

Uncertainty and Expectation

By Derek Sambrook, FIB(SA), TEP
Managing Director, Trust Services, S.A.,
Panama



What does 2010 hold for Latin America? We know what it holds for Brazil, Chile, Argentina and Colombia: presidential elections, in a region where there are still uncomfortable gaps between the rich, the middle and the lower classes. Latin America's Gross Domestic Product will have contracted in 2009 as a whole after economic growth between 2002 and 2008 had moved millions of people into the ranks of the poor while, at the same time, millions more joined the emerging lower-middle class. Sadly, despite all three countries being classified as middle-income countries, it will be a long while before Aristotle's tenet, that the best political community is one in which the middle class is in control and, if possible, outnumbers the other two classes, can be put into practice.

Brazil's class divisions are worrying but seven years ago domestic and international investors had other concerns: what might happen in Brazil after Luiz Inácio Lula da Silva, (known also as Lula), a leftwing politician, was elected as the country's President? In the 1990s when I represented a Chilean firm and travelled to Brazil on business, many clients compared a Lula presidency with a financial Armageddon. As it turned out, those with intestinal fortitude who stayed the course and kept invested in the Brazilian market have reaped incredible profits. The Brazilian stock exchange, Bovespa, since Lula's ascendance, has, in US dollar terms, gained some 1,100% more than America's S&P 500. Perhaps it is because of all those Brazilians living off the fat of an increasingly prosperous land that the country is apparently number one in the world for liposuctions. It also ranks number two in the world for plastic surgeries after the United States of America; alas, much of the economic structure in the US also requires a face lift and those of its citizens badly hit by the financial downturn will need to keep a stiff upper lip without the help of the plastic surgeon's scalpel.

In October, the world's biggest initial public offering in 2009 took place in Brazil when Banco Santander's Brazilian business was valued at USD7 billion; this followed Moody's elevation, in September, of the country to investment grade status (the last leading rating agency to do so). The country's stock market has been surging and if William Congreve, the 17th century English dramatist, is right in saying that uncertainty and expectation are the joys of life, then many investors perhaps need to give uncertainty a greater weighting than expectation if they are to remain joyful in a market that could well overheat. It won't be lost on investors that the question of Lula's replacement looms large because he cannot be re-elected for another term under the constitution. Brazil, for now, remains euphoric at being chosen to host the 2016 Olympic Games, the first ones ever to have been held in South America, but soon Olympian ideals will become secondary to the Herculean task of choosing Lula's replacement. Will investors' past political fears return?

This column has written frequently about China's creeping influence in Latin America (The Seductive Dragon – Issue 155, for example, when I wrote about China's direct investment in the region). In 2008 its trade with Latin America increased by 40% reaching USD43 billion and 2007 trade figures also reveal that both the mighty and the miniscule were benefactors of China's exports; although Mexico (USD11.7 billion) was top, an impressive USD5.6 billion (just under half Mexico's figure) was exported to Panama, home of the Western Hemisphere's largest Free Trade Zone.

José Antonio García Belaunde, Perú's foreign minister, has talked of the centres of power shifting, saying that "the 21st century is about the Pacific". At present the fact

remains, however, that the US and Europe are still the biggest traders and investors in Latin America but the foreign minister's enthusiasm is understandable with plans in place to develop Toromocho, a mine in the Peruvian Andes, that will produce copper for shipment to China. Development costs will exceed USD2 billion and will be paid for by Chinalco, a Chinese metals behemoth. So far Peru is the only country on the continent, besides Chile, to have signed a free-trade agreement with China; three million Peruvians can, in fact, claim Chinese descent (the largest such community in Latin America). Neighbouring Ecuador, meanwhile, has entered into a US\$1 billion oil deal with China to alleviate its liquidity crisis and in Venezuela the China Development Bank has lent two-thirds of the capital for a US\$12 billion joint fund which is to be used by Chinese companies that want to invest in projects there.

The region, however, has many new friends (such as India, South Africa and Iran) and although China's brand of communism has proved to have been an easier export, a recycled Russia is making an appearance. The old Soviet love affair with Cuba, for example, is being rekindled and when the island's President, Raúl Castro, visited Russia at the beginning of 2009 (the first visit by a Cuban leader since the end of the Cold War) he was greeted by a military band; despite Arctic temperatures, the reception was a very warm one. The new Russia, however, is unlikely to proffer the soft loans and grants that the communist island once enjoyed to stave off crippling poverty. When Fidel Castro came to power fifty years ago a popular joke at the time spoke of the signs at Havana's zoo being changed; instead of "Please do not feed the animals" they read "Please do not take the animals' food".

The Kremlin's revived interest in Latin America began in 2008 when President Dmitry Medvedev visited Cuba, Brazil, Peru and Venezuela. It was the first visit by a Russian president to Latin America since the old Soviet days and it coincided with the completion of joint naval manoeuvres in the Caribbean with the Venezuelan and Cuban navies. In the Venezuelan part of the exercises around 1,600 Russian and 700 Venezuelan sailors on 4 Russian ships and 12 Venezuelan vessels took part. This event shows that Russia's interests go beyond regional trade such that where Shakespeare's Claudius in Hamlet spoke

of sorrows coming in battalions, Hugo Chávez, agent provocateur of Latin America as well as president of Venezuela, talks of tanks "in battalions" possibly coming from Russia to counter any military threats from the US. (See also my October column, "Politics in a Minefield" – Issue 200, concerning US use of Colombian air and naval facilities).

In December last year, for the first time since the Second World War, a Russian naval vessel, the warship Admiral Chabanenko, transited the Panama Canal (it had been closed to the Soviets during the Cold War); in 1944, with America and Russia allies against Germany, 4 Soviet submarines had passed through the canal from the Atlantic to the Pacific after undergoing repairs. The warship docked at Rodman in Panama, the former US base for all naval activities in South America, and whilst the ship replenished its food supplies, there were meetings and sporting events between the Russian sailors and Panamanians.

Although the visit by Russian sailors was unofficial, its significance illustrates the world's changing political stage; it was a far cry from the days when the US could invoke its Monroe Doctrine, warning foreign powers to stay out of the region in the era of cannons and conventional warfare when empires were still in vogue and the US was starting its century in the sun as Great Britain watched the sun set on its empire. But still, the US has much to gain without aggression and in issue 199 of this magazine (Mistakes – September 2009) I pointed out that chances to strengthen ties with the region's powerhouse, Brazil, had already been lost; there are other opportunities, however. In 1921 Cuba became the first country to be connected to the US by underwater cable (a connection which today is almost non-existent); perhaps now is a good time for the US to reconnect with Cuba and, at the same time, use that as a stepping stone to more dialogue with the island's allies in Latin America.

Uncertainty and expectation seem permanent conditions in South America, let alone Brazil's stock market. The Olympic Games in Brazil is encouraging news, but so were the football matches played between the Russian sailors and Panamanians a year ago; both grease the wheels of worldwide communication and this, surely, deserves more than just a sporting chance.

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European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast, BT1 1BW, United Kingdom Tel: +44 28 9032 8777 Fax: +44 28 9032 8555 www.offshoreinvestment.com

PUBLISHER
Barry C Bingham
barry@offshoreinvestment.com

EDITOR-IN-CHIEF
Charles A Cain
editorial@offshoreinvestment.com

COMMISSIONING EDITOR
Jenny McDonough
editorial@offshoreinvestment.com

CONTRIBUTING EDITORS

J Richard Duke,
Howard S Fisher
Marshall J Langer,
Derek Sambrook
editorial@offshoreinvestment.com

ADVERTISING
Neil Donaldson
advertising@offshoreinvestment.com

CONFERENCE EXECUTIVE
Lori S Brewer
conference@offshoreinvestment.com

SUBSCRIPTIONS
Anna Workman
subscriptions@offshoreinvestment.com

MEDIA MANAGER
Gillian Abernethy
administration@offshoreinvestment.com

DESIGN & PRODUCTION
Dave Johnston
Gillian Devenney
administration@offshoreinvestment.com

FINANCE
Rosalind Maguire
accounts@offshoreinvestment.com

International Bureau

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