

# VENTURE EQUITY LATIN AMERICA



WWW.WTEXECUTIVE.COM

MARCH 31, 2011 VOLUME X, NUMBER 5

## IN THIS ISSUE

### FUNDS

Acon Investments Expands Presence in Latin America 1

Roswell Capital Dives into Lat Am Private Equity, Wants More 3

Ashmore Bullish on Brazil Infrastructure 5

### ROUND UP

GP Investments Acquires Controlling Stake in Sascar; Riverwood Capital, FTV Capital Invest \$15 Million in Globant; EMX Capital I Completes Local PE Fund Offering; Teka Capital Reaches \$104 Million at First Close of First Fund; The Carlyle Group and Credicorp to Invest in Peruvian Companies 2

### TRADE

Obama Seeks to Reinforce Trade and Economic Ties with Brazil 1

Is China Stepping up Trade with Latin America Too Quickly? 10

## Acon Investments Expands Presence in Latin America

*By Dan Weil*

Acon Investments of Washington, DC, which has invested about \$295 million in Latin American private equity since it began in 1996, has grown its holdings over the past year with an investment in Mexico and one in Colombia.

Acon's Latin America Opportunities Fund, with co-investment capital, has about \$300 million. It has deployed about \$45 million of that so far and expects to allocate the rest within the next two years. The firm says it has achieved a 55 percent internal rate of return on its investments since 2001.

*See Acon on page 7*

## Obama Seeks to Reinforce Trade and Economic Ties with Brazil

*By Justin Miller (White & Case LLP)*

From March 19-21, 2011, US President Barack Obama visited Brazil, where he met with new Brazilian President Dilma Rousseff in an effort to promote greater commercial ties, investment and regional security. US Treasury Secretary Timothy Geithner, Commerce Secretary Gary Locke and Energy Secretary Steven Chu accompanied President Obama on the trip, which was part of a tour through Latin America that also included visits to Chile and El Salvador. The trip resulted in the signing of several bilateral agreements, including an Agreement on Trade and Economic Cooperation (TECA) and an agreement on Air Transportation, as well as an agreement on the launch of a Brazil-US "Strategic Energy Dialogue." We provide below a brief account of the main issues discussed during the visit.

### Trade and Economic Cooperation

During the visit, the United States and Brazil signed a Trade and Economic Cooperation Agreement (TECA) with the objective of expanding bilateral trade and strengthening economic relations. Under

*See Obama on page 8*

**WorldTrade Executive**

The International  
Business Information  
Source™

## Round Up

### **GP Investments Acquires Controlling Stake in Sascar**

GP Investments, the largest Latin American buyout firm, has agreed to buy a controlling stake in Brazilian stolen car recovery company Sascar Tecnologia for \$101 million to tap growth in the nation's buoyant consumer services market, Reuters reports. GP Investments, led by co-Chief Executives Antonio Bonchristiano and Fersen Lambranh, made the purchase through its GP Capital Partners V fund, according to a regulatory filing. It did not disclose whether the purchase was made in cash or through other means. The transaction will allow the Bermuda-based private equity fund to "enter the dynamic and promising market for stolen vehicle monitoring," the filing noted. Sascar's biggest clients include car insurance companies, logistics and transport companies and security risk managers.

Sascar's purchase represents a bold bet on Brazil's consumer boom by offering investors exposure to the nation's brisk growth in vehicle sales. As Brazilians

have greater access to credit to buy more cars, rising crime in the largest metropolitan areas has led to a surge in the number of stolen vehicles over the past years. Five percent of Brazil's car fleet uses monitoring systems, which use a transmitter hidden in the car's engine that helps the police track and recover it often within a few hours, the filing said. "Apart from that, the fleet has grown considerably, with registrations hitting records sequentially for four years," GP investments noted.

Sascar, which was founded 11 years ago, currently offers services and monitoring coverage to about 180,000 vehicles. It has more than 500 branches across Brazil, according to the filing. At the start of last year, the number of vehicles per capita in Brazil, 179 per 1,000 people, was well below the United States' 478 per 1,000 people, which makes the market ripe for growth. Automobile sales in the country jumped to 3.5 million units in 2010 from 3.14 million in 2009, according to Reuters.

### **Riverwood Capital, FTV Capital Invest \$15 Million in Globant**

Argentina-based Globant, leader in the creation of innovative software products that appeal to global audiences, recently announced that private equity firm Riverwood Capital and growth equity investor FTV Capital have invested an additional \$15 million in the Company, according to a press release on Thomson Reuters' peHUB. The funding will help Globant continue its strong organic growth and will support its strategic acquisition plan throughout Latin America and the U.S. This is the third investment in Globant from Riverwood Capital and second from FTV Capital.

Globant, a company comprised of more than 2,000 IT professionals based in eight delivery centers across Latin America and commercial offices in the U.S. and the U.K., has extensive experience developing innovative software products for a blue chip customer base that includes Electronic Arts, Disney, Google, Coca Cola and Sabre, among several others. The Company has built a strong portfolio of services based on its eight studios: Mobile, Luminous Gaming, High Performance Computing, Consumer Experience, Business Productivity, Creative & Social, Sustainable Infrastructure and Quality Engineering.

**Venture Equity Latin America**  
**Published by WorldTrade Executive,**  
**A Part of Thomson Reuters**  
**P.O. Box 761 – 2250 Main St. Suite 100**  
**Concord, MA 01742**  
**Tel: 1-978-287-0301 Fax: 1-978-287-0302**

**Gary A. Brown, Publisher**  
[gary.brown@thomsonreuters.com](mailto:gary.brown@thomsonreuters.com)

**Correspondents:**  
**Alyson Sheehan,**  
[alyson.sheehan@thomsonreuters.com](mailto:alyson.sheehan@thomsonreuters.com)

**Elizabeth Johnson,**  
[eaj2004@gmail.com](mailto:eaj2004@gmail.com)

**Dan Weil,**  
[DanCWeil@aol.com](mailto:DanCWeil@aol.com)

**Venture Equity Latin America** is published 20 times a year by WorldTrade Executive, a part of Thomson Reuters. Venture Equity Latin America is a trademark of Thomson Reuters. Subscriptions are \$1495.00 per year. Entire contents copyright 2011 by Thomson Reuters/WorldTrade Executive. Reprinting, transferring or forwarding contents, in whole, or in part, is a violation of federal and international copyright laws. To order or for questions, please call (978) 287-0301 and ask for Subscriber Services.

**EMX Capital I Completes Local PE Fund Offering**  
EMX Capital I has successfully completed the offering of its local private equity fund for approximately \$127 million, according to a press release on the website of EMX Capital, a private Mexico focused investment firm. The offering was executed in the Mexican Stock Exchange and the fund is set to be managed by former Carlyle Mexico team: Joaquin Avila, Rodrigo Fonseca, Miguel Valenzuela and Andres Obregon. The fund will be targeting Mexican acquisitions.

**Teka Capital Reaches \$104 Million at First Close of First Fund**

Investment management firm Teka Capital recently announced it had held the first close of its debut fund, Teka I, with \$104 million in total capital commitments, according to a press release on the firm's website. The fund, which will focus on investments in mid-sized companies in Colombia and Brazil, is looking to raise a similar amount from international LPs with the aim

to hold a second close at the end of April and a third close at the end of June. The current investor base includes Colombia's three largest pension funds, the Santo Domingo family of Colombia, and other families from the region as well as Europe.

**The Carlyle Group and Credicorp to Invest in Peruvian Companies**

Global alternative asset manager The Carlyle Group and Peruvian financial conglomerate Credicorp have formed a joint venture that will invest predominantly in Peruvian companies, the Emerging Markets Private Equity Association (EMPEA) reports. The Carlyle Group aims to establish an office in Lima by year-end 2011, which will be staffed by two investment professionals from Carlyle and two from Credicorp. The joint venture will make growth capital and buyout investments in such sectors as consumer products and retail, healthcare, education, and logistics.

---

## Funds

---

### Roswell Capital Dives into Lat Am Private Equity, Wants More

By Dan Weil

Roswell Capital Partners, a U.S. private equity firm specializing in small-capitalization companies, has made its first investments in Latin America over the past two months and is looking to do more in the region.

Roswell is based in Alpharetta, Georgia, about 20 miles north of Atlanta. It has invested more than \$1 billion in 155 companies since its inception in 1994. Almost all of the investments have been domestic.

Unlike firms with big commitments to Latin America, Roswell hasn't acquired extensive expertise about Latin America's economies and industries, Chuck Whiteman,

director of private equity for the firm, told VELA in a recent interview. "We have to look outside our own borders for investments, and Latin America's economic growth provides a great opportunity," he says.

In December, Roswell announced a \$5 million investment in Minerco Resources, a Houston-based company that is working to produce renewable energy in Latin America.

In January, Roswell announced a \$10 million investment in Li3 Energy, a Lima, Peru-based lithium mining company seeking opportunities in North and South America.

*See Roswell on page 4*

# Funds

## Roswell

Continued from page 3

The investment in Minerco is slated to finance the initial phases of building its Chiligatoro hydroelectric project in the Honduras and future acquisitions.

The investment in Li3 will help the company with its production of lithium and potassium brine and nitrate and iodine, Whiteman says. "They have deposits in Chile, Argentina and Peru."

Both companies are publicly traded in the U.S. – on the OTC Bulletin Board (OTCBB) market.

That makes them more appealing to Roswell, because it means the companies' finances are fully disclosed, so Roswell can easily learn about them. And the companies have gone through the regulatory requirements for listing. "We seek more Latin American companies with similar characteristics," Whiteman says.

**The possibilities in Latin America are widespread for Roswell, Whiteman says, citing technology, biotechnology, natural resources and alternative energy. The firm is interested in the consumer sector too. It invested in a large regional restaurant chain in the U.S., for example.**

Both companies also have good management teams, he says. One reason why that's important is that Roswell never seeks a controlling stake. "We want to be a passive investment partner with a company to help them maximize shareholder value," Whiteman says. "We can be as involved – or not involved – as the management team would like us to be."

Roswell is particularly impressed with the management group at Li3, Whiteman says. CEO Luis Saenz was formerly head of Standard Bank PLC's mining and metals team for the Americas. And director Kjeld Thygesen is also a director of Ivanhoe Mines and was formerly manager of N.M. Rothschild & Sons' commodities and natural resource department.

Roswell doesn't have extensive knowledge about alternative energy and lithium in Latin America or the countries where Minerco and Li3 have operations. But it knows that they are growing companies in growing industries in a growing region.

"A lot of times it's hard to understand exact opportunities," Whiteman says. "We like the alternative energy space. That's something we want to be involved in, as it's growing in most countries."

The Honduran hydroelectric project lessens the need for dirty coal, helping the environment too. "We're not a green investment fund. That's just a coincidental byproduct of what we're doing," Whiteman says.

Roswell doesn't have its sights set on particular countries or sectors, he explains. "We're industry agnostic: we're generalists. We find out about these activities through internal research."

The possibilities in Latin America are widespread for Roswell, Whiteman says, citing technology, biotechnology, natural resources and alternative energy. The firm is interested in the consumer sector too. It invested in a large regional restaurant chain in the U.S., for example.

"Bring it on and let us look at it," he says. "Prospects for growth and good management teams are what's important. Integrity is key."

The firm's investments range from \$5 million to \$50 million. Most of its commitments fall in the \$10 million-\$20 million range, almost always in small cap companies – ones with market capitalization of less than \$500 million.

Roswell's method of investment is an Equity Funding Facility, whereby the target company gains access to the investment capital over a period of time – two years for Minerco and Li3, Whiteman says.

The firm's future investments in Latin America will simply be determined by what deals are available. "We'll look at the company and the industry when it comes up," Whiteman says. Roswell is looking for deals in the U.S. and other countries as well. It already

has invested in Canada and has looked at China but not invested.

"We're finding more and more foreign companies that trade on U.S. exchanges, which has piqued our interest in investing in them," Whiteman says. Roswell is interested in companies that trade on foreign exchanges too.

But it's not interested in privately-held companies, because they're so much less transparent than their publicly-listed brethren.

"If there is a good quality private company interested in trading on a U.S. exchange, we can help with the introduction," Whiteman says. "And after it went public, we would potentially be interested in investing. We can help in the process."

Bottom line: "We're open to all inquires," he says.

## Ashmore Bullish on Brazil Infrastructure

By Dan Weil

Ashmore Investment Management of London, which manages \$46.7 billion of emerging market investments, including private equity, sees bountiful investment opportunities in Brazil's infrastructure.

As for the overall investment outlook in Latin America, "it's fairly dynamic in Brazil and less so elsewhere," Jerome Booth, Ashmore's head of research, told VELA in a recent interview. "There's more opportunity on the distressed debt side now than private equity. Most of our funds do both." The firm also has a fund that invests in Colombia's infrastructure.

Two major trends have developed over the past two years, Booth says. First, more local private equity firms have arisen. And second, there is less deal flow since Lehman Brothers' September 2008 collapse, as fund managers have found it difficult to raise capital.

The growth of local private equity firms is a reflection of the maturation of the market, Booth says. "It's a positive development. The market is becoming more sophisticated, but it makes it more important to focus on one's strength and ability to add value."

### **Tough Fundraising Environment**

The difficulty in raising capital is constraining private equity around the world. "That's probably why we're

seeing more focus on distressed situations," Booth says. "Those situations are now more industry specific – building materials, commodity and shipping companies. They have unsustainable debt structures."

In terms of private equity deals, the opportunities cross many sectors, Booth says. "Most of what we're doing in Brazil is in energy."

The difficulty of attracting money in the U.S. and Europe has led Ashmore to raise capital in Asia and the Persian Gulf from governments and sovereign wealth funds.

The firm began its Latin American activity by investing in Mexican debt after the country's 1982 debt default. By 1998 it had a dedicated fund for investing in emerging market special situations, including private equity.

Ashmore has exited 36 of its Latin American investments, with total capital invested of about \$1 billion. That has resulted in an annual return of 49.7 percent since 1998 and a total gain of \$725 million. The firm currently holds five investments in Latin America, with approximately \$1.7 billion invested in them.

It generally allocates \$50 million-\$100 million to each investment.

*See Brazil on page 6*

# Funds

## Brazil

Continued from page 5

### Focus on Infrastructure

Ashmore is very interested in countries that are serious about developing their infrastructure. "Hopefully there will be much more of that in Brazil," Booth says. "We have the infrastructure fund in Colombia and hope for it elsewhere."

Latin America, like other emerging markets, has huge infrastructure needs. "It's a question of which governments will focus on it," Booth says. The benefits are tremendous.

"Infrastructure is how countries can increase economic growth and jobs without inflation," he says. The spending will benefit the global economy by boosting

**Ashmore has exited 36 of its Latin American investments, with total capital invested of about \$1 billion. That has resulted in an annual return of 49.7 percent since 1998 and a total gain of \$725 million.**

demand as the U.S. and Europe focus on cutting their debt burdens.

"Infrastructure investment is great macroeconomic policy, and good for welfare reasons too," Booth says. "If you build roads etc., then you will get a manufacturing boom and create jobs."

Brazil in particular needs infrastructure investment. "Policy makers must focus on it, and it's not just the Olympics (and World Cup), but serious infrastructure," Booth says. The infrastructure needed for those sports events is trivial compared to what's needed for the whole economy.

### Uncertain Government Commitment

At this point it's "a big question mark" how committed the new government in Brazil will be to improving the infrastructure, he says. "It's early, but I am hopeful."

There's no limit on the size of what can be done, Booth says. "The issue is the availability of capital and the government's willingness to encourage investment. It doesn't just happen like that," he says. "There are bottlenecks and problems that create a need for government help. Our infrastructure fund in Colombia is co-sponsored by the government."

The dollar figures can be huge in Brazil, Booth points out. A total of \$1 trillion was spent on Chinese construction – infrastructure and real estate – last year, he says. Internal capital can fund a lot of the work, with external capital acting as a catalyst. "It's a different role for private equity. Latin American governments haven't focused on it, but they ought to," Booth says

In one sense, an infrastructure investment in Brazil carries less political risk than an infrastructure investment in much of Europe, he says. That's because European countries are slashing spending, and the easiest expenditure to cut is infrastructure investment.

### Leverage Advantage

Investors' emphasis on curbing leverage also makes Brazil attractive, as its private equity deals generally involve little borrowing. "Investors have to get their hands around these big changes, and as they do so, they will come back to the market," Booth says.

Limited partners got into trouble with their private equity investments in the U.S. and Europe, and that affected emerging markets as well, he says. "Maybe we're coming through that. We're now raising huge sums from the developing world, and that's a growing trend."

For more developed nations, it's just a matter of time and investors being able to free up capital. "We have seen Australian pension funds that are interested in private equity, for example," Booth says.

To do that, they would have to account for losses they suffered in U.S. private equity investments, which would make them underweight the asset class. But they don't want to mark those investments down. "That has to end at some point," Booth says.

"They have to realize the U.S. leverage model is dead. Now it's much more about relationships, adding value,

and buying distressed debt to complement traditional private equity.”

While Ashmore’s private equity / infrastructure activity now focuses on Brazil and Colombia, it hopes to do business in other Latin American countries with stable economies too, Booth says.

As for distressed debt, the firm sees opportunities all over Latin America.

Ashmore isn’t raising funds at the moment. “But that will change,” Booth says. “The prospects are strong for a revival of interest in the asset class.”

## *Acon*

*Continued from page 1*

As for Acon’s outlook on the private equity industry in Latin America, “We’re seeing very robust deal flow,” firm managing director Ken Brotman tells VELA. “The opportunities there now are among the best we’ve ever seen.”

Of course every market is unique and some are more expensive than others. “But by and large, there are enormous opportunities for attractively priced assets offering attractive, risk-adjusted returns,” he says.

“There continues to be a shortage of capital in the region. That leads to an opportunity set that’s quite attractive for people with capital.”

In March 2010, Acon invested in Credivalores-Cre-diservicios, a non-bank provider of consumer loans in Colombia. Acon and Credivalores CEO David Seinjet jointly put \$25 million in the company.

“It’s one of the fastest growing non-bank institutions in Colombia,” Brotman says. “It has grown through the development of niche products such as payroll deduction loans, where loan payments are deducted from borrowers’ paychecks, and loans with payments collected through borrowers’ electricity bills.”

These products provide attractive profits with low loan losses, he says. “Credivalores has a fantastic management team, and we were able to buy it at an attractive valuation,” Brotman says. “Only about 25 percent of Colombian adults have formal credit. That leaves about 22 million people with no credit.” Credivalores allows consumers to avoid lenders that are unregulated and usurious. “The barrier to entry is competitive in this industry, because there are significant processes in which Credivalores is well versed,” Brotman says. “This has

the potential to be a strategic asset to other financial institutions that want to grow their customer base.”

In the fourth quarter of last year, Acon invested about \$20 million in InverCap, the largest independent administrator for pension funds in Mexico. The investment came through debt securities. “We really took advantage of an industry that continues to grow in pension assets,” Brotman says.

Mexican workers have to contribute 6.5 percent of their salary to an individual afore (pension) account. And the country’s pension assets under management have grown 25 percent annually since the system was created in 1997, he says.

The sector is starting to undergo consolidation. “There are synergies for companies to accumulate more assets,” Brotman says. So over time the pool of afore managers will shrink to a few large ones, he predicts. Chile provides a good example of what will probably happen, Brotman says. Its pension management system began 16 years before Mexico’s, and Chile has five pension asset managers compared to 14 for Mexico. “We think this is a strategic asset and we will be able to exit to one of the larger strategic players.”

Last September, Acon sold its 100 percent stake in SAE Towers Holdings, the largest manufacturer of electric transmission towers in the Americas to KEC International of India for \$95 million. Acon had purchased the company, which has production facilities in Mexico and Brazil, from ABB Group in 2007.

The firm made about 3.2 times its money and earned a 40 percent internal rate of return on the investment,

*See Acon on page 8*

# Funds

---

## Acon

*Continued from page 8*

Brotman says. "With our holding period corresponding to the financial crisis, it's one of the few sectors we could have invested in and done so well."

The exit environment has improved in Latin America, helped by the fact that the credit crisis hit harder in more developed countries, he says. "Many buyers, including international companies, see that prospects have improved."

Acon looks for middle-market companies and generally allocates \$25 million-\$75 million per investment. It's looking across a wide swath of sectors. "We're not industry specific," Brotman says. "We're looking for value."

The firm is considering specific opportunities in waste management, retail pharmacies, consumer food products and oil rig services in Latin America. As far as countries go, Acon mainly focuses on Brazil, Colombia, Mexico and Peru. It also looks at Central America and is even attracted to certain industries in Argentina.

"We've long been bullish on Colombia and continue to be active there," Brotman says. "We have had a lot of success in the past in Brazil and are looking at several transactions there." But he, like others, is concerned

that valuations are soaring too quickly in Brazil as investors flock there.

"While there are still opportunities there, pricing is getting a bit inflated. You need to be selective, because Brazil is significantly more heated than many other countries."

As for Argentina, Acon is just beginning to look at it. "We like to be contrarian," Brotman says. "The interesting time to buy things are when others aren't so active." That's how the firm approached Colombia years ago. "We think there are some opportunities in Argentina too, but the issues there are obviously complicated, so we won't do anything quickly," he says.

The most difficult barrier to overcome when investing in Latin America is the differing political, economic and regulatory issues for each country, Brotman says. In addition, exits remain more difficult than in the U.S. As a result, "we spend a lot of time structuring self-liquidating provisions," he says.

Finally, business cycles are shorter and more volatile than other major economies. "That's changing, but they're still emerging economies, with the possible exception of Brazil. Of course therein lies much of the opportunity," Brotman says.

# Trade

---

## Obama

*Continued from page 1*

the agreement, the two countries agreed to establish a joint Commission on Economic and Trade relations, which will meet at least once a year and which will be co-chaired by representatives from the Brazilian Ministry of Foreign Affairs, the Brazilian Ministry of Development, Industry and Foreign Trade, and the Office of the United States Trade Representative (USTR). The Commission's work will consist of discussions on: i) facilitation and liberalization of bilateral trade and investment; ii) cooperation on shared objectives in the World Trade Organization (WTO); iii) cooperation in the US-Brazil Consultative Committee on Agriculture; iv) sanitary and phytosanitary (SPS) measures; v) technical barriers to trade (TBTs); vi) intellectual property rights (IPR); vii) other regulatory issues affecting trade

and investments; viii) information and communication technology (ICT) and e-commerce; ix) trade and technical capacity building; and (x) trade in services.

In addition to the TECA, President Obama and President Rousseff agreed to establish a "Brazil-US Economic and Financial Dialogue," which will seek to coordinate positions on global economic policy, find opportunities for greater bilateral economic cooperation, and increase cooperation between their respective officials charged with engagement at the G20. The Dialogue will build on the relevant work conducted by the existing Bilateral Consultative Mechanism on Trade Policy and the Commercial Dialogue, and will hold its first meeting in the second half of 2011.

Furthermore, the two Presidents issued a joint declaration which underscored the importance of enhanced private sector engagement through both the VI CEO Forum Meeting and the launch of the Business Summit that took place in the context of President Obama's visit. This declaration also reaffirmed the strong commitment of the two leaders to bring the WTO Round to a successful, ambitious, comprehensive and balanced conclusion, and both stated that they had directed their negotiators to intensify and expand their direct engagement to complete the negotiations, building on the progress already achieved.

### Strategic Energy Dialogue

Taking into account the converging interests of Brazil and the United States in energy-related matters such as oil, natural gas, biofuels and other renewable sources, the two Presidents agreed to establish a bilateral Strategic Energy Dialogue. The Dialogue will encompass both the existing Working Group on Energy and the proposals contained in the Memorandum of Understanding (MoU) to Advance the Cooperation on Biofuels that the parties signed in 2007, which included an agreement to launch a Partnership for the Development of Biofuels for Aviation. In addition, the Dialogue contains a Plan of Action on Energy Cooperation, which includes the development of nuclear energy with a focus on: i) probabilistic risk assessment; ii) reactor life sustainability; iii) development of human resources; iv) licensing; v) prevention, management and emergency response to serious accidents; and vi) combustion efficiency.

### Air Transport

With regard to the aviation sector, Brazil and the United States concluded an Air Transport Agreement that aims to liberalize their respective markets for airlines, offer the travel and shipping sectors a greater variety of service options and foster competition and lower prices. In this regard, both sides agreed to grant the airlines of the other party the right to i) fly across its territory without landing; ii) make stops in its territory for non-traffic purposes; and iii) operate routes between it and third countries.

### Other Issues

During the visit, President Obama and President Dilma Rousseff also signed the following:

- A Framework Agreement on Cooperation in the Peaceful Uses of Outer Space;
- A Renewal of the Agreement on the Employment of Dependents of Diplomatic and Consular Personnel;
- A Protocol of Intentions for the Expansion of Technical Cooperation Activities in Third Countries;
- An MoU between the US National Science Founda-

tion and the Brazilian Federal Agency for Support and Evaluation of Graduate Education on Dimensions of Biodiversity;

— An MoU on Major Global Sporting Events, aimed at increasing bilateral cooperation on infrastructure, safety and security in light of that Brazil will host the 2014 FIFA World Cup and the 2016 Olympic and Paralympic Games and taking into account US experience in organizing events of this magnitude;

— An MoU for the Implementation of Technical Cooperation Activities in Third Countries in the Field of Decent Work; and

— An MoU for the Establishment of the Brazil-US Strategic Dialogue Program to be inaugurated by the Brazilian Federal Agency for Support and Evaluation of Graduate Education and the Commission for Educational Exchange between the US and Brazil (Fulbright Commission).

### Outlook

President Obama's trip to Brazil took place as part of an effort by the US Administration to engage with the new government of President Rousseff in order to pursue economic opportunities in the country. As such, the US Government made clear before the visit and in speeches that President Obama gave in Brazil that it wants to take the relationship with Brazil to the next level – mainly in response to the recent improvements in Brazil's economic credentials (*e.g.*, its rapid recovery from the international financial crisis, the strong 7.5 percent GDP growth rate posted in 2010, the expanding middle class and the fact that the country is now the 7<sup>th</sup> largest economy in the world). Brazil and the United States already enjoy a solid bilateral commercial relationship, with US exports to Brazil having doubled in the last five years and two-way trade reaching USD 80 billion in 2010. However, the United States was surpassed by China in 2010 as Brazil's main trade partner, and both countries have consistently noted that there is potential for further improvement. In spite of this strong US rhetoric, however, the concrete proposals that President Obama put forth during the visit were much less ambitious and failed to address issues important to Brazil such as the liberalization of the US market for ethanol and other several agricultural products, which President Rousseff will likely raise when she visits the United States in the second half of 2011. Nonetheless, local analysts consider that, although the visit yielded shallow outcomes, it was an important movement toward improving the bilateral relationship and establishing personal ties between the two presidents.

---

*Justin Miller (justin.miller@whitecase.com) is an International Trade Analyst with White & Case LLP, in Washington, DC.*

## Is China Stepping up Trade with Latin America Too Quickly?

By Knowledge@Wharton  
(Wharton School of the University of Pennsylvania)

During the past two decades, China's unstoppable growth and its voracious appetite for raw materials have made Latin America one of its favorite locations for sourcing raw materials and a preferred destination for making its foreign investments. The recent confirmation that China has become -- after only the U.S. -- the second-largest economy in the world, overtaking Japan, comes at a time when China is showing interest in realizing the old dream of building an alternative route across Colombia to compete against the Panama Canal. This ambitious project would bring together the two coasts of Colombia -- Atlantic and Pacific -- by means of a railway, creating what some call a "dry canal."

**In 2009, the economies of Latin America exported more than US\$40 billion worth of goods to China, a huge increase from the US\$4 billion in shipments of raw materials they made in 1999.**

Although this project has yet to materialize, it is a good example of the growing interest that China has in Latin America. In 2010 alone, through a series of about 20 acquisitions and corporate stock purchases in such sectors as oil, energy, steel, telecommunications and autos, China's investments in Latin America -- especially in Argentina, Brazil, Peru, Chile and Mexico -- exceeded US\$30 billion, more than the cumulative value in previous years. How have things gotten to this point? China's emergence as one of the main engines of global growth can be explained in good measure by its strong effort to pursue the production and exportation of manufactured goods, notes Alejandro Micco, professor of economics at the University of Chile. These products include the latest technologies and devices in such sectors as appliances, automobiles, motorcycles and industrial machinery. "During the 1970s, Japan played that role, and now it is China," he says. "Korea replaced Japan, and now China has replaced Korea as the leader."

A key step for China came in 2001, when the country joined the World Trade Organization, notes Daniel Morales, macroeconomics analyst at the APOYO consult-

ing firm in Peru, which provides financial and business advice. "This move enabled China to take advantage of Latin America as a destination for its manufactured goods and as an important source of supply for primary products," Morales notes. During this period, China undertook a series of measures that opened up trade with the region, in part by reducing its own average tariff from almost 20% in 2000 to 10% in 2009.

As a result of such efforts, China is now one of the chief trading partners of Peru, Chile, Brazil, Argentina, Uruguay and other countries in the region, according to Morales. These countries have used this opportunity to export large volumes of commodities to China, including copper, iron, tin, zinc, petroleum and soy products. In 2009, the economies of Latin America exported more than US\$40 billion worth of goods to China, a huge increase from the US\$4 billion in shipments of raw materials they made in 1999, notes Morales. He cites the data in a report by the Inter-American Development Bank (IDB), titled "Ten years after the Take-off: Taking Stock of China- Latin America and the Caribbean Economic Relations."

Although trade with China has experienced spectacular growth, contributing significant revenue streams to the region, Diego Sánchez, professor of Latin American economics at the University of London, points out that the region has specialized in supplying primary products to China. "This involves risks for the region; it could remain mired in this position with little possibility for acquiring new technology and diversifying its basket of exports," he says.

### **An Unequal Trade Balance**

Germano Glufke, professor at the Getulio Vargas Foundation in Brazil, agrees that it is quite possible that much of Latin America will remain merely a provider of commodities for the Chinese market. The problem with this sort of trade, says Glufke, is that "it reduces the region's potential for being part of the value chain of that Asian country, something that has boosted the recent expansion of some Latin American countries, such as Brazil."

Roberto Durán, professor of political science at the Catholic University of Chile, also warns that trade relations between China and Latin America are moving at various speeds in different countries. "Until now, the most helpless countries, such as the Central American

nations, have had almost no trade relations with China. In contrast, Chinese trade with Brazil, Argentina, Chile and Peru has been much more considerable." It is easy to conclude that this is all about unequal and discriminatory trade ties, since the Central American nations are smaller and less competitive."

Brazil, Chile, Argentina and Peru are the largest beneficiaries of the favorable trade relationship with China, notes Morales, since those four countries represent almost 90% of the region's total exports to China. "This scenario can be explained by the large contribution of raw materials to their exports," says Morales. "That creates a gap between the trade balances of these countries and those of the other Latin American countries that trade with China."

One factor working in favor of China and against Latin America is that Chinese exports of manufactured goods to the region have grown much more than the region's shipments of raw materials to Asia, notes Morales. In 2009, Latin American commodity exports to China totaled US\$40 billion, while the total for Chinese shipments of manufactured goods to Latin America was almost twice as high, at US\$78 billion.

"Some countries in the region, such as Mexico and Costa Rica, have a great trade deficit with the Asian giant [China], since these countries export very little to China and import huge volumes of manufactured goods," notes Sanchez.

Glufke warns that various sectors of Latin American industry have been negatively affected by the unstoppable expansion of Chinese competitors. "This has forced some manufacturers in the region to shut down." For example, in some countries of Central America and the Caribbean, many companies in the textile industry have lost their competitiveness because of the onslaught of Chinese products.

### **The Particular Case of Brazil**

For now, Brazil – rather than Central America -- is the source of greatest concern for analysts. According to Reuters news agency, Dilma Rousseff, the new president of Brazil, recently said that China's undervalued currency, the yuan, is one of the greatest dangers for her country's economic health. She added that a wave of cheap imports from China has affected the trade balance of Brazil, leading to the loss of thousands of jobs in Brazil's manufacturing sector.

Afonso Fleury, professor of engineering at the University of São Paulo, says that although China's currency is artificially undervalued in the Brazilian market, this

has not affected trade ties between China and Brazil -- despite pressure imposed by Brazilian business leaders, who want to create barriers to Chinese products. Since that approach has proven quite ineffective, notes Fleury, Brazilian businesses have now decided to change their tactics for counteracting the onslaught of Chinese products. "A recent study by the National Confederation of Brazilian Industry revealed that 67% of all companies—two-thirds of local companies — have changed their strategies regarding articles that are "made in China," and are now focusing on improving the design of their own products and investing more in their quality." As a result, "Most Brazilian firms today are escaping [the full impact of] Chinese competition."

According to Fleury, this strategy is also working because the Brazilian market is in a healthy process of expansion. But he warns that there could be new problems down the road if Brazil's growth rate declines, and if competition with Chinese products becomes even more extreme.

### **A Continuing Opportunity**

Although the trade balance is now more favorable for China than for Latin America, Micco stresses that trade with China was especially beneficial for Latin America during the global economic crisis of 2008, when it helped the region recover quickly from the economic disaster. "China managed to emerge quickly from the havoc created by the crisis, becoming an even stronger buyer of Latin American raw materials, which reinforced its trade with the region." Micco adds that while the price of copper fell to very low levels after the crisis erupted, copper recovered within months thanks to growing demand from China. That fact, in turn, had a positive impact on exports of copper from Chile and Peru. "The same thing happened with soy beans, when shipments of that foodstuff from Argentina and Paraguay to China bounced back in little time."

China continues to be an economic growth opportunity for Latin America, according to Osvaldo Rosales, director of the commerce division of the Economic Commission for Latin America and the Caribbean (ECLAC), one of five regional commissions of the United Nations. According to that organization, Chinese salaries rose by between 20% and 25% in 2010, opening up new trading opportunities for the region, especially for those countries that export primary products to China. "These shipments from [Latin America] will remain stable, and they have good prospects for growth in the future."

What's more, over the next three years China's domestic consumption will increase by about US\$9.5 billion; that

*See Trade on page 12*

## Trade

Continued from page 11

is to say, by US\$3 billion more than consumption will increase in the United States, according to Morales, citing the IDB report. In his view, Latin America must continue to nurture its bilateral relationship with China, so that its exports to that country continue to be vigorous while strengthening employment in the region.

### Strategic Moves

One of the strategic steps that Latin America can take in this direction, notes Morales, is to invest more resources in the development of its agribusiness exports. In his view, such products still have room to grow in a sustained way. "Peru is one of the Latin American countries that have shown the most progress in taking advantage of this opportunity. Starting in 2010, Peru has had a free-trade agreement with China that will gradually permit its agribusiness exports – such as mangos, grapes and citrus fruits – to enter the Chinese market tariff-free following gradual reductions over a period of eight years." Chile also has a free-trade agreement with China. For its part, Costa Rica signed such a treaty last April, but it is awaiting ratification by the Costa Rican congress.

It is equally important for Latin American multinationals to explore their potential in the Chinese market by investing their assets there, notes Glufke. These

could be made through acquisitions of companies or by devoting their own funds to constructing plants in China. "There are some good examples of companies that have made these steps and have become success stories, such as WEG, the Brazilian producer and distributor of electric motors, and Gruma, the Mexican tortilla producer."

Nevertheless, Glufke recognizes that a significant number of Latin American businesspeople are uneasy about investing in China because of the very sizable cultural differences between the two markets, and the differences in the Chinese business, legal and political systems. In an effort to overcome these barriers, Diego Guevara, professor of economics at the Autonomous University of Colombia, suggests these steps: Promote international ties with China by devoting more economic and cultural assets to that country "and then establishing strategic alliances in the fields of science and technology. Certainly, this sort of technology transfer would provide greater added value for the products that the [Latin American] region exports [to China]."

*Knowledge@Wharton (http://knowledge.wharton.upenn.edu), the online research and business analysis journal of the Wharton School of the University of Pennsylvania. Republished with permission.*

### SUBSCRIBE TO VENTURE EQUITY LATIN AMERICA

A PUBLICATION OF WORLDTRADE EXECUTIVE, A PART OF THOMSON REUTERS

\_\_\_ Please sign me up for one year of Venture Equity Latin America delivered by email to the address below at \$1495.00/ 20 issues plus the Mid-Year and Year-End Deal Reports which provide a summary of activity in the region.

\_\_\_ Check enclosed, made payable to: WORLDTRADE EXECUTIVE  
P.O.Box 761, Concord, MA 01742 U.S.A.

\_\_\_ Bill me (fax form to 1-978-287-0302)

\_\_\_ Please bill my credit card: VISA - MC - AMEX (circle one)

Name on card: \_\_\_\_\_

Card number: \_\_\_\_\_ Exp. Date: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_ Company: \_\_\_\_\_

Street address: \_\_\_\_\_

City: \_\_\_\_\_ State/Province: \_\_\_\_\_ Postal Code: \_\_\_\_\_

Country: \_\_\_\_\_

Email: \_\_\_\_\_

Telephone: \_\_\_\_\_

Conditions: With this subscription the above-named person agrees not to reprint, transfer or forward the contents of any or all email documents received from WorldTrade Executive, or accessed via the [www.wtexecutive.com](http://www.wtexecutive.com) website to other local or international offices within his or her company or to third parties.

Copyright 2011 THOMSON REUTERS/WORLDTRADE EXECUTIVE