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CONTENTS

PANAMA CANAL	2
A key Latin American project for Asia	
CHINA & LATIN AMERICA	4
Trade not military involvement	
THE POLITICS	7
China takes Latin America seriously, but also uses it	
INDIA & BOLIVIA	11
Jindal Steel and Power takes a punt on Mutún	
CANADA'S GOLD MINERS	13
Preferring Pakistan to Bolivia	
THE FILM BUSINESS	14
Mexico leads Latins at Shanghai film festival	
THE MOTOR INDUSTRY	16
Ford chooses Mexico	
LAAR BRIEFS	17
COMPARATIVE DATA	19
Table commentary	

The changes in the relationship between Asia and Latin America

The feature article in this edition of LAAR is based on the report commissioned by the Japanese foreign ministry from the Inter-American Dialogue on China's links with Latin America. The odd aspect of the report is how much it dwells on China's capacity for making mischief in Latin America. This is much more of US concern than a Japanese concern. The IAD barely seems to address what to us would seem to be more obvious Japanese concerns such as the implications of China's involvement in Latin America for Japanese industry or energy security.

Our point is that the IAD's paper seems to address US concerns about China's involvement in Latin America rather than Japan's interests. For example, the report barely alludes to Japanese emigration to Latin America, particularly Peru and Brazil, and the continuing links (and embarrassments, particularly in Peru) this has produced. It also does not mention the strong streak of anti-Japanese feelings that remains in Mexico which erupted during the Mexican Revolution.

The implication of the IAD paper is that Japan's interests in Latin America are all but indistinguishable from the US. The second implication is that this is not, however, the case for China, which has a different agenda and one that may cut cross Japanese-US interests.

The other article which we would like to comment on is the one examining the film industries in the two regions. Both Latin America and Asia have distinct cultural identities that strong national lobbies want to see preserved in the face of globalisation. Arguably Latin America's cultural identity has, until relatively recently, been much weaker than Asia's. Latin American governments have recognised this and developed policies to project a national identity. In Mexico the best example of this is the Anthropological Museum, one of the glories of Mexico City.

The irony is that the July elections in Mexico suggest that there are in fact now two distinct Mexicos. A US-inclined northern Mexico and a collectivist, indigenous southern Mexico. Paradoxically, southern Mexicans are those who tend to emigrate to the US but refuse to become Americans. The refusal of recent Mexican migrants to the US to dilute their identity in the US's melting pot is one of the reasons why immigration reform in the US is proving so difficult.

It is worth noting that cultural links between Mexico and China are developing strongly. An exhibition of pre-Colombian art has just opened in Beijing. What is significant, to us, is that over the past 12 months as Mexico's political and cultural engagement with China has increased, so Mexicans have become more relaxed about the economic threat China poses to them. This confidence does not seem to be misplaced, given the huge investments Ford is contemplating in Mexico, another subject of this edition of LAAR.

A key Latin American project for Asia

Asia in general, and China in particular, has a considerable interest in Latin America's biggest public works project: the expansion of the Panama Canal. This project will cost US\$5.25bn and take eight years to complete. China had expressed an interest in financing the whole of the expansion. The catch would almost certainly be that Panama would have to end its diplomatic recognition of Taiwan.

Panama's vice-president, Samuel Lewis Navarro, launched the international roadshow to drum up foreign investors' interest in the expansion of the Panama Canal on 12 June in London at the International Maritime Organization. The US\$5.25bn project will, according to the Panama Canal Authority's (ACP's) figures, need US\$2.27bn in loans. The expansion will provide two new sets of three-chamber locks at either end of the Canal which will, essentially, add a third lane for traffic. This lane is designed to handle the big ships that are now being built but currently cannot use the Canal. Shipping companies prefer big ships because they are more cost-effective.

The proposal to expand the Canal has been drawn up by the ACP and approved by the government. It now has to be approved by the national assembly and then by a national referendum. The referendum is likely to take place in November 2006, though technically it can be any time 90 days after the assembly has accepted the proposal. Currently congress's canal commission is considering the arguments, pro and con; it will then make a recommendation and hold a vote. Congress will then hold two extraordinary sessions in July to vote, in full, on the scheme.

Environmental groups are threatening to oppose the expansion, arguing that it will displace people and use extravagant amounts of water. The ACP points out that most of the water (over 60%) needed to run the new sets of locks will be recycled, using a tried-and-tested German system of overspill reservoirs and that most of the preparatory work for the new locks had been done in the late 1930s and early 1940s when the Canal was still under US control. This project, also for two new sets of locks, was only cancelled when the US declared war against Japan in 1941.

On 28 June, the opposition to the Canal expansion united as the Unión Nacional por el No (UNNO). The UNNO is led by Humberto Ricord and is largely backed by trade unions, NGOs; academics and lawyers. Ricord is the former dean of the law faculty at the state-run Universidad de Panamá. Its main argument is that the expansion of the Canal will benefit international maritime companies, rather than Panamanians. Melva Reyes, another leader of the UNNO, and the leader of the teachers' union, argues that the expansion of the Canal has not been thought-through financially. She claimed that the government is underestimating the construction costs and over-estimating the number of Panamax ships that will use the Canal once it has been expanded. She claimed that the project will over-indebt the country.

The Canal is one of the world's most important shipping routes. It handles 4% of world trade and 16% of US waterborne trade. The ACP claims that 38% of the trade between East Asia and the east coast of the US now goes through the canal. In 1990, the Canal was handling only 11% of this business. Container ships are the biggest users of the Canal accounting in the 2005 fiscal year, which ended on 30 September, for 35% of revenues; bulk carriers accounted for 19% of total revenues and vehicle carriers for 11%. The ACP has been running the Canal since the US handed it over at the end of 1999. The Canal was built in the first decade and half of the 20th Century

Colón

The free zone at the Caribbean end of the Canal, which is now the second biggest in the world after Hong Kong, is expanding. On 15 June President Martín Torrijos inaugurated work to expand the free zone by 11 hectares at a cost of US\$50m. Currently the zone stretches over 400 hectares and houses 2,500 companies which have an annual turnover of about US\$12bn.

Telecommunication Panama's

government argues that the country is more than a pressure point for world trade. It points out that its position is just as strategic in telecommunications since the world's five main east-west fibre-optic cables run through the country. This gives the country the biggest bandwidth in Latin America and should encourage high tech industries to set up in the country. The first of these is likely to be a maintenance and aircraft repair operation. The country's high quality telecommunications should also help its banking centre, which already has 70 banks from 35 countries and manages US\$40bn of assets. The government has redesignated the former US base at Clayton as a City of Knowledge.

and completed in 1914. Currently the Canal is running at about 85% of its capacity and, without the expansion will reach capacity (of 340m Panama Canal-Universal Measurement System tons) between 2009 and 2012. The ACP also reckons that by 2011, 37% of the world's shipping fleet will consist of Post Panamax containerhips which cannot use the Canal because they cannot fit inside the current locks. After the expansion, the ACP calculates that the Canal will have a capacity of 600 Pcumts a year.

The two new sets of locks will be almost 50% bigger than the current locks. They will be 427 metres (1,400ft) long and 55m (180ft) wide and 18.3m (60ft) deep. Currently, the biggest ships allowed to use the Canal are 32.3m (106ft) wide; 294.3m (965ft) long and draw 12m (39ft). Each set of new locks will consist of three chambers. The other key element of the expansion is the deepening of the Gatún lake in the centre of the Canal. This is partly to accommodate bigger vessels but also to increase the lake's water capacity and thus speed up transit through the locks. The expansion plan calls for enough water to increase lock transits by seven each day. Both entrances to the Canal will also be deepened.

The ACP said that once the referendum approves the project, work could start as soon as 2007 and last eight years. Work on the expansion of the Canal will not interfere with its operations. Lewis emphasised in London that the debt needed to finance the expansion of the Canal would not be issued by the government. He said that this was because the government did not want to have to throttle back on its social spending and poverty reduction projects. He implied that the debt would be issued by the ACP, or some other parastatal, which would have a claim on the future toll revenues from the Canal from which the debt would be paid and serviced.

Current demand for the Canal is booming. On 7 June, when the ACP reported its figures for its second quarter, (its year begins on 1 October) that the transit time for a ship increased from 25.98 hours in the second quarter of the last financial year to 30.08 hours in the 2005/06 second quarter. This is because more ships are having to wait to get through the Canal. Cruise ships tend to get through the Canal fastest because they pay for reservations. The use of reservations jumped by 12%, year-on-year, in the second quarter. It seems almost certain that the referendum approving the Canal's expansion will be won by the government. The latest opinion polls (in mid June) show that those intending to vote against the project fell to under 20% of the electorate. At the end of April when the project was announced by the ACP, over 27% said that they were opposed.

Other opponents: Hutchison Whampoa, a Hong Kong based port company which has invested heavily in developing port terminals at either of the Canal is likely to be a loser from the expansion of the Canal. Without the Canal expansion, Hutchison Whampoa's terminals would have seen a lot more business as huge container ships delivered their containers to either end of the canal for transport across the isthmus (either by railway or on smaller ships) to the terminal on the other side. Now more big ships will be able to go straight through the Canal.

Arguably, the Panama Canal expansion is bad news for South American manufacturers as well. One of East Asia's advantages in the US market is that, although China is further away in miles, it takes less time to ship goods from China to the East Coast of the US than it does to ship goods up from South America. This is because there are so many more ships crossing the Pacific than going north from South America. Argentines still argue that their country's economic decline began with the opening of the Panama Canal which changed the direction of world trade and allowed the northern hemisphere to trade more easily with itself.

Trade, not military involvement

The Japanese Ministry of Foreign Affairs commissioned the Inter-American Dialogue (IAD) to write a detailed analysis of Latin America's relations with Latin America. This has recently been published as *China's Relations with Latin America: Shared Gains, Asymmetric Hopes*. The principal author is Professor Jorge I Domínguez, of Harvard's Weatherhead Centre for International Affairs. The paper argues that China's interest in Latin America is trade-related and that although China has had longstanding connections with the Latin American military (Augusto Pinochet visited China in 1993 and 1997 when he was still Chile's commander-in-chief) these relations are not becoming warmer or closer, despite claims by some in the US. The paper emphasises that the most important country for China in Latin America is Brazil, which has long recognised China as a market economy, even though the World Trade Organisation still does not. The two Latin American countries which China is most cautious about, Cuba and Venezuela, are paradoxically, the two that are keenest on improving relations with China for political reasons.

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China's prime minister Wen Jiabao (unwittingly) endorsed the IAD's paper key conclusion that China does not want to antagonise the US over its growing links to Latin America. Speaking at the start of his seven-country African tour on 18 June, Wen Jiabao said that China's growing interests in Africa and Latin America would not lead to a clash of interests with the US. "It is true that we want to increase our influence in South America and Africa, but this is not directed at any country in particular," he said. "We are not threatening the interest of others and the US understands this clearly."

There is some doubt about this. On 5 June, the US Trade Representative, Carlos Gutiérrez called Brazil and the rest of Latin America to join the US so that the Americas could compete commercially with China and other regions of the world. Gutiérrez argued that Brazil and Mexico competed more with China than with the US. Gutiérrez was speaking before a meeting with the Brazilian development industry and trade minister, Luis Fernando Furlan, who used to run Brazil's biggest meat exporting company, Sadia.

The IAD paper opens with a lengthy review of the recent history of Sino-Latin American relations. It notes that even rightwing governments in the 1970s and 1980s in Latin America did not regard China as part of their problem. One of Salvador Allende's acts as President of Chile was to open diplomatic relations with Beijing, becoming the first country in Latin America (after Cuba) to do so. Significantly, neither country broke off relations when General Augusto Pinochet overthrew Allende. It is also worth noting that China condemned the (Maoist) Sendero Luminoso guerrilla movement in Peru that almost came to power in the early 1990s. China's leaders condemned the Senderistas as "counter-revolutionary revisionists".

One reason why rightwing governments, such as General Jorge Videla's regime in Argentina, enjoyed cordial relations with China was that China did not, unlike the US, comment on human rights issues. Non-military governments repaid the compliment: President Carlos Menem of Argentina became the first western head of state to visit China after the Tianamen Square massacre of 1989. Domínguez argues, convincingly, that this history provides important legacies, notably that Latin American governments see relations with China in non-political terms. Even rightwing governments in Latin America did not see China as pushing an ideology.

“What is clear is that relations with China, especially in Brazil, the country that China cares most about in the region, are bi-partisan from the Brazilian point of view.”

It is emblematic of this view that relations between China and Cuba, until a comparatively recent improvement have been distant and chilly. This is probably because Cuba was so clearly in the USSR's orbit. Dominguez points out that rightwing governments in Latin America approved of China because China's relations with Cuba were so poor and Cuba was the real enemy of the Latin American right.

It is worth noting that while four Latin American countries (Brazil, Venezuela, Mexico and Argentina) are rated by China as strategic partners, Cuba remains in the lowest category of enjoying 'friendly cooperative relations'. This is because despite Cuba's strategically important nickel deposits, the island has neither the raw materials, nor the consumers to become one of China's major trading partners. Dominguez hypothesises that Cuba-China relations may improve dramatically if Raúl Castro, who has visited China numerous times and has modelled the Cuban armed forces on China's, succeeds his brother, Fidel as president.

The second legacy is that Latin America was happy to develop links with China as a counterweight to relations with the US, which under President Jimmy Carter especially, became strident about human rights. China espoused non-interference.

The conjunction of these two legacies is that across Latin America both left and right see cordial relations with China as bringing no political baggage, apart from support for China's claim to Taiwan, and as an alternative to bowing before the US. Dominguez tries to demonstrate this by analysing Latin American countries' voting records in UN and comparing the number of times they voted for or against China with the number of times they voted for or against Japan. No clear conclusion emerges from his analysis, in our view.

What is clear is that relations with China, especially in Brazil, the country that China cares most about in the region, are bi-partisan from the Brazilian point of view. President Lula da Silva's courting of China is an extension of the policy espoused by his right-of-centre predecessor, Felipe Henrique

Nuclear relations

China is developing its nuclear relations with Argentina. In late 2004, following President Hu Jintao's visit to Argentina, which took in Argentina's nuclear facilities in Rio Negro, China agreed to buy an unspecified number of Argentine nuclear reactors to provide it with low-energy neutrons. The two countries also agreed on a joint project for launching satellites. The state and objectives of Brazil's military relations with China are not as clear, because the text of the inter-government accord has not been released. This is because it failed to get Brazilian congressional approval. Separately, in 2004, Brazil announced, to the US's disquiet, that it intended to use its proprietary centrifuge technology to enrich and export uranium. One of the markets for this product is China.

The IAD report argues that Brazil is China's closest military ally in Latin America and that the experience of launching a joint Sino-Brazilian satellite will "support Beijing's efforts to develop improved military reconnaissance satellites... [and] also will provide some militarily useful data". The China-Brazil Earth Resources Satellites are useful to Brazil both as a communications platform and as mechanism for keeping track of what is happening in Amazonia.

It is worth noting that China's only military deployment in Latin America is in Haiti, where it has contributed 125 riot policemen to the UN peace-keeping force, Minustah. This is China's first involvement in a UN mission in the Western Hemisphere. The Haiti mission is under the command of Brazil.

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Cardoso. This bi-partisanship cuts both ways. Both Cardoso and Lula were quick to court China but Lula has been equally quick to speak up for Brazilian business after a series of disputes with the Chinese, first over non-tariff barriers to soya exports in 2004 and then for Chinese exporters dumping toys, textiles and shoes in Brazil.

Dominguez points out that this bi-partisanship is also a feature of Argentina's relations with China. All the Radical and Peronist presidents since the restoration of democracy in the early 1980s have visited Beijing. Three Chinese presidents have visited Argentina (in 1990; 2001 and 2004).

Trade

Dominguez points out that although China's prime interest in Latin America is trade, it has not made a particular effort to increase it. In 1990 Latin America's share of China's imports was 1%. In 2004 it was 4%. Over the same period Latin America's share of China's exports increased from 1% to 3%. Brazil is the only country in the region to account for both 1% of China's imports and 1% of its exports. Mexico accounts for 1% of China's exports.

From the Latin American end, China looms much larger. In 2004, China represented between 6% and 10% of total export receipts in Argentina, Brazil, Chile and Peru, while imports from China came to between 4% and 9% of total imports in Argentina, Brazil, Chile, Mexico, Ecuador and Colombia. China's trade with Cuba illustrates the point. Cuba is China's ninth biggest trading partner in Latin America, with a total trade of US\$401m in 2004. In 2005, however, China was Cuba's second-biggest trade partner.

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Brazil is China's most important trade partner. Brazil supplies China with about 30% of its soyabean imports. These are used both for human consumption (in the form of tofu) and as animal feed. Brazil is the world's second-biggest producer of soyabean after the US; ostensibly Brazilian soya is not genetically modified (GM). Brazil also supplied China with 16% of the iron ore China imported. What is less widely known is that coal is China's main export to Brazil.

Brazilian companies have been enthusiastic investors in China. Embraer's aerospace joint venture in China with Harbin Aircraft Industry and Hafei Aviation is well known. Less well known is the heavy investment by Empresa Brasileira de Compressores (Embraco), a refrigerating equipment manufacturer, which started a joint venture in China in 1995.

Embraco, in which Whirlpool's Brazilian subsidiary has a minority stake, exports from China (as well as Italy and Slovakia). Embraco now has 25% of the world market in the compressors that are the heart of condensing and sealed units that freeze and chill food and drinks. Embraco has a manufacturing capacity of 26m compressors a year. Its main manufacturing operations are still in Brazil: these factories export a staggering 75% of their output.

Brazil and, to a much greater extent, Argentina, which has fewer manufactured exports, are both concerned by China's agricultural protectionism. Currently China imports almost no Brazilian meat even though Brazil is the world's biggest meat exporter. The Chinese use non-tariff barriers (principally allegations that Brazil does not meet Chinese fito-sanitary standards).

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Both Argentina and Brazil have suffered from similar non-tariff obstacles to soya in their exports to China. Both countries are unhappy with China's heavy (US\$27bn) use of agricultural subsidies to keep Chinese farmers in business.

Dominguez notes that 48% of Brazil's exporters to China are small or very small companies, even though the bulk of the exports by volume and value come from a handful of very large companies.

China and Panama

Professor Dominguez argues that there is considerable evidence to show that the only country in Latin America where China is using trade as a political weapon is Panama. This is because Panama is Taiwan's most important ally, arguably in the world. Panama has a strategic importance, because of the Panama Canal, that belies its economic size.

In 2004, trade between China and Panama soared to US\$2bn, which was 15 times trade between Panama and Taiwan. China exported more to Panama than it did to Argentina, Chile or Venezuela.

China is now the third-most frequent user of the Panama Canal behind only the US and Japan. The Chinese Shipping Company sends more vessels through the Canal than any other company.

A Hong Kong company, Hutchison Whampoa, is operating terminals at both ends of the Canal. China has also said that it is interested in financing the expansion of the Canal (see p. 2), but the Panamanian government appears to believe that the international capital markets will do the job.

THE POLITICS

China takes Latin America seriously, but also uses it

China's academics claim that China and Latin America are natural allies for three reasons. China and Latin America are both at a similar point in their political and economic development. Second, China and Latin America are complementary: Latin America has the natural resources China's industry needs. The third point is the one that European academics used to make about European-Latin American relations: neither could ever be dependent on the other.

Professor Dominguez makes the telling point that China devotes a lot more attention to understanding Latin America than Latin America does to understanding China. Dominguez notes that China's ambassadors to the region are invariably Latin America, or Lusophone, specialists. China also has at least two think-tanks focused on studying Latin America: The Institute of Latin America Studies of the Chinese Academy of Social Sciences and the Department for Studies about Latin America of the Chinese Communist Party.

Latin America, by contrast, with the exception of Brazil which has a plethora of think-tanks, has nothing comparable.

It is worth noting that Chinese academics are much more interested in Latin America than they are in the Middle East or Africa. This conclusion is based on the number of articles published in foreign policy journals in China. Chinese academics argue that both China and Latin America see the other as a way of diversifying their international political and economic relations.

“ Although China has yet to deliver on the promises of investment it has made, there is, according to local opinion polls, a warm (if fuzzy) feeling towards China in most of Latin America. Only the Argentines, who arguably depend on the Chinese export market more than anybody else, are equivocal about the Chinese. ”

Both want to dilute the effect the US has on them. The Chinese academics assert, questionably in our view, that both Latin America and China look at the rest of the world in terms of self-interest, rather than ideological principles, and that they have no conflicts of interest. Whether these assumptions are valid is far from clear.

We would argue that Latin America's political development civil society (churches, trade unions, press, and universities) is far more developed than China's. We would also question whether there are no conflicts of interest. Mexico certainly felt threatened by the growth of China's exports to the US: Mexico now feels more confident because it believes that it has locked itself into the US supply chain in key industries, particularly vehicles, and has therefore seen off the challenge from China.

It is also worth noting that China feels no compunction about abandoning Latin America's interests to score "brownie points" with the US. China has sided with the US in refusing to back Brazil's attempt to secure a permanent seat of the UN Security Council. Mexico appears to have ended its (rather half-hearted) attempt to get a seat. The problem appears to be that Brazil has formed an alliance with Japan, Germany and South Africa, each of which wants a permanent seat. The Chinese are determined to prevent Japan getting a permanent seat.

Dominguez concludes that China's interest in Latin America is part of a considered policy, partly to blunt Taiwan's diplomacy but also to secure support for China's positions in international fora. He noted that China dispatched its then president to Latin America in 1990 to counter a Taiwanese diplomatic initiative to capitalise on the Tiananmen Square massacre. Throughout the 1990s and early 2000s there have been a series of high profile visits by Chinese leaders to Latin America.

Although China has yet to deliver on the promises of investment it has made, there is, according to local opinion polls, a warm (if fuzzy) feeling towards China in most of Latin America. Only the Argentines, who arguably depend on the Chinese export market more than anybody else, are equivocal about the Chinese.

How China classifies allies

China has three main categories to classify its relations with foreign countries. The top is strategic partner, a title Brazil has held since 1994; the next most important is cooperative partner and the third, least important, is friendly cooperative relations. Besides Brazil, China has three other strategic partners in Latin America: Venezuela; Argentina and Mexico. Chile, which was the first country in South America to open diplomatic relations with Beijing, is still classified as having friendly cooperative relations.

Professor Dominguez claims that Chile's lower grading is because it is less prepared to follow China's lead on international political issues than Argentina. This is despite the fact that Argentina has instituted more anti-dumping actions against China at the World Trade Organization than any other Latin American country. Chile aligns its foreign policy with its trade interests and is the only country in the region to have a free trade agreement with China.

Despite this, and China's support for Chile's non-permanent seat on the UN Security Council, (which resulted, satisfyingly for China, in Chile voting against the US's appeal that UN authorise military action in Iraq), China does not rate Chile as a strategic partner, probably because Chile is prone to say uncomfortable things (to Chinese ears) about human rights.

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China and Venezuela

Professor Dominguez also argues that Venezuela's upgrading to strategic partner is solely because of President Hugo Chávez's courting of Beijing. He has visited China three times since becoming president in 1998 and in 2004 told Beijing University students that his Bolivarian Revolution was inspired by Mao Zedong, the 'Great Helmsman' who established communism in China.

China's trade with Venezuela remains modest, despite Venezuela's rhetoric about shifting oil exports from the US to China. Geography is against this. Supertankers, which currently cannot get through the Panama Canal, take 40 days to get from Venezuela's oil terminals to China. They take only seven days to reach terminals in the southern US. Although China's trade with Venezuela quadrupled between 2000 and 2004, Venezuela is still only China's seventh-biggest trading partner in Latin America.

President Hugo Chávez's enthusiasm for China is a break with Venezuela's traditional foreign policy. Even Carlos Andrés Pérez, the president who nationalised the (largely US-controlled) oil industry in the mid 1970s took little interest in relations with China.

China's enthusiasm for Venezuela is clearly guarded. A close relationship with Venezuela could trigger reprisals (trade or political) from the US. The Chinese clearly believe that the risk of antagonising the US for the sake of a few barrels of low grade (heavy, high sulphur) crude oil which Chinese refineries are not designed to refine is not worth taking. This is not how the US sees China's relations with Venezuela.

China and Mexico

Mexico's relations with China are entirely different from the South Americans'. Mexico is the only country in Latin America that runs a substantial trade deficit with China. It is also the country that has seen significant amounts of downstream Chinese investment. Professor Dominguez reckons that about US\$28bn of Chinese direct investment has gone into Mexico. Investment in clothing companies accounts for a third of this and investment in manufacturing plastic-products about a quarter.

In 2005 China did more trade with Mexico than any other Latin America country. Indeed, China is now Mexico's second-biggest trading partner after the US. In 2005 Mexico's trade with China increased by 21% to US\$18.019bn. Mexico runs a thumping trade deficit with China.

In the first two months of 2006, Mexico imported US\$3.09bn worth of goods from China and exported less than US\$60m worth. Mexican exports were up by 2%, on the same period of 2005, while imports from China were up by 37%. China's figures for trade with Mexico are much smaller, and probably exclude goods that are shipped to Mexico and then on to final consumers in the US. Officially, China's total trade with Mexico in 2005 came to US\$7.8bn.

Politically, the relationship is complicated. Mexico was the third country in Latin America, after Cuba and Chile, to recognise China and the first to send a president, Luis Echeverría, to Beijing (in 1973) and also the first to back China for a permanent seat on the UN Security Council.

Although human rights have become more of Mexican pre-occupation under first President Ernesto Zedillo and now President Vicente Fox, it is still trade that dominates the relationship with China. President Vicente Fox and his ministers claim that China's export competitiveness is based on exploiting cheap, virtually slave labour. Such criticisms have drawn diplomatic protests from China.

China's strategic partners in Latin America and when they got the title

<i>country</i>	<i>date</i>
Brazil	1994
Venezuela	2001
Argentina	2004
Mexico	2004

source: IAD

More substantively, Mexico was the last of the 141 countries in the World Trade Organization to approve China's membership. This was largely because of the threat Mexican officials felt that China posed to key Mexican industries such as textiles, footwear and electronic manufacturing.

On human rights, Mexico has focused its criticism on Cuba and has yet to criticise China's record directly. Furthermore Mexico aligned itself closely with China (and against the US) over the 2002/03 war in Iraq. Dominguez argued that in 2002 and 2003 when Mexico was on the UN Security Council, China appeared to follow the lead of the late Adolfo Aguilar Zinser, Mexico's ambassador to the UN.

This annoyed the US, the more so when Britain, the US's chief little helper in the trying to mobilise support for a UN resolution mandating military action against Iraq, was caught spying on the Mexican mission to the UN. Both China and Mexico's UN ambassadors met to discuss how they would vote before each Security Council vote.

Yet in October 2004, Mexico annoyed China by entertaining the Dalai Lama. The lower house of congress, and the mayor of Mexico City, Andrés Manuel López Obrador, a leftwinger who headed the opinion polls going into the presidential election on 2 July, received the Dalai Lama who accused China of being a totalitarian state.

President Fox's wife Marta Sahagún also had a formal meeting with the Tibetan. This was too much for the Chinese ambassador to Mexico who called the Mexican officials who met the Dalai Lama "ignorant and opportunistic." Mexico's foreign minister demanded, and got, a grovelling apology for this outburst.

We would argue that Mexico has become less jumpy about the Chinese threat to Mexico's position in the US import market. Over the past 18 months, especially since international vehicle companies have renewed or increased their investments in Mexico's export-focused motor industry, the Mexican government has become more relaxed about China.

China's foreign minister, Li Zhaoxing, visited Mexico in mid May. meeting both his counterpart, Derbez and the president, Vicente Fox. Derbez invited Li during Derbez's trip to Beijing in February.

During the trip, Li signed an agreement to strengthen dialogue with Mexico on human rights and a memorandum of understanding on energy issues. Mexico does not yet sell crude oil to China.

Military manoeuvres: China took part, albeit as an observer, in military exercises with US forces for the first time for five years from 20 to 23 June 2006. The occasion was a naval exercise off Guam. Ten Chinese officials, including three generals and senior naval officers as well as representatives from the foreign ministry, watched the three day exercise, codenamed Valiant Shield 2006. Military representatives from six other nations were also invited.

China was delighted to have been invited to observe the exercise. Cooperation between the US military and China's armed forces ended cooperation in 2001 after a US Naval jet collided with a Chinese fighter aircraft. Tension increased in 2005 when the US Defense Department labelled China a military threat, a term US politicians and defence officials have repeated in recent months.

Jindal Steel and Power takes a punt on Mutún

"Jindal is to invest US\$2.3bn in developing the huge deposit. Mutún contains 40bn t of iron ore, according to the last authoritative geological study by an international consultancy, McKee, in 1977. The deposit also contains useful amounts of manganese. The concession will be for 40 years. It is not renewable."

On 1 June, the Bolivian government accepted the financial terms of the bid from Jindal Steel and Power, from India, to develop Latin America's biggest iron-ore deposit at Mutún. The deposit straddles the border with Brazil in a remote part of south-eastern Bolivia, in the Germán Busch region of the department of Santa Cruz. The nearest Bolivian town is Puerto Suárez.

Jindal is to invest US\$2.3bn in developing the huge deposit. Mutún contains 40bn t of iron ore, according to the last authoritative geological study by an international consultancy, McKee, in 1977. The deposit also contains useful amounts of manganese. The concession will be for 40 years. It is not renewable. Jindal has until the end of September to withdraw, if it has second thoughts. Jindal had been doubtful about the terms, especially the royalties the government intended to extract: 50% on steel and 70% on iron ore. Jindal was especially doubtful about the joint venture arrangements that called for it to make all the financial investment in developing the project. The Bolivian government has been happy to give Jindal a majority (at least for the first 20 years) on the five-person board of directors for the joint venture running the project.

Initially the government said that it would be happy with a 35% equity stake in the project, which it said would yield at least US\$52m a year in dividends. It now appears that the government thinks that this might be too little. The government now wants a guaranteed US\$100m a year. The production and small business minister, Mario Molina, went further saying that Jindal's investment would yield US\$200m a year for the government.

On 4 June, the planning minister, Carlos Villegas, said that the government was now thinking about a 50% stake in the project, though it will not be putting up much, if any, of the development capital. Naveen Jindal, the president of Jindal Steel, said that his company intended to invest US\$200m in 2007, when the project gets underway, and confirmed that the total investment would be US\$2.3bn. Naveen Jindal met President Evo Morales on 5 June and said that his company was committed to build the "project of Bolivia's dreams." He said that the project would lead to the construction of a new small town with 5,000 houses, schools, a hospital and even a technical university.

The government insisted that any company awarded the Mutún concession, and Jindal was the only qualified bidder on 25 May, should also develop a steel mill besides digging out iron ore. The government argues that if Bolivia is to develop economically, it has to cease being just a commodity exporter and has to use its natural resources to produce value-added products. Steel is one of the key value-added products the government wants to produce.

Two other companies were interested in the project, though only one, Mittal Steel, also from India, bid on 25 May. It was disqualified by the government. The other potential bidder, which did not actually tender, was Siderar from Argentina. The Bolivian government stressed how important the steel mill, which will run on local gas, is to the whole project. The idea is that the mill will, for the first time, produce steel for industry and reduce the country's need to import steel products. The plant will have to produce a minimum of 1.43m t a year of laminated steel. This should be enough to cover all of the country's domestic demand. The government expects the steel mill to be built within five years. The government's schedule calls for the steel mill to be built before Jindal can start digging out the iron ore.

"The fact that the government managed to attract two companies to bid is significant given that the government "nationalised" oil and gas on 1 May. The government had further alarmed businessmen by excluding a Brazilian company, EBX, from the tender. The government was mildly disappointed that two mooted bidders, one from Argentina and another from China, had not bid. To the relief of locals, there was no bidder from Venezuela."

The government expects the project to create 10,000 jobs, at least in the construction phase. Besides building the steel mill, Jindal will also run the gas pipeline that will power the power station for the complex and the power station. Jindal will also have to deal with the problem of providing a water supply for the project. The government said that it will provide the gas, and it is providing the iron ore.

The fact that the government managed to attract two companies to bid is significant given that the government "nationalised" oil and gas on 1 May. The government had further alarmed businessmen by excluding a Brazilian company, EBX, from the tender. The government was mildly disappointed that two mooted bidders, one from Argentina and another from China, had not bid. To the relief of locals, there was no bidder from Venezuela. In the run-up to the 25 May tender, rumours had swirled in La Paz that a Venezuelan company would get the strategically important deposit, in partnership with what is left of the Bolivian state mining company, Comibol.

Celinda Sosa, the minister for production and small companies, said that Mittal did not meet the government's stipulations that the bid should not just include proposals for digging out iron ore and exporting it. She implied that Mittal did not meet the government's demands for the development of a local steel industry in Bolivia, using the country's other big natural resource, natural gas.

The Mutún deposit, which was first identified in 1966, covers 60 square kilometres, and has an average iron content of 50%. There are also at least 10,000t of manganese in the orebody. Mutún may have a working life of 200 years, though the contract terms stipulate that Jindal can only dig out half the deposit in the 40 years of its concession. The project is likely to produce environmental protests, because it will have a major effect on the Pantanal wetlands. Locals, however, want the investment. Puerto Suárez had been lobbying the government to allow foreign investors to develop the deposit.

Even the rightwing opposition in Bolivia was pleased with the result. Oscar Antonio Franco, who heads the bloc of congressional deputies from Santa Cruz, the department which is most sceptical about President Evo Morales and his government, said that the project finally looked as though it might get developed. The public works minister, Salvador Ric, the richest man in the Bolivian government, added that the government was mildly surprised that Argentina's Siderar had not bid for the project.

The planning minister Carlos Villegas said at the start of May that although the contract to exploit Mutún would run for 40 years, the successful bidder would get total administrative control of the project for the first 20 years. In the second 20 years, control would be shared with Comibol.

Although Jindal is committed to making some steel at Puerto Suárez, the main thrust of the project will be to mine iron ore and ship it out. It seems that Jindal is planning to ship the ore out towards the Atlantic, through a terminal at Puerto Busch, on the River Paraguay. Another non-bidder for Mutún, a Chinese company, Shandong, had a plan to build a railway across Bolivia to ship the ore out through the Peruvian port of Tacna.

Gas: Jorge Alvarado, the president of the state energy company, Yacimientos Petroliferos Fiscales Bolivianos, said that Bolivia was still interested in an alliance with a Russian gas company, Gazprom, to export gas to Mexico and North America. Alvarado said that the country would need new gas fields to feed the Liquefied Natural Gas plants it expected Gazprom to build. Gazprom executives held two days of talks with YPFB in La Paz at the beginning of June. The Russian ambassador to Bolivia, Vladimir Kulikov, said that

“ President Evo Morales and his government argue that they are not expelling foreign companies, only insisting that they pay a proper price for exploiting Bolivia's resources. President Morales said his countrymen are weary of foreign exploitation of their natural resources and he intends to put more revenue from those assets back into the poorest country in South America.”

the Russian company was not bothered by the "nationalisation" of the energy industry announced by the government on 1 May.

What Gazprom appears to be doing is reviving the BP, British Gas and Repsol-YPF plan to build a pipeline to pump gas from Tarija to the Pacific, probably in Chile, compress it and then ship it in LNG carriers to North America. This scheme foundered on opposition from Evo Morales, then only the leader of the coca growers, and led to the protests that forced President Gonzalo Sánchez de Lozada from office after 70 people had been gunned down by government troops in an effort to contain protests.

BP, British Gas, and Repsol already had the gas. Gazprom will have to find it. Alvarado reckoned that it would take at least three years to accomplish this and perhaps by that time, he said, Bolivia and Chile would have found a way to restore Bolivia's sovereign access to the Pacific. Gazprom seems just as interested in shipping gas east, to Paraguay and Uruguay.

CANADA'S GOLD MINERS

Preferring Pakistan to Bolivia

The Bolivian government's leftwing rhetoric is putting off potential foreign investors. The chairman of Toronto-based Barrick Gold Corp, Peter Munk, told his shareholders he would now "put my buck" on exploration in Pakistan, rather than the South American countries throwing up more roadblocks to foreign investors. Barrick currently has no mines in Asia.

"Pakistan ... from a mining point of view, from a business point of view, is among the better countries," Munk told his shareholders at the Canadian company's annual meeting in May. "If I had the choice to put my money in one of the Latin American countries run by Evo Morales or [Hugo] Chávez - I know where I'd put my buck."

Patricia Dillon, president of the Prospectors and Developers Association of Canada, said plans by Bolivia to raise taxes and royalties on foreign mining firms are disconcerting. "We respect the right of foreign governments to act as they see fit and in their people's best interests. However, we believe that countries should be wary of adopting policies that, over the long term, will act as deterrents to foreign investment," she said.

President Evo Morales and his government argue that they are not expelling foreign companies, only insisting that they pay a proper price for exploiting Bolivia's resources. President Morales said his countrymen are weary of foreign exploitation of their natural resources and he intends to put more revenue from those assets back into the poorest country in South America.

"We're not expelling any company, but they will not earn much - not like before," Morales told Venezuela's Telesur in May "We hope they'll remain partners, and if they don't respect these laws, we'll make them respect them with political force." Vice-President Alvaro Garcia Linera has emphasised that mining would not be nationalised. But he said foreign companies would face higher taxes and royalty payments and that the government would intensify enforcement of existing laws to break up big underdeveloped land holdings, apparently to turn them over to the poor.

This uncertainty is what prompted Munk, the founder of one of the world's largest gold producers and historically an active investor in Latin America, to say he now sees Pakistan as a better place invest in, despite the presence of Islamic militants in the South Asian nation.

Mexico leads Latins at Shanghai film festival

"The Mexican effort at the Shanghai film festival is supported by the Mexican foreign ministry, the Consejo Nacional para la Cultura y las Artes, which is, effectively Mexico's ministry of culture."

One area where Latin America and Asia have similar concerns is maintaining their cultural identities in the face of US domination of global trends from food to media. The film industry is a case in point. China still protects its film industry heavily from Hollywood. Argentina does not but Mexico still has a powerful state-backed film industry. A sign of the health (and history) of the Mexican film industry is that the country sent 10 films to the Shanghai film festival which ran at the end of June. The Mexican contingent of 10 long and three short films was led by *Mezcal* which won Mexico's Ariel prize in 2006 and *Al Otro Lado* which represented Mexican cinema at the 2006 Oscars.

Alfredo Joskowicz, the director of the Instituto Mexicano de Cinematografía claims that the Mexican cinema industry has, in the past four years, become one of the most active dispatchers of films to festivals around the world. In May the film *Babel*, directed by Mexican Alejandro González Iñárritu won the Palme d'Or in Cannes. In 2005, Cannes paid Mexico the singular honour of setting up a separate section for Mexican films: this drew 17 entries.

The success of Mexican films at festivals has had commercial spin-offs. The number of films made by Mexicans in Mexico has increased by 20% in the past three years. In 2003, Mexico made 29 feature films. In 2005 it made 53. Joskowicz argues that the expansion of the film industry is increasing the depth and breadth of its production capabilities and therefore increasing the chances of more international Mexican hits such as *Y Tu Mama Tambien* and *Amores Perros*.

Joskowicz admitted that Shanghai was a long way geographically and psychologically from Mexico but said that he hoped that the showing of Mexican films would encourage Chinese tourists to visit Mexico. The Shanghai festival has also become a key event in the world cinema calendar. The Mexican government is hoping that a good proportion (perhaps as many as 1m) of some of the 20m Chinese tourists likely to roam the world over the next few years will find their way to Mexico. Joskowicz argued that giving people a taste of a culture, through film, is a good way of marketing a country.

The Mexican effort at the Shanghai film festival is supported by the Mexican foreign ministry, the Consejo Nacional para la Cultura y las Artes, which is, effectively Mexico's ministry of culture. Among the films taken to Shanghai is Luis Buñuel's famous work *Los Olvidados*. Buñuel made the film in Mexico in 1950 during his exile from Spain. Other older films taken to the Shanghai festival included *Vámonos con Pancho Villa* (1936); *La perla* (1945); *Aventurera* (1950) and *Macario* (1960).

Argentine films: Argentine filmmakers also took their wares to Shanghai. Argentine directors claim that what has happened to their industry in their country is a case-history of what not to do. Argentine directors complain that in Buenos Aires it is now almost impossible to find Argentine films showing in cinemas. Nevertheless, a percentage of all cinema ticket receipts go to a fund to subsidise the Argentine film industry.

Two Argentine directors, Norman Ruiz and Liliana Romero, argued forcefully that if China was to preserve its film industry it must continue to keep Hollywood blockbusters out of China. Currently only 20 foreign films a year are licensed to be shown in China. This means that Chinese cinema has a huge, protected domestic market.

Culture

Mexico is following up its presence at the Shanghai film festival with three major exhibitions of Mexican art in Beijing: The first is Mexican Architecture of the 20th Century; the second is Talavera: contemporary ceramics in Mexico and the third is Masters of Mexican painting of the second half of the 20th century. This consists of 66 works by 30 artists including the three great 20th century muralists: José Clemente Orozco; David Alfred Siqueiros and Diego Rivera.

Ruiz and Romero are the directors of *El Color de los Sentidos*. They said that the domination of multiplexes in Argentina was pushing Argentine films out of their own market. As a protest they now refuse to launch their films in their home market. By law, a cinema in Argentina only has to show one Argentine film a quarter and this rule is widely ignored.

The problem is compounded by the fact that Hollywood can make huge numbers of prints of the same film available at the same time: for instance, the *Da Vinci Code* opened in Argentina on 209 screens. An Argentine film would be lucky to be launched at 10 screens. The big difference between Hollywood films and Argentine films is that Hollywood can support its products with huge marketing budgets.

Ruiz and Romero said that their refusal to launch *El Color de los Sentidos* was the third time that they had refused to launch one of their films in Argentina. A Chinese director, Feng Xiaogang, claimed that in Taiwan, where there is no protection against foreign films, local directors often have to hire cinemas themselves to get their films shown. He claimed that Hollywood films were already dominating Taiwan and would not lose their grip on the market.

Ang Lee, a Taiwanese director, works in Hollywood where he produced hits such as *Crouching Tiger Hidden Dragon* and *Brokeback Mountain*. He argued that filmmakers everywhere should aim to meet the demands of the global market, rather than satisfy national markets. Wang Zhongjun, the president of a Chinese film production group, Huayi Brothers, pointed out that film budgets in the US frequently ran to 700 pages. In China two pages was often the norm because there was no consideration of distribution and marketing.

India: The world's biggest film industry is in India where more than 1,000 films are produced each year. Bollywood films, which are either entirely in Hindi or with a lot of the songs and dances in Hindi, have developed a following in Britain outside the expatriate community and are starting to make it big in the US, breaking into the US top 20 in the box office charts. Some film industry analysts say that in the UK, Bollywood films gross more than any British films with the exception of those starring Hugh Grant.

Bollywood films are marketed in an unusual way: the soundtrack, with the song and dance numbers, is released before the film itself and attracts an audience to the film. The singers, whose voices sing the songs the actors mime, are as famous as the actors. Aficionados of Bollywood films point out that their depiction of Non-Resident Indians (NRIs) has changed in the past 20 years. Originally, NRIs were depicted as money-grubbers mostly in minor parts. Now they are often the leads: the NRIs always, ultimately, adhere to traditional Indian values even though they may drink or smoke.

HDTV: Brazilian TV broadcasters were relieved that the government decided in early July to stay with the Japanese standard (ISDB) for digital TV. They had feared that the government might opt for the European standard which could have allowed telephone companies to break into the market. The decision also, effectively, keeps other competitors out of the TV market. Non-broadcasters sniffed that the decision was predictable, given that the government had no intention of annoying TV broadcasters in an election year.

The decision is also likely to prove costly for viewers since the cost of converting an analogue TV set to receive digital programming is likely to be around R\$400, opponents of the Japanese standard claim. The cost of converting a set to the European digital standard, DVB, would have been about 10% cheaper.

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Samsung, which plans to make the converters, actually reckons that the cost of a converter, wholesale, will be US\$33 which translates into a retail price of between R\$120 and R\$200.

The decision has other drawbacks: the European standard is used in 57 countries while the Japanese standard is used in just Japan (and now Brazil). The Brazilian government argues that the Japanese standard met the criteria for robustness and scalability. It can deliver digital broadcasts to buses and mobile phones, for example.

The choice is likely to lead to an increase of US\$88bn in sales of electronic goods over the next 10 years, industry sources say. The industry hopes that the choice will also lead to a boost in exports as the Brazilian electronic industry builds more High Definition TVs (HDTVs). Brazilian HDTVs should be in the shops in the next 12 to 15 months. Samsung has already set up a 4,000 square metre plant in Manaus that will be geared for the production of digital converters. The Japanese developers of their digital standard clearly expect the rest of South America to follow Brazil's lead. Brazil's decision also may lead to the Japanese system becoming the global standard.

THE MOTOR INDUSTRY

Ford chooses Mexico

The Mexican car industry received a major boost in mid-June when the Ford Motor Company announced that it planned to cut 30,000 jobs and close factories in the US but expand and upgrade production at its three Mexican plants. The three Mexican plants that will get the investment are: Cuautitlán, (Estado de Mexico); Hermosillo (Sonora) and the company's engine plant in Chihuahua. The Ford plan is known as the 'Way Forward'. The plan also calls for a completely new plant to be built in North America, probably in Mexico. If the plan is implemented, Ford's production capacity in Mexico will double to 850,000 units a year. The plan would also create 150,000 new jobs in Mexico.

Ford has yet to announce how much it plans to invest in expanding its operations in Mexico, where labour is cheaper, but informed leaks suggest that the figure will top US\$9bn. The investment should attract tax credits from Mexico worth about US\$500m. Ford said in the 'Way Forward' document that the Mexican investment would lead to a 300% increase in the use of Mexican-made components and would also increase Mexico's motor exports by US\$18bn a year.

Ford claimed that 95% of the company's investment over the next six years will continue to go into its US plants with only 5% going to Mexico. Even so, the shift should save the company about US\$1.8bn a year. The 'Way Forward' plan calls for a new US\$1.4bn plant that could produce 280,000 vehicles a year. The new plant would be designed to enable flexible working practices that allow managers to match output more quickly to demand.

Hermosillo opened in 1986 and produces sedans. 'Way Forward' envisages an investment of US\$1bn in this plant which would have its capacity increased to 305,000 vehicles a year. The older Cuautitlán plant builds Super Duty pick ups and Ikon small cars. Under 'Way Forward' the plant's capacity would be increased to 220,000 vehicles a year. The Chihuahua plant would get the biggest investment (US\$2.3bn). The attraction of expansion in Mexico is clear. Mexican auto workers are paid, on average, just under M\$200 (US\$17.4) a day. US autoworkers, according to the Union of Autoworkers, earn US\$27.3 per hour.

"Ford, especially, has had a spectacular start to 2006: its exports quintupled in the first four months while its production from its Mexican plants increased by 256%. Volkswagen has also seen a strong (66%) increase in output, promoting its always militant workers to threaten to strike for higher pay."

The Mexican motor industry is already booming. Output was up by 39%, year-on-year, in the first half of 2006. Impressive though the first six-month rate is, it represents a slowdown from the first quarter. In the first six months car exports were up by 50% on the same period of 2005. Domestic sales, including imports, were a bit disappointing, up just 1.2% year-on-year to June. Even so, César Flores, the president of the Asociación Mexicana de la Industria Automotriz (Amia) expects sales to hit 1.2m by the end of December this year. Production should be close to 2m vehicles.

The problem facing the motor industry is that 78% of the country's vehicle output is exported, mostly to the US. If the US economy slows down, which is likely given the US Federal Reserve Board's signals that it will raise US interest rates (which has already affected sales of new houses), demand for Mexican-built vehicles will be affected.

Ford, especially, has had a spectacular start to 2006: its exports quintupled in the first four months while its production from its Mexican plants increased by 256%. Volkswagen has also seen a strong (66%) increase in output, promoting its always militant workers to threaten to strike for higher pay. Flores said that the motor industry was running a trade surplus of between US\$20bn and US\$25bn a year. This was largely due, Amia said, to a halving of imports of Brazilian components in the first six months of this year.

LAAR BRIEFS

Japanese interest in Brazilian oil: On 22 June three Japanese companies, led by Inpex Holdings, Japan Oil, Gas and Metals National Corporation and Sojitz, will invest in developing a Chevron-led oil field off Rio de Janeiro. The Japanese companies will have a 15% stake and Chevron a 42.5% stake in the field. The state-owned Petroleo Brasileiro will own the balance. The field which will take US\$2.4bn to develop should come on stream in 2009 and will produce 100,000bpd. The field, which was discovered in 1999, holds at least 300m barrels. Besides Brazil, Japanese companies are also interested in increasing their stakes in oilfields in the Gulf of Mexico to reduce the country's dependence on the Middle East which currently supplies Japan with 90% of its oil.

Malaysian interest in Ecuadorean oil: Ecuador's foreign minister, Francisco Carrión said that Malaysia was interested in investing in Ecuador's oilfields. He reported that on his brief Asian tour at the beginning of June he had met senior officials at the Malaysian state oil company, Petronas.

Iron ore: Brazil's main iron ore producer, Companhia Vale do Rio Doce (CVRD) said that China, which accounts for 43% of the world's imports of iron ore, should accept a 19% increase in CVRD's prices. China has been negotiating a new price with CVRD for 18 months and saw its negotiating position weakened when ThyssenKrupp from Germany agreed to CVRD's demand in mid-May. In 2005, CVRD increased its prices by 71.5%.

Taiwan: El Salvador expects to sign a free trade agreement with Taiwan in October 2006 when President Elias Antonio Saca visits Taiwan. Ko Jai-son, director of the Latin American department at the Taiwanese foreign affairs ministry, said that the remaining issues should be sorted out by the time Saca visits. Taiwan has free trade agreements with Panama, Guatemala and Nicaragua and is negotiating with Honduras and has announced that it would like to clinch deals with the Dominican Republic and Paraguay. At the end of June, President Leonel Fernández visited Taiwan from 26 to 28 June.

“ In mid-May Taiwan announced that it was injecting US\$95m into its Co-prosperity fund which channels investment into its Latin American allies. The fund was launched, in September 2005, with US\$225m, following the visit of President Chen Shui-bian to Guatemala. ”

On 13 June Alejandro Argüello, the Nicaraguan minister of development, industry and trade, announced on 13 June that after two years of negotiations his country had agreed a free trade deal with Taiwan. The deal, which was signed on 15 June, will allow immediate access for 85% of Nicaragua's exports and 95% within five years. The asymmetrical deal allows two thirds of Nicaragua's agricultural products (including sugar) access to Taiwan but only just over a third of Taiwan's agricultural products access to Nicaragua. In manufactures, Taiwan is opening up 79% while Nicaragua is opening up just 44%. Trade between the two countries is tiny: in 2005 Nicaragua's exports to Taiwan were less than US\$2m, while Taiwan's exports to Nicaragua came to less than US\$16m.

In mid-May Taiwan announced that it was injecting US\$95m into its Co-prosperity fund which channels investment into its Latin American allies. The fund was launched, in September 2005, with US\$225m, following the visit of President Chen Shui-bian to Guatemala. Twelve of the 25 states that recognise Taiwan as the rightful government of China are in Latin America or the Caribbean.

China and Honduras: China said it wanted to trade more and invest more in Honduras. It is offering money for the so-called dry canal that will ship goods from one side of Central America to the other, and it is also interested in bartering white goods it produces for agricultural products from Honduras. Businessmen from the two countries have set up an Asociación de la Cámara de Comercio e Inversión Honduras-China (ACCHC). Honduras does not recognise China diplomatically. In 2005 Honduras imported US\$178m worth of goods from China and exported just US\$4m. Around 70% of Honduras's imports from China are toys.

The ACCHC expects to hold a trade fair between 18 and 20 August in San Pedro Sula to promote business with China. Already 500 Central American businessmen have confirmed their acceptance and at least 30 businesses from China will be represented.

Chile, Thailand and China: At the beginning of June delegates from both countries held the second preliminary discussions on the feasibility of a free trade agreement in Santiago. The Thai delegation was led by Dr Nisa Srisuworant. She is the director of the American affairs and Apec at the Department of Commercial Negotiations. A third round of talks is due in Bangkok in July. Trade between the two countries is small: in 2005, Thailand imported US\$131m worth of goods from Chile and exported US\$137m worth, according to figures from the Chilean central bank.

Chile's foreign minister, Alejandro Foxley, said that congress should hurry up and ratify the free trade agreement signed with China last November. The deal will abolish Chinese duties on 92% of Chile's exports to China. Another 7% will have their duties whittled away to nothing over the next 10 years so only 1% will still face tariffs. China is now Chile's second-biggest trading partner after the US. In 2005 trade between the two was worth US\$6.98bn.

Labour unrest at Shougang: Peruvian miners at HierroPerú, now run by Shougang, a state-owned Chinese company, want higher pay. They went on strike on 22 June demanding a pay increase of N\$5.5 (US\$1.70) a day. The management offered an increase of N\$1.9 a day. The government noted that the strike is legal, so Shougang has to make an offer that is acceptable to the miners. It cannot sack them. Shougang's Peruvian employees say that they earn an average of US\$13 a day, well below the US\$33 a day average for miners in the country. Shougang admits that cash payments may be low but says it offers free water and electricity that take compensation up to the equivalent of US\$40 a day.

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Drugs: Chen Cunyi, the deputy minister at the national committee for control of narcotics, said that although the Golden Triangle (which consists of the opium producing bits of Burma, Laos and Thailand) still supplies most of the illegal drugs consumed in China, Europe, the US and Latin America were now becoming suppliers, as well as Afghanistan. What is significant is that the Chinese are admitting that significant amounts of cocaine are coming from Latin America. Chen said that the authorities intercepted 300kg (worth about US\$10m) in November 2005 and another 140kg in March this year.

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On 27 June, Claudia Blum, the president of the Colombian congress, discussed bilateral cooperation, especially, on anti-drugs issues, with her Chinese counterpart, Wu Bangguo. He is number two in the communist party hierarchy. Earlier in June (on 19 June), Gao Gangchuan, China's defence minister said that he hoped to deepen military links with Colombia. He was speaking during a visit by the Colombian defence minister, Juan Manuel Santos. The Chinese foreign affairs ministry noted that Colombian military officers are attending Chinese training courses, but said that the numbers were minuscule compared to the numbers of Colombians on US training courses.

Colombia: The country's biggest trade deficits in the first two months of 2005 were with Mexico and Brazil (both US\$201m); and China (US\$198m). Year-on-year, the growth in the deficits was 104%; 43% and 38% respectively. Overall Colombia ran a trade surplus of US\$258m in the first two months of the year, thanks to its US\$542m surplus with the US (up 126% on the first two months of 2005).

Venezuela: PDVSA, the state-owned oil company, announced in early July that it expects to increase its exports of crude oil to China from 160,000bpd to 300,000bpd. It is not clear when the increase will be effected. PDVSA is also going into a joint venture with a Chinese oil company to produce drills for oil rigs. Currently Venezuela imports all its drills for the oil industry. By 2011 it wants to be using Chinese technology to manufacture its own drills.

Argentina: The six-week strike by hauliers who refused to deliver to Chinese supermarket after a driver was shot and wounded by a Chinese retailer, ended on 11 July. The association of Chinese supermarkets agreed to pay compensation to the wounded driver and to secure the arrest of the person who shot him. The Chinese supermarkets also promised to hire a Spanish speaker to handle deliveries.

Argentina and India: The Argentine foreign minister, Jorge Enrique Taiana, visited India at the beginning of July and promised to upgrade relations. Taiana's visit was the first by an Argentine foreign minister to India for 12 years. He led a trade mission that included representatives from 32 companies and several significant regional politicians, notably the governor of Rio Negro, Miguel Sainz. Taiana said that although Argentina's economy was geared towards its domestic market and then regional markets, the government wanted to help businesses diversify into new markets. India is currently Argentina's second-biggest market in Asia after China. In 2005 Argentine exports to India were worth US\$746m. Argentina's imports from India were worth US\$269m. Argentina imports motorbikes, car components, cars and engineering products from India. Around 80% of Argentina's exports to India are soya-based, principally soya oil. Leather, wool, cellulose and metals are the other main Argentine exports to India.

TABLE COMMENTARY

One of the oddities thrown up by the table is the close correlation between Malaysian and Chinese exchange rate policy. Both the ringgit and the renminbi have risen by 3.6% against the dollar in the past 12 months. The strongest currency in Latin America over the past 12 months has been the Chilean peso, followed by the Real. But the strength of these currencies pales beside the baht. This is up almost 10% in the past 12 months. Less surprising is the strength of the Won. The Philippine dollar has also surged in recent months. In Asia the Taiwanese economy is being stimulated by government policy to pep up the slowing growth rate. In Latin America it is still staggering that the Brazilian economy is managing to grow at over 3% despite real interest rates of around 11%, and an appreciating currency. Monetary policy in Mexico is also tight. Nowhere in Asia has monetary policy as tight.

Comparative data	GDP growth		Consumer price index		GDP US\$bn	Real interest rates	Exchange rate local currency vs US\$	
	% change year-on-year	quarter	% change	12 months to	2005 PPP	%	% change since 12/07/06	rate on 12/07/06
China	10.3	Q1	1.4	May	9,412	1.4	3.5	7.99
Hong Kong	8.2	Q1	2.1	May	233.3	2.2	0.0	7.8
India	9.3	Q1	6.3	May	3,633	0.0	-6.4	46.3
Indonesia	4.6	Q1	15.5	May	977	-2.5	-6.9	9,111
Japan	3.8	Q1	0.6	May	3,910	-0.3	-3.5	116
Malaysia	5.3	Q1	3.9	May	290.6	0.0	3.6	3.66
Philippines	5.5	Q1	6.7	May	414.1	1.1	7.1	52.2
Singapore	7.5	Q2	1.1	May	123.4	2.4	5.9	1.59
South Korea	6.1	Q1	2.6	May	994.4	2.0	8.5	949
Taiwan	4.9	Q1	1.7	May	631.2	0.0	-0.5	32.5
Thailand	6.0	Q1	5.9	May	544.8	-0.5	9.6	37.9
Argentina	8.6	Q1	11.1	June	533.7	-1.2	-7.3	3.08
Brazil	3.4	Q1	4.0	June	1,576	11.0	6.4	2.19
Chile	5.1	Q1	3.9	June	193.2	1.2	7.0	540
Colombia	5.2	Q1	3.9	June	337.3	2.2	-7.9	2,511
Mexico	5.5	Q1	3.2	June	1,072	3.8	-2.8	11.0
Peru	3.6	Apr	1.8	June	167.2	2.6	0.0	3.24
Venezuela	9.4	Q1	11.8	June	163.5	-1.3	0.0	2,646*
US	3.7	Q1	4.2	May	12,227	1.1		

Sources - Official data; CPI: LAWR; Real interest rates: LAAR estimate, based on short-term money market rate

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