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Hope and Despair

When I spoke last year at Offshore Investment's Oxford symposium I started off by mentioning James Ward's annual Boring Conference with topics that would freeze the mind. Topics have included IBM tills, toast and barcodes. It is a celebration, he says, of the ordinary, the mundane and the obvious, none of which can apply to my subject, Latin America. It is a James Ward conference in reverse: my topic is absorbing and my challenge is not to make it boring. Whether I succeed, I bring a message of both hope and despair.

Developments in Latin America are fast-paced and wealth creation is tied closely to both the political and economic landscape as well as the personality of the average Latin American client. We hear ad nauseam, "know your client", but it has an alternative meaning other than due diligence for those wanting to tap Latin America's deep vein of business opportunity, such as wealth management practitioners outside the region. The Scots attempt at independence to free themselves from the grip of English subservience by creating a vast trading emporium failed in the Darien region of Panama because they didn't do their homework before sailing into the unknown. They brought wigs as gifts for the Panamanian Indians and whiskey for themselves. Both proved disastrous choices. So do your homework first. Certainly the subcontinent could be put under the heading irresistible and unconventional when one looks at its history and peoples and its undoubted charm and fascination.

According to the World Bank the region is at a turning point. No more does dictatorship cast a large shadow across the region, although the Venezuelan president is moving towards one while both populism and nationalism is gaining traction in the West. Dictators belonged in an era written extensively about by the late British historian Eric Hobsbawm whose experiences led

him to say that "Nobody who discovers South America can resist the region". Writing 15 years ago, Hobsbawm described South America as a "laboratory of historical change... made to undermine conventional truths". How right that was and his travels convinced him that here was "a continent apparently bubbling with the lava of social revolutions". One needs only to consider the past travails of Central America, and then South America – especially Peru, Colombia, Brazil, Chile, but particularly Venezuela which reminds us that South America has still to this day not completely expunged its torrid political past.

We now know how accurate some of this British historian's predictions were about Latin America by remembering his comments on the rise of Luiz Inácio Lula da Silva to the Brazilian presidency: "Now I suppose we wait once again to be disappointed".

My first column in the Offshore Investment magazine almost 15 years ago was about Argentina. At the time its title was, appropriately, "The Land of Sorrow", and as it sunk deeper into debt it also became the land of borrow. I said then, however, as I do now that it is a country with enormous potential and with a verdant countryside where anything grows, and where for too long, anything goes. It is a country that once had 5 presidents in 2 weeks. The Economist stopped publishing inflation figures for Argentina five years ago because they had become as reliable as Trump's bleats via tweets. But President Mauricio Macri has brought back statistical discipline and in May the Economist resumed publishing data.

Darkening Skies

I started off by saying that my message was one of hope and despair. Let's rid ourselves first of the gloom. As for Hobsbawm's "bubbling with the lava of social

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revolutions”, Venezuela is in a category of its own. And as neighbouring countries strive for more integration, Venezuela heads for disintegration. If the region is at a turning point, Venezuela is at a boiling point.

The sky began to darken 18 years ago when the late Hugo Chávez became president of the country. One of his very first steps was to rewrite the constitution and replace it with one that would last for “centuries”. Now his hapless successor, Nicolás Maduro, has created a new one but this time it circumvents political parties and popular elections; by hook or by crook – with emphasis on crook – he has had his way. The Bolivarian Republic of Venezuela has been the skeleton in South America’s cupboard and one that keeps on rattling. Constantly, we see protesters in the capital’s tear gas-filled streets. The citizens have enough to cry about without any help from tear gas in a country where the president of the Supreme Court faced a murder charge, was convicted and then released on appeal; he was an ally of Hugo Chávez.

Food imports have fallen by 70 per cent since 2014 and there are long queues, not just for food but other basic consumer goods as well. Some hospitals are struggling to have a supply of basic medicines and there are pregnant mothers crossing the border to give birth. President Trump’s focus may have been on illegal Mexicans entering America, but now there are also large numbers of Venezuelans seeking sanctuary in his country; they are not chasing the American Dream but fleeing from the Venezuelan nightmare. In 2016 Venezuelans were the largest source of first-time asylum claims in Spain. Applications hit a record in January and the figure exceeded the all-time high from Syria during the middle of Europe’s refugee invasion. Venezuelans are also seeking refuge in the region, with neighbouring Brazil and Colombia experiencing an influx. In nearby Panama, a stable democracy, the economy is very healthy (expected this year to perhaps be the strongest one in Latin America according to the International Monetary Fund) so is it any wonder that the country has become a magnet for well-heeled Venezuelans in particular? So much so that one up-market suburb of Panama’s capital has been referred to as “Little Venezuela”.

Palace of Ghosts

Antonio Carlos Jobim, the Brazilian composer who co-wrote the Girl from Ipanema, said that Brazil is not for

beginners. In Brazil economic and political uncertainty permeates every corner of society. President Michael Temer, like President Macri, wants to introduce sensible economic policymaking, but is immersed in scandal, tottering on a tight rope and looking down into impeachment’s chasm. In Spanish “temer” means fear, but he has displayed audacity and boldness in tackling public spending, the country’s archaic labour laws and the Byzantine tax code. The temerity of Temer is heartening. The prospects of his success are not.

Unfortunately, the allegations against President Temer have quadrupled. He is accused, for example, of endorsing the payment of hush money to a jailed politician implicated in the notorious Petrobras scandal; then there is filmed evidence of his former right-hand man, a congressman from the president’s party, accepting a bag with more than \$150,000 in cash. The attorney-general has opened a criminal investigation into the president, as well as other high-ranking politicians.

This is sure to haunt him for some considerable time to come. Speaking of which, already the president and his family have moved out of the vast presidential palace back to the vice-presidential residence, less than two weeks after moving in because the president felt “something strange here... We even started to wonder, could there be ghosts?” Ambrose Bierce, the nineteenth-century American soldier, wit and writer in his “The Devil’s Dictionary” defined a ghost as “the outward and visible sign of an inward fear”. How apposite.

Paulo Sotero, director of the Brazil Institute of the Woodrow Wilson International Center for Scholars, describing Brazil, says: “It is a corruptocracy”. It is the land of the Bossa Nova as well as doing the boss a favour. The collapse of the old political guard who have ruled Brazil since the end of the military dictatorship over 30 years ago is ongoing. And as we know, the West has not been immune from the phenomenon.

Last year a survey 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, war-torn Ukraine. Meanwhile, 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.



Spider Webs and Sausages

Investors - be they individuals or multinational companies from abroad – have to accept the differing levels of transparency, fairness and operation of law 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, only surpassed, I understand, by Turkey. Brazil has been known to have had, for instance, over 23,000 changes in its tax system in one year.

As 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 and, importantly, very private. The Common Reporting Standard is, therefore, an anathema because of the depth of disclosure; a direct threat to this catechism of confidentiality.

If there is an unwillingness by Latins to place much reliance on governments, as there increasingly is in Europe and elsewhere, there is an equal degree of scepticism regarding the law which the powerfully-placed can easily circumvent and leave those who cannot, powerless and caught in the law's spider's web. Without proper asset protection, shielding assets from litigation, one can see years pass in the courts. To once again quote "The Devil's Dictionary", a litigant is one who enters the courtroom as a pig and comes out a sausage. As for entanglement in that spider's web, the same applies to governments ignoring co-operation between countries and for this very reason America can ignore the OECD-backed Common Reporting Standard with impunity. It gets all the FATCA information it needs from other countries by employing the United Airlines' approach to uncooperative passengers. So it doesn't see a reason to sign up to CRS. It takes a lot, gives a little and gets away with it. More about this issue at the end of this talk.

Old-order politics and sudden political shifts are being increasingly criticised and shunned by electorates as nationalism and mistrust of governments seeps into the West, previously more at home in Latin America. 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

seen to be the real benefactors of liberal capitalism during this period of changing political and social trends, and which because of that, have made offshore finance centres seem particularly poisonous.

What of external affairs, besides the one's just mentioned, that affect Latin America? For America the region remains just a tributary flowing into the mainstream of geopolitics. 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 significance of Panama's recognition in June of China over Taiwan which it previously supported is not to be downplayed. The little republic on the isthmus could benefit economically, including perhaps soft-infrastructure loans, from this volte face. Panama has already opened an embassy in Beijing. Forget any elephants in the room: look for the dragon. I rather think Asia's second largest country, China, will not avert its gaze from Latin America. It seems to me that Panama, like other countries in the region, is recognising the growing importance of the China connection.

Sharks and Scandals

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 changes to NAFTA prove disastrous. Mexico accounts for about 60 per cent of all US trade with Latin America. Politics are steadier in Mexico than Brazil, but less so today. Last year President Enrique Peña Nieto's Institutional Revolutionary Party which once governed for seven decades was hammered in 12 states following elections for governors. Things could get worse if the opposition leader, Andrés Manuel López Obrador, with Trumpian tendencies, continues his steady climb up the greasy political pole. Since 2000 no Mexican 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 as presidents in America also know only too well. The Mexican president's party could be vulnerable to a resurgent National Action Party in presidential elections in 2018. Meanwhile, the economy – if not exciting – is steady and after decelerating in late 2016 the pace of economic activity is expected to pick up reflecting stronger exports. President Nieto is unpopular because of the levels of violence and corruption that he has struggled to make a



dent in. The late British artist and writer, Leonora Carrington, who lived and died in Mexico said that safety under any circumstances is an illusion and returning to Mexico in 1993 after a 25-year absence said she felt at home “as one does in a familiar swimming pool with sharks in it”.

In Peru Pedro Pablo Kuczynski, a wise head on old shoulders is the new president. The economist-turned-president has a similar sensible approach to that of Mauricio Macri and wants to push for public investment and infrastructure development. Last year at this symposium I noted that the country was in a pretty good economic position. But then there is the unremitting malice of fortune. Soybeans have lifted Brazil out of recession – just, and I’ll come back to this, but floods in Peru earlier in the year have dealt the economy a blow. More than 1,000 miles of road and over 175 bridges have been destroyed. Perhaps the

president’s reputation will also be destroyed following entanglement in a huge bribery scandal involving Odebrecht, the big Brazilian construction company whose tentacles via bribes for contracts have spread across the region, ensnaring senior politicians and presidents. A poll by Datum International, a research firm, revealed that two-thirds of those polled believe that the president himself was involved in the Odebrecht scandal. His approval rating back in March dropped to 32 per cent – just 8 months after taking office.

These regional eruptions of discontent and apprehension mean that monied citizens are seeking a bolt hole for their assets and after that, careful, secure stewardship of them. This means that there is an opportunity for those wealth managers prepared to venture into this market. This is proved to be the case resoundingly so in Venezuela.



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