



Dances of Destiny

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October's anticipated triumphant win should have been a salve for the tears of sorrow shed the same month last year when her husband died. I write of Cristina Fernández de Kirchner who, by the time you read this, I believe will have been returned to office as Argentina's president following last month's elections.

Nine months ago (Devils and Princes, Issue 214), I raised the possibility that because of the country's fragmented political system she might face an uphill struggle in her bid to be re-elected. But nine months has seen the re-birth of her campaign. All this despite the fact that capital outflows are thought to have amounted to some USD60 billion in the last four years whereas during that time less than half that sum is estimated to have flowed into the country as foreign direct investment. Besides this, public spending is outpacing tax revenues so the generous subsidies for energy and transport are not feasible. The tax system needs more than just streamlining when it is estimated that up to 80% of the income earned from all plastic surgery performed is undeclared. The tax system itself is in need of a face-lift.

More positively, while "default" is on everybody's lips, the USD100 billion default which Argentina suffered a decade ago has not brought the country, in economic terms, to its knees. Although independent forecasts currently put the inflation rate between 25% and 30% (the government says it's just below 10%) the economy is expected to grow by over 8% this year. There are some key issues, however, to consider: Argentina remains a leading food commodities producer, with agriculture representing a whopping 35% of foreign sales, and China's rapacious appetite for the country's natural resources is constant; a burgeoning middle-class in Brazil (Argentina's main trading partner) is buying its cars, the country's biggest manufacturing export, at a brisk rate. All this, a decade after the country defaulted on its debt.

It begs the question: if Argentina, why not Greece? As Europe looks to emerging markets for support, perhaps Greece in particular should look for an answer to its emaciated economic condition in Argentina. If a default required a hugely devalued drachma to be resurrected, this would evoke memories of the Weimar Republic, with Greeks travelling through the streets of Athens to the banks, trading a wheelbarrow full of drachmas for a handful of euros; and the burden of any existing debts that remained in euros would be insufferable. Unlike Greece, Argentina kept its peso – albeit one that had been fixed to the dollar since 1991 – so the cost and knock-on effects of introducing new coins and notes, making a grim economic picture that bit more dire, does not arise. Besides, the magic of timing meant that Argentina had the good fortune of a growing global demand for agricultural commodities; and it stood, as it does now, alone whereas Greece is integrated with Europe, especially its finances. Think of the circle dance, Zorba the Greek, with its tempo that moves from *larghissimo* to, finally, *prestissimo*. The pace of Greece's plight could quicken until it became as frenetic as the dance does in the end. But for now the dancers are still swaying slowly from side to side in euros.

Never forget the painful price that was paid in Argentina. Only those who lived through it know just how brutal the default was, besides the limits on bank withdrawals and the big losses suffered by both depositors and banks once the values of assets and liabilities were readjusted. A number of the country's presidents fell from power amidst a climate of great social unrest when clanging pots and pans, not bouzoukis, were heard in the streets. Unfortunately, Greece has to tackle a current account deficit that is far greater than the one Argentina had to. The Parthenon, a temple on the Athenian Acropolis, and a symbol of Ancient Greece, was once used as a treasury. It may have been completed in 432 BC and so

its columns are crumbling, but it still seems sturdier than the country's modern-day treasury does. Meanwhile, not just Argentina but the whole of South America is riding the wave of the new-found air of confidence across the continent (once incontinent, in the view of many) as it turns from its bad old ways to become a global creditor that during the last 20 years has reduced poverty from half the population to less than a third.

As I have written before, the gradual convergence of domestic markets in Latin America, especially in terms of trade, plus the fact that there is a substantial young working population, provides some protection should Asian markets slow down and the demand for commodities levels off for an extended period. Let's not forget that when South America celebrated its first centennial in 1910, some countries in the region were emerging economically on the world stage at a time when the term "emerging market" was unknown. Argentina was once one of the world's ten richest countries before it began its long decline from 1930 onwards. The difference this time, I would argue, is that South Americans are now gambling with more chips.

Argentina's president is attractive and speaks in a style which has drawn comparisons with the legendary Eva Perón who died almost 60 years ago. In a culture where passionate speeches from the podium can be a key ingredient in politics, she has a real advantage. Being a lawyer and then becoming a senator in 1995 means that she has had plenty of practice in the art of choosing the right words. The prominent Mexican historian, Enrique Krauze, has illustrated in his writings the binding relationship between words and politics especially in Latin America (certainly in the 20th century).

The late Emilio Massera, an Argentinean admiral, had an admirable command of language which he used to considerable effect as a member of the three-man junta in command of the country's infamous dirty war against dissidents. During the seven years that the junta terrorised the country, as many as 10,000 Argentines died in custody, many of them at the Navy Mechanics' School north of Buenos Aires. The admiral described the armed forces at this time as "the ultimate moral reserve". It is sobering to

reflect that Eva Perón, defender of the poor but despised by the country's elite and military, had her husband, Juan, to thank for the promotion of Massera to head of the navy in 1974, sweeping 14 more senior men to one side. And although he devoted time to acquiring weaponry used to intimidate the British over the Falkland Islands (known as the Malvinas in Argentina), he certainly concentrated more on abductions, murder, rape and torture chambers (he labelled each one of the latter "the Room of Happiness").

Also a favourite of Juan Perón (although he and Emilio Massera could not have been more different) was the late Juan Fangio, Argentine racing driver and five times grand prix world champion. A gentleman, according to former British racing driver, Stirling Moss, "not of birth, but of being" was famous in Argentina, so much so that a new dance, the "Fangio Tango", came into being. A little time after his retirement from motor racing a new dance, the Twist, became popular worldwide and in the 1960s there was even an "Operation Twist" by which the United States of America's Department of the Treasury and Federal Reserve tried to "twist" the Treasury-bond yield curve by changing the usual system of issuance. If the dance has lost its appeal, the Treasury Twist hasn't and is being used again today as an alternative to another round of quantitative easing. The Twist, as a dance, regardless of the tempo, means that one's feet just grind back and forth on the floor; sounds the right choice of dance in this instance.

Emilio Massera's attempted intimidation of the British lives on, with the issue of the Falkland Islands being part of the president's 2011 election campaign. Back in June she was quoted as saying, in her passionate parlance, that Britain was "a crude colonial power in decline". She certainly isn't, and there is no argument about her being light on her feet; Fangio's tango – in fact any tango – would suit her style of politics. Let's just hope that politicians in Athens can prevent Zorba reaching the end of his dance because bankers and bureaucrats being bashed by bouzoukis would be an ugly spectacle indeed.

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