efficiency of its government, and behind, would you believe it, not only war-torn Ukraine, but venal Venezuela.

I'll be returning to general developments but as wealth generation is today's focus I want to look at wealth creation in Latin America. To do so requires a glance at history to understand that much of the wealth in Latin America is rooted in old wealth created by and concentrated in a few families. I have included an essay entitled "Latin America: into the mainstream" in my working papers which will give a taste, a feel of this vast region's people via its history, past isolation and culture.

The countries comprising Latin America, not dissimilar to Europe, bar less languages, are distinct. Just like Cinderella's ugly sisters, therefore, one size of shoe does not fit everyone, anymore than it does in Europe.

A Proud People

Latin America has left obscurity behind with a new sense of strength and confidence. The controversial Cecil Rhodes who looks down upon us from Oxford's Oriel College and is the founder of the country where I spent my youth, said that "to be born an Englishman is to win first prize in the lottery of life". Students have protested about the era he represents and their protests are but one more symptom of the current awareness of the chasm between the prosperous and the poor which has created a bias and suspicion regarding offshore centres and their uses, especially concerning taxes.



The peoples of South America share Rhodes' sentiment in the love of their own particular country, if not his imperialism. Of course, we all share universal values and so Latins are not aliens from another planet. Their basic objectives and needs are just the same as ours; it is only that their priorities may differ to some extent from our own.

According to Julius Bär, Latin America is the fourth-largest wealth region in the world. The middle class has expanded along with the region's economies and this new base of consumers has meant profit for the wealthy enterprising businessman.

In 2014 the population of billionaires grew by 38 per cent, from 111 to 158; that was the fastest rate than anywhere else in the world, including Asia. A large number live in Brazil, Mexico, Chile and Peru, in that order. Carlos Slim from Mexico, the telecommunications tycoon with heavy investments in real estate and a variety of industries, was once the richest man in the world, but he still heads the Latin American list.

It is important to consider each country's governance – even if politically the picture is good. Latin America, for example, has issues surrounding transparency, legality and fairness. Investors – be they individuals or multinational companies from abroad – have to accept the differing levels of enforcement of those three factors across the region. In particular, for commercial or industrial enterprises it is possible that any litigation that arises could take years to resolve. In this regard, Brazil remains near the bottom of the World Bank's index for ease of doing business in Latin America; already its complex tax code and labyrinth of regulation presents a daunting challenge. Brazil has been known to have had, for instance, over 23,000 changes in its tax system in one year.

At the end of the day, for the South American businessman, his objectives and needs usually come down to protecting his assets and ensuring that his wealth remains in the family while agreeing with Anton Chekhov that every person lives his real, most interesting life under the cover of secrecy. The

Common Reporting Standard is, therefore, an anathema, a threat to this code of secrecy.

If there is an unwillingness to place much reliance on governments, there is an equal degree of scepticism regarding the law. In looking at the justice systems it is perhaps wise to remember the words of the Greek statesman and poet, Solon: "Laws are like spiders' webs: if some light and powerless thing falls into them, it is caught, but a bigger one can break through". That sounds appropriate when considering America's co-operation with the Common Reporting Standard. [Please see September's Latin Letter].

Business (Not) as Usual

The fall out between the United Kingdom and the European Union reminds us that Latin America doesn't claim sole rights to enormous sudden political shifts. Old-order politics, not just in Latin America, are being increasingly criticised and shunned by electorates. Similarly, citizens worldwide are expressing resentment over tax dodgers, voicing loudly their aversion to evasion which has often been linked with the very wealthy, a group during this period of changing political and social trends, seen to be the real benefactors of liberal capitalism and which because of that, have made the Panama Papers poisonous, a subject I have included in my conclusion. The average CEO in the US earns 335 times the wage of the average worker. What of external affairs that affect Latin America? America's populist leanings concern Latin America. Meanwhile, China – and it is both China and the US relations with Latin America that carry most weight – continues, as it always has, to maintain its impassive Sphinx-like stance. The rise of China in Latin America versus the weakening of the US influence that is closer to just treading water, is common talk these days but we should remind ourselves that the region with its population at over 600 million is an important trade area for US-based companies with US producers exporting over three times as many products there than to China. If you exclude Mexico, Central and South America have purchased over 50



per cent more goods from the US than China. Conversely, it has traditionally been South American commodities that the Middle Kingdom has centred its relationship on. This, however, is changing.

It should be remembered that Canada (first) and Mexico (third) are America's leading trade partners and together count for around 40 per cent of US global commerce. In Mexico's case, it is responsible for about 60 per cent of all US trade with Latin America.

Last year, before Brazil's fall from grace, the two Latin countries which were the economic powers in terms of GDP were Mexico and Brazil; Colombia can be included, with reservations, due to its encouraging economic development and expanding economy.

Brazil with its continental size and a population exceeding 200 million is an attractive trade partner whereas Mexico has two advantages: its proximity to the US and the key role it has in the North American Free Trade Agreement with the US and Canada. The tres amigos, a Spanish spin on describing the countries' leaders, met this June in Canada when President Obama was emphatic that a Trump presidency would not derail their cross-border ties. This was the US president's final NAFTA summit meeting.

A day before the summit, however, Donald Trump lambasted the NAFTA treaty, calling it a disaster. No friend of Mexicans, threatening a wall, reminiscent of former East Germany, to keep them out, Trump has had his style of politics likened to that of dictators such as Hitler and Mussolini, who were also showmen, although far more dangerous, who also exploited the impoverished and disgruntled, and said what their audiences wished to hear. Mexico may be America's next-door neighbour but, ironically, it could wind up being, philosophically, more distant from it than Chile's Tierra del Fuego if a president Trump followed through on his threat and goes after NAFTA.

Going to Shell in a Basket

"Politics and Principles: A Man's Need to Blush", which is the title of this month's Latin Letter, contains the essence of the remainder of the speech and will help you understand the significance of these words written by Adam Szubin, acting undersecretary for terrorism and financial intelligence, Department of the US Treasury: "But there is a money laundering method that is less exotic yet every bit as dangerous: shell companies incorporated in the United States". It is a method, of course, ideally designed for tax evasion as well.



Offshore Pilot Quarterly (independent writing for independent thinkers) has been published since 1997 by Trust Services, S. A. which is the British face of trust business in Panama where it is licensed under the fiduciary laws. It is written by Derek Sambrook, our Managing Director, who has been Treasurer of the British Chamber of Commerce Panama, a member of the former Latin America and Caribbean Banking Commission as well as an offshore banking, trust company and insurance regulator. He has over 45 years private and public sector experience in the financial services industry about which he has written extensively and our website provides a broad range of related essays including his Latin Letter column which appears in every issue of Offshore Investment, a British professional journal published since 1986.

Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice in the appropriate jurisdiction before making offshore commitments.

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