

Latin America

International Business Report 2008 – Regional focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most countries remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent), whilst Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in Brazil are more optimistic about 2008 (+69 per cent) than they were about 2007 (+47 per cent).

Optimism amongst businesses in Latin America² is significantly stronger than the global average, although levels of optimism do vary throughout Latin America. Overall optimism has risen from 2007. This year +59 per cent of all Latin American businesses are positive about their country's economy compared to a balance of +56 per cent in 2007. Brazil is the most optimistic of Latin American countries with Argentina the least optimistic (+39 per cent).

Latin American economies

The Latin American economy grew at 5.1 per cent in 2007, slightly below the 5.6 per cent achieved in 2006. This represented the fourth consecutive year of sustained growth. The average rate of output gains over 2005–07 was 5.3 per cent, twice the 2.7 per cent registered during the previous 15 years.

The region achieved a 6.4 per cent increase in industrial production during the second quarter, at a seasonally adjusted annual rate, up from 2.4 per cent during the first. Within the region, strong performance in Brazil (ten per cent), offset weakening output gains in Argentina.

In contrast with previous expansion phases – and indeed, with previous episodes of crisis – Latin America is now recording a healthy current account surplus and accumulating large stocks of international reserves. The improvements of recent years might indeed be sufficient to ward off some of the adverse effects of developments in the United States.

In several rapidly growing economies, including Argentina, where inflation had picked up over the last two years, policy interest rates have been increased gradually. But in Brazil inflation eased and monetary policy, which was tight, is now loosening moderately.



¹ The balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² For the purposes of IBR, the term 'Latin America' refers to economies covered by our survey – Brazil, Argentina and Mexico.

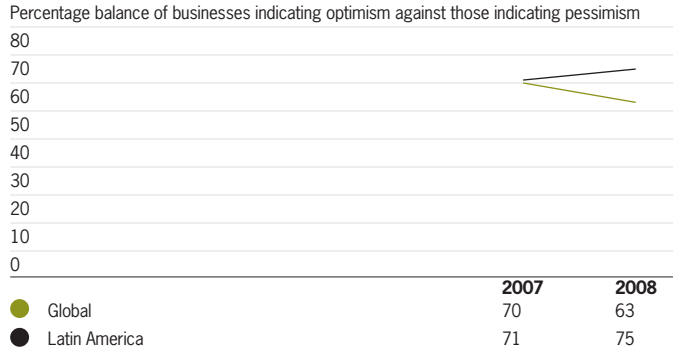
Business expectations/revenue

- A balance of +75 per cent of PHBs in Latin America are optimistic regarding turnover performance. This is above the global average (+63 per cent).
- Levels of optimism regarding investments in plants and machinery (+55 per cent) are also high in comparison to the global average (+30 per cent).

Employment

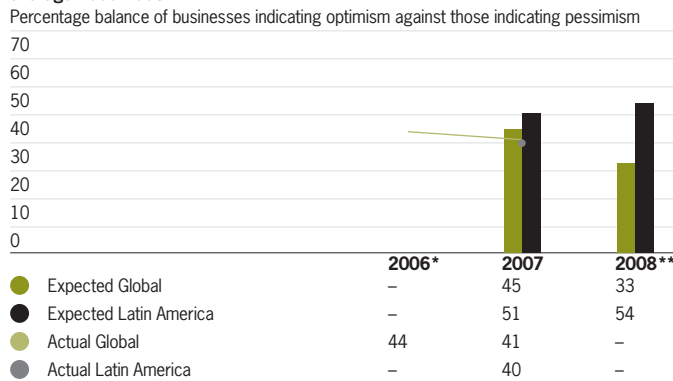
- PHBs in Latin America are far more optimistic regarding employment growth for 2008 (+54 per cent) than is the case for businesses globally (+33 per cent).
- Actual reported employment growth in Latin America in 2007 (+40 per cent) was marginally below the global business average (+41 per cent).

Figure 1: Revenue expectations for Latin American businesses compared to the global average 2007-2008



Source: Grant Thornton IBR 2008

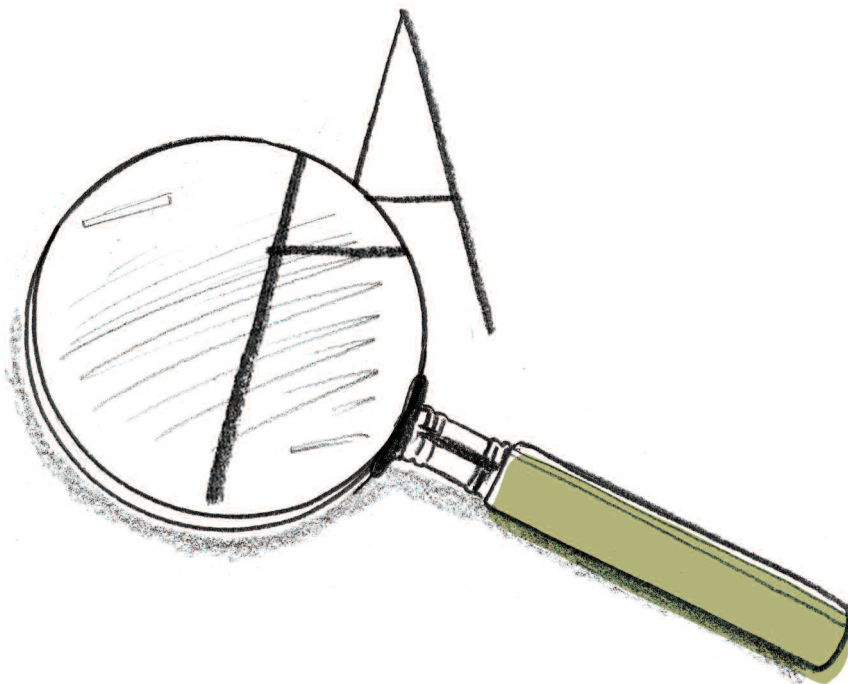
Figure 2: Employment history of Latin American businesses compared to the global average 2006-2008



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

- Regulations/red tape is the constraint restricting expansion cited most by businesses in Latin America (54 per cent), above the global average (31 per cent).
- 46 per cent of PHBs in Latin America cite the cost of finance as a constraint compared to only 27 per cent of businesses globally.
- Similarly, 41 per cent of Latin American businesses cite a shortage of long-term finance as a constraint, as opposed to 21 per cent of businesses globally.

Emerging markets

- The most important factor for Latin American businesses when determining whether to invest internationally is the market's regulatory environment; cited by 64 per cent of PHBs in Latin America.
- The proportion of Latin American businesses which export (32 per cent) is below the global average (39 per cent).
- 40 per cent of Latin American businesses import which is marginally above the global average of 39 per cent.
- 53 per cent of PHBs in Latin America see their main competition coming locally, as opposed to 36 per cent of all businesses.

Figure 3: Largest constraints on growth for Latin American businesses compared to the global average

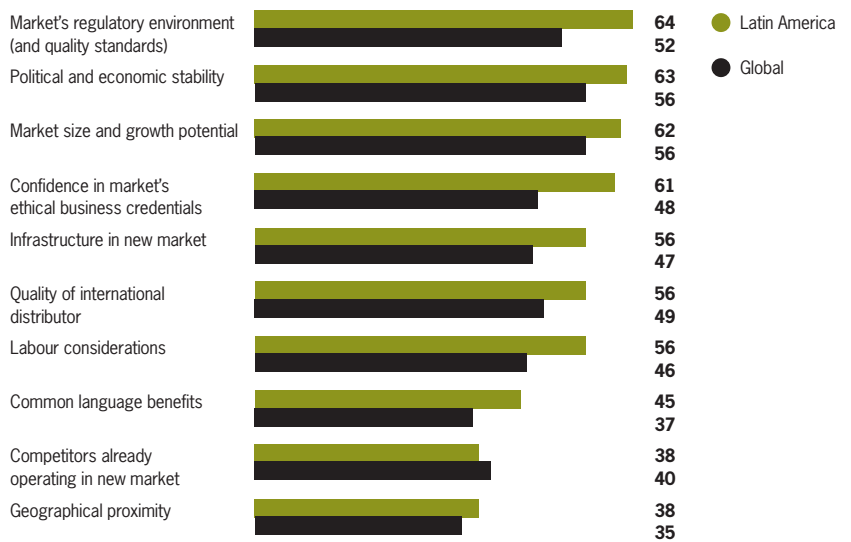
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

Figure 4: Importance of factors determining foreign investment

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

Competitiveness

- PHBs in Latin America believe their greatest source of competitive advantage is product/service quality (81 per cent), as is true of businesses globally (70 per cent).
- 72 per cent of Latin American businesses see adherence to ethical business practices as a source of competitive advantage, much higher than the global business average (58 per cent).
- 72 per cent of Latin American PHBs also cite brand strength as a source of competitive advantage, which is again higher than PHBs globally (58 per cent).

Corporate social responsibility (CSR)

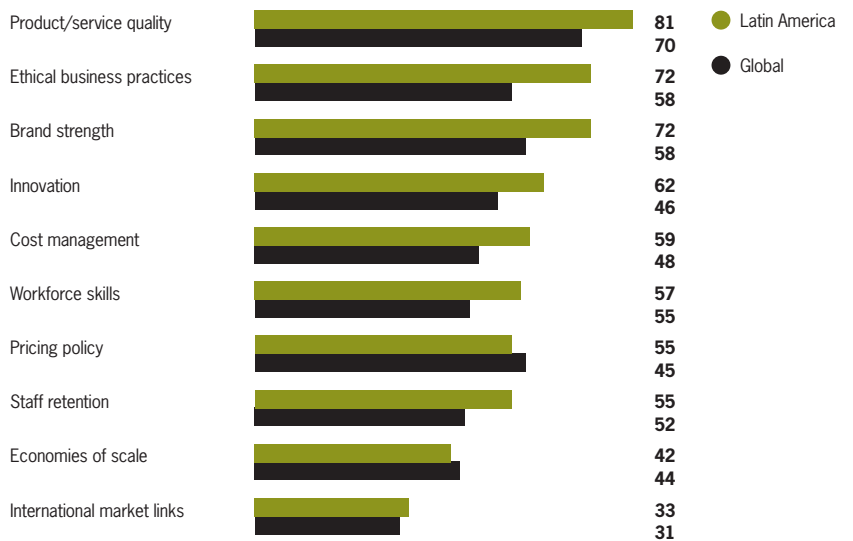
- Cost management and public attitudes/building brands are viewed as the biggest drivers towards more ethical practices by Latin American businesses (81 per cent).
- 82 per cent of PHBs in Latin America offered internships/apprenticeships/work experience in the past year, which was significantly higher than the global average (67 per cent).
- 64 per cent of Latin American businesses have incorporated their policies in to a written CSR document, above than the global average of 56 per cent.

Recruitment and retention

- The balance of Latin American businesses more focused on retention than they were one year ago is +70 per cent, slightly higher than the global average (+59 per cent).
- 70 per cent of PHBs in Latin America ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention, higher than the global average of 64 per cent.
- Increased operating costs, are viewed as the major problem staff retention issues have caused, cited by 46 per cent of PHBs in Latin America.
- It is costing 63 per cent of Latin American businesses significantly more to pay their staff than it was 12 months ago which is equal to the global average.

Figure 5: Main sources of competitive advantage for Latin American businesses compared to the global average

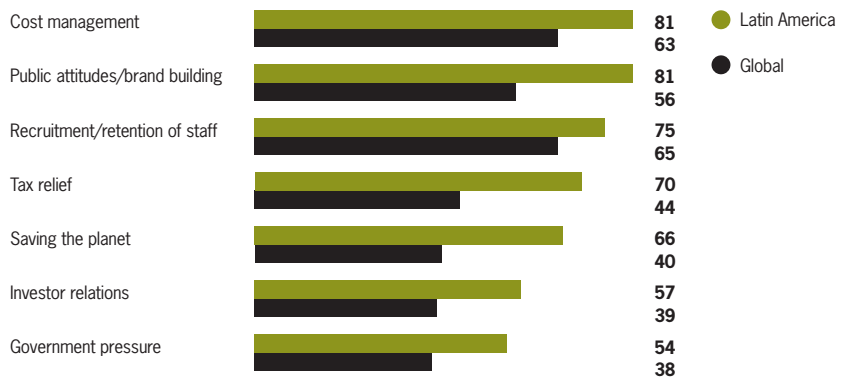
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Latin American businesses compared to the global average

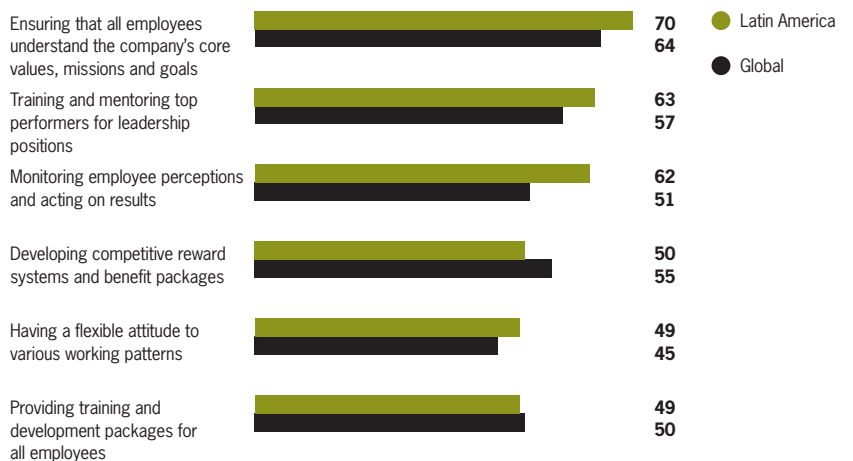
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



Source: Grant Thornton IBR 2008

Figure 7: Usage of recruitment and retention tools for Latin American businesses compared to the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for Latin American economies

Mexico is the economy most vulnerable to a downturn in the US. Approximately 30 per cent of the Mexican economy depends on a mixture of remittances, exports and tourism from the US, and growth this year is likely to fall to about 2.5 per cent before recovering modestly in 2009. Brazil, the region's largest economy, is less vulnerable to events in financial markets and should be able to sustain growth of nearly five per cent, despite the strong appreciation of the real against the dollar.

The outlook for Argentina, the region's other large economy, is even more precarious, stemming from structural problems which hinder productivity growth, an excessive dependence on volatile external factors and a chaotic energy sector. Growth in Argentina and Venezuela is expected to slow from the high rates of recent years, bringing down the growth rate for all of Latin America to about 4.5 per cent this year and slightly less in 2009.

The investment outlook for Latin America is less promising than for Asia or the more industrialised world. More FDI is expected to move into Brazil, driven by a combination of factors including the large domestic market, cheap labour and an improving investment climate. Mexico should also see some gains in inflows of FDI but in many middle-sized countries the investment environment could become more hostile to foreign capital.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six-year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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