

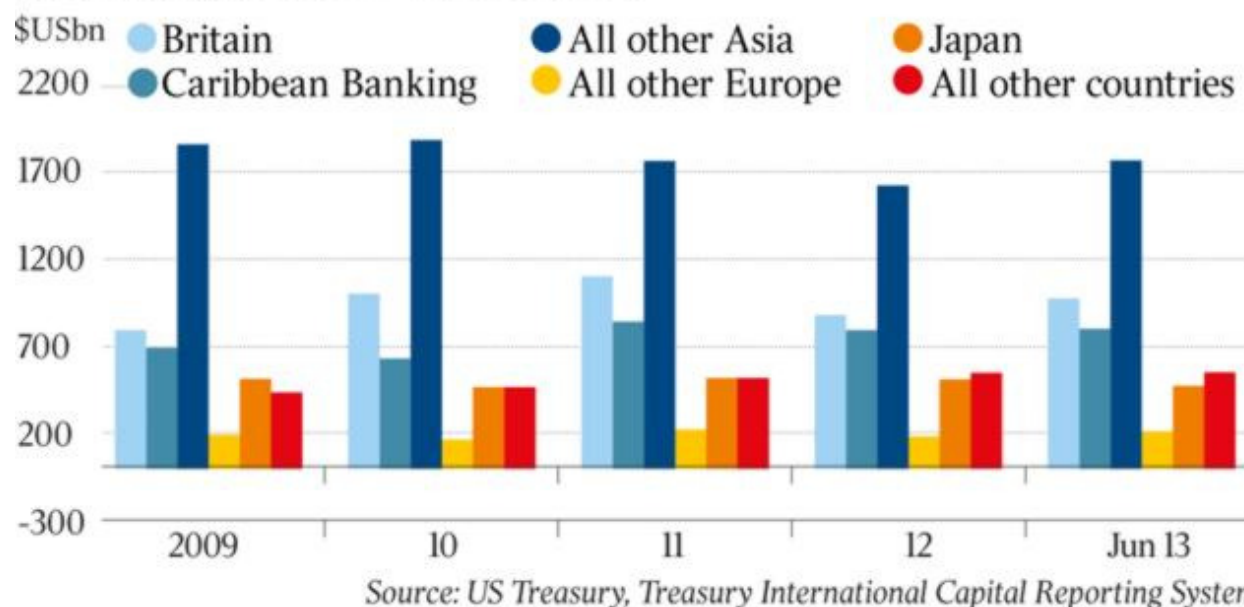
THE AUSTRALIAN

STOCK QUOTES					Enter company code	Q							
MARKET	+0.31%	6.47	CSL	+2.87%	99.12	IAG	-0.50%	5.92	NAB	+0.41%	34.7	QBE	+0.4
S&P/ASX 200	AUD/USD		TOP GAINER RMD		TOP LOSER PDN								
+0.47%	+0.03%		+6.78%		-4.44%								
5695.9000	\$0.73		\$8.03		\$0.21								

Your money's unlikely links with the Caribbean

STIRLING LARKIN THE AUSTRALIAN AUGUST 01, 2015 12:00AM

Liabilities to foreigners reported by US banks, brokers and dealers



Liabilities to foreigners reported by US entities. Source: TheAustralian

While public attention remains fixated on the immediate stability of China's internal investment markets and also the phraseology of the US Federal Reserve surrounding the near-term eventuality of interest rate "lift-off", those within global ultra-high-net-worth (UHNW) wealth management are closely watching another important front, the Caribbean.

The Caribbean remains integral for the global individual investor, the global economy at large and most importantly, the US itself. The rise of China and their use of "dollar diplomacy" in the Caribbean is seen as an equalling of the scales for the Chinese, who have always disliked the uncomfortable presence of US "hegemony" found in Taiwan.

More than merely a geopolitical concern, this greatly matters to financial markets and the current relative stability of international wealth management.

Although it is not the first time a Communist presence has made itself felt on the doorstep of the US, this current experience is different because it has the potential of tilting the global order in ways disadvantageous to all but the Chinese UHNW investment community.

The UN recognises around 30 territories including sovereign states, overseas departments and dependencies within the “Caribbean Plate” and these islands are regarded as a subregion of North America.

The recent developments seen in Cuba, Puerto Rico and Haiti have done surprisingly little to dent the indispensable role of Caribbean banking centres, such as the Cayman and Bermudian islands, in higher levels of global wealth management.

The Cayman Islands, specifically, remain a very important conduit for investment into America’s real economy and thus, as the graph highlights, Caribbean banking centres remain integral to US economic supremacy.

Also, too much is made of the “nefarious” elements of some activities, such as tax evasion by a small few in the Caribbean and many then quickly forget how important, constructive and stabilising the financial infrastructure within these centres is.

Taking a step back and remembering that debt and equity are the two basic respective sides of the ledger within business, it becomes clearer why the new interest by the Chinese in this geographic plate raises eyebrows.

It is no secret that China has amassed, at last estimates, \$US1.32 trillion in US Treasury securities along with foreign exchange holdings, largely including US dollars, of close to \$US4 trillion. These constitute the single largest holdings of US federal debt by anybody, ever. But where the Chinese have struggled to make their footprint felt is on the equity side of the respective ledger, where the Americans still dominate.

Contrary to the Hollywood popularisations of the Caribbean as one big affluent-only savings bank, the reality is starkly different. At the institutional investor level, Cayman financial infrastructure hosts global funds, investment vehicles and bespoke entities, which serve to aggregate and then deploy important investment capital.

Such legal as well as operational clarity found within such frameworks has served OECD economies tremendously well since World War II. Australian superannuation funds, who are institutional participants in these circumstances, have also benefited from these since their inceptions during the early 1990s.

Patrick Broughan, Larkin Group advisory board member and tax partner, Deloitte, says that these institutional level entities “afford the Australian UHNW (individuals) the opportunity to co-invest with other investors, usually from Europe and Asia, into international institutional investment opportunities at significantly reduced fees”.

It should not come as a surprise to see the Chinese deploy their greenback reserves in “dollar diplomacy” efforts focused upon the Caribbean. These efforts, viewed by the Americans as an attempt to influence loyalties and coerce these banking centres into recognising the PRC’s “One China” policy — which would have a divisive influence over Taiwanese UHNW investors — led President Barack Obama to comment that China’s growing financial presence in the region raised concern it may be “using its sheer size and muscle to force countries into subordinate positions”.

In reply, Chinese Foreign Ministry spokeswoman Hua Chunying said: “Speaking of size and muscle, I believe everyone knows well who has the largest size and muscle in the world.”

Such tensions place Australia and Australian global investors in a difficult position. We could become torn between continued support for the current order, which suits us well, and the future Asian Century, where the rise of the yuan and alignment to Chinese financial infrastructure could become

very important for our future. Australian UHNW investors should and do welcome greater participation of China throughout the fabric of international wealth management. But it would be best to keep an eye on potential seismic shifts along this Caribbean plate.

Larkin Group is a wholesale wealth adviser focusing on high yielding global investments. [**www.larkingroup.com.au**](http://www.larkingroup.com.au) (<http://www.larkingroup.com.au>)