BUSINESS IN
EMERGING LATIN AMERICA

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ROUTLEDGE

Business in Emerging Latin America

Business in Emerging Latin America provides students with a comprehensive overview of the business environment of this emerging, dynamic region.

Driven by expanding domestic markets and exports of natural resource commodities, Latin America has recently come into focus as an economic force in the international arena. The book begins at the macro level, focusing on the region's geopolitical, technological, social, competitive, and economic environments. It then moves to the micro level, illustrating that Latin America is a mosaic of countries with distinct cultures and political economies. This book aims to:

- Provide a comprehensive overview of the business environment in this region
- Identify major drivers of emerging market expansion
- Analyze the strategies of companies both within and outside of the region

The book includes examples and cases from across the region, as well as chapters on entrepreneurship, leadership, HRM, sustainability, income inequality, social responsibility, and transparency. Capturing the dynamism of this region, the book will appeal to students of international business who have a special interest in Latin America.

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Routledge
Taylor & Francis Group
NEW YORK AND LONDON

First published 2015
by Routledge
711 Third Avenue, New York, NY 10017

and by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Routledge is an imprint of the Taylor & Francis Group, an informa business

Library of Congress Cataloging-in-Publication Data
Robles, Fernando.
Business in emerging latin america / Fernando Robles, Nila Wiese, Gladys Torres-Baumgarten.
pages cm
Includes bibliographical references and index.
1. Business enterprises—Latin America. 2. Latin America—Economic conditions—21st century. 3. Economic development—Latin America. 4. Latin America—Commerce. I. Wiese, Nila. II. Torres-Baumgarten, Gladys. III. Title.
HF3230.5.Z5R627 2014
338.7098—dc23 2014000121

ISBN: 978-0-415-85906-6 (hbk)
ISBN: 978-0-415-85907-3 (pbk)
ISBN: 978-0-203-79794-5 (ebk)

Typeset in Minion
by Apex CoVantage, LLC

To Carol and Natalie for their quest for clarity of my ideas.

F.R.

To Ryan, Marisa, and Max, I missed you during all those weekends away.

N.W.

To Larry, Andrea, Derek, Jen, and Diana for all their support.

G.T-B.

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Contents

Introduction

A book about the business environment in Latin America and the Caribbean is long overdue. After a long period of relative macroeconomic stability and sound economic growth, the region is enjoying prosperity, optimism, and progress. The main purpose of this book is to document this evolution and to provide a foundation to study business conditions and how firms react to the opportunities and challenges that this region offers.

To accomplish this purpose, we look first at the external factors affecting the region, focusing on the macroeconomic, competitive, and consumer environments. With this foundation in the key environmental factors, we explore in the second part of the book the business strategies and corporate culture of the region. The last part addresses future challenges and provides a glimpse of the future of business in Latin America.

Chapter 1 "sets the stage" for the book by reviewing Latin America's importance in the world economy. The recent economic history of the region is reviewed, as are the new trade and investment linkages that developed from 2000 to the present, most notably with China. The past decade has also seen marked increases in outward foreign direct investment flows by Latin American firms into new world regions—in both developing and developed markets alike.

Chapter 2 explores the impact of globalization on Latin America and how it continues to shape a polarized region. The new global economic order of stagnation in advanced developed economies and the growth and rising affluence in emerging countries is mirrored in Latin America. The region shows strong evidence of regional economic polarization, which creates structural economic and market differences in the two regional hubs: Brazil and Mexico. Chapter 2 provides a better understanding of the extent of regional polarization across different economic sectors and its impact on the business environment and strategies of firms in Latin America.

Chapter 3 reviews Latin American competitiveness in the world economy. The competitive landscape in Latin America has evolved significantly over the past 30 years. Formerly protected markets, which were dominated by a few large family groups and state-owned enterprises, have been replaced by open markets. Although large family-controlled domestic conglomerates still play an important role, there is now a stronger presence of multinational corporations from developed and emerging economies, as well as a more vibrant small and medium-size business sector. This dynamic competitive environment will require firms to leverage the unique opportunities offered by the region's macro-environment (e.g., abundant natural resources, growing consumer markets), while managing its many risks (e.g., regulatory bureaucracies, weak infrastructure). This chapter provides a better understanding of the competitive structure in Latin America and the drivers and barriers to competitiveness for firms operating in the region.

In Chapter 4, we look at Latin American consumers. Today's Latin American consumers look very much like any other consumers in developed countries. As the Latin American consumer market has grown in size and purchasing power, it has also become increasingly segmented and sophisticated, while remaining distinctive from other markets around the world. This chapter provides an overview of the size and growth of Latin American consumer markets and their current and evolving consumption patterns. Competing for this growing and increasingly affluent market will require that firms from inside and outside the region develop a deep understanding of consumers' characteristics and expectations.

As a follow-up to our discussion of consumer markets, in chapter 5 we discuss how firms should develop propositions that meet consumer values and build brands that resonate with these values. We also discuss how firms should position their brands in the marketplace to target particular market segments and utilize media to reach these consumers. The chapter ends with a discussion of two particular channels to reach these markets: grocery retailing and fast-food franchising.

Chapter 6 provides an overview of Latin American business culture and its influence on managerial behavior. Latin America's colonial legacy has created organizational and decision-making styles characterized by the concentration of power, multilevel hierarchical structures, strong networks of relationships, and paternalistic leadership. As a result, however, of the region's insertion into a globalized world, firms have adopted efficient and effective managerial systems. Business culture in the region is not homogeneous, and substantial differences exist across different countries. In particular, we explore business culture differences between two economic clusters, led by Brazil and Mexico, respectively. A solid grounding in Latin American business culture provides the foundation to elaborate on more specific managerial topics in the following chapter.

Chapter 7 covers managerial issues in the region. Competition for talent is now a reality for firms around the world, and the ability to recruit, develop, and retain skilled employees and effective leaders can be a significant source of competittive advantage. For Latin American organizations, acquiring this capability will be essential as they pursue global positioning. For foreign firms, the challenge will be understanding that in Latin America, culture is central to managing people. This chapter describes and analyzes issues related to leadership, organizational behavior, talent management, and negotiation, focusing on the influence of cultural norms and values in the management of organizations in the region. We argue that adopting culturally appropriate practices will have a direct impact on organizational performance.

The next two chapters take a more strategic view of the region. Chapter 8 analyzes how multinationals outside the region formulate their Latin American strategies. These firms bring formidable advantages to play in the region but also suffer from the disadvantages of not being native to Latin America. The examples provided in the chapter illustrate how multinationals assess the importance of opportunities in Latin America in relation to those in other emerging markets, allocate resources to build their presence in the region, identify key country markets in which to concentrate their investments, and adapt their global strategies to local managerial styles.

In chapter 9, we look at multinationals from the region. The chapter analyzes the evolution and competitiveness of Latin America–based firms that expanded intraregionally—"multilatinas"—and a few "global latinas," or Latin America-based firms that have a strong presence in at least one other world region outside Latin America. The chapter examines the historical and economic drivers that led to their creation, as well as their present competitiveness and prospects for growth in the years to come. In the final section of the chapter, we identify the sectors in which multilatina and global latina firms tend to predominate and their home-based advantages.

Chapter 10 turns its attention to small companies and the critical role of entrepreneurs in the creation of new businesses. Entrepreneurial spirit can be found in nearly every country across the globe, yet the challenges facing entrepreneurs vary greatly across countries, including within Latin America. The chapter addresses the nuances of being an entrepreneur in Latin America by first providing an overview of attitudes toward entrepreneurship in the region. Yet, as is noted in most if not all of the chapters of this book, in order to truly understand the entrepreneurial climate in the region, individual country differences must be taken into account. We distinguish between different types of entrepreneurial ventures and describe various programs that countries have implemented to attract new business ventures within their borders, with particular emphasis placed on a program aimed at attracting technology entrepreneurs. The chapter also looks at the interests and concerns of specific groups of entrepreneurs, including local entrepreneurs, entrepreneurs from outside the region, and women entrepreneurs. A final topic is social entrepreneurship.

As the book has shown, Latin America has emerged as a growing and stable regional market. Yet, challenges remain, primarily in the areas of natural-resource management, corruption, and poverty alleviation. Chapter 11 highlights the key challenges in Latin America's business environment and identifies windows of opportunity that these challenges may represent. We first focus on the importance of natural resources to the region's competitiveness and assess current efforts by firms and governments to engage in responsible resource management. Corruption represents a significant risk to potential foreign investors and is a major deterrent to growth for all firms operating in the region. We examine governmental and managerial responses to this challenge. Finally, issues of income inequality and poverty continue to represent social and political risk, but they also represent significant opportunities. We end the chapter by focusing our attention on corporate social responsibility as a strategically viable alternative for managing and leveraging these risks.

Chapter 12 looks to the region's prospects for future growth. The region is still poised for growth; however, the strides made in growth in gross domestic product (GDP) and prosperity at the consumer and firm levels from 2000 to 2008 will likely not be seen for quite some time. This chapter discusses some of the region's highly visible firms and describes the strategies that they will likely pursue while maneuvering through a more precarious economic climate.

Acknowledgments

In closing, we would like to recognize the support provided by our own institutions for the research and preparation of this book. The access to research material through the vast resources and databases of the library collections at our institutions was critical to compiling all of the information for the diverse topics covered in this book. Special thanks go to Merrill Silver and Tami Hulbert for their research and editorial help. We also acknowledge the encouragement and support received from Routledge, particularly our editorial assistant Manjula Raman and Sharon Golan at Taylor and Francis.

Finally, we acknowledge the immense support of our families during the process of manuscript preparation and the valuable editorial assistance of Carol and Natalie Robles, Ryan Wiese, and Larry Baumgarten.

Part I

The Emerging Latin American Region

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1 The Economic Turnaround

Introduction

This chapter reviews the fundamental macroeconomic changes that Latin America has undergone since 2000 and also chronicles the new trade and political affiliations in the region. This chapter "sets the stage" for the rest of the book and also steps back to assess whether the growth experienced in the first decade of the 21st century is sustainable, an issue that will be discussed in greater detail in the last chapter of this book.

The first part of this chapter provides an overview of macroeconomic growth in the 21st century—for the region overall and for key individual countries. This section is then followed by a discussion on regional economic integration efforts and a section on the proliferation of bilateral and multilateral trade agreements between Latin American countries and other economic powers worldwide. The subsequent sections focus on the drivers of the growth that the region has experienced. The chapter closes with an assessment of the challenges that the region faces at present.

1.1 Latin America's Economic Performance from 2000 to the Present

As Latin America looks back on the first years of the 21st century, some will likely be satisfied with the progress that the region experienced over that time, while others will be quite disappointed. This underscores the significant heterogeneity in performance across individual Latin American countries during this period. From 2003 to 2008, Latin America experienced average gross domestic product (GDP) growth rates per year of about 6.6%, prompting some to refer to this prosperous time as the region's "Golden Years" (Talvi & Munyo, 2013). As pointed out, however, growth levels were uneven across Latin American countries. What accounts for this heterogeneity in performance within the region? At the 2013 conference on Latin America at the Wharton School of Business, Alberto Ramos, Goldman Sachs's head of the Latin American economic research team in the global investment division, indicated that Latin American countries can be classified into two distinct groups and that the economic performance of the countries will vary depending, in part, upon the group of which they are a part. He stated that Latin American countries are "bifurcating along two different paths, where one group is pursuing more orthodox, conventional policies and doing relatively well, while another group that is pursuing populist experiments has performance that is a little bit more complicated" (Universia Knowledge@Wharton, 2013). Chapter 2 provides additional insights on the economic polarization of the Latin American region. Countries such as Chile, Colombia, and Peru would be included in the first group, whereas countries such as Venezuela, Bolivia, and Argentina would be part of the second group. Others might fine-tune this grouping and argue that Latin American countries could be divided into three groups: first, those embracing free market ideals (such as Chile, Colombia, and Peru); second, those in which there is state-directed capitalism with a pivotal role for government in identifying and directing key industrial policies (such as Brazil); and third, the group with populist governments in which the government assumes the role of "the people's protector"—protecting the general population from the country's elite. In the countries of this latter group, the government acts as the "market," curbing inflation by setting price ceilings (or mandating price cuts) and enlisting the army or the national guard to enforce price controls with force. Venezuela under President Maduro in late 2013 is a prime example of this socioeconomic philosophy.

Table 1.1 summarizes key economic indicators for some of the Latin American countries. Data for the United States are provided as a frame of reference. Table 1.1 highlights the uneven growth dynamics across the region. Peru exhibited the highest GDP growth from 2010 to 2012, averaging 6.3% growth over that time frame. Peru was followed by Chile, Colombia and Mexico with average growth rates of 5.7%, 4.9% and 4.4%, respectively. Brazil's growth trailed somewhat, with an average GDP growth rate in that time frame equal to 3.71%;

Table 1.1 Key Economic Indicators for Pivotal Nations in Latin America, 2012

Country	*Nominal GDP ($ Billions)*	*Real GDP Per Capita ($)*	*Population (Millions)*	*Average Annual GDP Real Change (2010–2012)*	*Inflation, GDP Deflator (% Change) 2009–2013*	*Current Account Balance ($ Billions)*
U.S.	15,680.0	51,120	313.9	2.13	2.4	−440.4
Argentina	470.5	11,448	41.1	N/A	N/A	0.1
Brazil	2,253.0	11,630	198.7	3.71	5.3	−54.2
Chile	268.2	14,280	17.5	5.70	1.8	−9.5
Colombia	369.8	10,110	47.7	4.86	2.8	−11.9
Mexico	1,178.0	9,600	120.8	4.36	3.6	−11.4
Peru	197.0	5,880	30.0	6.30	1.8	−3.3
Venezuela	381.3	12,500	30.0	2.77	14.1	11.0

Source: World Bank (2012).

however, this figure is somewhat misleading; 2010 was an election year in Brazil, and during that politically sensitive year the government boosted spending and posted a 7.5% increase in GDP growth over the prior year; this was followed by 2.7% growth in 2011 and a paltry increase of 0.9% in 2012.

Another way of categorizing individual Latin American countries is by key trading partners. Mexico and the Central American countries trade more heavily with the United States than with any other major economic power. As a result, the economic performance of these countries is closely linked to US economic performance; it has been said that when the US economy catches cold, Mexico's economy sneezes. On the other hand, South American economies (such as those of Brazil and Argentina) have solidified their ties with China on trade and foreign direct investment, closely mirroring China's economic performance. The China-Latin America trade and investment relationship is explored in greater detail later in this chapter.

1.2 Latin America's Significance as a World Region

In 2013 Latin America and the Caribbean had approximately 600 million people. Latin America's total GDP in 2012 was US$5.34 trillion (World Bank, 2013b), representing 7% of total world GDP and a gross national income (GNI) per capita of US$9,000 for the region (World Bank, 2013b). Brazil is by far the largest economy. Argentina, Colombia, Chile, Mexico, Peru, and Venezuela are the next most important markets in terms of GDP contribution and per capita income. Some countries have become increasingly attractive for business (e.g., Chile, Mexico, Peru); others show signs of slow growth despite having attracted significant business attention because of their size (e.g., Brazil); others still have demonstrated an increasingly challenging business environment (e.g., Venezuela, and, and to a lesser degree, Argentina).

By 2025, the Latin American market is projected to be home to 661 million people with a GDP of US$15 trillion (Global Information, 2012). The size and growth of the Latin American economy translates into US$3.7 trillion in purchasing power for the region. Consumption per person in 2012 was US$6,360, and it is expected to reach US$11,100 by 2020 (Corpart, 2012). Latin America is a region of interest to many businesses because of its size, the long-term growth prospects, and its increasingly sophisticated consumers. The next section takes a closer look at the region's performance from 2000 to 2013.

1.3 Latin America's Progress in the 21st Century

GDP growth rates in Latin America averaged around 6.6% in the period 2003–2008; more recently GDP growth rates have paled by comparison, plummeting to about 3.7% for the region (2012–2013). The optimism that earlier growth rates generated has been tempered by the slower GDP growth of late. A greater concern is the significant heterogeneity in growth across individual countries in the region, with some countries, such as Brazil, dragging down the region's growth rates with its GDP growth of about 1% in 2012.

The regional growth seen in 2003–2008 was fueled by several factors: the rapid rise in demand for Latin America's natural and agricultural resources, along with corresponding price increases in these commodities; the growth of the middle class and parallel increases in consumption of durable goods (e.g., cars, appliances) and nondurable goods; the effectiveness of social programs that resulted in poverty alleviation, which in turn led to increased consumption and spending levels; and greater access to capital as a result of the increased investment flows in the region during that time. These factors not only contributed to GDP growth in the region but also contributed to the growth and enhanced competitiveness of many large Latin American firms.

Demand and Price for Latin America's Commodities

China experienced double-digit increases in its GDP for several years, coinciding roughly with Latin America's "Golden Years" of 2003–2008 (see in Table 1.2).

In Latin America, China found a reliable—and plentiful—source for many of the natural and agricultural resources it needed to fuel its economic growth. Exports of the region's oil, minerals, and metals increased significantly. Exports from Latin America to China tripled from 2000 to 2007, and commodities account for three-quarters of all exports from Latin America (Caulyt & Hamann, 2013). The increased demand for commodities, spurred in large part by China, led to price increases for these goods, but there was yet another source of pressure on commodity prices. The additional pressure on prices stemmed from speculative behavior on the part of investors interested in commodities futures. The ease of access to capital in many developed market regions (such as Europe, the United States, and Japan) following the 2008 financial crisis led to greater availability and liquidity of investment funds. These investment funds often included commodities in their portfolios, thus putting additional pressure on prices (Herrera, 2013). As a result, Latin America benefited from this global commodity boom.

Table 1.2 China's Year on Year GDP Growth, 2000–2012

2001	+ 8.4%	**2008**	**+ 9.6%**
2002	+ 8.3%	2009	+ 9.2%
2003	**+ 9.1%**	2010	+10.2%
2004	**+10.1%**	2011	+ 9.3%
2005	**+11.3%**	2012	+ 7.8%
2006	**+12.7%**		
2007	**+14.2%**		

Note: Latin America's "Golden Years" (2003–2008) are highlighted in bold.

Source: World Bank (2013c).

Growth of the Middle Class and Poverty Alleviation

The economic growth of the early 2000s was paralleled by social reforms in the region, many of which led to poverty alleviation (Beccaria, Maurizio, Fernández, Monsalvo, & Álvarez, 2012) and the growth of the middle class. Between 2003 and 2009, while income inequality widened in the world, the gap between rich and poor in Latin America narrowed. Latin America's middle class grew by 50% to nearly 50 million people (Ferreira, Messina, Rigolini, López-Calva, Lugo, & Vakis, 2013; World Bank, 2013a). In addition, the proportion of Latin Americans living in poverty fell from 44% to 30% over that same period. This new middle class spent heavily on durable and nondurable goods. Growth in consumer spending, however, slowed after the global financial crisis hit Latin America in 2009.

The demographic shifts described and the increases in Latin America's middle class occurred at the same time that the region was becoming a fuller participant in the globalized world through increased international trade, regional integration, and foreign investment. This socioeconomic shift occurred as the result of the favorable economic growth rates from 2000 to 2008, yet the sustainability of relatively high growth levels over the longer term may be questionable. The financial crisis resulted in declining world trade, largely because of the lack of credit availability (United Nations Economic Commission for Latin America and the Caribbean [ECLAC], 2013). As suggested previously, the impact of the global financial crisis on individual Latin American countries varied depending on who their large trading partner was.

In late 2008 and into 2009 for example, Mexico experienced a dramatic economic downturn: exports plummeted, and its economy contracted. Brazil and Argentina also experienced a decline in exports at the time, but the decline was mitigated by the fact that China's GDP growth was still projected to be about 7.5% for the year. In addition, the demand for agricultural exports is more inelastic than is the case for other natural resources, and, as a result, Brazilian and Argentine agricultural exports did not experience as pronounced a decline (ECLAC, 2013).

1.4 International Trade and Foreign Direct Investment

International trade and foreign direct investment are key drivers of economic growth. Until late in the 20th century Latin America was largely known for its policy of import substitution and protectionist measures, yet it underwent an attitudinal transformation toward trade and investment from 1980 to the present. During the past two or three decades the regional focus has been increasingly centered on trade liberalization, tariff reduction, regional economic integration, and formation of new trading alliances, contributing to unprecedented growth in international trade and foreign direct investment. This section provides an overview of international trade and foreign direct investment and then focuses on Latin America's new trading and investment alliances, forged largely since 2000.

World Trade

World trade reached $18.4 trillion in 2012. Of this total, the world merchandise trade was $13.7 trillion, the difference being the trade in services ($4.7 trillion). By comparison, in 2001, world merchandise trade was $6.18 trillion. Thus, in a decade alone, world merchandise trade has more than doubled in volume. Together, Europe and Asia account for nearly 70% of total world trade. By comparison, Latin America's share of world trade is small, suggesting that there is ample room for export expansion.

The growth in world trade is an impressive expansion, only interrupted by the 2008 global financial crisis. World merchandise trade before the 2008 crisis experienced robust average growth of 6% between 1990 and 2008 (World Trade Organization [WTO], 2012). This strong expansion was interrupted by the 2008 crisis, resulting in a contraction of world trade in 2009 of 5.4% followed by a rebound of almost 14% in 2010 and back to the normal 5 to 6% growth in subsequent years. With the advanced economies of Europe, the United States, and Japan struggling to recover, what are the sources of the growth in world trade? According to the World Bank, more than 50% of the emerging countries' trade is now with other emerging economies; such trade increased 37% in 2001 (World Bank, 2013b). This increase in what is referred to as "South-South trade" is driving economic growth in emerging markets following the global economic crisis.

Western Europe and Asia together accounted for nearly 70% of global trade in 2011 (see Table 1.3 for a regional breakout of world trade). Latin America accounted for only 4.5% of global trade, and while this is much lower than the figure for other world regions, the region's economies fared well during the 2008 financial crisis. This resilience in light of a difficult global economy suggests that the region has the potential to increase its share of global trade.

Foreign Direct Investment Trends and Latin America

The United Nation's Economic Commission on Latin America and the Caribbean (ECLAC) estimates that global foreign direct investment (FDI) in 2012 totaled $1.39 trillion, representing a 13% decline from the $1.61 trillion posted in 2011(ECLAC, 2013). Latin America received $173 billion in inward FDI (in US dollars), or 12% of global FDI flows in 2012. This marked the first time that the region had accounted for this large a portion of global FDI. Moreover, the year was also a landmark year for developing markets in that it was the first time that developing market FDI inflows surpassed developed market inflows. Developing market FDI accounted for 52% of FDI inflows. However, Latin America's record 12% of global FDI also suggests that there are other emerging market regions (namely Asia) that continue to attract a disproportionately

Table 1.3 World Exports by Region

Region	*2000 Exports $ Billions*	*2000 Share of Total Exports %*	*2011 Exports $ Billions*	*2011 Share of Total Exports %*	*Increase in World Merchandise Trade 2011–2010 %*
North America	1,058	17.1	2,922	16.5	2.76
Western Europe	2,441	39.4	6,881	39.0	2.81
Asia	1,649	26.7	5,132	29.0	3.11
South & Central America	359	5.8	748	4.5	2.08
CIS	271	4.3	529	3.0	1.95
Africa	145	2.4	538	3.0	3.7
Middle East	263	4.3	672	4.0	2.55
World	6,186	100	17,816	100.0	2.88

Source: World Trade Organization (2012).

higher amount of FDI than others. Latin America and Africa demonstrated their resilience in 2012 by posting year-on-year increases in inward FDI of 7% and 5.5%, respectively. By contrast, developed countries and regions, including the United States and Europe, experienced sharp declines in inward FDI (23% and 25%, respectively) from 2011 to 2012.

If the first half of 2013 is any indication, Latin America is expected to continue attracting FDI—much as it did in 2012. During the first six months of 2013, global inward FDI totaled $745 billion, and while inflows to developed countries continued to decline, approximately 60% of global inflows went to developing countries. Increases in FDI into developing countries were again fueled in large part by acquisitions in Latin America. Asia experienced a slight decline in FDI inflows during this time frame, yet, according to the United Nations Conference on Trade and Development (UNCTAD), the region continues to attract nearly half of the FDI to developing countries and about a quarter of global FDI flows (UNCTAD, 2013). UNCTAD further estimated that these patterns would continue into the second half of 2013 and into 2014. Therefore, for the foreseeable future, Latin America will remain an attractive target for FDI capital flows, even at a time when other world regions are experiencing declines (United States, Europe) or a tapering off from previous levels (Asia). This will further spur economic growth in the region, contribute to its resiliency, and solidify the interest in the region.

FDI Distribution by Country

There were marked differences in the distribution of the regional FDI total across individual countries in Latin America (See Table 1.4). Brazil received the greatest bulk of regional FDI flows in 2012, accounting for 38% of the region's annual total and receiving just over $66 billion in inward FDI. Chile received the region's second largest amount, or roughly $30 billion in 2012. Colombia, for the first time ever, recorded the region's third largest FDI inflows at approximately $16 billion. Mexico received approximately $13 billion in inward FDI in 2012, marking the lowest level of inward FDI over the past 13 years and representing a 35% decline in FDI inflows from the prior year's levels of $21 billion (ECLAC, 2012). The decline in FDI was likely due to variations that

Table 1.4 Inward Foreign Direct Investments Flows to Latin America, 2007–2012 ($ Millions)

Country	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Argentina	6,473	9,726	4,017	7,848	9,882	12,551
Bahamas	1,623	1,512	873	1,148	1,533	1,094
Barbados	476	464	247	290	532	356
Belize	150	180	113	100	99	198
Bolivia	366	513	423	643	859	1060
Brazil	34,585	45,058	25,949	48,506	66,660	66,272
Chile	12,572	15,518	12,887	15,373	22,931	30,323
Colombia	9,049	10,620	7,137	6,758	13,438	15,823
Costa Rica	1,896	2,078	1,347	1,466	2,156	2,265
Dominican Republic	1,667	2,870	2,165	1,896	2,275	3,610
Ecuador	194	1,057	306	163	639	587
El Salvador	1,551	903	366	117	386	516
Guatemala	745	754	600	806	1,026	1,207
Guyana	152	168	208	270	215	231
Honduras	928	1006	509	969	1014	1059
Jamaica	867	1437	541	218	242	362
Mexico	31,380	27,853	16,561	21,372	21,504	12,659
Nicaragua	382	626	434	508	968	810
Panama	1,777	2,196	1,259	2,363	2,755	3,020
Paraguay	202	209	95	228	215	320
Peru	5,491	6,924	6,431	8,455	8,233	12,240
Suriname	–247	–231	–93	–248	70	70
Trinidad and Tobago	830	2,801	709	549	1831	2,527
Uruguay	1,329	2,106	1,529	2,289	2,505	2,710
Venezuela	1,505	1,741	–2,169	1,849	3,778	3,216

Source: United Nations Conference on Trade and Development (2013).

arise when large transactions appear in one year and not in subsequent years but also—at least in part—to concerns over crime in Mexico, leading some firms to be more conservative in expansion efforts.

FDI Source Countries

The previous section identified the key recipients of FDI in Latin America, but which countries are the primary providers of FDI into Latin America? During the 5 years between 2007 and 2011, the United States was the primary single source of FDI into the region, accounting for 22% of Latin American FDI inflows (ECLAC, 2012). The Netherlands and Spain each accounted for 10% of the inflows, with Latin American countries not far behind and accounting for 9% of the regional flows. Canada and Japan were also sources for FDI into Latin America, each accounting for about 4% of total FDI inflows. However, 40% of the inward flows in 2007–2011 were attributed to "Other [countries]." These flows are coming from locations such as Switzerland, Panama, Bermuda, the Cayman Islands, the Virgin Islands, other Caribbean islands, and Luxembourg. Some of the FDI derived from these source countries, such as Switzerland, is due to FDI undertaken by large multinational corporations (MNCs) such as Nestle or pharmaceutical companies such as Roche; but some of the flows originating in smaller locations may be related to MNCs seeking to establish corporate domiciles for tax or other reasons in intermediate small countries prior to the FDI reaching its final, intended destination. In cases such as this, it is difficult to determine what the original source of FDI is. This is further complicated by the fact that there are other countries in the region that either do not disclose information on this practice or provide incomplete data (ECLAC, 2012). For example, ECLAC estimates that much of the FDI originating from China into Latin America is in fact funneled through Peru and Venezuela, yet these countries do not report on this practice.

Despite the fact that it may, at times, be difficult to determine the original FDI source, the main investors into Latin America have remained fairly stable over the past six years. However, the proportion accounted by each of the source countries is shifting slightly (ECLAC, 2012). The United States, for example, accounted for a slightly greater portion of FDI inflows in 2012 than in the previous five years (24% versus 22%, respectively). Intraregional FDI increased to 14% in 2012 (from 9% in the previous five years), signaling greater investments by the region's multinationals. The other notable shift is with regard to Spanish investment in the region, which has declined since 2007. Between 2007 and 2011, Spain was responsible for 10% of the FDI into Latin America, in contrast to only 5% in 2012. This decrease reflects the economic difficulties that Spain is facing, prompting its firms to refrain or curtail international expansion into Latin America, or even to divest assets already within the region. With the United States being the exception, it appears that developed countries have continued to sell their assets in Latin America, which are acquired by Latin American firms.

Sectoral Concentration of FDI

Analysis of FDI flows into Latin America reveals that investments are concentrated in sectors that have historically attracted FDI, yet the relative importance of each sector varies over time and by country/region (ECLAC, 2012). An analysis of FDI inflows by destination of economic activity reveals several important trends. As of 2012, half of FDI inflows into South America (excluding Brazil), for example, go into natural-resource-related investments. By comparison, this proportion had averaged 42% during the earlier five-year period, 2007–2011. The countries most likely affected by this trend are Chile, Colombia, and Peru. The proportion of FDI going to services and manufacturing in these countries declined in 2012 vis-à-vis the prior five years.

The Brazilian sectors targeted by FDI have shifted over time. In the period between 2007 and 2011, approximately 23% of FDI went into natural resources, whereas this proportion was nearly cut in half by 2012, with only about 13% going to this sector. The proportion of FDI going into the manufacturing sector has remained virtually unchanged over the same time frame, at about 38%, and that continued to be the case through 2012. The services sector in Brazil experienced the largest gains: in 2007–2011, roughly 35% of FDI targeted this sector, whereas in 2012, nearly 50% of all FDI inflows into the country went to services.

Mexico has also undergone a sectoral shift in the industries attracting FDI. In 2012, the manufacturing sector experienced a significant shift, attracting 48% of FDI, in contrast with a more meager 35% of FDI in the five-year period between 2007 and 2011. These increases reflect the growing trend in favor of near-shoring, locating manufacturing closer to a key market, and renewed growth opportunities for Mexico and other Latin American countries. The increases in manufacturing costs in historically "low-cost production" sites (such as China) and the growing volatility in transportation costs have prompted producers to locate in slightly higher-cost production sites that are closer to their customers. The increases in labor costs are offset by lower transportation costs, and the reduction in the physical and cultural distance between a manufacturer and its customer base offers added market advantages. The practice of near-shoring bodes well for the Mexican economy as well as for other Latin American economies. As a result, the data suggest that Mexico's manufacturing sector is enjoying a resurgence as a preferred manufacturing site for the United States. Increases in FDI to the manufacturing sector have cut into the proportion of FDI inflows that are allocated to the services sector, as indicated by the 42% of the FDI inflows going to services in 2012, in contrast to the 55% of FDI the sector attracted during the previous five years. The proportion of natural-resource-related FDI has remained largely unchanged, accounting for about 10% of FDI in 2012 after staying at similar levels in the preceding five years.

Sectoral shifts are significant because the employment generated by various sectors can vary widely. For example, ECLAC (2012) estimates that commerce and construction generate the greatest number of jobs (seven new jobs for every $1 million invested), followed by the manufacturing and the services sectors (three jobs for every $1 million invested). In contrast, it is estimated that the mining sector generates only one job for every $2 million invested. Even within sectors there is a fair amount of variability in terms of the employment created. In the services sector, for example, there can be wide variability. Call centers are known to create 73 jobs for every $1 million invested. These are tenuous jobs because of the low barriers to entry, and investors may shift locations fairly easily. Tourism and personal services generate more employment than financial services and communications. As a result, policymakers must consider the employment implications of the foreign direct investment and recognize that not all FDI yields similar gains in employment.

Latin America's Trade Relationship with China

A bridge was built between Latin America and China in the 21st century, figuratively. For centuries, China and Latin America were distant from each other—both economically and culturally. In recent years, China and Latin America have forged a new economic relationship. From nonexistent economic exchanges in the 1990s, China has become the number one trading partner for Brazil, Chile, and Peru in the period 2000–2012. Three Latin American countries—Chile, Peru, and Costa Rica—have signed free-trade agreements with China. China is also the number one source of FDI in Brazil and Peru (ECLAC, 2012). Furthermore, China is becoming the main lending source for Latin America. A recent report indicates that since 2005, China has lent $86 billion, more than the combined loan commitments by the World Bank and Inter-American Development Bank—two traditional sources of development funds to the region—combined (Gallagher, 2013). The new role of China in Latin America is another example of the large global economic realignment. This new relationship brings great opportunities and risks to Latin America, which we will explore later. More important, this relationship has been asymmetrical. Few countries in the region have realigned to meet the opportunities with China; Argentina, Brazil, Chile, Peru, and to a certain extent Venezuela and Colombia are among these countries. This first group of Latin American countries has experienced solid economic growth during this period of increased economic engagement with China. In fact, this group of countries suffered less from the 2008 global financial crisis and recovered faster as a result of a continuing strong economic growth in China after the crisis. In contrast, other Latin American economies have suffered from China's efficient export competitiveness in manufactured goods. In addition, this group of countries, mostly Mexico and Central America, were not attractive to China's imports and/or investments. We analyze the trade and investment impacts of China in Latin America next.

The value of trade between China and Latin America has grown significantly from 2000 to the present. The value of Latin American exports to China was a mere $6.9 billion in 2000 (Thediplomat, 2013) but rose to $94 billion in 2011. Similarly, the region's imports from China were $5.3 billion in 2000, yet $139.7 billion in 2011–2012. In the more recent period of 2006–2011, Latin American exports to China grew at an annual rate of 33.5%, whereas imports grew 23.3%.

China has the faster-growing relationship with Latin America than with any other region, including other Asian economies. For comparison, in the same period of 2006–2013, the region's trade with the United States grew at 4.6% for exports and 8.4% for imports (ECLAC, 2012).

Latin American trade with China is highly concentrated in a few agricultural commodities, mining inputs, and oil. In general terms, Latin America exports primary commodities with little value added and imports manufactured goods. A few export commodities account for 74% of total Latin American exports to China: iron ore, soy grains, copper, and petroleum. Five Latin American countries account for 80% of these exports: Argentina, Brazil, Chile, Peru, and Venezuela (Econ South, 2011). Exports to China accounted for a peak of 23.2% total exports for Chile; 15.4% for Peru; 13.2% for Brazil; 6.6% for Argentina; and only 6% for Venezuela (ECLAC, 2012). With the exception of Costa Rica, for other countries in the region, China accounts for 3% or less of total exports. In the case of Mexico, China accounts for only 1% of total exports. Of the total exports of the region, China accounts for an average of 7.1%.

On the other hand, China is an importer source of manufactured goods, machinery, electronics, plastics and chemical products, appliances, and textiles (Econ South, 2011). In contrast to the patterns of exports, Chinese imports are more widely distributed in the region. Of total imports in 2009, China was the main supplier of 12.% of total imports in Argentina, 12.5% in Brazil, 14.6% in Chile and Peru, 13.9% in Mexico, and 11.9% in Colombia (ECLAC, 2012). The average for the region of imports from China was 11.9%.

These recent trends in trade between Latin America and China also represent risks for the region. One threat is the region's increasing negative trade balances with China. Whereas some Latin American countries have made advances in managing these balances with trade agreements with China, others fear that these trade imbalances will grow even further, resulting in the deindustrialization of their economies. Some Latin American countries, particularly Argentina and Brazil, have turned to protectionist measures to control further Chinese imports with antidumping investigations leading to countervailing tariffs (Shifter, 2012). Brazil imposed taxes on automobiles not assembled or manufactured in the country. Argentina and Brazil also moved to increase the common external tariff for Mercosur (or the "Common Market of the South," consisting primarily of Brazil, Argentina, Paraguay, Uruguay, and more recently, Venezuela. This trading bloc is explained in greater detail following the section on NAFTA under "Regional Economic Integration".) on a large number of manufactured products as a way to protect their industries. Other countries have opted to continue their support of free trade and open economies and to engage China either with trade agreements or as part of a promise of greater integration of Asian and Latin American economies under a more encompassing Pacific Alliance, which will further remove trade barriers among their members, including China, Mexico, Peru, Chile and Colombia (*Bloomberg Businessweek*, 2012).

There is an added risk stemming from Latin America's trade with China—volatility in the quantity and price of commodity exports, which are dependent on China's demand. China's recent decreases in demand for commodities have