

Latin America reality

vs.

China and India potential

*There's no golden rule
for shippers to choose
which sourcing base
is the best fit.*

BY DEEP R. PAREKH
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Much is being said and written these days about the benefits of globalization and international trade.

In reality, globalization and international trade have been happening since the beginning of civilization, where Mesopotamians in Central Asia did business and trade with the people of the Indus Valley civilization in India and Pakistan since 2000 BC. In more recent times, the United States has

been doing business with the world for a very long time.

Why then is “global trade” so focused on China and India these days? After all, they only account for 13 percent of trade done with the United States. Latin America, in the mean time, accounts for more than that, at 19 percent. The biggest partner of all remains Canada, which trumps them all at around \$500 billion annually, about double second- and third-ranked countries, Mexico and China, respectively. However, from a growth perspective and an intra-country perspective, India and China trump all the Latin American countries in recent years.

When we look at U.S. trade numbers with the top 15 countries, we only see China and Brazil there. India doesn't even figure in the top 15. India's rank is 23rd, about \$10 billion shy of Brazil. Table 2 (next page) shows the percent of total U.S. trade by each of the top 15 trading partners. There is a sharp drop-off after the top four — Canada, Mexico, China and Japan. The top 15 countries account for roughly 75 percent of all trade with the United States. Putting Latin America, India and China into this perspective can perhaps be of help when considering future decisions.

So, what is the right way to examine Latin America with respect to India and China? Should Logistics Service Providers (LSP) be aggressive about Latin America, or should they focus on the growth markets of India and China? Should they focus on trade with these countries and the United States, or should they focus within these individual countries or regions? What are the future trends in manufacturing, trade, and outsourcing? Is outsourcing going to really become a bigger business, and where will companies go to outsource their products?

These are some of the questions and areas we wish to address through this article, to bring some clarity to what kind of decisions LSPs need to be considering and what data and analysis to perform when making these types of strategic decisions.

Proximity, time zone factor

Latin America offers what India and China don't — proximity and a conveniently similar time zone, which can be a terrific and powerful competitive advantage for U.S. companies. Mexico was NAFTA-friendly and prosperous not only because of the labor arbitrage, but also because of the proximity and time zone. According to a recent *Business Week* article about a software provider in Mexico who is performing outsourced work for various U.S. companies, the efficiency gains of near-shoring in Mexico compensate for the variance in labor costs between India and Mexico. Many times, we find that companies have a very low efficiency with offshore work in India due to the time zone difference, where they can't call the U.S. in the middle of their day to clarify a piece of work, without which they can't proceed, or proceed at the risk of the work being wasted.

According to the same article, “GE still outsources 90 percent of its IT work to India, sending just 6 percent to Mexico,” said Steve Morrison, GE's London-based head of global information technology outsourcing. But, he notes, as India's costs rise, Mexico will look better and better. “If things continue as they are, India eventually will be charging the same unit cost as Mexico” he said. “That's why Indian companies have been hustling to find ways to perform a higher percentage of the work off-site in India.”

Brazil stands out as an example of a country that has developed a world-class reputation in such fields as autos and commuter jets, to say nothing of steel and soybeans. Dynamic Brazilian entrepreneurs

excel at marketing and sales, and travel the world opening new markets. Argentina, in contrast, is not an aggressive supplier of manufactured goods. However, it has done well at selling agricultural commodities, such as soybeans, grains and beef.

However, Argentina has been aggressively peddling itself lately as a software development center, due to its highly educated and relatively inexpensive workforce. The recent 2002 devaluation has made Argentina cost-competitive in global markets for various products and services that one would not traditionally think of sourcing from that country. The average cost of an engineer is less than \$12,000 per year, still higher than India or China, but certainly Spanish-speaking, in the same time zone, and a convenient overnight flight away. While still tiny, this industry in Argentina has outpaced all the rest of that country's industries, and is liable to grow to about \$2 billion by the end of this year. Argentina's tax breaks are attracting several companies, such as Disney, Peugeot, Cisco, IBM and PalmOne, to create regional offices and operations in Argentina.

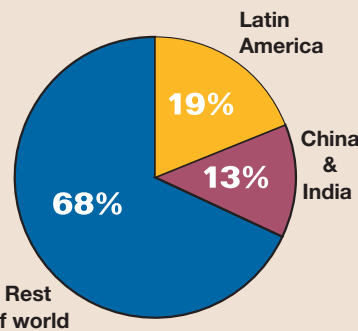
Another convenient overnight flight away from New York is Santiago, Chile. Due to its economic and political stability and its ad-

vanced technological infrastructure, Chile too has been gaining popularity as a center for manufacturing and outsourcing. The country boasts companies such as Citigroup, Unilever and Kodak as clients it has attracted for creating core regional operations there. As further examples, GE outsources all its technical documentation for aircraft engines to Chile, and

HP houses technical support for its imaging and printing divisions in Chile. Chile has also done very well in global trade, beyond minerals and metals. Their wines are excellent and their fruits are served during winter in the Northern Hemisphere.

As a whole, Latin America still does minimal outsourcing work compared to India, but the balance could shift over time, as companies don't want the hassle of dealing with far-flung countries, where efficiency is traditionally low, and communication needs to be highly programmed due to drastic time-zone differences. At the end of the day, control is a factor that is underplayed for U.S. companies who, when they merge operations even between divisions, like to house people in the same

Table 1
Context of U.S. trade
(Latin America, China and India)



Source: US Census Bureau 2006.

building! Control is something they trade off with lower production cost when they decide to go to India or China. Latin America provides a greater degree of control albeit at a premium over India.

Latin America proximity vs. reliability

Many of the countries in South America waste time struggling with ghosts from the past and reinventing failed economic models. They seem determined to take great economic risks in the interest of (often) misguided national sovereignty. In contrast, India and China continue to develop, grow and leverage their respective strengths, and still deal with their many pressing internal needs.

The history of sustained economic development in today's China is a recent one; India's even more recent. Both countries have heavy bureaucracies, diverse populations, crushing poverty, a wealthy elite and a growing middle class. With some exceptions, the same might be said for many of the Latin American nations. However, what is lacking in the latter region is an intelligent national and regional policy that promotes economic development. The analogy of a rising tide that raises all ships comes to mind. China's story is not a straight line to success; neither is India's. It rarely is. However, many of the Latin American nations must face reality, take a long, hard look at the two nations across the Pacific and adopt a similar "can do" attitude and move ahead.

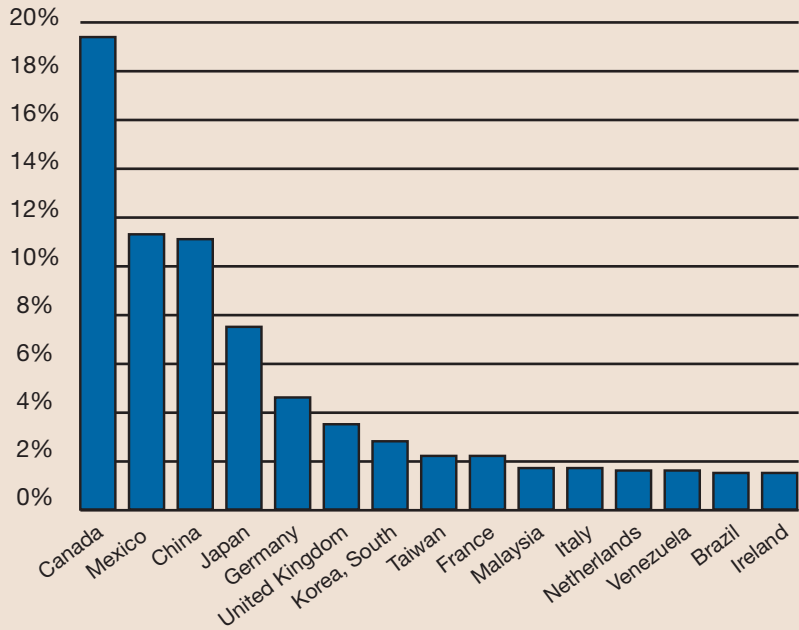
Despite regional trade agreements and the best of intentions, South America still remains a continent of highly individual countries, each jealous of its own sovereignty. Some of the countries in the region cycle periodically through boom and bust, a custom not conducive to stable trade relations. Most are members of one or more regional trade blocs. However, the level of mutual trust is low, and they have trouble working together. Movement towards any form of true regional integration has proved choppy. Solutions are elusive.

BRIC perspective — Latin America perspective

To put global growth into perspective, it all seems to be projected to be divided between the BRIC countries, i.e. Brazil, Russia, India, and China. However, whereas there is visible progress in the Asian countries of the BRIC, there seems to be less enthusiasm on the Latin American front. Former Brazil President Henrique Cardoso spoke at the Aspen Institute Italy on the world economy, and mentions, "it has been said that there is backlash against the market economy

Table 2

Percent of total trade with U.S.



Source: U.S. Census Bureau 2005.

in several countries in the region and a widespread malaise across Latin America over political establishment. The election of left-wing politicians in some countries would be the answer by the population to that malaise." He goes on to say that he does not agree with that view. In his opinion, leaders Hugo Chavez (Venezuela), Luiz Inacio Lula da Silva (Brazil), Tabaré Vázquez (Uruguay) and Néstor Kirchner (Argentina) have very little in common. They do not share a common platform and not one of them is questioning their economic models — put in place in the 1990s by their predecessors and based on fiscal austerity — on the stability of the currency and privatization, and on economic liberalization. Cardoso states: "the real threat to Latin America is populism

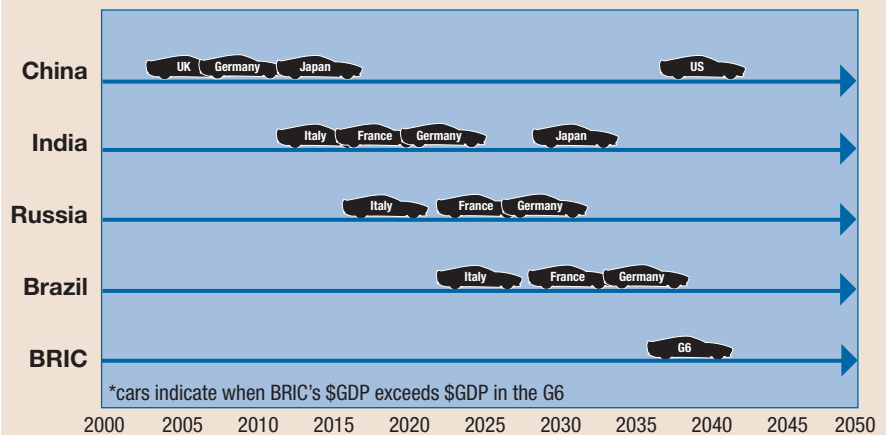
and demagoguery. The only answer to that is not to reverse the economic reform of the '90s, but rather to deepen the reform of the State, extending it to the building of solid and democratic institutions."

As mentioned in a prior *American Shipper* article on India (February issue, pages 20-29), Goldman Sachs issued a Global Economics paper in late 2003, which outlined some of the trends they are seeing for four major global economies — Brazil, Russia, India, and China — together called the BRIC economies. In this report, they summarized the following:

- Over the next 50 years, the BRIC economies could become a much larger force in the world economy.
- In less than 40 years, the BRIC econo-

Table 3

When BRIC's U.S. GDP would exceed G6



Source: Goldman Sachs Report.

mies together could be larger than the G6 (Italy, France, Germany, Japan, United Kingdom, United States) in dollar terms, and by 2025 could account for half the size of the G6.

- The shift in GDP relative to the G6 takes place steadily over the period, but is most dramatic in the first 30 years. Growth for the BRICs is likely to slow significantly toward the end of the period, with only India seeing growth rates significantly above 3 percent by 2050.

- As early as 2009, the annual increase in U.S. dollar spending from the BRICs could be greater than that from the G6, and more than twice as much in dollar terms as it is now. By 2025 the annual increase in U.S. dollar spending from the BRICs could be twice that of the G6 and four times higher by 2050.

- The relative importance of the BRICs as an engine of new demand growth and spending power may grow more dramatically and quickly than expected. Higher growth in these economies could offset the impact of the graying populations and slower growth in the advanced economies.

- Higher growth may lead to higher returns and increased demand for capital. The weight of the BRICs in investment portfolios could rise sharply. Capital flows might move further in their favor, prompting major currency realignments.

- Rising incomes may also see these economies move through the “sweet spot” of growth for different kinds of products, as local spending patterns change. This could be an important determinant of demand and pricing patterns for a range of commodities.

Given this perspective, Brazil (as its context within Latin America) will grow, but not as much as India and China, and Mexico is nowhere to be found within the BRIC context. However, it will continue to be one of the United States’ favored partners due to its proximity, free trade agreement, and even a source to Canada (the biggest U.S. trading partner).

BRICs securing their future in Latin America?

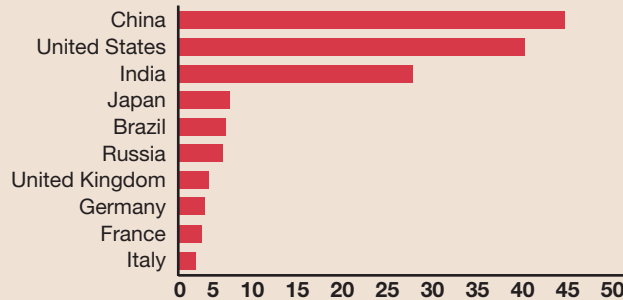
An interesting picture emerges as we ponder whether it makes more sense for U.S. businesses to source products in South and Central America instead of Asia.

China has made overtures for investing in Argentine transport infrastructure, although with no apparent tangible follow through. On the other hand a note in the Bogotá (Co-

Table 4

Largest economies in 2050

GDP (2003 \$trillions)



Source: Goldman Sachs BRICs Model Projections.

lombia) daily *El Tiempo* (April 13) advises that Videsh, a subsidiary of state-owned Oil & Natural Gas of India, could team with Sinopec of China to purchase up to 100 percent of a major Colombian oil field.

An evolution in global trade might be taking place. This would entail China and India, initially, making investments in South and Central America. This would follow the lead of Brazil, with several large regional investments. A large Argentine natural gas producer has been heavily involved in several of the Andean countries for many years. Products at the local Big Box store in North East, Md., might start swapping “Made in China” labels for others indicating “Made in Peru.”

Brazil needs Pacific ports access

Brazil has significantly increased exports to China, a trend that can continue to provide valuable foreign exchange. Unfortunately, the ocean route from Brazilian Atlantic ports to Asia goes around Cape Horn or through the Straits of Magellan into the Pacific; treacherous and unpredictable waters at best. The northern route requires a Panama Canal passage, fast reaching capacity.

Brazilian president Lula da Silva recently visited Peru to discuss the need for an overland route to ship industrial goods from the eastern coastal centers of production, and agricultural goods from the central states, overland to ports such as Peru’s Paita.

Chinese engineering and construction crews, who have built the new port of Yangshang and the Three Gorges Dam, could assist in financing and building such a Trans-Andean transportation artery despite the daunting mountain challenge.

Emerging trends in offshoring

In a recent study on offshoring, investment management firm Jones Lang LaSalle finds that, “as companies expand their (geographic) criteria beyond labor cost reductions, locations such as Sao Paulo and Buenos Aires may compare favorably with current offshoring favorites such as

New Delhi and Shanghai.”

We are seeing the initial excitement about offshoring wearing off as companies begin to realize the magnitude of other factors that they should have taken into account, besides labor cost, while making the offshoring decision. The LaSalle report goes on to state: “when the quality of the workforce is a major consideration in addition to low-cost labor, cities like Sao Paulo, Mexico City and Buenos Aires can be very competitive.”

When we consider the fact that as products get more complex and as subcomponent manufacturers become more prevalent in traditional manufacturing enterprises, the degree of proficiency and education required of the workforce is going to increase, thereby increasing the potential of Latin America, in comparison to China and India. The report also mentions that “cities in India and China will remain among the top destinations for offshoring for the foreseeable future, especially when labor costs and/or market characteristics such as population and job growth are the key criteria for choosing locations.”

The report concludes with the future projection that “offshoring is expected to grow rapidly. Just over 30 percent of the firms that responded (to the survey) have offshored some activities already, and this proportion is expected to more than double to 63 percent over the next three years. A major driver of future offshoring activity will be the desire to spread risks by choosing a number of locations. As offshoring matures, we expect to see a polarization of demand into two types of cities. For lower order activities, the main driver will continue to be cost and third-tier Indian cities will become increasingly important. However, companies looking to offshore higher order, less cost-sensitive activities increasingly will turn to non-traditional offshoring locations, including Central and Latin America.”

How trade imbalance impacts LSPs

Perhaps this might be considered as an elementary perspective by some, but when we take into account basic balance of trade calculations (Export \$ - Import \$), we see there are some severe differences between countries that do business with the United States. Taking into account basic logistics principles, you want to make sure you’re doing business with full truckloads/shiploads as much as possible, so as to lower your “unbillable” capacity. Hence, when

you have backhaul situations where you're only carrying product one way, the efficiency of the carrier goes down, and there is much overhead to be absorbed, many times resulting in lower profitability. Lowering profitability can be the death to players in an already congested and barely profitable market. So what does an LSP do? They try to find another client in the destination area whose loads they can carry on the otherwise-empty backhaul, so as to reduce their loss of profitability. Now imagine this on a larger scale of countries rather than companies. Extrapolating the balance of trade discussion, when there is a bigger balance of trade, there is the equivalent of a logistics imbalance, that is, "the mother of all backhauls." Then you look at Table 5, indicating the top 15 trading partners with the United States, the balance of trade with China is in the \$200 billion range (we import about \$240 billion worth of product and export only about \$40 billion). Imagine ships coming from China to the United States completely full, but going back pretty much empty. Imagine what this does to carriers' productivity and capital efficiency. Contrast that with the balance of trade with India and Brazil, and the rest of Latin America, where the imbalance is minimal, which helps with the logistics situation between these countries and the United States.

First signs of China, India resource issues

Executives in recent McKinsey & Co. interviews and surveys have repeatedly expressed their concern about shortages in the global talent pool. India and China are a resoundingly loud example of this.

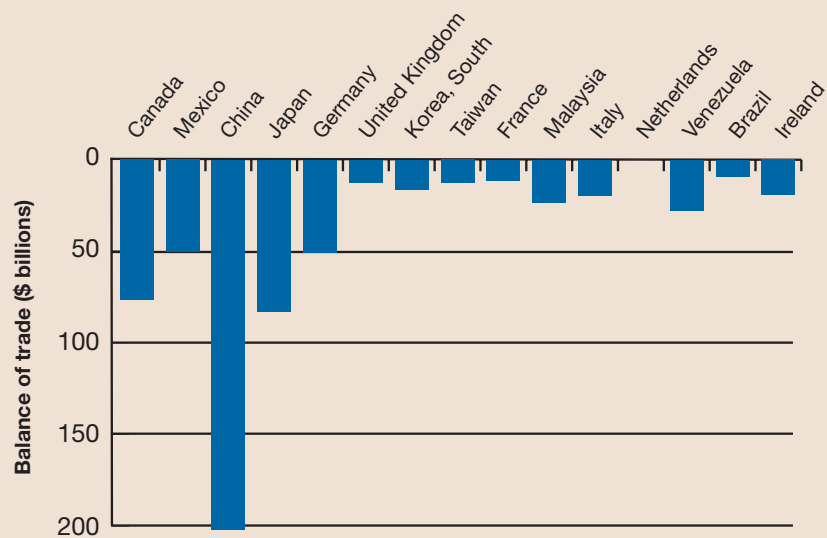
A recent issue of *Business Week* shows the evidence of the beginning of resource issues in China and India — skilled labor shortages, rising wages, price inflation, and employee turnover. According to this *Business Week* article, the average annual pay for manual labor has risen by about 9 percent to 12 percent from 2004 to 2005, depending on the province. Employee turnover at Indian call centers hovers around a lofty 45 percent to 50 percent year on year, and training cannot keep up with this churn.

Imports from China are not more costly yet, but when they do become more expensive, you can be sure that countries importing from China are going to face a big decision about whether to come back to known ground such as Latin America, where prices have actually remained rather stable, considering all the political changes and currency devaluations. We have already begun to hear war stories of companies going to China and India to source, but returning

Table 5

Balance of trade with U.S.

(Exports-Imports)



Source: U.S. Census Bureau 2005.

to their original sourcing bases in Mexico and Brazil for greater control, but more for avoiding additional effort and cost required to manage a long-distance supply chain.

2006 economic outlook

Latin Business Chronicle magazine cites in their *Latin Economic Outlook 2006* that "Latin America's inflation will fall to its lowest rate in more than 25 years, with Panama posting the smallest change in prices and Venezuela the highest prices.

Latin America is also set to reach its fourth consecutive year of economic growth. Chile will grow most, El Salvador the least. Factors expected to stimulate trade in Latin America include record low inflation of 5.4 percent on average, and economic growth of about 3.8 percent (higher than the IMF projection of 3.3 percent), relative political stability, and rising margins for exports (copper for Chile; oil for Venezuela; agricultural products for Brazil, Argentina and Peru; coffee for Colombia and Costa Rica). Export markets such as China, the United States and Europe are expected to keep growing, fueling such optimism for Latin America.

Fiscal jitters

Argentina and Brazil both recently paid off their respective debts to the International Monetary Fund (IMF). Brazil, under President Silveira, has maintained the sound financial policies set down in the previous Cardoso administration. However, there is a concern over the increase in government spending with the approaching general elections. The hope is that fiscal prudence will prevail. There is a growing indication that the Kirchner administration could be pointing

Argentina in the direction of another round of inflation through reckless spending.

The foreign investors that are needed to sustain Argentina's economic growth are still cautious, having seen the effect of the country's 2001 sovereign default. Inflation has doubled in one year: from 4.9 percent in 2004 to 9.6 percent in 2005. *La Nación* puts that in perspective by reminding us that in the 1980s prices in Argentina increased 3.3 million times. These nightmares linger in the minds of many local and foreign investors alike.

Uncertainties in South America's politics

One of several countries at the crossroads is Peru.

Writing in the March 23 *Miami Herald*, Andres Oppenheimer notes: "What's happening in Peru is puzzling political analysts around the hemisphere: The economy is booming, private investment has nearly tripled over the past three years, and exports have soared from \$9 billion in 2003 to \$16 billion last year, inflation is low, poverty is going down, and yet a populist candidate who vows to wipe out the country's economic policies is leading in the polls for the April 9 presidential election. Nationalist leftist presidential candidate Ollanta Humala, a former military officer ... is close to Venezuelan President Hugo Chávez ..."

Actually Humala came out ahead in the election and now faces a runoff in May.

There are several key general elections this year in Latin America, including Brazil and Mexico. Earlier this year, Evo Morales,

representing the large, poorer, indigenous population, won a decisive mandate in the Bolivian elections.

Foreign investors become paranoid when they hear talk of expropriation of their properties, with minimal compensation, or simply higher taxes imposed on their local earnings.

Framework for international investment, dispute resolution

Privatization of public industries and utilities was popular in South America in the late 1990s. The Argentine government embraced this approach as a way to stop the continual hemorrhage of state funds to prop up railways, the flag airline and several utilities. Many were burdened by years of neglect and inadequate maintenance, repair and overhaul work on the facilities. Spanish and other European companies were big investors.

When the Argentine economy crashed in late 2001, and the country declared sovereign default the local currency was unpegged from the U.S. dollar and immediately lost two-thirds of its value. When the utilities tried to raise rates to cover their costs the government refused. Rates were frozen and continue frozen, for the most part, to this day.

The countries in South America must enact laws and statutes that protect both parties. The rule of law must be upheld by the local courts. This is a tall order in an environment where the law is repeatedly bent in favor of the local government and loosely interpreted by the "official in charge at the gate." Foreign investment in Latin America will not be forthcoming in the volume needed without adequate and sustainable legal safeguards.

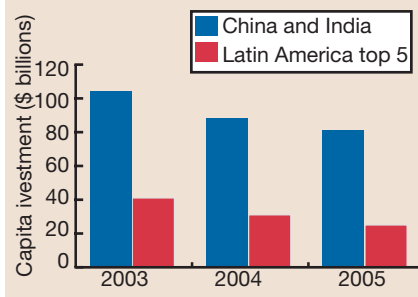
FTAA: Our way or no way?

The Free Trade Area of the Americas, launched in 1994, was conceptually correct. It could have provided the framework for economic development in Latin America and opened markets in both northern and southern continents. However, there is a strong history of mistrust of the true intentions of the United States. Cozying up to countries outside the hemisphere is frowned upon.

In the past few years there has been double-digit growth in export trade from Brazil and Argentina to China. An article in the April 11, 2006 Argentine daily *La Nación*, titled "Chinese Danger in Latin America," raises the perennial question of the United States' ambivalent feelings towards Latin America. The result is usually a local backlash of suspicion and a reinforcement of the need to protect national sovereignty.

The article voiced strong concern that the

Table 6
Capital investments
(\$ billions)



Source: LOCO Monitor Investment Consulting 2006.

scheduled visit to Beijing by an undersecretary for Latin American affairs from the U.S. State Department in mid-April might be used as an opportunity for the United States to tell the Chinese to back off. He claimed the U.S. official would be informing the Chinese not to "undermine the democratic consensus in Latin America." Such U.S. intervention would not be viewed positively in Latin America.

FTAA with a big stick will not fly. This is why the United States has reverted to signing bilateral trade agreements on a country-by-country basis. Slowly, over time a cobweb network of free trade agreements will link all countries in the hemisphere. Not all will choose to link with the United States. For this to work, U.S. negotiators must understand that reciprocity has got to mean win-win.

FDI perspective

Many articles and publications simply look at Foreign Direct Investment (FDI) as a whole, and use it as the yardstick when comparing countries' economic progress and future potential. We recognize that for the purposes of LSPs, this can be immensely misleading since some of the factors are irrelevant for LSP's decisions. FDI traditionally includes five components:

- Greenfield investment (a new operation).
- Brownfield investment (expansions or reinvestment in existing foreign affiliates or sites).
- Mergers and acquisitions.
- Privatization and equity investment.
- New forms of investment (joint ventures, strategic alliances, licensing and other partnership agreements).

Official data includes many hidden factors and caveats, which seem like there is a significant investment going into a country, whereas the real value being created in the country is through basically greenfield and brownfield operations, expanding manu-

facturing or distribution functions, extraction operations, or building new physical facilities. These are the key elements which impact LSPs, as opposed to privatization plans, mergers and acquisition activity, or other pure investment-related activities with no tangible physical manifestation. In practical terms, a company has to be establishing or expanding a manufacturing plant, service function, logistics function, extraction operations, or building a new physical construction to be included as an FDI project in our data source, LOCO Monitor.

When we look at these important and relevant components of FDI in the India and China block as compared to Latin America, we see an interesting trend. As you see in Table 6, the three-year trend for FDI for India and China is reducing at a much faster rate than Latin America.

Projecting forward, we could perhaps witness equalization in foreign direct investment into these blocks of countries. This could mean that the capital markets could open up based on merit, reducing the bandwagon effect of spending and investing in China and India. For LSPs this could mean that their clients (large enterprises) could be much freer to invest in places that were off-limits in the past, and thereby reconfigure their global supply chains.

Foreign investors return but seek guarantees

Another article in *La Nación* on April 13 reviews 2005 FDI in Latin America compiled by the Economic Commission for Latin America (ECLA), part of the United Nations. In 2005 the top four recipient countries in Latin America were:

1. Mexico: \$17.81 billion.
2. Brazil: \$15.19 billion.
3. Chile: \$7.21 billion.
4. Argentina: \$4.7 billion.

However, in a broader perspective, foreign investments in South America totaled \$38.1 billion, a 1.1 percent drop from 2004. ECLA Secretary General José Luis Machinea commented favorably on Latin America's economies and increasingly stable governments. However, he also noted the lack of consensus in the region over the reforms needed to maintain economic growth. In particular, he notes the need for a tax policy that provides greater guarantees to long-term investors.

Internal commitments, external understanding

Chileans learned early on that commitments honored in international trade usually lead to repeat sales. This applies to copper

concentrate as well as wine and fresh fruit sales overseas.

This is not a lesson that is uniformly understood in the rest of the continent. Delays in shipping due to any number of factors, from local unrest to strikes, are not acceptable and provoke overseas purchasing agents to source elsewhere in the world. Lack of consistent quality is another hot button for overseas buyers.

In many cases it pays for the buyer to travel to the country in which product is sourced and spend time with management and operators to explain the need for on-time delivery and consistent quality. Understanding the local culture and work ethic can go a long way to resolving issues before they affect the relationship between buyer and seller.

Combination effect

Another important factor to consider is the interaction between the China-India block and Latin America. With increasing frequency, China is looking towards Latin America as a source of raw materials. According to *InfoAmericas Tendencias* newsletter, there has been an 18 percent surge in exports from Latin America to China in the last few years. Though part of this gain has been due to an increase in commodity prices, there has also been a good gain from an underlying volume growth perspective. Materials such as cement, steel, oil, iron ore, copper, tin, soybeans and other commodities are increasingly being exported from Latin America to China. A recent *InfoAmericas Tendencias* report cites that today, China's top five import markets are Brazil, Chile, Argentina, Mexico and Peru.

China is also going forward with making acquisitions for commodity producers and making big investments in local providers, with a hope of securing their future requirements through cheap investments today. China is also helping Latin American countries build much-needed infrastructure so as to reduce their own cost and logistics lead

time when shipping materials to China.

Another important phenomenon has been the availability of low-interest loans from Chinese investment funds to stimulate local development.

This type of combinatorial effect could be confusing for LSPs to understand where to invest and what to look forward to in the future years.

Potential role for global LSPs

Global LSPs could assist the region to develop trade links in new markets (an opportunity to leverage a global presence that many 3PLs have neglected). Most of these larger organizations have offices in many parts of the world and live off international trade. Who, then, is in a better position to facilitate trade?

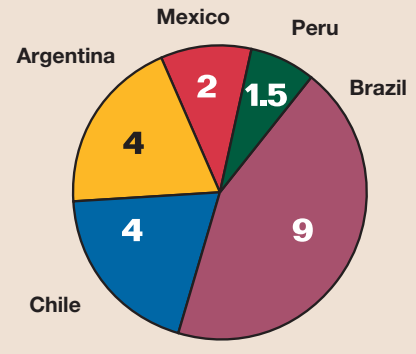
LSPs can make other valuable contributions to trade throughout Latin America by assisting importers and exporters to navigate through the maze of ever-changing local and regional regulations. They could also divert cargo from the port that was shut down by the disaster of the hour, natural and/or man made. They could make a quick decision to call and recommend to both the importer and exporter that they prepare a standby air freight shipment to cover an ocean container shipment that is detained and impounded at a port for no good reason.

Can South American countries be reliable sources?

The answer is "yes, they could be." Brazil leads the continent in its ability to provide the right product at the right price with consistent quality, service and delivery. Chile has shown that it too can work within world-class parameters. There is no reason why countries such as Argentina, Peru, Colombia and Venezuela, for a start, should not be able to adopt a "smart business" mindset and become reliable sources for so many of the commodities produced in China, in particular, and India, to a lesser extent.

Table 7

2005 Latin America exports to China (\$ billions)



Source: U.S. Census Bureau.

There is a great push in South America to develop and support small and medium-size businesses, known locally as "PYME." Some of these businesses are already engaged in trade with the United States and the European Union. Perhaps they could lead the way, while the larger businesses ramp up for large-scale production. Given the will to change and create a new country "business model" could bring the prosperity that has eluded much of South America for years.

Changes are needed. Latin America must fight the stigma of "been-there-done-that-didn't-work" attitude of many U.S. and EU companies. They must tout themselves as trade friendly as Ireland, Panama and other countries are doing. There must also be a significant reduction in bureaucracy and red tape in the business channels, and of course, corruption.

Proximity, history and relationship are very strong levers that Latin America can pull with the United States and the European Union; levers that India and China are new to. Though India and China show excellent growth numbers, there are also signs of rapid aging and progression, which will no doubt create cost inefficiencies on a major scale.

The logistics infrastructure in China and India is not advanced; in fact, quite the opposite. These countries need a serious injection of capital to improve the infrastructure. On the other hand, Latin America is already quite developed in many parts, and can absorb extra trade volume if it were to go that way. We believe India and China are forces that Latin America must reckon with, and there will for a while remain an individualistic formula for what works for each company. There is no golden rule whether to choose one or the other as a lower total-cost sourcing base, but different equations make for profit for different companies. ■



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