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The road less travelled - Latin Americas economic prospects

The collection of countries comprising Latin America is distinct. So you can't apply a common model, like the Russian inventor tried to. He went to the patent office with a new mechanical shaving apparatus and when asked to describe its operation replied: 'It is very simple. You drop a coin in the box and put your face in the oval aperture. Then two mechanical blades come up and shave you according to a standard template.' The puzzled patent officer retorts: 'But every man's face is different.' The inventor smiles knowingly and replies: 'That is certainly true, but only until the first shave.' (European and American regulators would like to employ that tactic with regulation in more than one offshore jurisdiction, imposing a one-size-fits-all regime.)

History shows just how many close shaves the region has had, in both economic and political terms. In 1980, there were just three democracies in the whole of Latin America. Now it is the autocracies that are the odd ones out and rather than capital leaving, it is flowing into the region, with countries being swamped with money from abroad seeking safety from the aftermath of both reckless derivative dealings and mortgage madness.

Brazil is now expected to become the world's sixth-biggest economy.¹ But consider that between 2005 and 2009 Brazilian total factor productivity rose at an annual average rate of 2.1 per cent (Peru was not far behind) and the leading Asian economies, China and South Korea, saw productivity rise 2.9 per cent. This is certainly an encouraging comparison.

Latin america has to wean itself off a dependency on commodity exports

From being the road less travelled, Latin America has become one now increasingly trodden, and while the region's economic future once looked grim, today there is talk of this being Latin America's decade. Plato said that when the mode of music changes the walls of the city shake, and the Beatles certainly proved that. Fifty years ago, Latin America may have been a second act, but today it has shaken the walls of several stock exchanges.

Cautious confidence

Even so, it would be wise for the region's governments to heed Niccolò Machiavelli's warning about the unremitting malice of fortune and plan accordingly. Just because today Europe and the US have lost their confident, buoyant stance of a decade ago, does not mean Latin America is home and dry. It must temper its growing confidence and avoid the fate of Icarus, ecstatic with the ability to fly, who flew too near the sun on wings of feathers and wax. Well, Latin America is certainly flying now, but still with wings of feathers and wax, because the linchpin of South America's economic health has been and remains commodities. This narrow focus carries risks because prices can never be constant; today's surge can be tomorrow's decline. Latin America itself, regardless of commodity exports, presents a huge market that is waiting to be developed and would bolster the region's economy significantly. The continent needs to look not just outward, but also inward to a Latin American market

of 550 million people in a region that at this time is experiencing a level of growth that is second only to Asia's. While the region's natural resources fuel the engines of growth in China and India, meeting domestic demands will be a powerful backup in the future.

The important point here is that Latin American nations have to wean themselves off too great a dependency on commodity exports and begin to concentrate on finding ways to develop viable and long-term alternatives, such as services industries, the foundation of Panama's success, while at the same time tackling high crime rates, corruption, shaky tax systems and political divisions. But, for me, one of the most important issues has been raised by Mexico's Economic Secretary, Bruno Ferrari García de Alba, who says that the region's economies need to be integrated to ensure the future economic well-being of the region. Importantly, intra-trade could lead to closer integration of tax systems, promoting more uniformity and clarity.

The vision of a Latin American trade bloc appears to have edged nearer and it is hard to think of a region with more to gain from stronger intra-regional economic ties. Perhaps unnoticed by outsiders, intra-trade has been growing at an annual 8-9 per cent in the past decade and soon the Interoceanic Highway will be completed: the first paved road to cross Latin America coast to coast. It will be to the pantechnicon what Panama's canal is to the container ship.

Integrate v Vegetate

The United Nations Conference on Trade and Development reports strong trade flows within Latin America, with Brazil, Argentina, Mexico, Chile and Colombia having had the highest volumes, but Panama, Ecuador, Paraguay, Bolivia and Peru experiencing the fastest growth in their share of regional trade. Panama, in fact, saw its regional flow of trade rise by a factor of 6.2 in the decade ending 2010 - despite the Great Recession.

Where, these days, can investors feel that their money can be put to work with a hope of a reasonable return? Besides Asia, Latin America (in particular Brazil) is experiencing growing domestic demand - itself a buffer against future global downturns. Brazil is Latin America's Goliath, but successes can be found throughout the region. Look at the improved situation in Paraguay following rapid growth, the surprising degree of financial recovery in Argentina, the improving security in Colombia - not to mention similar positive signals in other countries on the continent - which mean that Brazil is not the only horse pulling the cart. The region may trade less with the rest of the world than Asia does, but by being more self-reliant it stands a better chance of lasting ten rounds in the global ring, even if bloody and bruised. Astute investors should keep this in mind.

Panama remains the economic success story in central america

And let's not forget that beyond the rivalries of China and the US, vying with each other in their bid to capture market share in Latin America, the European Union (EU) remains the region's second-largest trading partner - although there are predictions that it will be overtaken by China in the next three or

four years. Even so, the EU has provided the main source of direct foreign investment in the region during the past decade. The EU has enthusiastically pursued trade deals with Colombia and Peru, for example, which should not only open up markets but also see substantial reductions of tariff barriers. Trade between the EU, Colombia and Peru alone was worth EUR16 billion in 2010.

Panama remains the economic success story in Central America (excluding Mexico), and the UK ambassador in Panama has told me that the British government has targeted the country as one of several in Latin America that offer great trade potential for the UK. In October 2010, the British Embassy and the British Chamber of Commerce in Panama jointly hosted Britain in Panama Day, a conference highlighting British expertise and its relevance to Panama. 'Green and Sustainable Infrastructure' and 'Vocational and English Training' were two of the talks given by leading experts, and a key speaker was Britain's Minister of State for the Foreign Office, Jeremy Browne MP. The conference, held at the Trump Ocean Club, was a great success and I believe that not too many readers will appreciate that the UK is the largest investor in Panama, ahead of the US. According to Proinvex, Panama's foreign investment agency within the Ministry of Commerce and Industry, the UK's total investment could be as much as USD8 billion.

Although unemployment figures in the region have improved in tandem with economic growth, most systems of taxation are in need of radical change. But solutions to this vexing issue will not be easy and one president in the Americas once described his tax system as 'complicated, unfair, cluttered with gobbledygook and loopholes designed for those with the power and influence to hire high-priced legal and tax advisors'. Any country in the region fits the bill, except that in this case the country was the US and the president was Ronald Reagan, making a televised speech in 1985.

It will be better for Latin America if it progresses in a measured and cautious way, making sure not to fly too close to the sun. Despite all the shortcomings, however, if you can navigate the shoals and get a good advisor, the adventurous in the financial services industry will find the hidden treasure that Latin America has always promised to the bold.

• [1](#) 'Brazil to overtake UK as sixth-largest economy', *The Telegraph*, 31 October 2011.

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