

# Contrasts and contradictions

With the unpredictable Donald Trump in the White House, Latin America will increasingly look to Asia rather than the West for constancy, argues **Derek Sambrook**



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As people in Panama wind down from their carnival they, like everyone else, as I wrote last month, continue to wonder about the future direction of international and regional policies under the new American president (see "Journey into Darkness", issue 273).

Former US president Barack Obama had promised a new chapter in regional relations, but if President Trump's January declarations on a wall along the Mexican border are anything to go by, we could be looking at a whole new book. The same goes for the existing rules of global free trade, perhaps to be replaced in the US by a free-for-all.

## LATIN LAMENT

It is somewhat lamentable, therefore, that this bewilderment comes at a time when Latin America is expected to begin to pull out of its longest recession for 30 years, ending two consecutive years of economic contraction. But for South America, however, the economic

malaise will remain and probably be exacerbated by Washington's anticipated hostile trade policies.

It is Central America, however, where the action is, particularly Panama, as I wrote in last month's column. Latin American gross

domestic product, estimated by the World Bank to have contracted 1.4% last year, should grow by 1.2% in 2017, whereas the growth in Central America might be nearer 2.1%.

In South America, GDP per capita could continue to fall, making that four consecutive years of decline. Since mid-2013, by comparison, the picture in Central America has been significantly different and the Economic Commission for Latin America and the Caribbean predicts strong economic growth this year in Nicaragua (4.7%) and, not far behind it, Costa Rica, Honduras and Guatemala.

It all sounds positive, but what about the Trump factor?

Up to now the US trade and remittance flows have been a bonanza and putting aside Mexico, not considered to be within the geographical region comprising Central America,

over 40% of the exports from Panama, Nicaragua, El Salvador, Honduras and Costa Rica go north. The economic recovery in the US which started in 2013

has been an added bonus.

The regional downturn between 2010 and 2013 was handled completely differently in Central America unlike further south where a mixture of political and economic chaos had a resounding impact on Brazil, Argen-



tina and Venezuela. Unorthodoxy ruled the day, whereas many countries in Central America took a more measured, conventional approach. Fiscal deficits in South America rose from 3.6% of GDP to 3.9% last year, for example, versus Central America where (according to ECLAC) they fell to 2.1% from 2.4%.

In last December's column ("From Bad to Verse", issue 271) I wrote about Nicaragua and there's every reason for optimism over the country's economy because the government debt-to-GDP ratio fell from 61.1% to 45.3% between 2009 and 2015.

## HIGHS AND LOWS

On the inflationary front, figures for the third quarter of last year show that the South American average stood at 10.9%, compared with 3.4% in Central America. And although last year interest rates hit five-year highs in Brazil, Colombia and Peru, there were almost corresponding five-year lows, for example, in Costa Rica and Guatemala.

Private consumption rose 3% in Central America last year, but fell 2.3% in the South; similarly, by the third quarter of 2016 real wages rose



2.6% and investment 1.9% in Central America, but south of the Isthmus of Panama wages fell 0.2% and investment decreased by 9.9%.

### ASSUME NOTHING, EXPECT ANYTHING

Still, no matter how diverse the economies of the two Latin American areas may appear to be, they share in common one thought: things could get worse and not better under the new administration in Washington.

There are lessons to be drawn from the January confrontation with Mexico: assume nothing, expect anything. So some regional players in the game are studying their cards carefully; every move needs to be thought out carefully.

Perhaps Chinese Mahjong, which is a no-trump game, will have appeal, with the Trans-Pacific Partnership (TPP) withering on the vine. China is actively promoting either an expanded Regional Comprehensive Economic Partnership or Free Trade Area of the Asia-Pacific.

Asian trade and engagement with Latin America can only continue to strengthen given the fact that the sub-continent is rich in natural resources

and China is confronting growing food and energy needs.

India should not be excluded from mention, even if its involvement with Latin America has had a lower profile, bearing in mind that it has not been able to match Beijing's financial clout; but it can be seen, through joint ventures, that things are stirring, albeit at a much slower pace. Indian interests are more diverse than China's, concentrating on energy, mining, pharmaceuticals, motor vehicles and information and communications technology.

China, meanwhile, is likely to push hard on the argument for a new multilateral trade order, but under its direction. There is, however, no ambition to duplicate America's role in the world; China's aim is a new trade, not world, order. Not dissimilar to Mahjong, but with countries rather than pieces, it wishes to succeed by producing a winning combination to its advantage.

In the 21st century Latin America sees Asian values as a constant; a stream whose flow for centuries has been steady and sure. This can't be said for the West where business ethics, standards and principles are fracturing at the centre.

### 'SHREWDNESS AND CUNNING'

The emergence of fake news circling the globe with the aid of advanced technology seems like some Orwellian book plot. Forget Plato's noble lie; Machiavelli's *The Prince* reminded us that: "Those princes who do great things have considered keeping their word of little account, and have known how to beguile men's minds by shrewdness and cunning".

Facts, like keeping one's word, have become elastic concepts, crossing the line by parting company with truth and reality. Shrewdness and cunning, as always, remain with us but social media has created a powerful breeding ground for falsehood, bias and inaccuracy which I also touched

upon in my column last month. In such a climate of mistrust it is so very easy for us to feed our prejudices about people and places.

### A TALE OF TWO COUNTRIES

In Dickensian terms it is the best of times and the worst of times for Panama. The country is being praised on the one hand for its economy; and, on the other, pummelled for the offshore financial services transgressions of the few, not the many who apply proper controls.

Adverse publicity alone is not the reason that there a flow of business moving out of Panama. Other locations are seen as providing privacy and less regulation, serving as a shield against America's tax reporting impositions beyond its borders and Europe's Common Reporting Standard.

### US NON-COMPLIANCE

In December the Financial Action Task Force (FATF) issued its first evaluation report on the US in 10 years. The US scored very well on effective controls for countering terrorism financing but received a failing score for its efforts to prevent the laundering of criminal proceeds.

Not enough has been done, the

report said, to rein in corporate secrecy and there were "serious gaps", leaving the financial system "vulnerable" to dirty money. The FATF deemed the US "non-compliant", which is the lowest possible score, on its ability to determine the owners of companies.

A Washington-based anti-money laundering attorney commenting on the FATF report said that because the US did not measure up to international standards it "opens the doors to Panama papers-type transactions and schemes to hide money." That door, open for years, is unlikely to be closed soon, despite recent efforts in Washington, and accounts for some of that outward flow of business from Panama. ■

## ASIAN TRADE AND ENGAGEMENT WITH LATIN AMERICA CAN ONLY CONTINUE TO STRENGTHEN