The New Trade Routes
LATIN AMERICA

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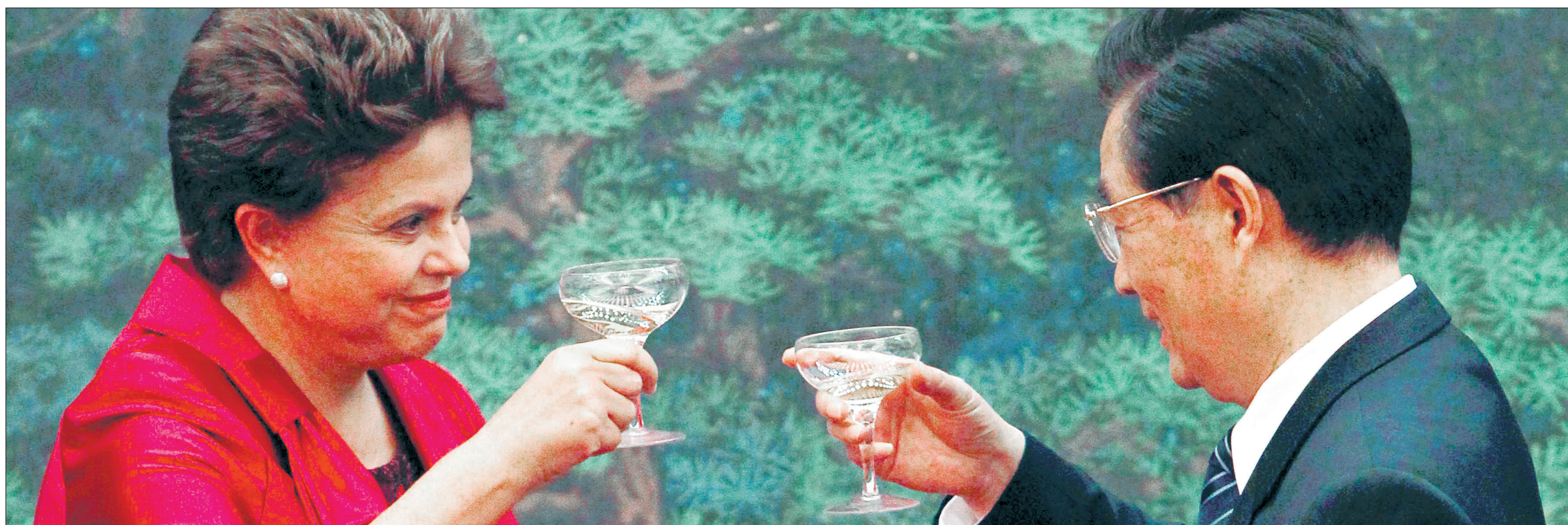
China is now region's biggest partner

The commodities boom is driving development, writes **John Paul Rathbone**



Bric partners: Dilma Rousseff, Brazil's president, and Hu Jintao, her Chinese counterpart Reuters

In 2006, when Eike Batista opened Rio de Janeiro's finest Chinese restaurant, his fortune barely made the Forbes rich list. Now, the Brazilian oil and mining magnate is the world's eighth richest man.

Mr Batista's estimated $30bn fortune has grown alongside Brazil's rising trade links with China. It is also a testament to Mr Batista's business nous that his Rio de Janeiro eatery has become a handy place to entertain his Chinese business partners.

Latin America, like Rio de Janeiro's dining scene, has changed – and it is largely thanks to China.

A region once known for instability has sailed through the global financial crisis. Poverty is falling, the middle classes booming, and asset markets bubbling.

This is due to a spectacular expansion of commodity-based trade. Over the past decade, fast-growing emerging countries, be they in Asia, India or Africa, have shown a near insatiable demand for the commodities that Latin America has in such abundance, whether Argentine soya, Brazilian iron ore, Chilean copper or Peruvian gold.

The change has been rapid: in 1999, trade between Latin America and China was a mere $8bn. By 2009, according to UN figures, it had grown 16 times to $130bn. By comparison, bilateral trade with the US rose by just a half over the same period.

Less well appreciated is how intra-Latin American trade has grown over the same period. During the colonial years, neighbouring countries were more likely to trade with Europe than each other. Now, growing business and infrastructure links are bridging Latin America's huge geographical obstacles – its vast forests and giant mountain ranges – knitting the region's economies together.

If anything, the pace of change has increased since the global financial crisis. Developed markets remain mired in sluggish growth and high debt. Meanwhile, emerging economies are surging ahead; they now account for three-quarters of global economic growth, according to the Inter-American Development Bank (IADB).

The rising middle classes of the emerging world are behind this shift. They aspire to own the same homes and cars, and eat the same foods, as their peers in the developed world. As a result, their economies have a higher propensity to consume the commodities that Latin America produces.

The effects of this shift are illustrated by the emblematic cases of Brazil and Mexico. In 2006, before the financial crisis erupted, 9 per cent of Brazil's exports went to the other Bric countries – Russia, India and China. By 2009 that had almost doubled to 17 per cent. As a result, the Brazilian economy boomed.

Mexico has had a very different experience because its economy has closer ties to the industrialised world, especially the US. Indeed, Bric exports still account for only 3 per cent of its total. Furthermore, manufactured goods rather than commodities play a larger role in the Mexican economy.

China, therefore, is more of an economic competitor than a complement. As a result, suggests an IADB study "One Region; Two Speeds?", Mexico's economy has grown at half Brazil's pace.

China's increasing role in a region that the US has long viewed as its backyard, is a geopolitical worry for Washington. That China is now the largest trading partner of both Brazil and Chile has added to a sense of US relative decline.

"China is a very good counterweight to the US," says a senior Brazilian diplomat. "It doesn't take the moral high ground. More importantly, it is far away."

This has prompted a US charm offensive in a region it can no longer afford to ignore. Yet it would be wrong to overstate China's growing role.

Bilateral US trade with the region was $486bn in 2009, almost four times China's total. Apart from energy, the two countries also still largely seek different goods. China imports commodities such as Chilean copper to make things. The US economy, by contrast, is more dedicated to services. There is the potential for a healthy north-south balance.

Nor has the south eclipsed the north as a source of capital. When Brazilian investment bank BTG Pactual raised $1.8bn last year, chief executive André Esteves looked to the sovereign wealth funds of Asia and the Middle East for funding. However, some 90 per cent of the foreign direct investment flowing into Mexico and Brazil, the region's two biggest economies, still comes from industrialised countries, according to the IADB.

Many in the region also believe that China's growing presence comes with a cost, as cheap Chinese imports harm local industry. More Mexican sombreros and Brazilian bikinis, for example, are now made in China than in either Mexico or Brazil.

Although government criticism of China remains muted in public, diplomatic tensions over China's undervalued currency are growing.

Indeed, such concerns point to a central question for Latin America. Can it turn the past decade's commodity-fed boom in "south-to-south" trade into sustained growth?

The history of the continent, after all, is littered with spectacular commodity booms and busts – as displayed so eloquently in the decayed grandeur and wasted opulence of Guatemala's faded cochineal haciendas, or Brazilian rubber farms.

The first requirement is for countries to save more by squirrelling away some of their commodity windfalls into offshore funds such as Chile's sovereign wealth fund. Encouragingly, Brazil, Colombia and Peru are setting up similar schemes.

There is also an urgent need to increase productivity, so that Latin American economies can move up the value chain and beyond the production of raw goods. Among many things, that means better education to create a more skilled workforce. Finally, although rising fast, intra-regional trade still needs to grow. At the moment, it accounts for a fifth of total Latin American trade; in Asia it accounts for half.

The hardware of regional integration – bridges, railways and roads – is developing apace. But the software of regional trade agreements remains bugged by tariff disagreements, in spite of the often high political rhetoric that accompanies them.

A case in point is the Mercosur trade bloc, which groups Argentina, Brazil, Paraguay, Uruguay and – unlikely pending addition – Venezuela. In the past decade, trade within Mercosur has grown less than among countries outside it, or even between individual Mercosur members and other Latin American countries.

A proposed "deep integration" pact between the fast-growing and market-led economies of Chile, Peru, Colombia – and perhaps Mexico – shows more promise. With a combined gross domestic product of $1,600bn, it would also be a regional counterweight to Brazil.

The boom in "south-south" trade has altered the region's geopolitical landscape. It has also helped lift millions out of poverty. But rising prosperity has its downside.

> 'China is a very good counterweight to the US – it doesn't take the moral high ground'

Building roads through the Amazonian interior can open new markets. But it also razes pristine forests and brings wildcat mining.

Illegal mining has turned the Madre de Dios region into Peru's second largest gold producing province, but it has also tripled mercury levels in Amazonian waterways.

Then there is drug trafficking. While cocaine use in the developed world has been falling since 2004, Latin American consumption has increased and now accounts for a fifth of the $88bn a year market.

The rise of the south has seen the emerging world adopt many of the habits of the north – with a large number of good, but also some unwelcome, consequences.

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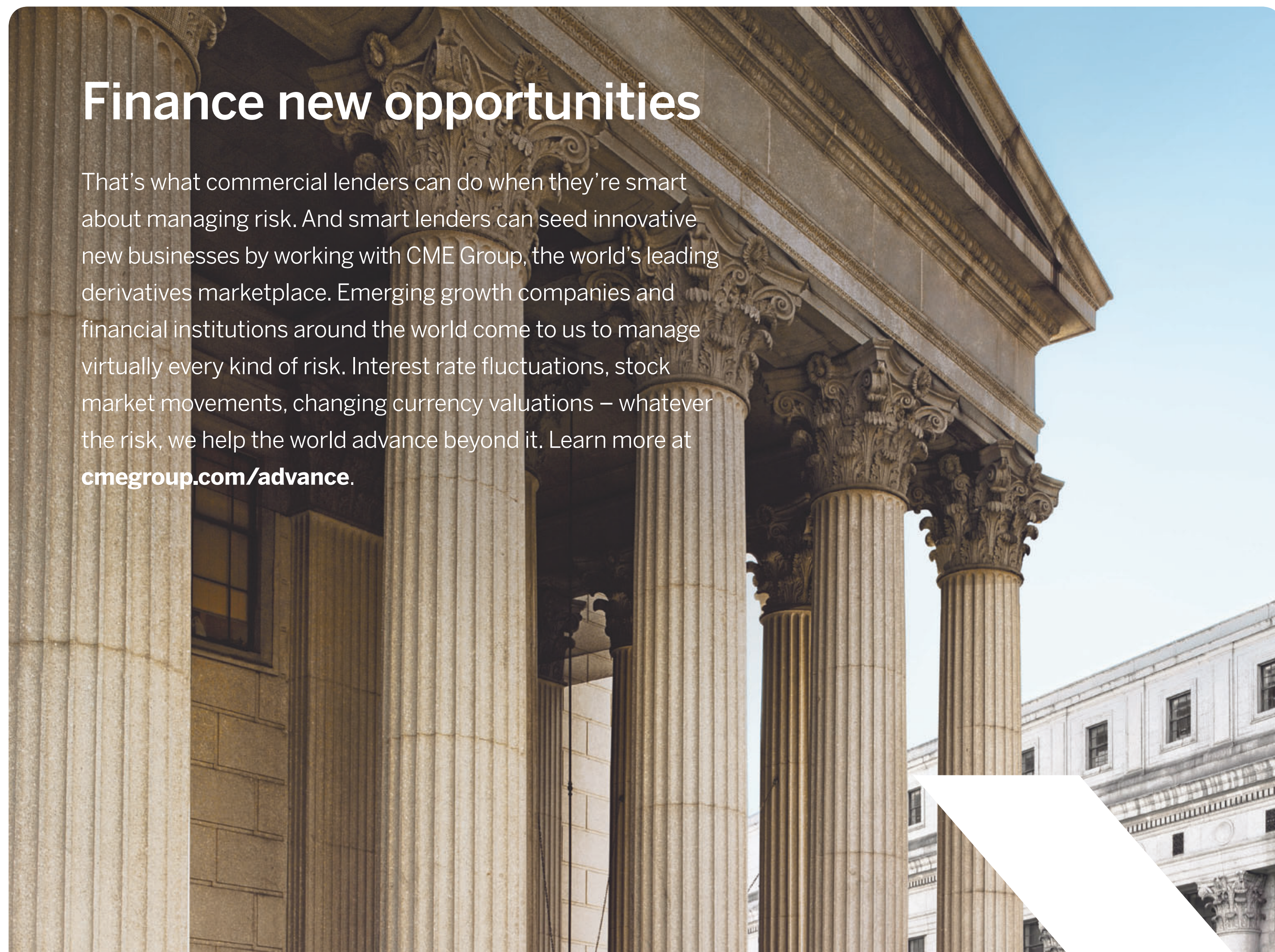

How the world advances

CME Group

China demand drives road and rail traffic

Transport outlay

Investment is tied to the movement of bulk goods, says **Robert Wright**

The paintshop at General in Erie, Pennsylvania, has recently seen a growing variety of work. Alongside the familiar colours of the large US railway companies, are the blue and yellow of MRS Logistica, the red and white of America Latina Logistica – both Brazilian companies – and the livery of other Latin American train operators.

The new locomotives, equipped with the latest electronics and fuel-saving technology, are one of the most obvious symbols of a surge of investment in Latin America's railways.

It is helping turn many rail groups from the battered, inefficient wrecks that limped into privatisation over the past 20 years into slick, modern logistics services providers.

ALL, the largest company, expects to invest $650m (£399m) this year alone, excluding the substantial sums going on construction of a 260km line between Alto Araguaia and Rondonopolis in Brazil.

Private-sector investment is also bringing improvements that should help the region's roads to cope with the demands imposed on them by growing trade volumes.

The challenge in both areas, however, may be to spread the benefits beyond a few favoured pockets, where investments are especially attractive – particularly Brazil, whose large size, strong growth and plentiful trade flows make it especially lucrative.

Giovanni Castellucci, chief executive of Atlantia, an Italian toll road operator, says Brazil and Chile – the two countries where it has so far invested – are unusual in their transparency, stability and strong legal framework. "This does not apply to Argentina, for example," he says.

The common factor for the investments expected to earn the best returns is that they are tied to the growing need to move goods – especially bulk goods – from countries' interiors to ports, from which they can be taken to Asia.

Henry Posner, a Pittsburgh-based railway investor who has a long record of investment in Latin America, says Chinese demand is driving growth in traffic ranging from coal to grains.

"Certainly, the railways, in select instances, are seeing that growth," Mr Posner says.

Colombia, where Mr Posner's Railroad Development Corporation applied to participate in a projected rail privatisation, is one of the countries most obviously affected by Asian demand.

The privatisation was cancelled when the Colombian government realised the importance of ensuring that rail privatisation provided a high-capacity route from the coalfields in the interior to the Pacific Ocean, to boost exports to China. The country is the world's fifth-largest coal exporter.

The restricted capacity of the existing rail links from the coalfields to Cartagena, on the Atlantic, is limiting Colombia's exports of its high-quality metallurgical coal.

"It's going to be a much bigger project if it's coal to China than a general railway line to serve the local market," Mr Posner says of the potential privatisation. "Colombia's whole strategy for the railways has changed."

The trade boom has also transformed investors' and lenders' readiness to involve themselves in the region's infrastructure.

> 'It's going to be a much bigger project if it's coal to China than a general railway line'

In Peru, where China has recently become the country's number-one trade partner, the Ferrocarril Central Andino has invested $150m since its 1999 privatisation in improvements.

It plans to spend a further $50m on track and $35m to $40m on rolling stock over the next three years to cope with extra traffic from the $2.2bn Toromocho copper mine that China's Chinalco is developing next to its line. Production is due to start in late 2012.

Juan de Dios Olaechea, Ferrocarril Central's president, says local banks have financed all the investments.

He says: "Bank finance is easily available in Peru, when you have a good product. With a good counterparty on the other side, financing infrastructure is not complicated."

The challenges for road investments, meanwhile, are far more complex, according to Mr Castellucci, especially in Brazil.

While the region's railways almost exclusively serve the relatively predictable needs of large mineral and agricultural producers, roads see a less predictable mix.

Atlantia sees heavy truck traffic – much of it carrying goods such as sugar cane to ports for export to China – on its Triangulo do Sol toll road network in the Brazilian state of São Paulo.

"The Brazilian road network does not have sufficient capacity to serve both growing trade and increasing penetration of private cars," Mr Castellucci says.

Yet the region is not only working on resolving immediate problems, such as congestion on Brazil's roads or the growing needs of Peru's copper mines. Many in the region would like to see a true regional rail network, in place of the largely isolated national systems.

The boldest plans would seek to minimise natural barriers such as the Andes.

Some more ambitious projects – including the many plans for railways and other alternatives to the Panama Canal between the Pacific and Atlantic – may never prove entirely viable.

But Mr Castellucci believes that other projects – including planned road tunnels through the Andes to give western Argentina and Brazil access to Chile's Pacific ports – will one day be built.

"It's a this century project," Mr Castellucci says of the cross-Andes plan. "But it's not one for the next five years."

Foreign cash has its drawbacks

Sovereign Wealth Funds

Samantha Pearson on the growing number of state-backed investors

State-backed investments into Latin America are set to increase, as developing countries act to secure natural resources, providing the region with a vital source of revenue but also stirring political tensions.

For the largely barren Gulf states and parts of Asia, Latin America is both a rich and relatively accessible source of the commodities they need to feed their people and a way to translate their wealth into economic development.

However, the fight for these resources is likely to become more cut-throat, with water scarcity limiting food supplies as the global population continues to grow. Fearing for their future food security, Arab and Asian countries have increasingly used sovereign wealth funds to secure resources and land in Latin America, sometimes funnelling money through the private sector to bypass local regulations.

Last year alone, Gulf states invested about $5.1bn in Brazil, estimates Daniel Melhem, president of the Gulf Latin America Leaders Council: "This is just the tip of the iceberg," he says. "This type of 'south-south' investment is still something very new for the global economy."

Among the Arab states, Qatar and Abu Dhabi have been the most active in Latin America so far. This year, Al Gharrafa Investment, a subsidiary of Qatar's sovereign wealth fund, increased its stake in Adecoagro, a farmland venture backed by billionaire investor George Soros which is based in Argentina, Brazil and Uruguay.

"When we meet the sovereign wealth funds, they're mostly looking at commodities, either mining or food," Mr Melhem says. "But they've also shown interest in the financial sector and real estate."

In fact, Qatar's first big move into Latin America was a $2.72bn purchase of a stake in the Brazilian arm of Santander, the Spanish bank. Aabar Investments, one of Abu Dhabi's state investment vehicles, also made a $328m investment in Santander Brazil in 2009.

Asian sovereign wealth funds favour energy, something the oil-rich Gulf states do not need. "Sovereign wealth funds from Asia have been looking for energy resources to advance their economic agenda in the medium term," says Enrique Alvarez, head of Latin American research at IDEAglobal.

Last month, the chairman of the supervisory board of China's $300bn sovereign wealth fund said he had just returned from a trip to Brazil, Argentina and Chile and saw great potential for investment. Chinese companies have invested in resources and energy businesses and analysts expect the bulk of state investments to be in these areas.

Starting with offices in Brazil and Mexico in 2008, Singapore's state investment agency Temasek has taken a similar direction in Latin America, buying into the oilfield services sector and a biofuels group.

In spite of their vast wealth, Gulf states have relatively small populations. As such, they have traditionally taken a much more passive approach, relying on local management teams. The Chinese have taken a more active role, as they seek to satisfy a much larger domestic demand.

While these new investors have come to rely on Latin America's natural resources, the region itself has come to depend on this steady flow of revenue.

Brazil, for example, counts on foreign investment to finance its gaping current account deficit, which reached 2.31 per cent of gross domestic product in the year to February. The country also desperately needs the funds to invest in infrastructure projects, as it prepares to host the World Cup in 2014 and the Olympics two years later.

However, investment comes at a price. There is a sense of unease about sovereign wealth funds' lack of transparency and their exploitation of local resources. In some cases, it is not possible to distinguish between state-backed and private investment.

"Saudi Arabia has been very vocal about food security and wants to acquire land in Brazil," explains Mr Melhem. "The first instinct would be to go straight to the Brazilian government but they don't sell land to foreign investors. Instead, Saudi Arabia gives loans to the private sector that will be used to invest in food security overseas."

> There is a risk that countries may resort to protectionist policies

Charging interest is not permitted under Islamic law, so these companies often get away with paying very little in return for these loans, he adds.

As a result, there is a risk that Latin American countries may resort to protectionist policies to direct this foreign investment to specific areas of the economy.

For example, Brazil has been preparing rules to block foreign governments and state-owned companies from buying agricultural land, while trying to allow genuine private sector investors. The unease is particularly acute when it comes to China.

"Some economies lean towards being liberal, open and operating on a commercial basis. Others lean towards state control," says Peter Mandelson, a former UK business secretary and EU trade commissioner, on the sidelines of a policy conference in São Paulo.

"That will produce increasing tension in the international trading system, not between developed and developing countries but between the fast growing countries themselves."

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Container traffic brings new problems

Ports

Rising trade flows create bottlenecks for shipping, writes **Robert Wright**

Until last year, container ships calling at Callao, Peru's main port had to load and unload by processes that would be unthinkable in most developed economies. The metal boxes would either be hitched to the hook of a inefficient mobile crane and swung slowly ashore or lifted off by the ship's own cranes.

However, since DP World, one of the world's biggest operators, opened a new terminal in the port last May, Peru's main shipping gateway has boasted six huge, modern cranes. Their long booms – specifically designed to let operators grab containers fast and drop them quickly on the quayside – mean ship handling takes a fraction of the time it did before.

The problem, according to Matthew Leech, managing director for DP World's Americas region, is that the improved service has so spurred trade that the facility is already almost full.

Callao's challenges in coping with the fast-changing demands of Latin America's trade sum up the issues facing the ports and shipping companies serving the region. Rising demand for the region's exports – especially from Asia for its plentiful raw materials – are putting pressure on bulk ports such as Brazil's Ponta de Madeira.

According to G-Ports, an information service, congestion in early April at one of Ponta de Madeira's piers was so serious that ships were forced to wait an average three weeks after arrival before loading with iron ore.

"There are cases where the existing infrastructures have already exceeded their limits today," says Henrik Pedersen, vice-president for business development in the Americas of APM Terminals, the terminals arm of Denmark's AP Møller-Maersk group.

Meanwhile, the rising volumes of Asian imports through the region's container ports are persuading container lines to bring to Latin America large ships displaced by still larger new vessels on routes elsewhere.

Maersk Line, the Maersk group's container shipping division, which saw its volumes to and from Latin America grow 14 per cent between 2009 and 2010, has even ordered 16 vessels specifically tailored to Latin America's needs.

The vessels, with a capacity of 7,500 twenty-foot equivalent units (TEUs) of containers, will dwarf anything previously seen in the region and will each have plugs for 1,700 refrigerated containers to carry the region's growing food exports. They are likely to be deployed on new services linking Latin America directly to Asia.

Both the bulk and container shipping trends demand significant fresh investments – all the more so since those involved know more change is coming. The expansion of the Panama Canal, due for completion around 2014, will allow container lines and bulk shipowners to introduce far larger ships than before on services that need to sail between the Pacific and Atlantic.

The transformation in efficiency resulting from investment can be remarkable. Mr Leech says the opening of the new terminal at Callao has eliminated the worst bottleneck on South America's west coast. As a result, shipping lines have been able to introduce ships that can carry 6,500 twenty-foot equivalent units of containers, which would previously have taken too long to load and unload at Callao. The biggest vessels in the region before the new port's construction were just 2,800 TEU.

"When we opened Callao and put in a dedicated container terminal, that unlocked the entire west coast South America market to network changes by the lines," Mr Leech says.

Yet growing ship size is a problem in itself, according to Mr Pedersen. Many ports not only have to install the kind of huge cranes that stand over Callao, but also to dredge harbour approaches such as the River Plate leading to the Port of Buenos Aires.

> New ports could expose weaknesses in roads and railways that the previously modest traffic had kept hidden

"The pressure is not only on physical ship size, but also on your operational systems," Mr Pedersen says. "You have to have a big productivity gain, so that the ship won't sit for a long time in each port."

The region's governments are aware of the problems. APM Terminals has been awarded a concession in Callao to modernise the existing port and supplement the overstretched DP World facility. DP World is working on a new terminal in the Brazilian port of Santos and the Chilean government has advertised concessions to operate new container terminals at the ports of San Antonio and Valparaiso.

In bulk shipping, improvements to the Colombian Pacific Port of Buenaventura to let it handle some of the country's fast-rising coal exports form a big part of an ambitious programme of Chinese-funded infrastructure investments planned for the country.

"Everybody recognises that infrastructure is needed," Mr Leech says.

There are also ports in the region that already reach high standards. Mr Pedersen singles out the Mexican port of Lazaro Cárdenas for the high quality of its facilities and inland connections. But challenges remain.

Mr Leech complains that projects take far longer to complete than in the fastest-moving emerging markets: "It's not a European-type problem, where it can take 10 years, but it's five-year cycles," he says. "The cycles are still long from an infrastructure perspective."

The longer-term fear, meanwhile, is that countries will need to dredge rivers, build new cranes and hack new ports out of beaches could end up exposing weaknesses in roads and railways that the ports' previously modest traffic had kept hidden.

Countries need to have not just port masterplans but infrastructure and logistics plans, according to Mr Pedersen.

"Countries will need to upgrade both the road side and the rail side, to make sure that you don't just move the bottleneck from the quayside to the landside," he says.

Rising tide: tugboat and container ship laden with goods in the Port of Callao — Corbis

Stormy weather fails to capsize container ship operator

Case Study
CSAV

The group has developed a strong instinct for survival, says **Robert Wright**

Compañía Sud Americana de Vapores, the South American steamship company, was founded in 1872 amid a wave of enthusiasm for investment in, and trade with, South America.

The company – based in Chile and listed from the start on Santiago's stock exchange – has not only survived to benefit from the most recent surge of interest in the region but also to facilitate it.

CSAV's container ships run a number of services direct from both coasts of South and Central America and Mexico to Asia, exporting Latin American food products and bringing back Asian manufactured goods.

However, the company came close to foundering in the 2009 crisis in container shipping, when worldwide container traffic fell 10 per cent.

It survived, thanks to an innovative deal with the shipowners that were some of its largest creditors, as well as a $770m rights issue. The deals allowed CSAV to carry on with an ambitious fleet expansion and modernisation and to emerge from the crisis as an important force in world container shipping, operating 150 ships.

"Down the road, we see the stakeholders better off than they were before the crisis and the company in a new competitive position, looking at its future in a different way," Rafael Moreira, CSAV's finance director, told a conference in Hamburg in February.

While most container shipping lines own directly between half and three-quarters of the ships they operate, CSAV has long preferred to charter nearly all its ships from independent owners, many of them based in Hamburg.

> CSAV came close to foundering in the 2009 crisis, when worldwide container traffic fell 10 per cent

As a result, when CSAV started struggling to meet increasingly onerous obligations to pay for new charter ships in early 2009, it had more container ships on charter from Hamburg owners than almost any other company, even though it operated the world's 16th-largest fleet overall.

Horrified by the prospect that CSAV's 90 chartered vessels might return to the ship chartering market and force down prices, Hamburg owners, led by Peter Döhle Schiffsfahrt, one of the market's leading companies, arranged the rescue package in May 2009, taking equity in return for reduced charter rates.

Jochen Döhle, Peter Döhle's president, has repeatedly said the transaction avoided the shipping equivalent of the Lehman Brothers collapse.

With its obligations to owners reduced and a slate of new ship deliveries, CSAV not only returned to profit for 2010 – making $181m net profits against 2009's $653m net loss, on turnover up 80 per cent to $5.45bn – but also saw its container traffic rise by 62 per cent.

The company has leapt up the fleet size tables produced by Paris-based Alphaliner. It currently sits at number seven.

The challenge may be to repeat such a strong performance this year.

CSAV announced in March that, in light of the rising oil price and a decline in the rates customers pay to ship containers, it planned a $500m capital increase.

Chile's Luksic family, which has recently acquired 18 per cent of the shares, is proposing that the sum involved be raised to $1bn.

Fall in demand brings cocaine back home

Drugs

Central America is feeling the effects, as the trade moves to the region, says Peter Barber

In the mountains of Honduras last month, police uncovered a bold new venture by one of the world's most innovative businesses. The cocaine processing lab on a remote coffee farm was evidence that Mexican drug cartels were no longer simply using Central America to smuggle the drug to the US: they were refining it there as well. The discovery spoke to a truth about the "war on drugs": the cartels have survived by staying a step ahead of changes in the marketplace.

"In the drugs trade, like any other business, it's about competitive advantage. The rules change and you adapt," says Daniel Linsker, a Latin America analyst from Control Risks, the business consultancy.

While Afghanistan has a monopoly on the world's heroin supply, cocaine is a Latin American curse. Despite 30 years of efforts to stamp it out, coca production has remained remarkably constant, at about 200,000 hectares in Colombia, Peru and Bolivia, says Vanda Felbab-Brown, a Brookings Institution scholar and author of *Shooting Up: Counterinsurgency and the War on Drugs.*

One reason for this resilience is the "balloon effect" – applying pressure in one place has led only to expansion somewhere else. In the decade to 2008, US-backed efforts by the Colombian government shut down as much as 60 per cent of coca production there, according to the UN Office on Drugs and Crime. At the same time, production rose by a third in Peru and more than doubled in Bolivia.

> 'In London, people buy fair trade coffee, care about the rainforests – then they go and do cocaine'

Peru is on course to replace Colombia as the world's largest cocaine producer, the UNODC says. Alongside Bolivia, it is refining cocaine for the first time.

The story of cocaine in the 21st century is of fierce competition. The retail value of the market has virtually halved in real terms in 13 years to $88bn in 2008, the UNODC estimates.

While coke captured the US economic buzz in the late 1980s and 1990s, consumers in the drug's main market have lost their taste for it. US demand is worth just a quarter of what it was 20 years ago.

At the same time, the cartels face pressure from military-style campaigns in Colombia and Mexico. The gangs have responded by battling over shrinking spoils. More than 28,000 people have been killed in Mexico alone since President Felipe Calderón brought in the army and declared war on the cartels in 2006.

"But one of the things about drugs is that the profit margins are extraordinary and the ability of drug trafficking organisations to absorb increased costs is phenomenal," says Ms Felbab-Brown. "Hence the difficulties in trying to use supply-side measures to drive them out of business."

Mexican cartels have responded to the crackdown at home by forging new routes to the US with the youth gangs of Honduras, El Salvador and Guatemala. Some 90 per cent of cocaine shipments to the US last year came through Central America, according to the US government.

The social impact has been catastrophic. A World Bank report notes that there were 14,257 murders in Central America in 2006, compared with 336 in Spain, despite both having a similar population of about 40m.

The homicide rate in Mexico last year was about 18 murders per 100,000, but the comparable rate in Honduras has climbed to 77, according to the US state department, making it the worst in the region.

Mr Linsker notes that, despite corruption and inefficiency, the Mexican state is strong enough to withstand the drug cartels. But in Central America, traffickers exploit weak institutions, corruption and poverty. The World Bank estimates that violence in Central America costs it 8 per cent a year in lost gross domestic product growth.

It is easy to see the allure when one considers the economics: a kilo of cocaine is worth roughly $1,000 when it leaves the Caribbean coast of Colombia. As it passes through Central America, the price soars to about $100,000 a kilo.

The cartels exploit weaknesses in global antinarcotic efforts. More than half of cocaine shipments to Europe – the second most important market – come through Venezuela, the UN believes. Seizures in that country fell from 152 tons in 2005 to 60.2 tons in 2009 after President Hugo Chávez ended counternarcotics co-operation with the US five years ago, according to Control Risks.

There is evidence that Europe has peaked as a market for cocaine and with North American in decline, the cartels have looked closer to home. The use of cocaine by Mexicans doubled in the six years to 2008, according to the UNODC, though it is still lower than in the US. But cocaine use per capita in Argentina now rivals the US.

"I think one aspect of the increase in drug consumption in Latin America is the growth of the middle class – the improvement of material conditions for many people," says Ms Felbab-Brown. But there are different markets for cocaine and for crack, its low-rent cousin. There is the young middle and upper class recreational user. And then there is Latin America's underclass, including the foot soldiers for the cartels, who are often paid in kind.

"So you have this combination of rising affluence and the growth of the middle class that generates one type of demand, with continuing poverty and violence and marginalisation driving another," she says.

Increasing Latin American demand appears also to be linked to rising production in Bolivia and Peru, which supply the region and Europe.

So, the cocaine story has a bleak message about Latin America's growth: it is still unequal. As Peru takes its place as the regional narcotics powerhouse, more than a third of its population live in poverty in spite of its 7 per cent GDP growth. Mr Linsker says Peru will be cursed by cocaine so long as development fails to reach the rural areas where coca is grown and cultivated.

And in spite of their own predilection for the drug, Latin Americans still suffer from violence and corruption because of the western taste for cocaine.

"It's a matter of conscience," says Mr Linsker. "In London, you have people who buy fair trade coffee, care about the rainforests, always support charities – and then they go and do cocaine."

Storing up trouble: police in Colombia inspect cocaine, marijuana and guns captured in the rural area of Palmira Getty

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‘Backyard’ increases its global importance

View from the US

Matthew Kennard examines how trade relations are changing

There is a lot of plaintive chatter in Washington these days about American decline, the perceived receding influence of a superpower that had stood unrivalled for two decades.

Nowhere is this more obvious than its economic relationship with Latin America, the place US planners used to refer to condescendingly as “our backyard”, but which increasingly resembles a local park – a bigger place for the US to play in, but one that is now open to all.

The new players are, primarily, emerging economic powers from Asia that have penetrated deep into the booming economies of the region over the past decade.

“What you have is a process of structural change in the trade patterns in Latin America, that is very significant and likely to continue to go in that direction,” says Augusto de la Torre, chief economist for Latin America and the Caribbean at the World Bank.

“The region is becoming highly differentiated, with countries, mainly in South America, diversifying their export-destination markets significantly,” he adds.

A decade ago, Asia accounted for roughly 5 per cent of the region’s trade, according the Inter-American Development Bank (IADB).

This has ballooned to 20 per cent.

Much of the growth is because of the region’s commodity riches, particularly iron ore, being sucked in by a booming China. But there are two sides to this coin in terms of the implications for the US. Some analysts believe the narrowness of the traded goods with the emerging markets has kept the US more relevant than is often assumed.

“All the hype about Asia is slightly misplaced,” says Mauricio Moreira Mesquita, a trade specialist at the IADB. “When you look at the composition of exports, it’s two or three products – iron ore and raw materials – that’s what interests [China].”

The Chinese have also promoted mercantilist policies, which make it hard to export to Asia in a variety of sectors.

This makes the US strategically important, because it gives the commodity-rich economies of South America the opportunity to export a broader cross-section of products. Many in Latin America believe this is needed to avoid reliance on high commodity prices.

“The region is going to have to live with the fact that it is rich in commodities that are in high demand,” says Mr Mesquite. “There are obvious concerns about what happens to the manufacturing sector in that perspective.”

Even friends – and neighbours – appear to be turning away. The US’s most important trading bloc, the North American Free Trade Agreement (Nafta), is nearly two decades old and is starting to look its age.

The share of trade between the three signatories – the US, Mexico and Canada – has fallen by nearly 10 per cent over the past decade: from 55 per cent of the countries’ global exports in 1999 to 46 per cent in 2009.

President Barack Obama is cautious, if not hostile, towards bilateral trade agreements. He campaigned for the presidency on his opposition to the Nafta agreement in its current form and complained about former president George W Bush’s attitude that “any trade agreement is a good trade agreement” and lamented the fact that Nafta “did not have enforceable labour agreements and environmental agreements”.

In power, Mr Obama has been more circumspect, reneging on his promise to renegotiate the deal; to some it looks as though he has chosen to watch it lose its edge.

He belatedly approved the trade agreement with Colombia, which had been zealously backed by Republicans and business groups in Washington.

Pressure from labour groups and unions had given Mr Obama pause, and it was only after Juan Manuel Santos, the president of Colombia, arrived in Washington to promise progress on labour standards and protections in his country, that he signed on the dotted line.

The US-Panama accord, meanwhile, which was signed by Panama in 2007, has still not been ratified.

Business groups say that the delays have allowed US rivals to capitalise.

The Doha trade round, meanwhile, has the chance to rebalance the current “south-south” growth in trade flows.

But it could also wreck a host of bilateral agreements.

“Doha would hurt some Latin American countries, in relative terms, as some of them have been promiscuous in setting up bilateral free trade agreements,” says Simon Evenett, an economist and trade specialist at St Gallen University in Switzerland.

A move to regional trading blocs in Latin America is also chipping away at US dominance – but only up to a point.

The most significant of the groupings has been Mercosur, which was founded in 1985 and includes all South America’s main economies as full or associate members.

But its progress has not been steady and, since the early 1990s, it has been stuck over the removal of barriers, witnessing in some cases reversals and new obstructions.

This has assuaged lingering US fears. Although a serious grouping, Mercosur accounts for only 11 per cent of Brazilian trade, for example.

However, Latin American governments can choose who they deal with. This lowers the importance of appeasing US interests.

> Latin American governments can choose who to deal with. This lowers the importance of appeasing US interests

Colombian president Juan Manuel Santos discusses trade with President Barack Obama Getty

Customer but also competitor

China

Activity has surged in the past 10 years, as **Jonathan Wheatley** reports

About 300 kilometres up the coast from Rio de Janeiro, the seemingly endless stretches of scrubby beaches and coconut palms are interrupted by something from another world: a finger of reinforced concrete 26.5 metres wide, stretching 2.9km out into the Atlantic.

Eike Batista, the billionaire entrepreneur who built it, calls this “a highway to China”. When it is ready next year, it will be the main pier for Açu Superport, a port and industrial complex taking shape behind it on a piece of land one and a half times the size of Manhattan Island.

Açu Superport is emblematic of a surge of trade and investment between China and Latin America that has already delivered transformational change.

But China’s towering status in the world economy has brought problems, too. Many Latin politicians who embraced China as a welcome substitute for the US are finding the relationship increasingly prickly.

Açu Superport’s pier is not Latin America’s only highway to China.

Vale, the Brazilian mining company, recently took out a $1.23bn loan from the Bank of China and the Export-Import Bank of China, to build a fleet of 12 of the world’s largest ships to carry its iron ore to its biggest customer.

Across much of Latin America, exports to China are surging. The region’s overall trade with China has grown 16-fold over the past decade – an extraordinary expansion.

The boom in trade has been followed by an explosion in investment. For years, China promised to spend billions of dollars on Latin America’s infrastructure to ensure access to the commodities it needs to fuel its growth.

It was a long time coming – in 2009, according to the Brazil China chamber of trade and industry, Chinese investment in Brazil was worth just $386m. In 2010, that number ballooned to an estimated $19bn.

Most of that – about 85 per cent – was commodity-related. And it is far from restricted to Brazil. Across the region, Chinese oil companies invested $15bn last year, and industry executives say more is to come. Investment goes beyond commodities. Across the region, from car making to banking, Chinese groups are carving out a presence.

So why would governments be worried? One reason is the impact of capital inflows – from both trade and investment – on the region’s currencies.

The most famous case is Brazil, where Guido Mantega, finance minister, last year coined the term “currency war”.

At the time, he was worried about loose fiscal policy in the US that was driving down the dollar and making US exports “unfairly” competitive with Brazil’s. But he has since changed the focus of his attention. In an FT interview in January, he cited China as the main cause of currency concerns, and warned: “This is a currency war that is turning into a trade war.”

Mr Mantega is not the only one to be worried. “Policymakers across Latin America have turned their attention to China,” says Nick Chamie, chief emerging markets economist at RBC Capital Markets in Toronto. “But it’s a double edged-sword, and not only for Brazil.”

For commodities exporters, the anticompetitive impact of currency appreciation has been offset by a surge in international prices. For manufacturers, though, there is no such cushion. And they say they are casualties not only of the currency war but also of dumping and other practices that erode their competitiveness both in world markets and at home.

Charles Tang, head of the Brazil China chamber of commerce, says Brazil’s lack of competitiveness is also caused by a failure to enact reforms of outdated labour laws and a complex and regressive tax system, and that these and other elements of the *custo Brasil* – the plethora of factors from bureaucracy to crumbling infrastructure that make it expensive to run a business in the country – cannot be blamed on China.

Charles Tang says Brazil must reform its labour laws and tax system

Brazil is reluctant to address such issues, so it must use other tactics. One option is to add value to commodities at home, rather than exporting raw materials to China – which may then return home in the form of finished goods.

The government has leant heavily on Vale, for example, to invest in the domestic steel industry. Petrobras, the state-controlled oil company, invests in oil refineries for reasons of public policy, not profitability.

But persuading China to buy value-added goods instead of raw materials is not easy, as Argentina recently discovered. When it tried to export soya oil rather than raw beans to China, its shipments suddenly fell foul of alleged sanitary concerns.

Argentina backed down and soya bean exports resumed, but the spat is still simmering.

No Latin government is falling out with the Chinese yet. The benefits of trade and investment still outweigh the disadvantages.

But there is a strong sense of what Mr Chamie calls pushback. As multinationals from both sides begin to markets – especially Africa, whose entry into the Brics club via South Africa was so strongly supported by China – they must prepare for direct competition.

Subcontinent prepares to be next China

India

Latin America has largely ignored the country, writes **Jude Webber**

Anil Jhala, an Indian businessman newly arrived in Brazil, says he feels like a modern-day Vasco da Gama, only in reverse, opening up a trade route from rather than to India.

Six centuries after the 15th century Portuguese explorer opened the first trade route to India, neither Brazil nor India is among the other’s top trading partners.

Latin America has largely concentrated on feeding China’s demand for raw materials and India has targeted Latin America less aggressively than China.

But the Inter-American Development Bank (IADB), in a report last year, concluded India had the potential to become “the next big thing” for Latin America if barriers, including high tariffs and transport costs, can be overcome.

The report’s co-ordinator, Mauricio Moreira Mesquita, says: “India will hit the natural resources constraint pretty soon . . . if it keeps growing at 8 to 9 per cent a year, it is going to have to start importing amounts from Latin America.”

It is an upbeat view shared by Mr Jhala, who in February became president of the Brazilian operations of India’s Aditya Birla group, a $29bn conglomerate with interests ranging from aluminium to cement, textiles to telecoms.

“India will be the next China in terms of being a market for Latin commodities,” Mr Jhala says. “Indian manufacturing exports to the region will also grow.”

But it can be a two-way street.

“When China was liberalising and Latin know-how in areas such as urbanisation, food processing, banking automation could have been relevant, Latin America was setting its macroeconomic situation in order,” Mr Jhala says. “In India, the opportunities are still there and Latin companies are more confident. So, we see know-how being exported from Latin America to India.”

A joint venture between Tata Motors, India’s largest car company, and Marcopolo, a Brazilian busmaker, to build buses and coaches in India is “a harbinger of things to come”, Mr Jhala says.

India, meanwhile, has established a foothold in Latin America, with information technology and outsourcing companies employing 17,000 Latin Americans, according to Rengaraj Viswanathan, India’s ambassador to Argentina, Uruguay and Paraguay.

Latin America’s exports to India are chiefly crude, soya oil and copper, and the IADB says the “natural resource pull” should be strong enough to send bilateral trade soaring”.

Mr Jhala sees India’s growth rate overtaking China’s this decade, in part because of a steep decline in Chinese workers.

India is preparing itself. Reliance Industries, which owns the world’s biggest refining complex, sourced about a quarter of its imports in the first 10 months last year from Latin America, while ONGC Videsh, Indian Oil Corp and Oil India have a $2.2bn investment in Venezuela.

In Bolivia, India’s Jindal is developing El Mutún, one of the world’s largest iron ore deposits, and building a steel mill.

Vikrant Gujral, president of Jindal Steel Bolivia, expects the first export of 400,000 tonnes of iron ore “any time now”.

India mainly exports chemicals, pharmaceuticals, engineering products, textiles and diesel to Latin America and though exports to the region grew 20 per cent to $9bn last year, Mr Viswanathan says that is just a fraction of Latin America’s $700bn imports. Brazil’s strong real, which makes imports cheaper, is an opportunity for Indian exporters, and he says the export goal should be $20bn by 2013.

Indian companies have invested some $12bn in Latin America, says Mr Viswanathan. But Indian investment in its top regional partner, Brazil, makes up only 0.05 per cent of Brazil’s foreign direct investment flows and some markets are tough.

And though Latin American companies are active in India in sectors as diverse as vaccine manufacture, cinema construction and bottling, Latin American investment amounted to $11m, some 0.01 per cent of total Indian inflows, between April 1990 and March 2009, according to the IADB.

“Some Indian companies have a Latin America strategy. But Latin American companies do not yet have an India strategy,” says Mr Viswanathan.

Mr Jhala also thinks Latin Americans are “short-sighted”.

“In consumer segments such as cosmetics and beer, they still look at India’s low per capita consumption and postpone their entry, not realising India has a 350m-plus middle-income population,” he says. “What they fail to realise is in 15 years India’s middle class will be 550m, but the brand positions will be taken.”

Ambassador Rengaraj Viswanathan

Brazil seeks to triumph in new Great Game for Africa

Africa

Cultural ties give its companies a head start, writes **Joe Leahy**

When Vale, the world’s largest iron ore miner, announced its latest foreign acquisition this month, no one was surprised by the location of the target company: Africa.

The $1.1bn offer for Metorex, a small Johannesburg-listed miner whose largest asset is a copper mine in the Democratic Republic of Congo, extends Brazil’s influence in a continent with which it has close historic and cultural ties.

So important has Africa become for companies such as Vale that the continent now accounts for half as much of Brazil’s international commerce as China.

“Brazil-China trade is today worth more than $50bn, while Africa as a whole is more than $25bn – so it’s significant in its own right,” says Brad Koen, the São Paulo-based managing director and global head of business development at South Africa’s Standard Bank.

Brazil’s courting of Africa is partly the result of tireless campaigning by the previous president Luiz Inácio Lula da Silva, who made countless trips there. The former leader pointed to the fact that Brazil has the second largest black population of any country in the world after Nigeria.

Brazil’s affinity with the continent also comes from its shared Portuguese colonial history with Lusophone Africa, particularly Angola and Mozambique, although the Latin American giant today does more business with Nigeria, Algeria and South Africa.

According to research by Standard Chartered Bank, Brazilian imports from Africa increased nearly 21 per cent to $3.25bn in January to March, against a year earlier, while exports rose 39.4 per cent to $2.55bn.

“The largest component of Brazilian exports [to Africa] has remained resource-based commodities [49 per cent],” says a report from the Office of the Special Advisor on Africa to the UN. Brazil, meanwhile, imports oil from Nigeria and Algeria, according to the 2009 report.

It says foreign direct investment by Brazil is concentrated among a few of its multinational companies. Petrobras, the state-owned oil company, invested $1.9bn in Nigeria in the coal, oil and natural gas sectors in 2005, and in 2007 made further investments in alternative energy. The same year, Vale spent about $700m on the coal, oil and natural gas sector in Mozambique.

In Mozambique, Vale is also working with Odebrecht, a Brazilian construction company, to develop coal reserves, as well as build a power station and construct rail and port infrastructure.

Odebrecht last year became the largest private sector employer in Angola, involved in food and ethanol production, offices, factories and supermarkets. Petrobras is also active in Angola, deploying its expertise in deep water drilling.

Andre Loes, chief economist at HSBC for Brazil, says the country’s largest construction groups were early movers in Africa.

Given Brazil’s history of economic volatility, its companies are more comfortable with the high degrees of uncertainty prevailing in many of these countries.

“Some of these countries had unstable, inflationary economies for a very long time,” says Mr Loes. “We are used to that of course, so the risk assessment is much easier for a Brazilian company.”

Brazil’s courting of Africa has a wider geopolitical context. It wants to be recognised as a world power, with positions such as a permanent seat on the UN Security Council. Africa is a natural vote bank.

Aside from Mr Lula’s visits, Brazil has also sought to build political influence in Africa through agricultural co-operation – the state-owned agribusiness research company Embrapa is active in Ghana – and other activities, such to fighting Aids.

Still, in spite of Brazil’s natural affinity with the continent, it faces serious competition from its deep-pocketed rival China, which has systematically targeted the continent with infrastructure investments in exchange for resources.

Indian private-sector companies are also fierce competitors, with New Delhi-based Bharti Airtel having snapped up one of the biggest telecom groups in Africa last year.

Against such emerging market juggernauts, Brazil will need to keep up not only its commercial onslaught on the continent but also its diplomatic offensive. President Dilma Rousseff will have no alternative but to follow her predecessor’s footsteps and take a flight east, if she wants to win the new Great Game under way on the African continent. In Africa, as in all emerging markets, face-to-face relationships are paramount.

“What happens on the political side, usually follows on the business side right away in Africa,” says Mr Koen.

> Brazil wants a permanent seat on the UN Security Council. Africa is a natural vote bank

ON FT.COM
Vale’s investment in Metorex has raised eyebrows
ft.com/latin-trade-2011

Local links improve neighbourly relations

Regional growth

Internal deals help unite nations, says **Naomi Mapstone**

Line in the sand: the Interoceanic highway being constructed through the Amazon jungle Reuters

Trade barriers in Latin America are often political or structural – but they can also be physical. The crazy zig-zag road from Pasto to Mocoa in southern Colombia – built during a 1934 war with Peru over sugar tariffs – is a perfect example.

Trucks sometimes need three attempts to turn a corner. "Where the mules went, the engineers followed, with dynamite," says José Hernando Gomez, head of Colombia's National Planning Department.

The road, currently being rebuilt with the benefits of 21st-century technology, is the missing link in a potentially lucrative route connecting Colombia's Pacific coast with the mighty Amazonian rivers that run from Peru to Brazil.

It it part of an ambitious push to boost connectivity and enhance trade both within Latin America and beyond.

While China's soaring levels of investment in Latin America are prompting debates about Asia's rising political influence in "America's back yard", intra-regional trade is also booming. According to the United Nations Conference on Trade and Development (Unctad), trade flows within Latin America grew at 8.9 per cent a year from 2000 to 2009, from $134bn to $290bn.

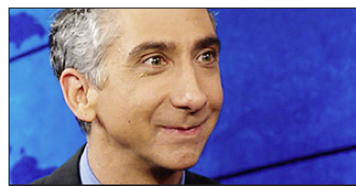
Brazil, Argentina, Mexico, Chile and Colombia are the region's heavyweights, with the highest volumes in the same period, but Panama, Ecuador, Paraguay, Bolivia and Peru experienced the fastest growth in their share of regional trade.

Panama's regional flow of trade rose by a factor of 6.2 in the decade to 2010, in spite of infrastructure gaps, political schisms and the global economic crisis, perhaps doing more for the cause of regional integration than political initiatives such as Mercosur, Alba (the Bolivarian alliance for the People of America) and the Union of South American Nations. Michael Shifter, president of the Washington based Inter-American Dialogue, says: "It's not a politically unified region; there are tremendous differences and high levels of mistrust among governments.

"What's striking is there's been so much progress despite these differences.

"The original idea in the 1990s was for governments to come together in a free-trade agreement. Instead, we've had a proliferation of bilateral agreements and trade driven by the private sector. At this level, integration is stronger than ever."

José García Belaúnde, foreign minister of Peru, one of the world's fastest growing economies and an avid proponent of free-trade agreements, said bilateral deals have done some of the work of diplomacy in recent years, helping to improve relations between ideologically polarised nations.



'It's no longer just primary products or the same crappy refrigerators and appliances'

Chris Sabatini, Director of policy, Council of the Americas

But Chris Sabatini, senior director of policy at the New York-based Council of the Americas, warns against a "warm and fuzzy rhetoric of solidarity", saying that while economic integration has undeniably smoothed over differences, many countries remain on markedly different economic trajectories.

US "squeamishness" about its commitment to free trade has acted as a spur for Latin America's deepening and diversifying trade, he says, adding: "There's a real differentiation now in these markets in terms of what they produce and what they buy.

"It's no longer just primary products or the same crappy refrigerators and appliances. There are truly globally competitive products that are diversified."

According to Unctad, this is one of the key benefits of increasing trade within Latin America.

"Intra-regional trade between developing countries features a much higher proportion of industrial goods, and especially of high- and medium-skill and technology-intensive manufactures," it noted in a 2007 report.

The top-10 traded products in Latin America in 2009 included medium- or high-tech goods such as passenger vehicles, tractors, medicines and telecommunications equipment.

The region's big corporations, many near-monopolies in their home markets, have been quick to seize the opportunity presented by growing consumer markets on their doorstep.

Among them are Carlos Slim's Telmex, Colombia's energy-utilities group EPM and Avianca airline, Brazil's Banco Itaú, miner Vale and oil company Petrobras, to Chile's Cencosud retailer and LAN airline.

"If you take exports from the region to the world, some of those more sophisticated goods are still present, but mineral products become more important," says professor Antonio Carlos Macedo e Silva, of Unctad's economic co-operation and integration among developing countries unit. "If you consider exports to China, or even, for that matter, to the European Union, raw materials take pride of place."

For Brazil and Peru, which expect a further boost to bilateral trade from the completion of the inter-Oceanic highway this year, the benefits are obvious.

The first paved road to cross Latin America east to west will give Brazil access to a Pacific port for the first time, enhancing its exposure to lucrative Asian markets.

It will also give the Brazilians greater capacity to sell soya, construction and mining equipment, electrical goods and vehicles to Peru, and the Peruvians a chance to sell to Brazil.

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Latin Links

Using data from the UN Conference on Trade and Development, this graphic examines trade flows for three sectors – agriculture, energy and mining for the seven largest regional economies: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela since 1995
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Southern neighbours are becoming more attractive

Mexico

Adam Thomson says businesses are starting to consider Latin America as a viable market

On the factory floor of Industrias H24 in Naucalpan, a satellite of Mexico City, workers dressed in blue overalls pack cardboard boxes with household products – bleach, washing powder, surface cleaners and bug spray.

A few years ago, the products would all have had one destination: Mexico. Today, more and more of them are heading south – to other Latin American countries.

Mark McGuiness, the company's owner and president, says that sales to his new export destinations are growing at about 15 per cent a year, compared with just 1 per cent for domestic sales. He says he expects the trend to continue.

"We have a sophisticated and volume-driven industry base [in Mexico], and that volume helps you go into smaller markets that are less efficient," he explains.

All over Mexico, producers are starting to look south in search of fresh markets. According to the country's economy ministry, exports to South America last year were 50.4 per cent higher than in 2009, while overall exports were 29.8 per cent higher.

That growth has helped the region assume far greater importance for Mexico, with Latin America now accounting for about 7 per cent of total exports compared with roughly half that figure five years ago.

As a sign of the thriving new trade, the Mexican government announced at the end of last year that South America had overtaken the European Union as a destination for Mexican exports for the first time in more than a decade.

In an effort to diversify exports and develop stronger ties with the rest of the region, Mexico this month announced a deepening of its existing trade agreement with Colombia as well as the signing of a trade pact with Peru.

But perhaps the biggest sign of Mexico's intention to develop trade links with Latin America came in November last year, when the government formally began negotiations with Brazil, the region's largest economy.

Experts say that such a deal could be huge.

The two countries are the largest economies in Latin America, together making up 74 per cent of the region's gross domestic product. They are also by far the most populous countries in Latin America with a joint population of almost 300m – almost the size of the US.

Yet Mexican exports to Brazil account for just 1 per cent of the total, while Brazilian exports to Mexico represent 1.8 per cent of that country's total exports.

Experts say that a deal with Mexico could lift that figure but also provide important access for Brazilian products to the US and Canadian markets through the North American Free Trade Agreement (Nafta), which binds the US, Canada and Mexico.

María Cristina Capelo, an investigator at Mexico City's Centre of Research for Development (Cidac), says that multinational companies operating in both countries could be the main beneficiaries of an eventual accord because they could integrate operations more closely.

"Brazil and Mexico produce many similar products, but if you look at sectors such as automobile parts and aerospace, there is potential because a lot of the commerce is between companies," she says.

Labour costs are now only 13.6 per cent more expensive than those of China

She also sees an upside in petrochemicals, where Brazilian companies setting up in Mexico could purchase primary materials from Pemex to manufacture derivatives.

One reason for the deepening trade ties between Mexico and Latin America has to do with economic health.

South facing: Mexican workers at a car factory Bloomberg

Luz María de la Mora, a visiting professor at Mexico City's Centre for Economic Research (Cide), says the region has emerged from the global economic crisis of 2008 and 2009 much more strongly than industrialised countries.

In contrast to previous crises, for example, macroeconomic fundamentals remain solid; inflation is, by and large, under control and the countries' banking sectors remain well capitalised.

All of that has not only created stronger markets in which to sell products, it has eliminated a lot of the once-endemic risks associated with doing business in Latin America.

"Latin American countries see themselves as places we can do business safely," she says. "They have the conditions that allow business to happen."

At the same time, Mexico has become more competitive as an export market.

Sergio Martin, chief Latin America economist at HSBC in Mexico City, says that labour costs are now only 13.6 per cent more expensive than those of China.

Five years ago, the difference was 260 per cent.

Of course, some of the competitive gains are the product of forex markets, with the Mexican peso remaining undervalued against the US dollar, compared with other currencies such as the Brazilian real or the Colombian peso – a fact that could shift over time.

In addition, it is important to remember that 80 per cent of Mexican exports still go to the US, and that country's importance for Mexico as an export destination is unlikely to change in the near future.

For now, the growth in trade between Mexico and Latin America is one of the most dynamic areas.

As Ms de la Mora of Cide puts it: "Latin America is becoming an attractive partner."

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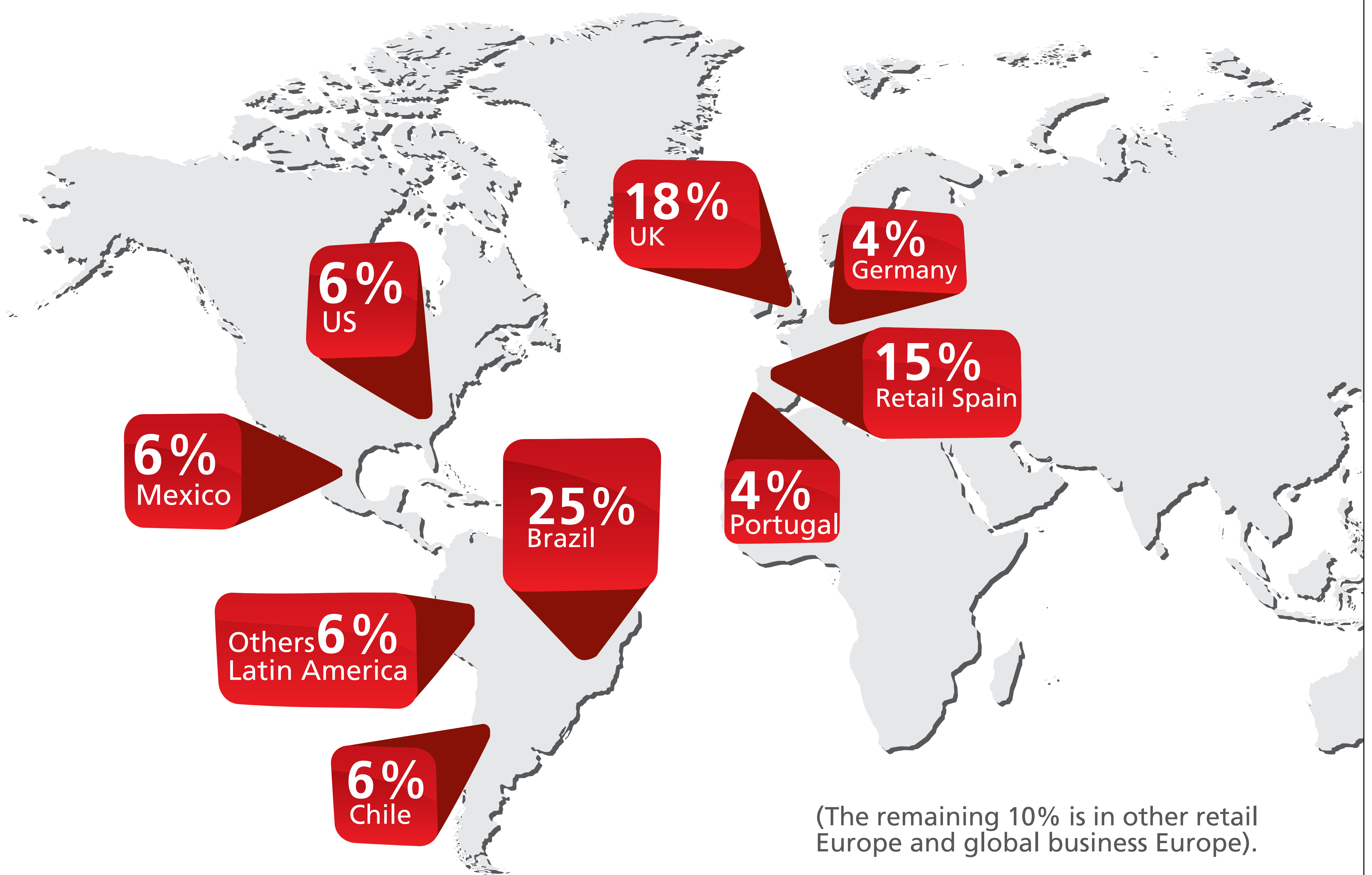

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