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Latin America 2010: A Return to Boom Times?

Helped by growing exports and local demand, Latin America is poised for a solid recovery in 2010.

BY JERRY HAAR

2009 was not a good year for Latin America—but it was a lot better than most other regions, namely, North America, Europe, Africa, and some parts of Asia.

Although GDP shrunk 2.6 percent, Latin America fortuitously was cushioned from the harshest blows of the global economic recession thanks to responsible macroeconomic policies. Unlike previous downturns, this time around many countries in the region entered the crisis in a position of relative strength, with large stocks of foreign exchanges reserves, flexible exchange rate regimes, low inflation, and healthy banks.

It is not surprising, therefore, that *Latin America is poised for a solid recovery in 2010*, with an expected growth rate of over 4 percent.

The principal drivers of Latin America's improved economic growth will be recovery in the world economy and the increased demand for the region's exports—especially commodities—as well as a boost in consumer spending in domestic markets.

Signs of confidence in the region are plentiful, with foreign direct investment as a good barometer. Ford intends to invest $2.3 billion in Brazil while Infosys, India's second largest software producer, plans to set up a wholly owned subsidiary. Wal-Mart aims to re-launch its banking operations in Mexico, and Wendy's/Arby's is firmly committed to expand throughout Latin America.

Three other indicators of bright prospects for Latin America merit attention:

"Bottom of the Pyramid" consumers.
Numbering over 400 million, with income of nearly $600 million, the fast-growing segment of lower-income consumers display buying behavior that is aspirational and brand-oriented (quality counts more than price). A low inflation environment and remittance flows from abroad help fuel their consumption. Retailers such as Elektra in Mexico its affiliate Banco Azteca, cater to this class segment—a group that is often unbanked and ripe for consumer finance services.

Asian Trade and Investment.
China's insatiable appetite for commodities and markets has catapulted that nation to priority status for the region. Trade has grown 40 percent since 2003, reaching over $150 billion with Chinese investment at $24 billion. Argentina, Brazil and Venezuela are key investment locales. India, too, has expanded its ties to the region, with $16 billion in import-export trade growing by 50 percent. Trade and foreign direct investment have been concentrated in IT, pharmaceuticals and energy.

Mergers and Acquisitions.
Coming off a 29 percent decline in M&A transactions in 2009, the Americas region will see a large pick-up in activity in 2010. Over-leveraged and undervalued Latin American domestic firms will be gobbled up by multinationals and large local companies that have been accumulating cash, many through shedding non-core businesses. Mergers and

strategic alliances will proliferate, as a number of targeted firms consolidate to avoid a takeover. Private capital inflows are expected to increase to $150 billion—more than pre-crisis levels Private equity firm such as BroadSpan Capital, Stephens Cori, and Athelera are positioned to expand activities in the region, while companies such as CVOX Group intend to foster China-Latin America deal-making. According to *Latin Business Chronicle*, more than half of the top 25 acquisitions —both acquirors and targets—were Brazilian; and this is expected to continue.

While 2010 will be one of recovery for Latin America, the impacts will be uneven and intractable problems, beyond politics and society, will remain. In this scenario, pro-market democracies such as Chile, Colombia, Panama, Peru, Costa Rica, Brazil, and Mexico will see their fortunes improve. The statist economies of Venezuela, Ecuador, Bolivia, and Nicaragua will not. (Were it not for wheat and soybean exports, Argentina would barely improve.)

Disparities will also occur *within* countries, as demand for commodities, particularly from Asia, boosts prices and currency values in Brazil, Argentina, and Peru while harming those countries' manufacturing sectors, such as auto parts, wine, and apparel, respectively.

Finally, the enduring state of the business environment will retard the region's ability to maximize the benefits of recovery. The World Bank's *Doing Business 2010* ranks Latin America 95th overall for the ease of doing business compared to 183 other countries. Deficiencies in taxation, regulations, workforce, public safety, credit access, infrastructure, and the administration of justice continue to impede the region's competitiveness.

In a survey of 900 business leaders by the American Association of Chambers of Commerce of Latin America, more than half indicated they are optimistic about the region, and two-thirds clearly expect a solid recovery next year. If the U.S., European, and Latin American governments can take actions to expedite recovery, further liberalize markets, and stimulate growth, then 2010 could be a banner year for the Americas.

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