



# March: The month of expectation

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**A**s in the past, this magazine does two things very well in March every year: it publishes a comprehensive and useful company formation survey and holds a financial services conference in Panama. And whilst, as I said at the conference in Panama this month, although the Economist newspaper has described the country as having “a flourishing financial centre and is also home to countless corporations”, one is spoilt for choice when deciding precisely which offshore jurisdiction is best to establish a company. Anymore than Luxembourg is, Panama is not a panacea for every offshore conundrum. No offshore jurisdiction can claim pre-eminent status as the place to incorporate. Service, laws, perception, trust and priorities all come into play, irregardless of promotion-pounding by offshore jurisdictions.

We see the hint of another kind of rivalry emerging in Latin America between the United States of America and China following the US president's first step in mending fences with Cuba and covered in last month's column (Realism and the caprices of fate). This will lead to a realignment in relationships with the continent's most important countries, removing a resentment which has been harboured for years.

It comes at a time when the thirst for commodities and the Chinese chequebook will no longer underpin some of the region's recalcitrant economies. Commodity prices are back to their level during the Great Recession of 2008 and as China's relationship matures with Latin America, it is no longer prepared to be an unconditional lender of last resort, despite political affinities, for foolhardy governments. Certainly, there were fewer smiles on Nicolás Maduro's face, Venezuela's president, when he returned from his trip to China in January after seeking emergency cash; all he achieved was, apparently, a refashioning of an existing USD20 billion credit package for long-term investments.

When President Barack Obama comes to Panama next month for the summit of the Americas, his message will be all about democracy and human rights, and with his Cuban rapprochement he can now expect more countries to listen. These are issues which the Chinese have not played close attention to in their dealings with the region; they have a policy of non-interference with politics. The US, however, can counter with a revival of shared values and, most importantly, a doorway to (still) the world's biggest market and finest source of technology.

China told a meeting of Latin American foreign ministers in Beijing, also in January, that by 2019 it plans to see a doubling of China's trade with the region; during the period from 2000 to 2013 trade increased from USD10 billion to USD257 billion. This is good news for Latin America and also the Caribbean (see my column “Embrace of the Dragon” in issue 249 last September) in a year when economic growth projections seem to be continually revised downward.

Growth for the region is estimated at 2.2% for 2015 by the International Monetary Fund. Despite the economic challenges this year it appears that growth will be at difference paces; in other words, a mixed bag. Those economies that are more closely integrated financially (Brazil, Chile, Colombia, Mexico, Peru and Uruguay) should pick up modestly at an anticipated growth rate of about 3.5%. Brazil, however, suffered a “technical recession” early in 2014 and in Chile and Peru investment and durable consumption slowed down. Mexico, on the other hand, has recently experienced an upturn with growth expected to closely mirror 2012 rather than 2014.

Bolivia, Ecuador and Paraguay could see even stronger growth than Mexico (between 4 and 5%). The two basket cases will be Argentina and Venezuela which are suffering from both economic and political turbulence; they are likely to be in recession throughout this year. Brazil may have had its scandal at the state-run oil company, Petrobras, which began as a trickle when money-laundering charges were made against one of its directors but which has turned into a flood of accusations, drawing in a group of international investors, but both Argentina's and Venezuela's troubled waters run much deeper.

In Venezuela, President Maduro's popularity has fallen considerably during the last several months and the economy's state of health has meant that the country's business environment will likely severely deteriorate as companies encounter increased tax, auditing, non-payment, sanction, and contract obstacles which will fuel the social discontent that is already palpable. In addition to the Chinese government, its banks have lent USD50 billion to Venezuela since 2007 and the ability to repay these debts is in serious doubt.

As for Argentina (the second-biggest recipient of Chinese loans in South America) it also has a president whose credibility is sitting on a razor's edge. What has transpired there could fit the format of one of the country's novelas (the Latin equivalent of a daytime television soap opera). We've heard of drones being used in Iraq to stave off invaders, now they are being used against evaders, as the government desperately attempts to swell its coffers. Wealthy tax evaders with undeclared mansions and swimming pools in an upper class area of Buenos Aires have been targeted by drones flying overhead. 200 homes and 100 pools were found to have not been declared on tax returns. Tax officials said that pictures taken by drones revealed the existence of luxury houses standing on lots no more than ten miles south of the capital and registered as undeveloped. At least USD2 million in taxes (not to mention large fines) is due.

It's a pity, perhaps, that drones were not present on the night of Alberto Nisman's death, the prosecutor who had accused the Argentinian president, including other senior officials, of trying to stymie his investigation into the 1994 bombing of a Jewish centre in Buenos Aires; it has been the country's worst terrorist attack in which 86 people (including the terrorist) died. A draft arrest warrant for Cristina Fernández de Kirchner was found, together with the dead prosecutor, in his apartment in the middle of January. A 22-calibre pistol lay beside the body in his bathroom and it was reported that papers related to the case were scattered on his desk; just days before he had filed a 300-page document with a court claiming that both the president and her foreign minister, Héctor Timerman, and others, had conducted secret negotiations with Iran to absolve

Iranian suspects in the bombing in exchange for a deal under which Argentina could swap grain for oil. The possibility of there being a grain of truth has set off alarm bells for mistrusting citizens; a recent poll by Latinobarómetro shows that only a third of Argentines have any confidence in the police force and the justice system.

This month one of America's most popular daytime soaps, "The Young and the Restless", celebrates its 42nd anniversary. Argentina's own novela beat that record long ago, and as its president nears the end of her term, the country's young and restless have been joined by their parents.

Emily Dickinson said that March is the month of expectation, but in Latin America presumption is dangerous. Meanwhile, the economic picture in Central America for 2015, according to the International Monetary Fund (IMF), is steady with projected GDP growth of 3%; although the recovery in the US will benefit the region, countervailing developments, distinct for each country, may affect performance. El Salvador's growth may not reach 2%, with Belize just behind at 2.5%, whereas Panama is, once again, expected to see good growth in excess of 6%. The local banking system is well capitalised (with an adequacy ratio of over 15%) and has healthy asset quality metrics, as detailed in the Global Competitiveness report prepared by the World Economic Forum.

The Financial Action Task Force, the inter-governmental body established 25 years ago by the Ministers of its Member jurisdictions, has Panama on a grey list of countries whose compliance standards need improving, mindful of bolstering the integrity of the international financial system. It does admit, however, that "the situations differ among each jurisdiction", but I suggest that this scattergun approach is far too cavalier when Afghanistan, Uganda and Zimbabwe are on the same list. This task force should be taken to task itself.

The company formation guide published in this issue, like the IMF, is more objective and, besides, has a long track record. Guides from governments or their related agencies, however, can have slippery concepts and spring from subjective judgements. So beware the guides of March (or any other month for that matter).

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