



The Passing Parade

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



When darkness descended across Europe in August, 1914, as if curtains were being closed, the locks of Panama's canal were opened for the first time to the world's shipping. Wistfully, it was thought to be the accomplishment of a new era of peace, as opposed to the anguish experienced in Europe and the Americas during the previous century. Now, however, as then, Niccolò Machiavelli's unremitting malice of fortune waits in the wings.

One hundred years later Panama is celebrating its canal's centennial and Europe and America are once again being drawn into conflict. When the canal opened, it connected the eastern part of the Pacific and the North Atlantic oceans, complementing the "Highway to India", otherwise known as the Suez Canal. Now, an optimistic Panama is expanding its waterway as Egypt announces that improvements to its own canal are planned. Closer to home, Nicaragua has endorsed the building of a 173-mile canal between the Atlantic and Pacific oceans which will most certainly be a rival for Panama, if it ever becomes a reality (see "Folly or Destiny?", Issue 244, March 2014). Surprisingly, although to a lesser extent, so might an improved Suez Canal.

Even after the upgrade, Panama's canal, unlike Egypt's, will not be able to accommodate ships carrying 18,000 containers. The maximum size of ships (post-Panamax vessels) that will be able to transit Panama's enlarged canal will carry up to 13,000 containers, some 28% less. And despite the Panama Canal being less than half the length of the Suez Canal (and backed up by a road and rail route for additional transport – Nicaragua take note) there is evidence that some manufacturing is moving out of China and going to south-easterly areas of Asia where wages are less and which are nearer to Egypt. The Suez Canal has seen its share of traffic between Asia and the east coast of the United States of America rise from under 30% four years ago to just over 40% by October last year.

On either side of the Suez Canal there are expanses of sand which I observed from a ship's deck and you realise how wrong its creator, Ferdinand de Lesseps, got both the logistics (no locks) and the (completely different) Central American terrain when he went on to plan Panama's canal. After that the former French diplomat had intended to build a canal across Malaysia.

Latin America, for generations, has faced periods of poverty and prosperity and Panama's good fortune, one hundred years on, is plain to see; injections of capital from regional and international sources have, literally, changed the skyline. Sleepy no more, the country's capital hums with vibrancy reminiscent of Singapore a couple of decades ago.

Politically distressed, but rich, Venezuelans have moved to Panama in significant numbers, creating a "little Caracas" which is reminiscent of Miami's "little Havana" (if not more opulent). Venezuela's President Nicolás Maduro hopes to renew ties with Panama's new president, Juan Carlos Varela, after breaking them with the former president, Ricardo Martinelli, whom he claimed was fomenting a coup by supporting the Venezuelan opposition leader. But whatever progress is made in normalising relations, Venezuela's autocratic rule and Panama's firm commitment to a democratic society cannot be reconciled for as long as the ghost of Hugo Chávez haunts Venezuela's president. Argentina has suffered a similar political fate which has contributed to an equally abysmal state of affairs. It wasn't always so.

Compared to Panama in its infancy, Argentina, and not Brazil, was said at that time to be the country of the future. Its economy had grown faster than America's over the previous four decades; neither Germany, France nor Italy could rival Argentina's gross domestic product (GDP) per head. The country's GDP from 1871 to 1914 increased by 6% per annum (the fastest recorded in the world) and had attracted a large number of European immigrants escaping from the dismal conditions across large swathes of the European continent (in 1914 at

least half of the population of Buenos Aires was foreign-born). Argentina ranked in the top ten richest country's in the world (once again ahead of Germany, France and Italy).

But the country had relied too much on trade with Britain which, in 1914, would be drawn into a world war; after which its place in the world order would be eclipsed by an emerging superpower, the US. At the same time, not unlike other parts of South America, Argentina had a feeble political system; it faced six military coups between 1943 and 1976. The election in 1989 was the first time in over 60 years that a civilian president actually handed over power to an elected successor. Economically, there were volatile swings and the country suffered recessions (during the 1970s and 1980s) as well as hyperinflation (1989-1990).

Argentina's social and economic travels (or should I say travails) along history's road have been tracked in previous Latin Letters; in 2002 ("Land of Sorrow" – Issue 132, December 2002), 2006 ("Less Sorrow" – Issue 172, December 2006), 2011 ("Dances of Destiny" – Issue 221, November 2011) and 2012 ("A Question of Trust" – Issue 226, May 2012). As I write this, Argentina seems well on the way to another economic crisis, if not perhaps as severe as the one in 2001.

Brazil, which holds presidential elections this month, has been trying to prise open its neighbour's borders for purposes of trade but relations with Argentina are, at best, delicate and have been for a long time. "Only people this sophisticated could create a mess this big" goes a Brazilian joke doing the rounds and it underlines a common belief in Brazil that Argentines consider themselves special. Critics speak of self-inflicted wounds: a failure to modernise quickly enough; a dysfunctional trade policy; and an absence of good institutions to put sound policies in place.

In 2002, I wrote in the South African Banker's journal that the political and economic tempo of Brazil is mercurial by nature; facts in the past decade have shown this to be true. In 2003, for example, Luiz Inácio Lula da Silva (Lula) from the Workers Party was the first left-wing contender to hold the office in almost half a century and proved to be an outstanding president. By contrast, a once-thriving economy is now in recession.

After four years of underwhelming growth, the current health of Brazil's economy is touch-and-go and the same might be said about this month's presidential elections. Representing the Brazilian Socialist Party, another Silva – Marina this time – and one of the founders of the Workers Party, is running for president. Fate substituted her for Eduardo Campos, her predecessor and running mate, after he was killed in a plane crash. A positive performance in the first television debate between the candidates suggests that she will come second in a first-round vote and then defeat Brazil's president, Dilma Rousseff, in a runoff at the end of this month.

There is a view that the state has interfered far too much in the economy and investors think that if there's any chance of changing the government's course, Marina Silva holds the key. Her background and experiences, however, do not suggest that a future President Silva would be a close friend of the business community, with social and environmental issues high on her agenda (she was environment minister in Lula's government between 2003 and 2008).

The daughter of a rubber tapper, Silva was born in Amazônia and worked as a maid to pay for university. In 2010 she ran in the presidential elections for the Green Party, campaigning strongly for Brazil to accept a moral responsibility to become a low-carbon country; her message was well received by 80% of Brazilians who now live in cities, the largest of which, São Paulo, has some 20 million inhabitants. Environmental concerns and climate change have been taken very seriously in Brazil, with eight out of ten citizens in a 2010 Pew Global Attitudes survey saying that protection of the environment should be a priority.

In that same South African Banker's article in 2002, I mentioned the kaleidoscope of changing economic fortunes in the region and where uncertainty is about as positive as it gets. Yes, the region does stand more firmly on its feet today, in both political and economic terms, but whether the Brazilian Socialist Party's candidate will turn out to be a Silva bullet for her country's economic woes remains to be seen.

www.trustservices.net

European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast, BT1 1BW, United Kingdom • Tel: +44 (0) 28 9032 8777 • Web: www.offshoreinvestment.com

PUBLISHER AND CEO

Barry C Bingham
barry@offshoreinvestment.com

EDITOR-IN-CHIEF

Charles A Cain
editorial@offshoreinvestment.com

EDITOR

Jenny L McDonough
editorial@offshoreinvestment.com

CONTRIBUTING EDITORS

Fabiano Deffenti
Vadim Fedchin
Derek Sambrook
Urs Stirnimann
Yongjun Peter Ni
editorial@offshoreinvestment.com

COMMISSIONING EDITOR

Claire Mulgrew
editorial@offshoreinvestment.com

ADVERTISING

Ciaran Smyth
advertising@offshoreinvestment.com

CONFERENCE

Kathryn Holland
conference@offshoreinvestment.com

SUBSCRIPTIONS

Laura Simpson
subscriptions@offshoreinvestment.com

DESIGN & PRODUCTION

Dave Johnston
Gillian Devenney
administration@offshoreinvestment.com

FINANCE

Rosalind A Maguire
accounts@offshoreinvestment.com

MEDIA MANAGER

Gillian M Abernethy
administration@offshoreinvestment.com

International Bureau

Anguilla - **Claudel V V Romney**
Antigua - **Brian Stuart Young**
Australia - **David Russell QC**
Barbados - **Wayne Fields**
Bermuda - **Lynda Milligan-Whyte**
Brazil - **Fabiano Deffenti**
British Virgin Is. - **Ralph Nabarro**
Canada - **N Gregory McNally**
Cayman Is. - **Michael L Alberga**
Cyprus - **Christos Mavrellis**
Dubai - **Andrew De La Rosa**
Gibraltar - **Nigel Feetham**

Greece - **George Economou**
Hong Kong - **James A F Wadham**
Hungary - **Dr Gabor B Szabo**
India - **Nishith Desai**
Ireland - **Peter O'Dwyer**
Isle of Man - **Prof Charles A Cain**
Labuan - **Chin Chee Kee**
Liechtenstein - **Andrew J Baker**
Luxembourg - **Paolo Panico**
Malta - **Dr Max Ganado**
Mauritius - **Suzanne Gajadhur**
Nevis - **Mario Novello**

Samoa - **Graeme Briggs**
Seychelles - **Simon J Mitchell**
Singapore - **David Chong**
St. Vincent - **Alex Jeeves**
S. Africa - **Prof Christian Schulze**
Turks & Caicos - **Jonathan M Katan**
United Kingdom - **Matthew Cain**
United Kingdom - **Floyd Ronald Jenkins, Jr**
Uruguay - **Geoffrey Hooper**
USA - **Howard S Fisher**
US Virgin Is. - **Marjorie Rawls Roberts**
Vanuatu - **Lindsay D Barrett**



European Magazine Services Limited. © 2014.
ISSN 0954-0628 US PS 002-273.

All worldwide rights reserved. Reproduction in whole or in part by any means without written permission of the publisher is strictly prohibited. Printed by Pensord Press Limited, Pontlanfraith, Blackwood, Wales, UK. *Offshore Investment* has tried to ensure that all information contained within this publication is accurate, however, the publisher would emphasise that he cannot accept responsibility for any mistakes or omissions. No legal or investment instruction is intended. The opinions expressed are strictly those of the authors. *Offshore Investment* USPS 002-273 is published monthly except July and December by Offshore Investment, Lombard House, 10-20 Lombard Street, Belfast, BT1 1BW, United Kingdom. The 2012 US annual subscription price is 930.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

US POSTMASTER: Send address changes to Offshore Investment, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA. Subscription records are maintained at European Magazine Services Ltd, Lombard House, 10-20 Lombard Street, Belfast BT1 1BW, United Kingdom. Air Business Ltd is acting as our mailing agent.

SUBSCRIBE!
INPRINT • ONLINE

Subscription includes the print edition and FREE unlimited downloads from the online archive.

Tel: +44 (0) 28 9032 8777

Email: subscriptions@offshoreinvestment.com

One Year (10 issues)

UK & Europe GBP370

US Mainland USD930

Rest of World GBP499



Special Purpose Vehicles
Jurisdictions in focus: Canada, Liechtenstein, New Zealand, Singapore, Vanuatu