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FEATURED Q&A

Will Latin America Take Advantage of Nearshoring Trends?

Supply chain bottlenecks have kept some goods from getting to market amid the Covid-19 pandemic. Container ships at the Port of Los Angeles are pictured. // File Photo: Port of Los Angeles.

Q Higher demand for consumer products, shortages of port workers and truck drivers and other problems have resulted in more than 500 container ships stuck outside ports around the world, the Financial Times reported in mid-October, citing freight forwarder Kuehne+Nagel. That number has reportedly doubled since the beginning of the year. How have the disruptions in getting goods to market affected Latin America and businesses based in the region? To what extent are these bottlenecks likely to ease—or worsen—in the coming year? How have such disruptions increased companies' focus on where their manufacturing facilities are located? How likely are companies to shift production to Latin America and the Caribbean as a result, and which of the region's countries are best positioned to take advantage of the situation?

A José Antonio Muñoz, Central America chairman and managing partner at Dentons Muñoz and member of the Dentons Task Force on RightShoring: "Awareness that global crises happen, as evidenced by Covid-19, has caused world leaders to rethink supply and movement of goods and services. Multiple factors—from ESG to logistics, from inventory management to shifting patterns of consumption and increased demand for computer chips, from trade friction to dwindling stocks of medical supplies—have heightened scrutiny of global supply chains. When 80 percent of the world's goods are carried by sea on megaships, which berth on megaports, from which hubs, smaller vessels, trucks and trains spoke out, any glitch will multiply geometrically. Containers held at sea mean no empty containers to load

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Four Nations in Latin America to Join Marine Reserves

Panama, Ecuador, Colombia and Costa Rica announced that they would join their marine reserves in the Pacific Ocean into one interconnected protected area that would be free from fishing.

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Chile's Fintual Raises $39 Mn in Funding Round

Chilean financial technology start-up Fintual said it had raised $39 million in a funding round=. The fintech plans to strengthen its operations in Mexico.

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Colombian Drug Kingpin Pleads Guilty in U.S.

Colombian drug lord Daniel Rendón Herrera, also known as "Don Mario," pleaded guilty in U.S. federal court in Brooklyn to trafficking more than 73,000 kilograms of cocaine.

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Rendón Herrera // File Photo: Colombian National Police.

POLITICAL NEWS

Colombian Drug Kingpin Pleads Guilty to Charges in U.S.

Colombian drug lord Daniel Rendón Herrera on Tuesday pleaded guilty to drug trafficking charges in U.S. federal court in New York, the U.S. Department of Justice announced in a statement. Rendón Herrera, also known as "Don Mario," acknowledged trafficking more than 73,000 kilograms of cocaine, according to the Justice Department. The plea Rendón Herrera entered before U.S. District Judge Dora L. Irizarry in Brooklyn stemmed from his role since the late 1990s in the Autodefensas Unidas de Colombia, or AUC, paramilitary and drug trafficking group, which the United States designated in 2001 as a foreign terrorist organization. Rendón Herrera also was a founder and leader of the Los Urabeños Drug Trafficking Organization, which was a successor to the AUC, the Justice Department said. "With today's guilty plea, Rendón Herrera, who was once the most feared narco-terrorist in Colombia, admitted to leading one of the world's largest and most violent drug cartels and flooding the streets of America with cocaine," Breon Peace, U.S. attorney for the Eastern District of New York, said in a statement. "Rendón Herrera also admitted to providing material support to a designated terrorist organization that brutally killed, kidnapped and tortured rival drug traffickers and civilians." When sentenced, Rendón Herrera faces a mandatory minimum of 20 years in prison and as long as a life sentence, the Justice Department said. He also faces forfeiture of $45 million and a fine of as much as $2.25 million. The U.S. Treasury's Department of Foreign Assets Control, or OFAC, designated Rendón Herrera a "specially designated narcotics trafficker" in 2009 under the Foreign Narcotics Kingpin Designation Act. He is also wanted in Colombia in connection with several homicides and cases of drug and weapons trafficking, which "remain pending his service of his sentence in the United States," the Justice Department said.

ECONOMIC NEWS

Four Latin American Countries to Join Marine Reserves

Four Latin American countries on Tuesday announced the creation of a new initiative that will join their marine reserves in the Pacific Ocean into one interconnected protected area, The Guardian reported. Through the Eastern Tropical Pacific Marine Corridor (CMAR) initiative, Panama, Ecuador, Colombia and Costa Rica will join their protected territorial waters to create a vast area of more than 500,000 square kilometers (200,000 square miles) that would be free from fishing. The countries' marine reserves in the area together make one of the world's most important migratory routes for sea turtles, whales, sharks and rays. The move comes amid growing pressure to protect rare marine species and commercial fishing populations against foreign fishing fleets that hurt the region's marine biodiversity, as well as to thwart illegal, underreported and unregulated fishing by local communities, The Guardian reported. A day before the CMAR announcement, Ecuadorean President Guillermo Lasso announced the country would be expanding its marine reserve surrounding the Galapagos Islands by some 60,000 square kilometers, in addition to seeking a conservation debt swap to finance it, Reuters reported. Lasso made the announcement from Glasgow, where world leaders have convened this week for the U.N. COP26 climate conference.

BUSINESS NEWS

Chile's Fintual Raises $39 Million in Round Led by Sequoia

Chilean financial technology start-up Fintual, an asset manager, has raised $39 million in a funding round led by Sequoia Capital,

NEWS BRIEFS

E.U. Foreign Policy Chief Slams Nicaragua's Ortega for 'Fake' Election

Josep Borrell, the European Union's foreign policy chief, on Tuesday slammed Nicaraguan President Daniel Ortega as a "dictator," saying he was staging a "fake" election this Sunday, Agence France-Presse reported. Ortega's government has arrested 40 opposition figures, including seven potential presidential candidates, over the past six months. "We cannot expect that this process will yield a result we can consider legitimate," Borrell said during a visit to Peru, the first stop of his Latin America trip. He is set to travel to Brazil today.

Peru's Interior Minister Resigns Following Reports of Party at Home

Peruvian Interior Minister Luis Barranzuela resigned on Tuesday following reports that he had thrown a Halloween party at his home, in violation of strict Covid-19 rules, Agence France-Presse reported. Peru has been one of the world's hardest-hit countries by the novel coronavirus, with the highest death rate per capita, according to AFP's tally of official data. Following strong criticism, Barranzuela said the gathering was of a professional nature, adding that he was the victim of "false accusations." It is unclear who will replace him as interior minister.

Puerto Rico Authorities Arrest 800 Suspects in 45-Day Anti-Crime Operation

Authorities in Puerto Rico announced Tuesday that they had arrested 800 suspects and solved 43 murders as part of a 45-day operation targeting criminals across the island, the Associated Press reported. Police officers also seized more than 170 weapons and about 320 pounds of cocaine, said Police Commissioner Antonio López Figueroa.

Bloomberg News reported Tuesday. The fintech plans to use the capital to help bolster its operations in Mexico. "Our challenge for the next 18 months is Mexico, Mexico, Mexico," said Fintual's chief executive officer, Pedro Pineda. "Chile is our main market right now, and our plan is for Mexico to become our main market within the next one or two years," said Pineda, Bloomberg News reported. Fintual was founded in 2018 and offers investment and savings products through an online platform, the news service reported. Pineda said it is the first financial services company in Chile and Mexico to allow new customers to establish accounts completely online without the need to sign any papers. The fintech currently manages $655 million in assets for more than 70,000 clients, through exchange traded funds and other passive investments. Fintual is expected to reach $1 billion in assets under management over the coming four months in Chile and Mexico, and some $2 billion by the end of next year, Pineda told Bloomberg News. As of the end of September, mutual funds in Chile had approximately $60 billion in assets under management, according to the country's financial regulator. Fintual started operations last year in Mexico. In July of this year, it acquired Mexico-based fund distributor Invermerica for an undisclosed amount. Mexico's equity markets have faced challenges because of a lack of liquidity and a low number of retail investors, Vidal Lavin, head of fundamental active equities for Mexico at BlackRock, told the Dialogue's Financial Services Advisor in a **Q&A** published this week. "Additionally, some important sectors in the Mexican economy such as financials, automotive, pharmaceuticals and energy are not represented," said Lavin. Fintual's latest funding round was the first in which Sequoia Capital invested in a Chile-based company, Bloomberg News reported. It has invested in other Latin America-based start-ups, however, including lender Nubank and delivery service Rappi. Fintual secured approximately $15 million earlier this year in a Series A funding round led by Kaszek Ventures. [Editor's note: See the Advisor's recent **interview** with Karim Lesina, chief external affairs officer at Millicom, on how technology is contributing to economic recovery in Latin America and the Caribbean.]

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produce onto. To higher costs of transport because of these inefficiencies, the pandemic has added increased fuel costs as well as the risk premium of violence and the possibility of armed conflict. Thus, bringing factories and production of both finished goods and their components closer to the buyers is a practical and political way to deal with future crises. In the Americas, reshoring to the continental United States and Canada is already happening, and nearshoring to neighboring countries with the right talent, legal system and infrastructure is steadily following suit. Mexico, Costa Rica, Panama, Colombia, Ecuador and Uruguay have made the shortlist of Latin American nations with current potential to host nearshoring investment. Other countries in the region, bar none, can of course prepare themselves to do the same. The Inter-American Development Bank has and will play a definitive role in helping countries get ready for this transformative event."

A **Tara Hariharan, managing director of global macro research at NWI Management LP:** "Global supply chain bottlenecks are not just pandemic-driven but also due to contingencies such as China's Covid lockdowns and power supply constraints, as well as semiconductor shortages, particularly of automotive chips. Shipping containers and global labor are in scarce supply, increasing costs and delays. The automotive chip shortage has dented Mexican and Brazilian vehicle production, and droughts in Brazil and Paraguay have curbed regional power supplies as well. Several bottlenecks are easing somewhat: China aims to secure its power supply, the United States is addressing the backlog at ports in California, and Chinese shipping costs are moderating as the country's manufacturing activity slows. However, we may not see global trade normalize until well into 2022, when hopefully there will be fewer Covid outbreaks, more semiconductor supply and a rebalancing in consumer demand away from goods and toward services. Continued trade disruptions emphasize the need for increased nearshoring of U.S. supply chains to Latin America, and worsening U.S.-China tensions should

> **"Shipping containers and global labor are in scarce supply..."**
> **— Tara Hariharan**

also favor Latin America as the superpowers partly decouple. However, U.S. companies hesitate to move supply chains out of China given its continued dominance in economies of scale and its efficient, proximate Asian supplier ecosystem. In order to compete, Latin America must demonstrate reforms to boost infrastructure and skilled education, and also improve regional trade integration. Latin America could capture more of the low-middle end of the industrial value chain with its affordable labor pool, and Colombia, Mexico, Chile, Panama and Costa Rica notably stand to benefit given their close trade ties with the United States and well-entrenched manufacturing infrastructure."

A **Manuel Montoya Ortega, managing director of the Automotive Cluster of Nuevo León:** "Starting with the Covid-19 crisis, the automotive industry stopped production for almost two months. The recovery in North America had been very rapid, but we had not been able to replenish inventories due to shortages of materials, mainly microchips, but also specialty steels and polymers. We had been very dependent on supplies coming from Asia, so we changed to suppliers based in North America as much as possible. This problem scaled up with the shortages of containers at the ports, with logistics costs sometimes going up five or six times the original costs.

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There are no options. If you want your raw materials to be shipped to the Americas, you must pay first, whatever the price, otherwise you will not be able to have it on time at your factory. Someone is making a lot of money with a problem that sometimes looks invented. We were already looking for a trend to bring back to the Americas the manufacturing of products and components that we consume in North America. Many of these investments are coming to Mexico, for its competitiveness in costs, experience and the availability of a young and prepared work force. Suppliers in Mexico and in the United States are replacing many Asian and European suppliers due to the new USMCA rules of origin. The logistics crisis that we are facing is speeding up the regionalization of many industries, especially the automotive sector."

A **Magda Theodate, attorney and director of Global Executive Trade Consulting Ltd.:** "The supply chain crisis in getting goods to market because of various global shocks linked to Covid have driven up prices and slowed global economic recovery. While demand is up, supply is down because of bottlenecks between production bases and distribution to consumers. Latin American and Caribbean countries that don't have industrial foundations must bear the cost of waiting for production and transport disruptions to self-correct. The bottlenecks are not likely to ease until perhaps the middle of next year. According to UNCTAD, more than 70 percent of global trade relies on sea transport. If ships are not unloaded and goods delivered to retailers and consumers, then containers can't go back to the source to pick up and transport more goods. Quick fix alternatives are few. Air freight, for example, is prohibitively expensive. Although there's a strong regional dimension in supply chains, they are also sector-dependent. Information and communications technology, for example, is concentrated in Asia, while agricultural commodities are more concentrated in Latin America, and specialized services supply chains such as small medical devices and call centers tend to be in the Caribbean and Central America. Countries that have heavily relied on global supply chains will not suddenly develop the capacity to have a reshoring of supply chains. There are costs to doing so, either in labor, infrastructure or know-how, not to mention the legal constraints of trade agreements that oblige countries to buy and sell certain commodities and services from specific countries. There is room for companies to reshore, but it will take time and likely be in certain sectors in which some nations have already demonstrated expertise, not across the supply chain. Brazil, Chile, Colombia, Costa Rica and Uruguay have strong trading relationships globally and have seen tremendous growth in foreign direct investment over the last five years, so they are likely best positioned to take advantage of the nearshoring of goods. I suspect by the time next year's Summit of the Americas comes around, there will be many more deals for services nearshoring in the Caribbean and Central America."

> **"The bottlenecks are not likely to ease until perhaps the middle of next year."**
> **— Magda Theodate**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

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1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org

