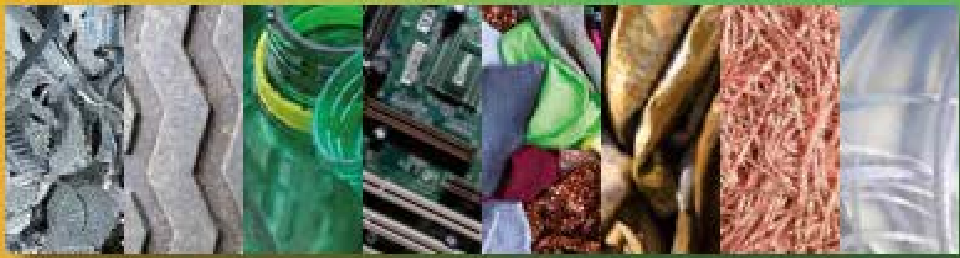
# BIR World Mirror



# Latin America

April 2017

**Alejandro Jaramillo –** Glorem SC (MEX)

*Chairman of the BIR Latin America Committee*

I celebrate the opportunity provided by this Mirror to share some thoughts with you about a developing and complex region of the world. I would like to thank my colleagues on the Latin America Committee as well as in the different BIR divisions for sharing their insights.

During the last couple of months, the Mexican peso has appreciated significantly from a low of MX$ 21.95 to the US dollar to MX$ 18.51 - a level very similar to the one observed before the US election. This is due to investors and the public realising that the current economic integration between the USA and Mexico carries more weight and value than suggested by recent demagoguery aimed at deriding it.

Not only has the Mexican peso gained ground but also domestic auto production has continued to record historic highs. During March alone, vehicle production jumped 35.7% to 363,000 units while exports grew 32.5% to 297,000 units; for the first quarter as a whole, production climbed 1.6% to 944,000 units and exports 12.8% to 750,000 units.

The pattern of aluminium demand has been complex: scrap grades used to produce cast alloys have been in high demand in Mexico owing to lower scrap imports from the USA whereas demand for scrap used to produce wrought alloys has been less plentiful, according to Harbor Aluminum. Our region is significantly long in p1020 and semis such as aluminium billet, and this impacts the demand for scrap.

During the coming few months, our region will keep offering opportunities as well as challenges. In Mexico, there will be a presidential election in 2018 and regional elections late in 2017. As seen in the US elections, candidates are likely to have diverse points of view about NAFTA and free trade. The uncertainties surrounding election results and what comes next are likely to produce volatility. 2018 will also see general and presidential elections in both Brazil and Colombia. It will also be interesting to observe the course of developments in Venezuela and Cuba.

The constantly-shifting landscape requires us to be informed and ever vigilant to address obstacles and potential pitfalls. I look forward to meeting you and discussing opportunities during the BIR Convention in Hong Kong. I encourage you to contact our BIR members in the Latin American region to learn more about business opportunities there.

## Enrique Acosta – BMB Metals (USA)

*Founding Chairman of the BIR Latin America Committee*

In the previous instalment of the Latin America Mirror, I proposed that the Latin American region would benefit under a Trump Administration regardless of any of the potentially negative policies expounded during the Presidential campaign. I asked you to consider the positives if the US administration were to look to Latin America as a partner and source of materials and resources required for the "Rebuilding of America". I also asked you to consider the inverse whereby the US administration adopts a more isolationist position and Latin America attracts attention from international interests, thereby bringing benefits from renewed and new strategic engagements. Well, we have seen some very interesting developments and it seems that the latter scenario is playing out. Latin America is certainly not standing passively by.

A March 2017 article in "The Economist" points out some very important realities about the history and trajectory of Chinese investment in Latin America. One fact was very surprising and ran contrary to common belief: the author cited a University of Boston study that suggests Chinese investment in resources such as iron, coal, copper and agro goods, which account for 75% of the region's exports, produces 17% fewer US dollars locally than exports of similar commodities to other countries. The author indicates that, since 2005, China has invested mainly within these fields and with primarily Left- or Socialist-leaning nations such as Venezuela, Bolivia, Ecuador and Argentina.

However, this is quickly changing. Shortly after Mr Trump's victory, China embarked on new economic efforts in Latin America that go well beyond the commodities sector. Within the first week of the new US administration, President Xi of China went on a trade mission to Chile, Peru and Ecuador. He was also ready to discuss: free trade agreements with a host of other Latin American nations such as Brazil and Argentina (both of which have new "pro-business" governments), as well as Colombia and Costa Rica; and a potentially massive trade agreement in lieu of the TPP, which would include India and Japan.

There is a clear shift towards diversifying the pattern and scope of investment. While Chinese investment in Latin America between 2010 and 2013 was 90% in the resources sector, new and major acquisitions are being made in infrastructure. Earlier this year, China bought a 23% stake in a Brazilian utility company; it has signed contracts to build a considerable port in a north eastern Brazilian state; and it has even made acquisitions in both banking and asset management.

In a similar reaction to the policies of the Trump administration, US agro exports - a mainstay of the US economy and a primary resource stream from overseas - are seemingly in jeopardy. Mexico has planned a strategy to expand agro trade with both Brazil and Argentina as a replacement for US goods. The Mexican administration has clearly heard the anti-NAFTA drumbeat and is taking immediate action. The auto sector also seems to be looking away from the USA. Plans between Mexico, Brazil and Argentina to consolidate plants and production in the auto manufacturing sector are well under way.

With both VW and BMW having substantial plants and investment in the region, and with both sides feeling slightly less "welcomed" by the US rhetoric, Latin America and the EU seem to be willing partners in expanding their co-operation*.

Others in Latin America seem to be employing a different tactic to prevent exclusion from the US markets, namely acquisitions. In a daring move, Grupo Mexico - one of the world's largest copper producers - has announced a US$ 2.1bn acquisition of the Florida East Coast Railway (FEC). While the FEC runs for only 350 miles, mainly in Florida, it has major carriers such as CSX and Norfolk Southern Railways.

The acquisition will bring the total holding of Grupo Mexico's rail system to 6200 miles of line connecting eight international ports and handling more than 1.4m containers per year**.

Business in Latin America is certainly moving ahead with willing partners that seem to recognise and agree on the potential growth to come. It seems that I am not the only one with a bullish outlook for this region.

* CNN Money, April 3 2017

** "Journal of Commerce", March 28 2017



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