



A Developing Story

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We know who Brazil's next president will be. Pen poised, I had hoped to be able to provide the name in this issue but as the elections have gone to a second round that is not possible because of my publishing deadline. Even so, in September's column (The Power Game) I said that whoever the new president will be, it was important that there was no change at all in the positive direction in which the country is moving. Jim O'Neill, the chairman of Goldman Sachs's asset management business and creator of the BRIC acronym, is uncertain who would have made the best president between Dilma Rousseff and José Serra, the two leading contenders, but he is certain of one thing: it is very important for the country that the existing macro policies remain in place. Reassuringly, both candidates for the presidency agree with him.

Dilma Rousseff fell short by three percentage points of an outright win in the first round at the beginning of October and perhaps the victory she has fought hard for was denied her because of the wild card in the pack, Marina Silva, who was once (no relation) the environment minister in Mr. Luiz Inácio Lula da Silva's government. She represents the Green party and achieved nearly 20% of the votes in the first round.

The perception, however, has been that José Serra is more market-friendly (he was a very successful health minister in the previous Fernando Henrique Cardoso government) whereas Dilma Rousseff is likely to increase the role of the public sector in the economy, a move which would not be welcomed by many businessmen in the private sector, as well as putting more emphasis on growth and income distribution with less priority being given to (much needed) fiscal reform, including a complete overhaul of the country's tortuous tax system and labour laws. If, however, she does have populist tendencies, she is also pragmatic and throughout the campaign she has promised to protect, rather than tamper with, the three mainstays of Brazil's stability: inflation targeting, a floating exchange rate and the reduction (albeit gradual) of public debt.

But a Rousseff win on 31 October 2010, which Lula wanted, means that, like him, she will have to fight the statist elements within her own Workers Party and at the same time be able to successfully defend the central bank. If president, can she be as effective in doing so as her predecessor who has been, so far, the most popular president in Brazilian history? Although George Bernard Shaw argued that "we learn from experience that men never learn anything from experience", if Lula's candidate has won and has observed her mentor closely, then maybe the new president's gender will make the difference.

Prospects for Brazil and other developing economies remain bright as the economic and political picture in the United States of America, as well as in some European countries, grows darker (think of the recently de-clawed Celtic tiger). According to the United Nations World Investment Report there are, for example, around 21,500 multinationals based in this new emerging world and the number of companies from Brazil, India, China or Russia on Britain's Financial Times 500 list more than quadrupled from 15 to 62 in 2006 to 2008 (a period best remembered by most developed countries as an economic nightmare). Each of the BRICs enjoys a particular advantage: in China's case it is manufacturing, it is services in India (coupled with the English language) and for both Brazil and Russia it is energy and commodities. In fact, multinationals predict that about 70% of the world's growth over the next few years will emanate from emerging markets (40% of it is expected to come from China and India alone).

Another significant development has been the number of businessmen and bankers who are looking at Latin America as an alternative to China where some of them have experienced difficulties. To be sure, the positives outweigh the negatives in Latin America

(Brazil, Mexico, Chile, Colombia, Panama and Peru all having investment-grade credit ratings) which has 15% of the world's oil reserves, vast mineral wealth, about 25% of the planet's arable land and 30% of its water.

Developing countries appear to be replicating Japan's business style of the 1950s which, by the 1980s, caused America's car manufacturers to wake up, horrified to find that Japan had taken over from the US as the world's leading car maker. In a similar fashion, today's rising economies are themselves centres of business innovation with re-tooled production and distribution systems. Not only are they developing new products and services, they are offering them at prices significantly cheaper than those to be found in the West, such as USD3,000 for cars, USD300 for computers and USD30 for mobile telephones.

It is also not difficult to forecast where most of the consumers of the future will live, based on figures provided by the United Nations Population Division. North America's population in 2030, with a total of around half a billion, could be almost half that of Latin America (Europe, however, will be roughly on a par with Latin America) whereas Asia is expected to have almost five billion consumers. In both China and India hundreds of millions of people will enter the middle class in the coming decades with consumers in developing countries, taken as a whole, getting richer much faster than their equivalents in the West have.

In Latin America the latest figures suggest that in the first decade of this century about 30 million people in Brazil alone have joined the ranks of the middle class. It is a trend seen elsewhere in the region according to data from the Economic Commission for Latin America and the Caribbean which has tracked the changes in regional inequality during the period 2000-06. In 12 of the 17 countries surveyed the level of inequality declined, with the greatest improvement being found in Ecuador versus unwelcome increases in Guatemala, Uruguay, Costa Rica, Nicaragua and (especially) Honduras.

It has taken 200 years of independence in some of Latin America's countries to really begin to see their potential reach

fruition but which still remains hampered by the fact that productivity (except in farming), savings and investment are growing too slowly. Innovation in the region, with a few exceptions such as Brazil, needs a boost as does the quality of education and on both counts this is the trump card held by Asians.

Latin America, however, has been fortunate in other ways despite the shortcomings. The evils which fell upon the region some 20 years ago – debt default, deflation and terrifying budget deficits – are now what the West is confronted with. Not only that, but the thirst for raw materials – especially in China and India – is being quenched to a large degree by the plentiful supply of them in South America. This bountiful bonanza has been complemented by the significant improvement seen in the quality of economic management, sensible banking policies and the taming of inflation across the region.

Still, like a Shakespearean ghost at a banquet, an ever-present reliance on commodities is an unwelcome guest which holds the region hostage because of unpredictable price fluctuations. Although down from 86% in the 1970s, commodities still accounted for 52% of the region's exports in the past decade according to the World Bank. Encouragingly, several economies, including Brazil, Chile, Colombia, Mexico and Peru, all have growing domestic economies with low debt levels and large foreign reserves, so perhaps there are sound reasons for long-term optimism. Over time it is even possible that general perceptions of the region will change and go beyond the image of just "a man with a moustache, a guitar and revolver" (as a Nobel prize winner for literature, Colombian Gabriel García Márquez, once put it).

While a new president will don the sash of office in Brazil this month, Panama will be celebrating its independence from Spain as well as Colombia. In the US a new 435-member House of Representatives will be elected along with one-third of the 100-seat Senate and in Seoul, South Korea's capital, a G20 summit is being held. On a lighter note, in Guangzhou, China, the Asian Games take place. But I suspect that given the West's current economic health, November will see fun and games in Washington and Seoul as well.

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