



Latin America-Asia: Enhancing Connectivity to Enhance Growth

While the U.S. economy has sent global markets toppling like a string of dominoes, any future recovery will likely be fueled by Asia and Latin America.

That was the message conveyed in the panel discussion, “Latin America-Asia: Enhancing Connectivity to Enhance Growth,” presented during the University of Miami Global Business Forum January 15-16, 2009.

Moderator Arun Sharma, vice dean of strategic initiatives and chair of the Department of Marketing at the University of Miami’s School of Business Administration, noted that because developing countries have produced an estimated 80 percent of the world’s gross domestic product growth during the past five years, any escape route from the economic crisis would, as he put it, “have to come out of these developing countries.”

He backed his assertion with big numbers: Latin America and Asia account for 50 percent of the world’s population and GDP. They also boast 65 percent of global GDP growth — basically \$170 billion in trade. The kicker? That last figure is growing at 15 percent annually.

Perhaps most striking is evidence that Latin America and Asia are becoming frontrunners in a race once dominated by the United States — innovation. Sure, Chevrolet plans to roll out the electric-powered Volt in late 2010, but Sharma pointed to the F3DM, an electric car powered by lithium ion batteries, that is zipping through the streets of Shanghai right now.

“You are talking about a disruptive technology, because it is not an automotive maker [that built these cars]; it is a guy who is an expert in batteries,” added panelist Craig Herkerk, CEO of Wal-Mart International - The Americas, referring to Wang Chuanfu, founder of Chinese battery (and now car) manufacturer BYD. Sharma added that the Indian company Tata makes the world’s least expensive car: the Nano, a low-emissions, gas-powered vehicle that sells for US\$2,500.

Back in 2001, Sharma continued, it was Goldman Sachs that coined the acronym BRIC (Brazil,



Russia, India, China) to reference the countries with rapidly developing economies. The investment firm also predicted that, because of their large domestic markets, natural resources and growing populations, economic growth for these countries would be sustained even as European and American economies slowed.

But when Russia's economy was hit hard by the global recession, many economists questioned whether it was really a BRIC country. "The population in Russia is actually declining," Sharma said. "The second piece of it is Russia is a resource-dependent country. It does not have enough domestic demand for domestic manufacturing." Instead, economists have suggested, maybe Mexico and South Africa are true BRIC nations, and that growth in the next decade may in fact come from BMIC rather than BRIC countries.

Sharma agrees. "When we go through a recession in the U.S., Mexico has flat to slightly increased growth rates," he noted.

Juan N. Cento, president of FedEx Express Latin America, observed that Latin America as a whole — not just Mexico — has been somewhat buffered from the global downturn. "You know the famous saying about the U.S. economy catching a cold and Latin America catching pneumonia? We really did not see that effect hit [the region] immediately like in the past," Cento said. Though the Latin American economy has been adversely affected by the downturn, the impact has been modest compared to past financial turmoil, such as a 2,000 percent inflation rate in Brazil.

Latin America's economic potential has made it an attractive investment region, particularly for U.S. companies such as FedEx and Wal-Mart. "We are very optimistic about Latin America," Cento said, describing it as an area "where everyone believes that expansion is going to come." Added Herkert: "[Governments in] Latin America, with few notable exceptions, are open democracies, capitalist societies, and open to foreign investment. We don't see a lot of barriers to growth in Latin America."

But the U.S. is by no means the only nation capitalizing on this potential. Asian countries are also aware of Latin America's economic potential, and vice versa. Sharma pointed out that 15 percent of Latin America's trade goes to Asia, and Cento said that figure is rising.

"If we go back to 2000, you have Latin America trading with China at \$13 billion. In the first three quarters of 2008, the trade between Latin America and China was \$111 billion in just three quarters," Cento said. "Right now, China is the second-largest trading partner to a significant number of Latin American countries."

Both Latin America and Asia are increasingly investing in and trading with each other, sometimes bypassing the U.S. altogether. Sharma cited the example of a fast-food chain. "I am in New Delhi, and I see this wonderful restaurant called Bambos — and I ask [myself], 'Where

does Bambos come from?’ And lo and behold, I go to Peru and Bambos is in Peru.” Specializing in spicy hamburgers, Bambos has 27 restaurants in that country, but “bypassed traditional growth patterns of going to the U.S., Europe, and then Asia,” said Sharma. Instead, the company opened four restaurants in India.

Even as the U.S. may be backing off from trade agreements with nations in the Western Hemisphere, China and India have formed free-trading bonds with Brazil within the World Trade Organization. “They are starting to work together while we are moving away from doing free trade agreements with Panama [and] Colombia,” Sharma said.

Part of the increase in activity among these countries has to do with an increasing interest in international trade on the part of government officials and private companies. “Every country talks about becoming exporters,” Cento said. This trend includes manufacturers whose business was once restricted to their home countries but now, thanks to the Internet, are creating web sites to reach international customers.

For the most part, though, India’s economy is still mainly invested in itself. “You have to realize,” Sharma said, “the Indian economy is not an export economy; it is an internal market economy.” India’s main exports, contrary to popular opinion, are diamonds and jewelry, not outsourcing. “Outsourcing, in its totality in India, is maybe a \$50 or \$60 billion business — that’s it,” Sharma said. Only 500,000 to 600,000 of India’s 1.1 billion people take part in the outsourcing and call center industries.

Despite their advantages as trading partners, these regions present significant challenges, not least of which are environmental. “There are estimates that 60 to 80 percent of all water bodies in China are polluted,” Sharma said. In India, the water table has fallen 15 to 20 feet, forcing people to dig deeper to find drinkable water. “We actually have fissures in the ground,” he said. Herkert added that potable water must be trucked in to certain parts of Mexico City.

China’s Achilles heel is product safety — candy, toys, and pet food, for example. Herkert said his company lays down the law when dealing with Chinese exporters. “We only buy quality products from sustainable manufacturers,” he said, adding that the Chinese government “recognizes the urgent need” for better quality controls. “Look at what happened with milk,” he said.

There are other concerns. “The infrastructure of India is brutal,” said Herkert, who was chief operating officer of Wal-Mart’s International Division in 2004. “Around 50 percent of the product rots before it gets to the customer — and that is within India.”

In Latin America, Cento estimated, only 2 percent of GDP is invested in infrastructure. Roads, bridges, airports and seaports need massive upgrading for Latin America’s economy to advance, he said. Improving the region’s human infrastructure — primarily through education — also

requires significant investment.

“Over 50 percent of the Mexicans over the age of 15 are illiterate,” Cento said. “Over 50 percent. That is significant.” To underscore the point, he noted that Brazil and South Korea had the same GDP back in 1960, but today, resource-poor South Korea’s GDP is five times higher than that of resource-rich Brazil. The reason? The kind of education base that would enable Brazil to seek out technological opportunities — and the higher-paying jobs that go with them — does not exist, Cento said. “If Latin America does not focus on improvement of education,” he warned, “[our] Latin American neighbors will be forced to be viewed as laborers.”

Tariffs are another frustration of doing business in the region. Although they are the main source of revenue for many Latin American governments, Cento and Herkert agreed that taxes on imports are so high that they hurt their own consumers. “Anybody know how much a Nintendo Wii costs?” Herkert asked the audience. He then answered his own question: “Two hundred and fifty bucks. Anybody want to know how much a Wii costs in Brazil? Twelve hundred U.S. dollars. Argentina? Seven hundred dollars.” Meanwhile, bootleg video games and movies are being sold on the streets for one dollar, he said, arguing that instead of protecting local business, high tariffs harm it. “You actually hold people back. You stifle innovation, stifle people’s ability to interact with the rest of the world when things are onerously expensive.”

In the context of global connectivity, Herkert spoke of the importance of being a good corporate citizen. He explained that the new environmentally friendly supercenters Wal-Mart constructed on former garbage dumps in Brazil and Mexico have employed many of the people who had lived among those conditions.

Still, he acknowledged, Wal-Mart’s inroads in Latin America came with many missteps. One valuable lesson learned: it is counterproductive for Wal-Mart to go into a foreign country as a purely American entity. “In Mexico, we are a Mexican company,” he said. That means, among other things, that Wal-Mart’s employees and executives in Latin America are Latin American, something that has helped the corporation as a whole. “Our company got extraordinarily better as we embraced Latin American talent,” he said.

Despite these uncertain times, Cento affirmed that Latin America would play a critical role in the future of the global market, with several of its countries poised to give other BRIC nations a run for their money. “We are very bullish,” he said, “about Latin America.”

By Erik Bojnansky