

# The land of sorrow

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**T**he Argentine President, Eduardo Duhalde, has declared that presidential elections will be held in March rather than in September 2003. No one can blame Duhalde for wishing to bring his government's term of office to an end as soon as possible. The country is a political and economic tinderbox having already had five presidents in two weeks and with half the population living below the poverty line.

Some say that Argentina is a first-world country with third-world management and others describe it as a halfway house, a second-world country; but whatever the description, most agree that the country's potential is enormous. It has a huge central region of prairies (pampas) where cattle, wheat and soya abound, and in the foothills of the Andes, near Mendoza, grapes are grown which produce superb wines; further south sheep are raised for wool and meat. The country is flat from Buenos Aires to the Andes and so transport is easy, with a network of railways and highways. Still, although Argentina's potential has never been in doubt, the credibility of its rulers has.

Since its independence from Spain in 1816, there has been a consistent string of strong-arm regimes. At the turn of the last century, Argentina could claim to be one of the richest countries in the world, with millions of immigrants arriving from Europe. Its vast expanse of fertile land and mostly British-built railways, along with the development of refrigeration, turned the country into Europe's major source of meat and grain. Today, monuments of that long-gone

world can be found in Buenos Aires, where mock-French and neo-colonial palaces can be found between the skyscrapers; a financial district of marbled halls reminiscent of Threadneedle Street still exists. Unfortunately, the country fell under the control of extremely rich landowners (known as the Rural Society) who, together with their bankers and stockbrokers, dominated politics. The 1920s, however, saw an agricultural depression and a world slump which brought about trade protection and an end of the Rural Society's grip on politics. There followed, from 1930 onwards, an era of authoritarian rule that only ended in 1983 under President Raul Alfonsin. Democracy may have been restored, but not the economy which remained heavily protected. Government spending led to an inflation rate which rose to 200% per month. Alfonsin was preoccupied, however, not with privatisation, but politics, and as a consequence was forced to hand over power to Carlos Menem, his elected Peronist successor, five months ahead of schedule. Like Eduardo Duhalde, the rigours of office had proved too great.

If Argentina has any hopes of recovery in 2003, it must grasp the nettle and tackle some fundamental reforms. At the centre of those reforms must be the restoration of realistic monetary and fiscal policies, and the return of a healthy financial system which, at present, is on life-support. Argentina's tango is known as the dance of sorrow and today the country itself could rightly be called the land of sorrow. World conditions, as they did in the 1920s, have conspired against Argentina, impacting badly on foreign

direct investment (FDI). In 2001, the country only managed to receive 4% of total FDI in Latin America, after having been a major recipient in the 1990s when transnational firms re-modelled and renovated the economy. The country will be in a political drift until next March whilst conditions elsewhere in the region add to a general picture of gloom with banking problems in Uruguay, debt default fears in Brazil, practically a civil war in Colombia and the political posturing of Hugh Chavez in Venezuela. One of Argentina's presidential hopefuls, and one of the front runners, is none-other-than former President Carlos Menem, the pint-size successor to Raul Alfonsin who had been president until 1989. Menem remained president for ten years and with the aid of his astute economy minister, Domingo Cavallo, he launched an ambitious privatisation campaign, which embraced airline, telephone, water and electricity services as well as the state oil company and railways. Despite being one of Argentina's bravest and most responsible presidents, however, his economic reforms fell short of the mark. He has since found himself mired in scandal and, until a year ago, he was under house arrest in connection with an arms-smuggling ring. Charges of general corruption and being part of the cover-up of a Jewish community centre bombing in 1994, which left 85 people dead, have also been made.

Argentines are apprehensive, and those with wealth will be seeking asset diversification, creating a large market for offshore private banking and fiduciary services. Political risks and the desire to make wealth less visible also present many opportunities for offshore practitioners but it is essential that the right research is done and, where necessary, the proper guidance is obtained. Those unfamiliar with the ways of Latin America should especially take note of the cultural differences and adjust their approach accordingly. Caution is the key, because not only is Argentina a place where anything grows, it is also a country where, at least for the moment, anything goes.

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