SEEDS OF CHANGE IN BRAZIL, COLOMBIA AND PERU

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ABSTRACT

In an economic decade marked by a global financial crisis, globalization of enterprises, fierce market-competition, and trade-agreements, three Latin American countries Brazil, Peru, and Colombia are now collecting the fruits from organizational-management seeds-of-change and the implementation of best-practices in foreign and internal public policy, and economic reforms.

Evidence of these fruitful organizational-management changes is reflected in the 2013 global ranking of 216 nations’ surplus or deficit budgets in which Brazil, Colombia and Peru have surpluses that not only position them in the highest ranking among Latin America well-run nations; but also in the top 40 worldwide. To this end, while various factors have contributed to the substantial increase of Gross Domestic Product, social progress, economic development, and efficient government expenditures of these three countries; this paper presents an analysis of the business strengths and challenges with a focus on Brazil’s manufacturing renaissance, and Peru’s emergence in the natural resources industry, and Colombia’s Free Trade Agreement (FTA) and multi-sector growth.
BRAZIL

Population 200.4 Million

GDP $2,2246 Trillion

GDP Growth 2.5%

Inflation 6.2%

Source: www.worldbank.org

DOING BUSINESS RANKING

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BUSINESS STRENGTHS

Made In Brazil

Welcome to the BRIC

The 2001 recognition of Brazil’s industrial renaissance era by Goldman Sachs’ economist Jim O’Neill, who coined the term BRIC, marked both the industrial emergence of Brazil, Russia, India, and China, and the future shift of the global economic power of the G7 economies. With this future change no longer the world’s financial power would be distributed among the G7 nations, instead, distribution of advanced industrialization and wealth would take its first steps toward more equitable power. In fact, it was predicted that the combine output of the BRIC would surpass the output of the top nation of the G7, the United States (O’Neill, 2001). And such event would signal an economic, industrial, and financial paradigm shift not seen since the industrial revolution of the 19th century.

Industrialization

During the first decade of the 21st century the growth rate of the emerging markets became faster than the G7’s with Brazil’s taking the pole position as South America’s most thriving economy accounting for 56% of all foreign direct investment flows and 52.5% of the foreign direct investment stock in South America (Turner, 2001).

In retrospect, the organizational and managerial changes of the private industry along with progressive foreign policy in Brazil’s public sector paved the way for its commercial emergence. To this end, foreign trade agreements such as MERCOSUR and the U.S-Brazil mutual-prosperity trade-partnerships (International Trade Administration, 2014) are credited as critical drivers of Brazil’s internal economic expansion. Moreover, working synergies between Brazil’s public and private sector have paid off as the government has significantly invested and allocated resources to the manufacturing industry which combined with private corporations have risen to account for more than 27% Brazil’s GDP (Turner, 2001).

It is also important to highlight that Brazil has cleverly diversified its manufacturing capabilities, for compared to other nations with manufacturing specializations in specific industries, Brazil has a broader portfolio of capital goods that produce construction materials, chemicals and
petrochemicals, smelting, rubber, motor vehicles, heavy equipment, sugar, and wood which aggregately impact 60% of exports (Turner, 2001). As a result, in the last eight years Brazil’s GDP has more than doubled from $885 trillion in 2005 to $2,246 trillion in 2013.

**Strategic Partnership**

The U.S. has also become a strategic beneficiary of Brazil’s buying power and increasing appetite for U.S. manufactured goods. In fact, as noted by the U.S. Census Bureau’s Foreign Trade Division, U.S. good exports to Brazil have tripled from $12.4 billion in 2002 to $35.4 billion in 2010. Particular sectors such as aviation ($4.3 billion), computer-technology ($2 billion), organic-chemicals ($1.9 billion), fuel oil ($1.5 billion), and plastics ($1.5 billion) have experienced the fruitful gains that come from having a trade partner that likes Made in America (International Trade Administration, 2014).

**Prediction Accomplished, Plus Some**

Thus, as O’Neill’s once predicted, the BRIC’s output not only surpassed the U.S.’s, but by 2013, for the first time in the modern era, the International Monetary Funds declared that the combined GDP of emerging markets, including the BRIC, account for more than half of the global GDP (“Brazil’s Future”, 2013). Future sustainable growth of trade is one of Brazil’s top economic priorities and the reason why this nation is at the leading-front of negotiations for the proposed Free Trade Agreement for the Americas (FTAA). If approved, the FTAA seeks to become the largest regional trading-block of 34 countries in North, Central, and South America (Gouvea, 2004) easing business transactions, eliminating tariffs, and having similar trade mechanisms as the European Union.

**BUSINESS CHALLENGES**
Socioeconomics

Compared to 2008 and 2010 in which Brazil achieved annual GDPs as high as 7.5%, the last couple of years have been notable for a decelerated pace of growth with 2012 posting a modest 0.9% GDP (“Brazil’s Future”, 2013). To this end, Brazil’s economic reform Conditional Cash Transfers (CCT) aided thousands of families in sub-poverty levels, but the program is still faces poverty levels which stand at 20% (“Brazil’s Future”, 2013). Adding to this issue, Brazil is only reinvesting 1.5% of its GDP back on national infrastructure and that number is particularly low when looking at other emerging economies that are reinvesting on average 3.8% (“Brazil’s Future”, 2013). Lastly, analysis believe that reforms in the effectiveness that education has upon social progress, not the amount spent for Brazil’s spend more than other nations, are needed to maintain a competitive-advantage over its rivals (“Brazil’s Future”, 2013).

Competition

The lower labor and manufacturing costs of China present a twofold ever growing thread for Brazil. On one end, other nations look to have their goods manufactured in China seeking penny- savings despite the perceived lack of quality. And on the other side, China is aggressively entering the Brazilian market offering cheaper products than the ones being manufactured in Brazil’s backyard.

Becoming an Offshore Destination

For multinational companies, especially Americans, Brazil seems as an attractive destination for offshoring with attributes such as advanced telecommunication systems, lower labor costs, location, and comparable time zones which for Brazilians could mean the creation of hundreds of new jobs with significant impact in their local communities. But, according to the McKinsey Global Institute (MGI) “Weak English-language skills and a lack of international experience among Brazilian workers make many of them unsuitable for employment in the eyes of multinational companies” (Farrell, Laboissière & Pietracci, 2007). Therefore, addressing this impediment is a first order of business if Brazil wants to capitalize on its offshoring qualities to continue a progressive path.

Enjoy Soccer, But Get Back To Work

Brazil’s economy grew 1.9% the first quarter of 2014 thus rising sentiments of better progress, but the second quarter’s performance quickly erase these gains with a contraction of 0.9 % year-over-year. In fact, during Q2 many factories slowed their normal activities affecting output in manufacturing and construction which made the industrial sector fall by 3.4%. The explanation of this economic phenomenon is simply attributed to Brazil hosting the 2014 Soccer World Cup (Taborda, 2014).

THE BALCONY PERSPECTIVE

The pursuit of optimism about the financial future, stable government finances, less political corruption, normal interest rates, more jobs, and reduction of poverty are on the wish list
of Brazilians (Winter, 2012). Looking at this wish list is the recently elected president Dilma Rousseff analyzing how the best practices of her predecessors cut the poverty rate in half while igniting an industrial renaissance. Her agenda priorities include taking further action to reduce 8.5% of the population who still live on $1.50 per day, lowering crime, seeking more strategic commercial alliances, and reviving the days of enviable prosperity (“Brazil’s Future”, 2013).
**BUSINESS STRENGTHS**

**Exploitation of Natural Resources**

*A Diamond in the rough*

*A diamond in the rough* best describes the transformation of Peru’s natural resources market as it went from being a passive-sector to becoming an
active-industry of high-global demand benefiting Peru’s business growth for the last two decades.

Peru holds some of world’s most vast reserves of metals, minerals, and energy that for years did not develop their full economic potential due to the government’s internal and external policies. But thanks foreign and national policy changes, and the rise of the Asian economies, particularly China, the appetite for such as products launched a new era of managerial-thinking filled with an internationalization motto that attracted Foreign-Direct Investment (FDI) and created strategic alliances with multinationals. In fact, Peru along with Brazil, Colombia, Chile and Venezuela increased FDI transactions with China from $226 million in 2003 to $1.6 billion in 2009 (Kotschwar, Moran & Muir, 2011).

Today, Peru is an important producer of tellurium, tin, and zinc; and of one the leading global exporters of silver, copper and gold. In addition, it holds the third largest world-reserve of copper. A glance at the numbers of largest produce rs of silver, copper, and gold between since 2009-2011 reflects the significant leaps that Peru has taken to become a key industry- player ranking in the top-5 and top-6 of nations with the highest output. In fact, Peru extracted 1.26m tons of copper, raking third in 2009; 4000 tons of silver in 2010-2011, putting it in second place right behind Mexico, and an average 1500 tons of gold in gold 2010- 2011, raking it sixth (Harry, 2013).
Privatization and The Alignment of Management Competencies

Peru’s privatization of state industries serves as a business-case model in which alignment of management competencies pays off. To this end, the sale of more than seventy state-run companies in sectors that included telecommunications, oil, electric, and mining at the beginning of the 1990s (Brooke, 1993) demonstrated that the managerial capabilities of private companies not only can be a better fit for long-term internal and external business growth; but it also permitted the state’s realignment of its own managerial abilities toward other social interests.

In retrospect, the long-term positive-effects of these measures have been twofold. On one end, the government has cut in half the percentage of people living on less than $2 a day to about 28% in the past 10 years. Furthermore, the administration, led by President Ollanta Humala, has pledged to cut the poverty rate to 15% before the end of his term in 2015 implementing cash transfer programs and increasing both minimum wages and pensions (Parnell, 2013). On the other end, management, stakeholders and stockholders, in the private sector, have witnessed the fruitful results as La Bolsa de Lima, Lima stock exchange with a $79 billion market cap, has been measured as one of the world’s most profitable exchanges providing investors some of the strongest ROI in the last decade (Parnell, 2013).

BUSINESS CHALLENGES

Growing Pains

Environment and Labor Practices

The growth of the mining industry has brought disputes with environmentalists and labor activists who continue to denounce violations of environmental laws including air pollution and contamination of water supplies and rivers with high levels of mercury which derives from the illegal excavation of metals, principally gold (Kotschwar, Moran, & Muir, 2011). Moreover, lack of enforcement of laws that regulate the safety and soundness of working conditions for laborers has been a growing point of tension between regulators and mine owners (Jamasmie, 2013). The Black Market

Humala’s administration and its taxing authorities have another problem ahead, and perhaps the most important one, how to overcome the rapid augment of unlicensed gold miners which is an industry estimated to provide 100,000 jobs that make up to 20% of Peru’s gold exports (Jamasmie, 2013).
Peru’s privatization decision in the early 1990s propelled various industries such as textiles, oil, agriculture, telecommunications and mining, to expand for over two decades, thus causing a domino effect that created thousands of new jobs that bettered the middle-class and boosted consumer confidence and spending. In fact, in the last five years Peru enjoyed one of the longest periods of economic progress, 38 consecutive quarters of GDP growth. Reflective of this trend are retail sales at shopping centers which reached to $5.2 billion in 2012, an increase of 20% over 2011 and far higher than any other periods of economic booms (Schipani, 2013). Yet, the administration has other obstacles ahead such as crime, social corruption, and the fight against the production of illegal drugs which if addressed ineffectively can and will disrupt future collection of crops.

PERU GDP GROWTH IN $ BILLIONS

Source: www.worldbank.org
COLOMBIA

Population 48.32 Million
GDP $378.1 Billion

GDP Growth 4.3%
Inflation 2%

Source: www.worldbank.org

DOING BUSINESS RATING

Source: www.doingbusiness.org/rankings
As the third largest economy in South America Colombia has been
thriving for over a decade due to better governmental stability and fiscal discipline; the introduction of new social and financial policies that incentive consumer-spending and the growth of small businesses, the strengthening of international business relationships with the U.S. and China; and above all, the effective offensive against the armed-groups carried by the national army which reduced guerrilla members down from 18,000 to 9,000 in a period of eight years from 2002 to 2010 during the administration of President Alvaro Uribe (“Guerrillas in Colombia”, 2012). The results have been staggering for Colombia has more than doubled its GDP in less than eight years from $146 billion in 2005 to $378 billion in 2013 (World Bank, 2013).

BUSINESS STRENGTHS

Foreign Direct Investment (FDI)

Ease of Doing Business

The government’s enduring efforts to improve safety, security, social stability along with simplification of the regulatory investment arena ranked Colombia 34th spot as the best countries to do business according to the World Bank ranking. In fact, back in 1994 Colombia had only one FTA with a nation, Israel. Today Colombia has seventeen FTAs with different countries with the U.S. being the largest partner. These efforts have not gone unnoticed by the world community of investors for FDI has been flowing in the billions and is expected to continue its course to over $16 billion in 2014 accounting for nearly 5% of GDP (U.S. Department of Commerce, 2014).

Multi-sector Diversification

The inflows of foreign capital are cleverly being invested across multiple sectors creating both vertical industry synergies and synchronization of business practices. Consequently, even though oil and mining lead the pack as beneficiaries of FDI, manufacturing, banking, retail, and construction have and continue to benefit from the pouring cash of foreign wealth (U.S. Department of Commerce, 2014).

Another Diamond in the Rough

Colombia is an abundant nation in natural resources with large reserves of energy resources such as oil, coal and natural gas, having highly-skilled and educated professionals, but its economic potential for years had been overshadowed by the variety of internal conflicts, thus making it an unsuitable investment for multinationals seeking to inject capital. However, Colombia’s yearn for an upgrade to investment-grade level finally reached its realization as Moody’s in 2011 upgraded Colombia to Baa3 in par with Brazil and Mexico giving investors an additional vote a confidence in Colombia’s financial strength and business capabilities. (Jaramillo & Koenig, 2011).

The U.S.-Colombia Free Trade Agreement
Let’s buy Made in USA and Made in Colombia

Nearly after six years since it was proposed U.S. President, Barack Obama, and Colombia president, Juan Manuel Santos, on April 15th 2012 U.S. approved the CTPA, and according to United States Office of Trade Representative the projected economic benefits of promoting exports and imports, without tariffs and duties, between these nations are of exponential magnitude. For instance, American farmers and ranchers in 2010 exported $832 million in Agricultural products, and small businesses, including manufactures, sold $3.1 billion in merchandise exports confirming that Colombians like the Made in America brand (“Office of The United States Representative,” 2014).

In the same way that Colombians like the American-made brand, American companies and consumers value the quality of Colombian goods with the top exports being textiles, flowers, high-end ceramics for construction, gourmet and organic foods, and beauty products (“TLC Colombia-United States”, 2012).

New American and Colombian Jobs

In 2010 the aggregate U.S. exports to Colombia totaled over $12 billion. Hence, for U.S. exporters the immediate removal of barriers and duties of over 80% of consumer and industrial goods not only facilitates the flow of more products to Colombia’s $166 billion services market, but it is the most important incentive for the creation of thousands of new jobs to meet future demand. To this point, with the average tariff on U.S. goods between 7.5% and 14%, the International Trade Commission predicts that the U.S. will increase trade exports with Colombia by $1.1 billion, and supporting those new jobs will add an additional $2.5 billion in GDP for the U.S. economy (“Office of the United States Representative”, 2014).

For Colombia the United States is the principal commerce partner which in 2011 purchased 38% of all Colombian exports and with the establishment of the CFTA nearly 99% of all Colombian goods are available to come to the U.S. duty-free. Sectors such as textiles, agriculture, technology, and manufacturing of home goods are expected to have significant lift in their production and revenues as an additional pipeline of over 500 new export-quality-products are available for introduction to the U.S market. For Colombian exporters the FTA is simply the catalyst of more progress that according to the Colombian ministry of international commerce will take an export market from 21% growth in 2011 to higher level expected to reach at least 27% (“TLC Colombia-United States”, 2012). This optimistic rate of growth is further supported by The Office of the U.S. Trade Representative as it expects that “The resulting increased of economic activity will create additional jobs and opportunities in the formal sectors and will positively influence Colombia's efforts to reduce poverty” (Nicholls, 2011). These projections are in line with President Santos’ agenda of the National Growth Development Plan in which the CFTA will generate 500,000 new jobs and assist 1.2 million people move out of poverty (“TLC Colombia-United States”, 2012).

BUSINESS CHALLENGES
NATIONAL SECURITY AND INFRASTRUCTURE

In November 2006 The United States-Colombia Free Trade Agreement (FTA) was signed in; but, this accord was on hold in the U.S. Congress for many years because of serious concerns about Colombia's human rights record derived from decades of violent crimes, drug cartels, and leftist guerrilla groups. Of particular concern and debate has been Buenaventura Port, situated on the pacific coast, for it is a strategic site for trade with the U.S. and unfortunately for years this region has been exposed to violence due to lack of security measures taken by local and national authorities (Nicholls & Sánchez-Garzoli, 2011).

Another serious problem is the transportation infrastructure, especially roads which Juan Martin, president of the chamber of transportation, refers as the main barrier of economic growth and it is long ways from being in par with more advanced nations (“Bridging the Gaps”, 2011).

THE BALCONY PERSPECTIVE

The comprehensive actions of the government and leaders in private sector reflect a paradigm shift in social, finance, and foreign policy, a change that similar to Peru’s can be felt in the expansion and confidence of the middle class. By the numbers Colombia’s middle class, which in 2002 was 15% of the population, grew to 30% and is now a driving-force of consumer spending surpassing 28% of GDP. This percentage is has doubled since 2000 when consumer spending only contributed 14% to GDP (Colpart, 2012). Amid this progress Colombian leaders and authorities encounter challenges ahead not only the reduction of organized-crime and but also the imminent need to quickly improve the infrastructure of ports, airports, and land transportation to facilitate and meet the growing demand for Colombian goods (“Bridging the Gaps” 2011).

BRAZIL, PERU AND COLOMBIA, THE BIG PICTURE

A Blue Print of Strategic Change

From a business perspective it can be argued that these three nations orchestrated a turn-around-strategy with clear resemblances and outcomes. A strategy that was initiated by their governments, executed by the management teams of public and private institutions, and embraced by citizens. Particularly in Peru’s and Colombia’s case the step-by-step blue print shares historical similarities.

In step 1, the weed out phase, both nations endured decades of social suppression brought by leftist guerrillas like Shining Path in Peru, and FARC in Colombia which many administrations unsuccessfully battled. However, in the 1990s President Alberto Fujimori extinguished Shining Path, one of the deadliest insurgent organizations of the 1980s (Oliart, 1998). Likewise, in the 2000s Colombia president Alvaro Uribe, serving two terms, severely weakened the power of FARC (Zacharia, 2012). Fortunately Brazil did not have to combat
organized guerrillas as its main social problem. However, during the 1970s, 1980s and part of
the1990s this nation encountered severe periods of inflation, double-digits rates of
unemployment and poverty, and the severe devaluation of the Cruzeiro that forced instruction of
new currency pegged to the U.S. in order to bring stability (Goes, 2012).

In step 2, having improved levels of social security, political stability, and holding
cleaner lands with soils full of natural resources the administrations in Colombia and Peru
focused on instituting economic reforms to eradicate poverty, uplift the living standards of
social classes, and create international commerce alliances to inject foreign investments needed
for internal economic development.

In a similar manner, Brazil’s president Luiz Lula da Silva, serving consecutive terms,
took two major steps. Internally, the administration created economic reforms to move twenty
million Brazilians out of poverty levels to integrate them into the consumer market (“Lula’s
Legacy,” 2010). Externally, to reactivate the local economy, the government and the private
sector successfully brought in new FDI to maximize and monetize the potential of its natural
resources.

**Stress Test**

From financial stand a lot can be argued about the foundation, sustainability, and
qualitative aspects of a business plan that can weather the worst-case scenario of financial
stress-test. A scenario in which customers are not buying, banks fail, job losses predominate,
liquidity becomes synonym of scarcity, and consumer pessimism is ubiquitous. This was the case
of the 2009 global financial recession when the world’s GDP contracted to -2.4% (Word Bank,
2014). Amid these circumstances Brazil stayed stagnant while Peru and Colombia respectively
grew 1% and 2% (World Bank, 2014) thanks to their aggressive initiatives to rebuild an
economic platform based on free market and free trade.

At the present time, quantifying the outcomes of Brazil’s, Peru’s and Colombia’s
strategic plans for change goes beyond the numbers for these countries have regained the one
catalyst that allows a social system to function and facilitates the expansion of business
relationships, trust (Sapienza & Zingales, 2012). However, for those seeking statistical
validation, numbers can also tell the story about how well their comprehensive action plans
worked and what the future brings for these countries. See chart 1 and 2 below.
**GDP GROWTH 2007-2013**

Chart 1 Source: www.worldbank.org

**GDP FORECAST GROWTH 2014-2016**

Chart 2 Source: worldbank.org
REFERENCES


