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FEATURED Q&A

Is Latin America's Recovery Too Dependent Upon China?

Q In an August report, the UN's Economic Commission for Latin America and the Caribbean said the region needs to do more to take advantage of trade relations with China, arguing for a diversification of Chinese investment in the region and increased Latin American investment in the Chinese economy. The report also says that for the countries of South America, "recovery from the current crisis depends largely on sustained growth in the Chinese economy." Do you agree? In what areas should Latin America aim to boost trade and investment with China? Is there a danger the region could become too dependent on China's economy?

A **Gonzalo S. Paz, lecturer at The George Washington University:** "China is already the number one or two trading partner of many countries in the region. Countries that have complementary economies with that of China have done well; countries that compete with China in manufacturing, textiles and toys, have been feeling the pressure. In recent years, economic growth in several countries in Latin America has been clearly associated with China's development. This is why some of these countries were in a much better situation when the economic crisis hit; this is why they suffered less from the financial storm; and this is why they will recover earlier. Nevertheless, there have been exceptions: Mexico and most of Central America and

the Caribbean are more connected with the US economy, and so they have suffered the most: Mexico continues to try to solve the Chinese puzzle. In general, China's foreign investment is growing fast. According to Chinese statistics, a good portion of it is coming to the region, although it is basically financial investment in the Cayman Islands and the British Virgin Islands. It is a case of 'round-tripping,' as this capital goes back to China as FDI. The small (but growing) remaining Chinese investment in the region is 'natural-resource-seeking investment,' and to a lesser extent, infrastructure.

Continued on page 4



Top Mexican Officials Resign in Calderon Admin. Shakeup

Eduardo Medina-Mora, Mexico's attorney general, was one of three top officials of President Felipe Calderon's government to resign on Monday. See related story on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

Peru's Santa Sofia Puertos Plans \$270 Million Port Investment

Santa Sofia Puertos, a unit of Peruvian food and industrial conglomerate **Romero Group**, intends to invest \$270 million to build a new port at Ancon, a coastal city north of Lima, state news agency Andina reported Monday. Work on the port, which is expected to handle both dry bulk and container ships, is scheduled to begin in the second half of 2010, pending environmental approvals. The port should be operational in the second half of 2012.

Seven Candidates to Challenge Bolivia's Morales in December

Seven opposition candidates on Monday officially secured their spots on the ballot to challenge Bolivian President Evo Morales in elections scheduled for December 6, local daily *La Razon* reported. The latest poll by **Gallup International** shows Morales with 57.7 percent of the projected vote, leading both former Cochabamba prefect Manfred Reyes Villa and businessman Samuel Doria Medina by more than 40 points. On Friday, former President Jorge Quiroga dropped out of the presidential race. [Editor's note: Look for a related Q&A in an upcoming issue of the *Advisor*.]

LaserCard Names Ismael Dykman to Lead Latin America Sales Push

California-based biometrics firm **LaserCard Corporation** said Monday it had appointed business development manager Ismael Dykman to lead a new push targeting government sales in Latin America. The company said it expects "heightened security concerns" to drive many governments in the region to invest in more complex, secure ID programs. Dykman recently led projects in Nicaragua, Guatemala and Brazil.

Political News

Three Top Mexican Officials Resign in Calderon Admin. Shakeup

President Felipe Calderon on Monday announced the resignation of his attorney general, Eduardo Medina-Mora, a key figure in the country's bloody and long-running battle with drug cartels. Arturo Chavez, a lawyer who served as deputy interior secretary and the local representative of the attorney general's office in

Calderon nominated Juan Jose Suarez to replace Reyes Heroles as head of Pemex.

his hometown of Chihuahua, will be nominated to replace him. Calderon also announced that the head of the national oil company **Pemex**, Jesus Reyes Heroles, has stepped down, to be replaced by Juan Jose Suarez. Suarez has leadership experience at the huge state-owned company, having previously served as Pemex's CFO. The third official, Alberto Cardenas, has served as Calderon's agriculture secretary. Calderon named Francisco Javier Mayorga, who directed agricultural marketing under former President Vicente Fox, to replace Cardenas, according to local daily *El Universal*. All three ministers have managed difficult areas of the government over nearly three years of Calderon's administration. Despite being widely admired in the industry, Reyes Heroles has been unable to stop falling oil production, which many energy experts have blamed on lack of reforms to open up the country's monopoly energy system. For Medina-Mora, rampant organized crime and violence have escalated as Calderon's government struggles to gain control of fierce battles for territory prompted by new drug kingpin arrests. Drug-related violence has killed more than 13,500 people nationwide since late 2006, when Calderon began in earnest to remove the heads of large crime operations. The government has deployed more

than 45,000 soldiers and 5,000 federal agents to establish law and order in drug hotspots, the Associated Press reported.

Economic News

Brazil and France Advance New Military, Commercial Deals

French President Nicolas Sarkozy on Monday wrapped up an official two-day visit to Brazil, a trip that brought the announcement of several large commercial projects. In perhaps the most financially significant deal, Brazilian president Luiz Inacio Lula da Silva on Monday authorized final negotiations to acquire 36 Rafale fighter jets made by France's **Dassault Aviation**, according to a government press release. While the French appear to be gaining momentum in the negotiations, the US' **Boeing** and Sweden's **Saab** are still in the running for the hotly contested \$3 billion next-generation fighter contract, Reuters reported. Sarkozy, meanwhile, told a news conference that France plans to acquire a dozen KC-390 military cargo transport planes made by Brazil's **Embraer** to replace US-made C-130s that it now uses, the Associated Press reported. Sarkozy also announced France supports Rio de Janeiro's bid for the 2016 Olympic



Sarkozy (L) and Lula wave to supporters in Brazil yesterday.

Photo: ABN.

Games, and asked that Brazil back France's proposal to host the 2018 winter games. In the health sector, French company **Sanofi Pasteur**, the vaccines division of pharmaceutical maker **Sanofi-Aventis**, said Monday it signed an agreement with Brazil's Butantan Institute to produce a vaccine against the novel A(H1N1)

influenza virus for the Brazilian government. The order from the Brazilian Ministry of Health provides for the initial supply of 18 million doses of the new A(H1N1) influenza virus vaccine, with an option for an additional 15 million doses of A(H1N1) vaccine should the World Health Organization request influenza manufacturers switch production from the regular seasonal flu vaccination to the "swine flu" pandemic vaccine in the months ahead. In a separate announcement, France's partially state-owned electric and gas utility, **GDF Suez**, said Monday it has signed a nuclear cooperation agreement with Brazilian companies **Eletronuclear** and **Eletronuclear**, the Associated Press reported. The agreement, which covers the exchange of information and experience to develop Brazil's nuclear power industry, aims to help Eletronuclear construct the Angra 3 plant, which is scheduled to be ready for operation by late 2014. [Editor's note: See Q&A on Brazil's nuclear power goals in the March 20 [issue](#) of the weekly *Energy Advisor*.]

Venezuela, Iran Announce \$800 Million Deal for Gasoline

Venezuela has agreed to supply Iran with 20,000 barrels of refined gasoline per day, President Hugo Chavez said on Sunday at the end of a two-day visit to the Persian Gulf nation, Agence France-Presse reported. Iran will deposit \$800 million for the gasoline into a fund that will be used to finance Venezuelan purchase of machinery and technology from Iran, according to the report. Iran's oil ministry also announced on Monday that Iran pledged to invest \$760 million in the development of Venezuelan oil field Dobokubi, as well as the development of Block 7 of the Ayacucho oil field. During his visit, Chavez reiterated his support for Iran's nuclear program, a policy of high concern to the world's existing nuclear powers. In related news, on Monday Chavez made his first visit to Turkmenistan, proposing that the nation, which holds large untapped gas reserves, consider joining the "gas OPEC" that is being promoted by Russia, Iran and Venezuela.

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XIII Annual **Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas**

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Former Vice President of Guatemala

and others ...

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Thursday, September 10 from 8:30 am to 3:00 pm
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RSVP to meetings@thedialogue.org

Please include your name and affiliation.

Featured Q&A*Continued from page 1*

This is what China needs for its own process of development. China is also buying already functioning projects and establishing new ones. It is good for the region to have investment, in this case Chinese investment, but most countries would prefer to have investments in manufacturing production. To sum up, quantity and quality must be improved."

A Rhys Jenkins, professor of International Development at the University of East Anglia in England: "Continued growth in China is certainly important for global recovery, and if the Chinese economy ceased to grow, this would be a major blow. However, one should not exaggerate the impact of China on Latin America. For the region as a whole, exports to the US were five times greater than exports to China in 2008, while exports to the European Union were almost double. Even for the South American countries, which are less dependent on trade with the US, this still represented double the level of trade with China, while trade with the European Union was 75 percent higher. These aggregate figures also hide considerable variation between Latin American countries. While China accounts for more than 10 percent of exports from Argentina, Brazil, Chile, Costa Rica, Cuba and Peru, other countries in the region have very limited exports to China. The direct effects of China's growth on these other countries is therefore very limited, although in some cases there is an important impact because Chinese demand influences world prices for some of the commodities they export. These figures suggest that there is little danger of Latin America becoming too dependent on China in quantitative terms. Indeed, the growth of trade with China has helped reduce the region's dependence on the US. Of greater concern in terms of dependence is the structure of trade with China, which involves the exchange of a narrow range of Latin American primary commodities for Chinese manufactured goods that are becoming more technologically sophisticated over time."

A Rodrigo Maciel, executive secretary of the China-Brazil Business Council in Rio de Janeiro: "China has been very important for Latin American countries, especially for Brazil. Trade between Brazil and China grew from \$3.2 billion in 2001 to \$36 billion in 2008, a growth of 1,125 percent. Due to the international crisis and the maintenance of fast economic growth in China despite the crisis, China in 2009 became Brazil's biggest trading partner, surpassing the United States for the first time in history. China is the only country in the list of Brazil's top 10 trading partners to which Brazilian exports are still growing. However, Brazilian exports are mainly concentrated in commodities (almost 80 percent of total), such as iron ore, soybeans and oil. The main reason for such concentration is lack of interest and knowledge from the majority of Brazil's industry sectors, who still do not consider China as a market. In trade, there are many opportunities for Brazilian sectors such as food, auto industry, machinery, electric and electronics, cosmetics, etc. Chinese investment in Brazil is insignificant (less than \$300 million). However, we believe that Chinese investments will change the economic relationship between the two countries in the near future, and will help the diversification of Brazilian exports to China. The main areas for investments are steel production, mining, food, infrastructure and logistics, telecom, energy and oil. I do not believe that there is a possibility of Brazil becoming too dependent on China's economy. China's percentage of Brazil's total trade is very small (less than 15 percent), since Brazil's exports are very diversified by destination. Considering investments, I do not foresee China overcoming the developed countries (including the United States and Spain), since they have a huge amount of money in Brazil and their multinational companies are much consolidated in Brazil's domestic market."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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