

The seductive dragon

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In 2004 the presidents of Argentina and Brazil declared 30th November a day of friendship between their countries. One day before, an Argentine anti-torpedo ship fired at a Brazilian frigate and injured five sailors. The manoeuvres had been designated "operation brotherhood". The incident highlights the missteps and contradictions prevalent in a continent where the politics have been described as a rich source of theatre by the writer, Alma Guillermoprieto.

At the end of last year, representatives from all 12 of the continent's countries signed an agreement in Cuzco, Peru, establishing a South American Community of Nations embracing 361 million people. It creates a market with a Gross Domestic Product of USD973 billion that exports goods and services worth USD181 billion. The discussions covered integration along the lines of the European Union but only 8 out of 12 presidents attended the summit, with those of Argentina, Ecuador, Uruguay and Paraguay sending envoys instead. Peru and Brazil signed a USD700 million agreement to create a road linking the countries by 2006, which is all well and good, but Brazil has its own crippled transport system to deal with which has 1.5m kilometres of road of which only 11% is paved.

Perhaps help for Brazil's roads and other important investments in infrastructure, including ports, is at hand. Rudyard Kipling may have mused: "I've never sailed the Amazon, I've never reached Brazil", but the same cannot be said of China in its search for raw materials. Napoleon who believed that China, "when she awakes, she will shake the world" was correct. China, for much of recorded history, was the largest economy and until the 15th century had the highest income per head before becoming introspective. Today, USD1

billion per week of foreign direct investment has seen the Chinese dragon overtake the Asian tiger and it is the largest consumer of oil after the United States. The biggest overseas investments made by Chinese companies are in Brazil's iron and steel sector. Besides Brazil, there are manufacturing companies in Mexico whilst investments are increasing in railway projects and agribusiness-connected ventures with Argentina.

The next decade could see China become the world's largest exporter and importer with the possibility of overtaking the United States as the world's largest economy. China is one of the world economy's emerging giants, along with India, Brazil and Russia; significantly, besides having a bigger GDP than the other three combined, it is also more integrated into the world economy. As China's door opens wider to the world, it comes at a time when many trade regimes are being liberalised across Latin America and China recognises that direct investment there will guarantee a steady source of supply for its expanding economy. Its demand for raw materials has increased prices in the international market considerably which, in turn, has contributed significantly to Latin America's economic good fortune. The shares of mining and resources groups have made great gains and by one estimate (J P Morgan, the US investment bank), average prices of shares of Latin American mining and metals companies rose, in US dollar terms, by over 40% in 2004, significantly out-performing other sectors such as banks, consumer goods and telecommunications companies. Petrobrás, the partly state-owned Brazilian oil group, for example, saw its market capitalisation reach USD39 billion and its shares appreciate by 31% last year. Additionally, increased investment from other foreign countries and the extent of economic growth in North America, Europe and

Japan have played their part. The World Bank expects that the economic growth rate of Latin America in 2005 will be just under 4%.

Relations with China and Latin America, however, have their problems and jobs are one of them. China's cheap labour has already hurt Mexico's exports to the United States. Argentina, to take another example, is worried about competition in its shoe, toy and textile industries. China, however, is a seductive trading partner and Argentine concerns are countered by Chinese plans to invest about USD20 billion in the country during the next decade. At the moment, Argentina's annual exports to China are worth around USD2.6 billion, which is more than six times the value of its imports from China.

About 60% of the ships using Panama's canal travel between Asian ports and the eastern seaboard of the United States. Every evening I can see a string of ship lights along the horizon off the Pacific seafloor of Panama's capital as vessels wait their turn in the canal queue. It is estimated that total container traffic from Asia to the United States grew by just over 14% in 2004 and at the end of last year the Panamanian authorities said that the canal was operating at 93% of its capacity. In fact, some of the ships are riding so low in the water at the canal's Pacific entrance that they must offload containers before being able to enter the canal. (The containers are carried by train, then put back on board at the other end.)

This is the Year of the Rooster in China and those born this year should be excellent travellers. There is no doubt, however, that the Chinese are already on the move and from what we are seeing at the moment (with apologies to John Donne) it is Latin America for whom the cock crows.

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