ECONOMIC VARIANCE IN LATIN AMERICAN REGION

Latin America has a unique profile that presents a business challenge. It is characterised by an economic, demographic, and cultural asymmetry, which stands in the way of pan-regional strategies. As in Europe, the region is dominated by a group of five markets. Unlike in Europe, these are markedly dissimilar. Brazil, Mexico, and Argentina alone account for 60% of the region’s population and 77% of its GDP; with the addition of Colombia and Venezuela, the big five group reaches fully 73% of the population and 86% of the GDP.

Demographic profiles are also heterogeneous, which hinders pan-regional strategies in everything from videogames to pharmaceuticals. Although the region has the market appeal of a younger population, Brazil and Mexico have greater proportions of young people than Argentina and Chile, which have a demographic profile closer to that of European countries. The population of 19 years old and younger reaches 43% in Mexico verses 37% in Argentina. Market indicators also show discrepancies. In key categories, passenger car per 1000 people vary from 24 in Colombia to 97 in Mexico. Although TV penetration is uniformly high through the region, Personal Computers per 1000 people range from 28 in Colombia to 47 in Mexico. The inter country variance is compounded by intra country discrepancies. In Brazil, for instance, the state of Sao Paulo has reached an economic development level comparable to that of Organisation for Economic Co-operation and Development (OECD) countries, while the northern states are at the bottom tier of the regional scale. The same disparities exist in Mexico and Argentina.

MEXICO : U.S DRIVEN ECONOMY

Mexico’s ever-closer links to the United States have the economic impact of a double-edged sword. Although as recently as 1996, it GDP was only half of that of Brazil, Mexico overtook Brazil by June 2001. Driven by the huge rise of its exports to the United States, the Mexican economy grew at an annual average of 5.6% in 1996-2000 verses 2.2% in Brazil. Currency trends followed the same pattern: The peso devaluation of 1994 was greatly alleviated by NAFTA pact and the related U.S bailout, and the peso rebounded, then
remained strong. Although it fell only 18% in 1996-2000, the Real lost 61% of its value against the dollar in the same period.

However, NAFTA works both ways, and Mexico was first to feel the impact of the U.S recession. One of Mexico’s strengths is that 90% of its exports are manufactured goods, with relatively low value added from the border assembly plants, the malquiladoras. However, most of these are bound for the United States, and may drop to lower level when there is recession in United States economy.

Mexico has more free trade agreements than any other country and its NAFTA links as well as its trade pact with the European Union (EU) give it privileged access to the two blocks. This is appealing for Asian companies, given Mexico’s advantages of fairly low labor costs and incentives for assembly-for-export plants.

**BRAZIL: INVESTMENT CHAMPION**

By contrast with Mexico, the other economic powerhouse of the region, Brazil, has experienced more severe economic fluctuations, despite its more diversified trade profile. Less than a quarter of its exports go to the United States, and despite its Mercosur membership, only 11% go to Argentina, with a larger proportion to European Union markets such as Germany and the Netherlands. Unlike Mexico, Brazil is still dependent on commodities. 70% of the South Cone exports were still derived from natural resources and related products.

On the other hand, Brazil has been the region’s FDI champion, drawing 45% of the total investment flows to Latin America in 2000. This performance has been sustained over time: FDI to Brazil grew more than tenfold, from USD2.6 billion in 1994 to USD30 billion in 2000. Progress was especially swift in the second half of the 1990s, due to the stabilisation initiated by the Real plan, regional integration, and extensive privatisations. By 1999, nearly 30% of FDI was driven by privatisation, including USD 7 billion in telecoms and over USD 2 billion in gas and electricity. Telecom and utilities have remained attractive targets.