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Latin America: A Year of Recovery Ahead

Latin American firms like Odebrecht (Brazil), and Grupo Bimbo (Mexico) will be in the vanguard of global FDI in 2011.

BY JERRY HAAR

While economists may forecast and governments legislate and mandate, it is producers, consumers, and investors who will determine whether 2011 will be a good year for Latin America---or even a great year.

Influencing their behavior will be a number of forces and factors that will shape the international business environment this year, apart from political and security issues. These include:

- 1. A slow moving roller coaster: the global recovery.** Most nations will fare better in 2011 with clear differences in the pace of recuperation. Emerging economies such as those in Asia will do well; western nations, not so. Disparities will occur within regions, as well. Japan projects a GDP of 2 percent, Vietnam 6.5 percent. Peru, 6 percent, Venezuela 2 percent. Retarding global economic recovery are constraints on bank capital for lending, tightened conditions for borrowers, and government deficits and debt build-up in rich countries. The sadly anemic U.S. economy will limp along and improve modestly in 2011, with GDP of 3 percent and joblessness numbers hardly improving.
- 2. Everybody's locomotive: emerging markets.** Emerging economies cushioned the blow to global markets in 2009 and are expected to grow at 6.4 percent in 2011, versus 4.4 percent for the world. Unlike the U.S. and several European nations, they adhered to prudent banking policies, sound regulatory enforcement of financial institutions, and refrained from wide speculation in real estate. Not only were they a magnet for portfolio investment but foreign direct investment (FDI) as well, accounting for more than half of the \$1.12 trillion in 2010. Latin America and the Caribbean booked \$141 billion of this amount, with cross-border M&As accounting for most of it. Often overlooked, however, is the *outward* FDI of emerging markets---half a trillion dollars in recent years. Outward FDI has been concentrated in natural resources, consumer goods, and infrastructure projects. Firms such as Huawei (China), Odebrecht (Brazil), and Grupo Bimbo (Mexico) will be in the vanguard of global FDI in 2011, and emerging markets in general will see an increase in both internal and external demand for goods, services, and agriculture.
- 3. The new consumerism: growing numbers, increased spending.** A small majority of the region's population is now middle class, including 52 percent in Brazil, 50 percent in Chile and Mexico, and 56 percent in Uruguay. Latin America's middle class, comprising the traditional middle class and the newer, fastest growing lower middle class, have fueled a consumer-led recovery in the region, producing far greater results than governmental fiscal stimulus programs. Their growing access to credit---mainly via credit cards, a low inflation environment, and the growing number of small, entrepreneurial firms that have been spawned in this pro-growth environment (especially service companies), mean that for this year and the foreseeable future the region will experience growth, opportunity, greater equality and less poverty.
- 4. The unstoppable dragon: China.** China's relentless quest for natural resources

and commodities will continue as the nation seeks to broaden and deepen its trade and investment ties with Latin America and Africa, in particular. This objective along with the need to integrate supply chains explain China's acquisitions of \$17 billion in 2010, a fourfold increase from 2003-2009. Sinopec's \$7.1 billion investment in Repsol's Brazilian unit is illustrative. On the trade side, China continues to take business from Latin America in auto parts, wine, apparel, electronics, toys, and furniture, to list a few examples. Despite NAFTA, DR-CAFTA and intra-regional trade accords, China's exports to the Americas continue to dominate. (In 2000, Chinese and Mexican manufacturers each accounted for roughly 6 percent of the computer assembly market. A decade later, Mexico's share dropped by one-half while China's surged to 48 percent.)

Despite the specter of global inflationary tendencies and sluggishness in the U.S. economy, 2011 marks improvement. For Latin America while overall GDP will slip from 5.6 percent to 4.1 percent, a number of countries such as Brazil, Chile, Uruguay, Peru, Colombia, and Panama will fare very well. Mexico and the Caribbean Basin will struggle with lackluster U.S. demand for their exports, while Venezuela, Nicaragua, Ecuador and Bolivia will perform poorly due to their governance and economic policies.

The first six weeks of 2011 has gotten off to a good start, unless one happens to be a long-serving dictator of a North African nation. The outcome of the protests in North Africa and in the Middle East is anyone's guess; however, business goes on, and 2011 will be for the most part a better year than 2010.

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