5. Australia–Latin America Trade and Business Relations

Pierre van der Eng and Don Kenyon

Introduction

Australia and the countries of Latin America are situated in the most economically dynamic part of the globe that has been exposed to the effects of significant economic growth in East Asia.¹ Nevertheless, trade and investment flows across the South Pacific have long held a promise that has not yet been fully realised. Both remained relatively marginal until quite recently. Chief among the casual answers for this fact is the notion that the respective economies lack complementarity, as Australia and its Latin American counterparts have traditionally been competitive exporters of primary products, primarily agricultural goods, but also minerals.

The purpose of this chapter is to take stock of the development of business relations between Australia and Latin America during the past two decades. It will argue that both parts of the world lack complementarity is no longer accurate; trade and investment flows between both continents have grown considerably in recent years, despite various factors that continue to dampen business relations across the Pacific. For example, the total value of goods trade between Australia and Latin America in 2012 was A\$8.5 billion, six times more than the A\$1.3 billion in 1990.

Sections two and three will establish the orders of magnitude of change in trade and business relations. They will demonstrate that intercontinental trade flows have diversified away from basic commodities to include a wider range of manufactured products and services. This significant growth and diversification, in combination with the relatively low level of existing trade and investment flows, substantiates the conclusion of this chapter that substantial potential for further growth of trans-Pacific business relations still remains.

¹ For the purpose of this chapter, Latin America is broadly defined to comprise South America and Central America, including the Caribbean, although further discussion will focus on Australia's main business partners in Latin America.

Section four will examine remaining differences in the business environments of Australia and the countries of Latin America that may help to explain why Australia's trade and business relationships across the Pacific have not developed as fast as those with some of Australia's other trading partners.

Recent trends: Trade relations

The trends in bilateral business relations between Latin America and Australia are most easily captured with statistics on trade and investment. Table 5.1 gives an overview of the development of trade relations between Australia and Latin America during the last 20 years. It shows annual averages for different periods in order to exclude year-to-year fluctuations from the analysis. In terms of goods, the balance of goods trade has shifted in favour of Latin America during the past ten years, as Australian imports exceeded exports. The balance of services trade has shifted in Australia's favour over the last eight years, but the margin is small. The table also shows that trade relations grew significantly by a factor of five, six in the case of exports and imports of goods during the past 23 years. This rate of growth was higher than that of Australia's trade with the rest of the world, indeed Latin America's shares in Australia's goods exports and imports increased to 1.4 per cent and 2.2 per cent respectively. During the past 12 years Australia's services exports to Latin America increased by a factor of 3.8, significantly higher than goods exports, which increased by a factor of 1.5. This indicates that Australia's business relations with Latin America are diversifying to accommodate services to a greater degree.

Nevertheless, the shares in Table 5.1 indicate that Latin America is in relative terms still of significantly lower importance to Australia's foreign trade relations than other parts of the world, particularly the European Union, East Asia and North America. From a Latin American perspective, trade data reveal that the average share of Australia in Latin America's goods trade was on average 0.3 per cent during 2002–11, the same as during 1992–2001.² Hence, despite significant growth in Latin America's trade relations with Australia, its trade with the rest of the world increased just as fast.

² Calculated from the UN Comtrade database (<http://comtrade.un.org>) with trade data for Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Mexico, Peru and Uruguay.

Table 5.1: Australia–Latin America trade relations, 1990–2012 (annual averages)

	Australian exports to Latin America				Australian imports from Latin America			
	Goods		Services		Goods		Services	
	(mln A\$)	% of total	(mln A\$)	% of total	(mln A\$)	% of total	(mln A\$)	% of total
1990–94	655	1.1%	na	-	829	1.5%	na	-
1995–99	1,060	1.3%	na	-	1,061	1.2%	na	-
2000–04	1,473	1.3%	599	1.7%	1,732	1.4%	479	1.4%
2005–09	2,611	1.5%	1,635	3.4%	3,344	1.8%	751	1.6%
2010–12	3,339	1.4%	2,259	4.4%	5,061	2.2%	705	1.1%

Notes: na = not available. 2010–12 services trade average refers to 2010–11. 2000–12 services exports re-estimated, using travel exports to Latin America from ABS 5368.055.004 Table 9, not Table 5.

Sources: Calculated from ABS 5368.0 and ABS 5368.055.004.

Table 5.2: Australia's main trade partners in Latin America, 2007–11 (annual averages)

	Australia's goods exports			Australia's goods imports	
	(mln A\$)	% of total		(mln A\$)	% of total
Brazil	1,267	41.4%	Mexico	1,377	32.5%
Mexico	804	26.3%	Brazil	876	20.7%
Chile	304	9.9%	Chile	705	16.6%
Argentina	266	8.7%	Puerto Rico	520	12.3%
Peru	104	3.4%	Argentina	366	8.6%
Trinidad & Tobago	48	1.6%	Peru	125	3.0%
Colombia	41	1.3%	Costa Rica	101	2.4%
Costa Rica	31	1.0%	Colombia	34	0.8%
El Salvador	31	1.0%	Dominican Rep.	21	0.5%
Guatemala	25	0.8%	Uruguay	18	0.4%
Jamaica	21	0.7%	Ecuador	16	0.4%
Other	117	3.8%	Other	76	1.8%
Total	3,059	100%	Total	4,235	100%

Source: Calculated from ABS 5368.0.

Table 5.2 identifies Australia's main trade partners in Latin America during the past five years. It is very clear that four countries dominate: Brazil, Mexico, Chile and Argentina. Together they occupy about 80 to 85 per cent of Australia's trade with Latin America, a share that has not changed much since the 1990s. The

dominant four countries include Latin America's three most populous nations, with Chile being geographically closest to Australia and having the most open economy of the four. Puerto Rico also has a significant role in Australia's imports from Latin America, largely due to the imports of products from that country's prominent pharmaceutical industry. Of the other countries, Peru and Colombia can be mentioned.

Table 5.3 disaggregates Australia's goods trade with the four key Latin American countries. Australia's trade statistics contain a significant share of unidentified 'confidential items', which is around 20 per cent of exports to Argentina and Brazil.³ The shares in Australia's exports were therefore estimated on the basis of the trade statistics of the partner countries. Table 5.3 reveals that primary commodities (categories 0–3) dominated Australia's exports to Latin America, followed by a diverse range of machinery and mechanical appliances (included in SITC category 7). Coal (included in category 3) features prominently in Australia's exports, even though all four Latin American countries are coal-producing countries themselves.

Australia's imports from Latin America were dominated by machinery and mechanical appliances (category 7). This is particularly the case with Mexico.⁴ A closer look reveals that this category largely comprises internal combustion engines, car parts and cars, as well as personal computers, computer peripherals and communication equipment. The share of Brazil's exports of manufactured products to Australia is also high, particularly transport equipment (category 7), due to the delivery of 20 Embraer aeroplanes to Virgin Blue in 2008. Australia also imports basic manufactured products from Latin America, particularly refined copper and copper products in the case of Chile (categories 2 and 6), as well as assorted food products (category 0), particularly animal feed from Argentina.

3 It is unclear what 'confidential items' Australia exports to Latin America. They could be exports of nickel and nickel products, which the ABS does not report in Australia's foreign trade statistics: see DFAT, *Exports of Primary and Manufactured Products, Australia 2008–09*, 2010, pp. 10–14. But a range of other commodities, such as coal, toothfish and animal hides, are or have been included as well: see ABS 5372.0.55.001.

4 Australian trade statistics with Mexico may be understated by transit trade through the United States: see JEG, *Australia–Mexico Joint Experts Group on Strengthening Bilateral Economic Relations*, 2009, pp. 49–50.

Table 5.3: Shares of product groups in Australia's goods trade with Latin America, 2007–11 annual averages

SITC Rev.3 category	Australia's exports to					Australia's imports from				
	Argentina	Brazil	Chile	Mexico	Average	Argentina	Brazil	Chile	Mexico	Average
0 Food and live animals	0.6%	4.0%	13.4%	3.7%	5.4%	43.7%	18.5%	6.1%	1.7%	17.5%
1 Beverages and tobacco	0.1%	0.2%	0.0%	0.2%	0.1%	0.6%	3.9%	0.7%	6.5%	2.9%
2 Crude materials, inedible, except fuels	7.2%	3.3%	1.6%	12.0%	6.0%	3.7%	17.4%	17.3%	3.5%	10.5%
3 Mineral fuels, lubricants and related materials	71.0%	61.8%	37.6%	51.9%	55.6%	0.6%	0.0%	0.0%	0.0%	0.1%
4 Animal and vegetable oils, fats and waxes	0.4%	0.1%	0.0%	0.0%	0.1%	12.2%	1.2%	0.1%	0.0%	3.4%
5 Chemicals and related products, n.e.s.	6.3%	4.2%	7.0%	6.2%	5.9%	6.9%	7.4%	4.3%	7.7%	6.6%
6 Manufactured goods classified chiefly by material	4.6%	7.3%	11.2%	9.3%	8.1%	12.1%	13.6%	69.9%	6.2%	25.6%
7 Machinery and transport equipment	7.4%	14.8%	20.9%	12.3%	13.9%	18.6%	32.3%	1.5%	61.8%	28.6%
8 Miscellaneous manufactured articles	2.3%	2.5%	8.2%	2.9%	4.0%	1.6%	4.6%	0.2%	12.5%	4.7%
Other and confidential items	0.1%	0.8%	0.0%	1.4%	0.6%	0.1%	1.1%	0.0%	0.2%	0.3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total value (mln US\$)	237	1,103	270	707	2,316	328	767	634	1,230	2,959

Notes: Shares in Australia's exports are based on partner country trade data (see main text). The averages are unweighted.

Source: Calculated from UN Comtrade database, <http://comtrade.un.org>.

Table 5.4 summarises change in the composition of Australia's goods trade with its four key trade partners in Latin America.⁵ On average, the share of manufactures in Australia's imports rose from 56 per cent in 1990–94 to 66 per cent in 2007–11. The average share of manufactured products in Australia's exports increased somewhat from 26 to 32 per cent, but this was largely due to the decrease in the share of manufactured exports to Argentina. Excluding Argentina, the average share increased to 36 per cent. Table 5.4 therefore reveals that manufactured products now play a greater role in Australia's trade with Latin America than 20 years ago. Australia's goods trade with Latin America has clearly diversified away from primary commodities.

Table 5.4: Share of manufactures in Australia's goods trade with Latin America, 1990–94 and 2007–11 annual averages

	Argentina	Brazil	Chile	Mexico	Average
A. Australia's exports					
1990–94	48.0%	8.0%	34.6%	14.8%	26.4%
2007–11	20.6%	28.8%	47.4%	30.7%	31.9%
B. Australia's imports					
1990–94	45.3%	75.9%	22.8%	80.1%	56.0%
2007–11	39.2%	57.9%	75.9%	88.1%	65.6%

Notes: Manufactures are defined as SITC Rev.3 categories 5–8. Australia's export shares for 2007–11 are based on partner country trade data (see main text). The averages are unweighted.

Source: Calculated from UN Comtrade database, <http://comtrade.un.org>.

Australia's services exports to Latin America consist largely of travel-related services, particularly personal travel (tourism) and education-related services, which occupy 76 per cent, as Table 5.5 shows. Vice versa, Australia's imports of services from Latin America are clearly dominated by unspecified business services, followed by tourism and transport. Unfortunately, the source is too incomplete to allow a very specific disaggregation of services trade according to countries of direction and origin—except that over two-thirds of the large share of unspecified imported business services are imported from Central America and the Caribbean. It is likely that this is related to the significant portfolio and direct investment transactions between Australia and countries such as the British Virgin Islands, the Cayman Islands and Bermuda (see below).

⁵ Australia's export data to Latin America did not contain such 'confidential items' for 1990–1994.

Table 5.5: Shares in Australia's services trade with Latin America, 2007–11 (annual averages)

	Australia's services exports			Australia's services imports	
	(mln A\$)	% of total		(mln A\$)	% of total
Travel, personal	864	40.5%	Business	312	38.8%
Travel, education	768	36.0%	Travel, personal	238	29.6%
Business, nes	198	9.3%	Transport	135	16.8%
Travel, other	119	5.6%	Intellectual property	32	4.0%
Transport	80	3.7%	Government	23	2.9%
Financial	48	2.2%	Travel, other	21	2.6%
ICT	34	1.6%	ICT	14	1.7%
Intellectual property	12	0.6%	Financial	13	1.6%
Government	5	0.2%	Travel, education	12	1.5%
Construction	1	0.0%	Insurance, pensions	2	0.2%
Other	6	0.3%	Other	2	0.2%
Total	2,135	100.0%	Total	804	100.0%

Note: ICT refers to Information, Computer and Telecommunications services. 2007–11 services exports re-estimated, using travel exports to Latin America from ABS 5368.055.004 Table 9, not Table 5.

Source: Calculated from ABS 5368.055.004.

Regarding travel-related services, Table 5.6 shows short-term arrivals and departures between Australia and Latin America, presumably for purposes that include tourism, family visits, business and education. The table confirms the broad trends in Table 5.1. In relative terms, the share of citizens of Latin American countries on short-term visits to Australia almost trebled from 0.5 per cent of the total number of visitors during 1991–94 to 1.3 per cent during 2010–12, while the share of Australian residents visiting Latin American countries increased from 0.8 per cent to 1.2 per cent. In all, such intercontinental visits are still marginal compared to visits between Australia and other continents, but they have grown significantly in recent years to the extent that Australia in 2012 hosted 84,700 short-term visitors from Latin America, particularly from Brazil, while 99,000 Australian residents visited Latin America, particularly Brazil, Argentina and Chile.

Table 5.6: Travel between Australia and Latin America, 1991–2012
(annual averages)

	Brazil	Mexico	Argentina	Chile	Other	Total, Latin America	As % of Australia total
A. Short-term arrivals in Australia of Latin American citizens							
1991–94	2,925	1,950	na	na	8,625	13,500	0.5%
1995–99	7,480	2,700	na	na	15,380	25,560	0.6%
2000–04	10,740	5,380	na	na	18,020	34,140	0.7%
2004–09	17,400	5,520	na	na	23,440	46,360	1.0%
2010–12	29,067	6,333	na	na	39,433	74,833	1.3%
B. Short-term departures of Australian residents to Latin America							
1991–94	2,000	2,100	3,625	4,450	5,300	17,475	0.8%
1995–99	3,520	3,000	5,520	5,140	9,160	26,340	0.9%
2000–04	5,580	5,060	5,760	7,040	14,880	38,320	1.1%
2004–09	8,720	6,800	8,960	9,100	20,540	54,120	1.2%
2010–12	16,300	11,400	15,667	12,333	34,267	89,933	1.2%

Notes: na = not available, Latin America includes South and Central America, and the Caribbean.

Source: Calculated from ABS 3401.0.

A special group of short-term visitors are international students. On average there were 23,000 students in Australia during 2012 who held Latin American or Caribbean citizenship, a number that had almost quadrupled from around 6000 in 2002.⁶ In 2012, 15 per cent of these students were enrolled in higher education, 29 per cent in vocational education, 52 per cent attended English language courses, and three per cent schools and other educational institutions. The growth of the total number of Latin American students was mainly fuelled by enrolments in vocational and English language programs. In 2012, 46 per cent of these students were from Brazil, 31 per cent from Colombia, seven per cent from Chile, six per cent from Peru, and five per cent from Mexico. The share of Latin American students in the total population of international students in Australia increased from three per cent in 2002 to six per cent in 2012.

To summarise, this section has shown that Australia's business relations with Latin America are very much focused on Argentina, Brazil, Chile and Mexico. While in the past these relations may have been dominated by primary commodities, the share of manufactured products and services has increased in Australia's trade relations with key Latin American countries. This indicates that business relations have diversified and it is likely that this diversification has driven a rate of growth of trade relations. In the case of merchandise trade,

6 AEI, International Student Data, 2002–2012, 2012.

this growth is higher than Australia’s trade with the rest of the world. It truly appears that business relations between Australia and Latin America are on the move, albeit gradually. The next section will establish the degree to which the change in trade relations is also reflected in investment relations.

Recent trends: Investment relations

Table 5.7 shows the stock of Australian investment in Latin America and of investments from Latin America in Australia. The Australian Bureau of Statistics (ABS) does not publish details of investments for most Latin American countries for reasons of confidentiality, while the published data for other countries are incomplete. Hence, some of the data in the table are only estimates based on information for previous years and on the distribution of investment. Nevertheless, it is clear from Table 5.7 that the accumulated investment flows to and from Latin America are relatively marginal from an Australian perspective, as less than three per cent of Australian outward investment found its way to Latin America. Likewise, Latin America was the source of just two per cent of foreign investment in Australia; more so for portfolio investment than for direct participation in foreign ventures, or Foreign Direct Investment (FDI).

Table 5.7: Stock of investment between Australia and Latin America, 2011 (mln A\$)

	Australian foreign investment			Foreign investment in Australia		
	Direct	Portfolio	Total	Direct	Portfolio	Total
Argentina	914	18	932	10	240	250
Bermuda	7,000	3,257	10,257	7,791	1,500	9,291
Brazil	1,000*	3,085	4,085	350	650	1,000
British Virgin Islands	na	na	na	20,000	0	20,000
Cayman Islands	360	500	860	1,500	468	1,968
Chile	1,325	229	1,554	na	na	na
Mexico	1,900	1,345	3,245	1	41	42
Total, these countries	24,400	8,434	20,933	29,652	2,899	32,551
As % of Australia total	7.2%	1.9%	2.7%	5.8%	0.2%	1.9%

* The source lists a stock of Australian outward FDI in Brazil of about A\$12.9 billion, compared with A\$1 billion in 2008, and around A\$1 billion in the Brazilian statistics (BCB, *Census of Foreign Capitals in Brazil, 2000 Base-Year*, 2010). Australian FDI flows to Brazil did not increase significantly in 2009. The increase is therefore likely to be caused by changes in the FDI portfolio of Australian firms that brought interests in other countries under the control of their subsidiaries in Brazil.

Notes: na = not available. Numbers in italics are estimates. Total is for identified partner countries only.

Source: Estimated from ABS 5352.0.

If it weren't for the fact that a considerable amount of investment was channelled through financial institutions and holding companies in Bermuda, the British Virgin Islands, and the Cayman Islands, FDI would have been even more marginal. It is very likely that the ultimate destinations of this Australian investment were not other countries in Latin America, while Latin America was not the original source of this investment in Australia. For example, in 2006 Telstra acquired 51 per cent of SouFun Holdings for US\$254 million, which is a Chinese company registered in the Cayman Islands.⁷ Likewise, in 2008 CopperCo acquired 74 per cent in Mineral Securities for \$536 million, a British company registered in the Virgin Islands. In the other direction, Cheung Kong Infrastructure Holdings in Bermuda acquired 51 per cent of Victorian electricity distributors Powercor Australia and CitiPower in 2000 and 2002 respectively, on behalf of Cheung Kong Infrastructure and Hong Kong Electric Holdings, two companies in the Hong Kong-based Cheung Kong business group.

Two other ABS publications confirm the impression that Table 5.7 does not fully represent the investment relations between Australia and Latin America. One reveals that there was no significant presence of Latin American companies in Australia in 2000–01.⁸ This may have changed somewhat in recent years, but not drastically. Many Latin American firms have internationalised their operations to become the so-called 'Multilatinas' and more recently 'Global Latinas',⁹ but most of them still have to find their way to Australia. A further ABS publication shows that there were 39 Australian-owned affiliates in Brazil in 2002–03—27 in Chile and 25 in Mexico—that altogether employed 6300 people, plus another 22 in other Latin American countries.¹⁰ Many of these companies are likely to have been subsidiaries of Australia's mining and mining supplies and service companies. Given significant FDI inflows in Latin America's booming mining sector, it is likely that the number of Australian firms in Latin America has increased significantly in recent years.

Excluding the investments by Australian firms in small Central American countries,¹¹ as well as by companies from those countries in Australia, Table 5.8 summarises information on company acquisitions between Australia and Latin America up to 2010. The most prominent acquisition in Latin America was Nufarm's purchase of Agripec in Brazil in 2007. Of greater significance was the acquisition of the Rinker group—including Readymix and Humes—in Australia

7 Telstra divested its interest in SouFun Holdings for US\$433 million in September 2010.

8 ABS (ABS 5494.0), *Economic Activity of Foreign Owned Businesses in Australia*, 2004.

9 Lourdes Casanova and Matthew Fraser, (eds), *From Multilatinas to Global Latinas*, 2009; Andres Hatum and Josefina Michelini, 'Going Global: The Process of Internationalisation of Latino Multinational Firms', *International Journal of Business and Emerging Markets*, 2011, 3: pp. 36–56.

10 ABS (ABS5495.0), *Australian Outward Foreign Affiliates Trade: Experimental Results*, 2004; Frances van Ruth, *The Internationalisation of Australian Firms*, PhD Thesis, 2008, p. 13.

11 Specifically, acquisitions from and sales to the Netherlands Antilles, Bermuda, Belize, Cayman Islands, Panama, British Virgin Islands, and Antigua and Barbuda were excluded from Table 5.8.

by construction materials firm Cemex of Mexico in 2007, although Cemex sold Rinker two years later to Holcim, a Swiss cement firm. Also significant was the 2007 purchase of coal-mining company AMCI Holdings by Brazil's iron ore-mining company Vale. Brazil's JBS Friboi group gained control over meat packer Australia Meat Holdings when it acquired its US parent firm Swift in 2007. Renamed Swift Australia, this JBS subsidiary purchased the Tatiara Meat Company in 2010.

Table 5.8 suggests that mining, mining services and utilities companies dominate the interests of Australian companies in Latin America. BHP Billiton has a 100 per cent interest in the Cerro Colorado copper mine in Chile, joint venture interests in refining plants and coal and nickel mining in Brazil and Colombia, as well as in the Antemina copper and zinc mine in Peru. Several Australian mining supplies and service companies have followed in the wake of the mining companies. For example, Austin Engineering purchased Conymet in Chile in 2009 to produce dump-truck bodies for mining ventures throughout South America. Several non-mining firms have also found their way to Latin America. For example, Australia's Pacific Hydro used its expertise in hydro and wind electricity to take advantage of privatisation in Chile's energy sector to enter the market for hydro-electricity in 2004, and invest in wind electricity projects in Brazil. Packaging producer TNA established subsidiaries in Chile and Mexico. A number of Australian companies (such as the mining services and chemicals divisions of Orica), have also been attracted by the openness of the Chilean economy to choose it as their base in Latin America. It is difficult to provide a comprehensive overview of business interactions between Australia and Latin America: several of the interests of Australian mining companies are not included in Table 5.8, which can only offer an incomplete impression of bilateral investment for the following four reasons.

Table 5.8: Company acquisitions between Australia and Latin America, 1997–2012

Australian firm	Latin American firm	Country	Year	Industry	Stake	Deal value (mln \$)
By Australian firms in Latin America						
Nufarm Ltd	Agripec Química e Farmacêutica SA	Brazil	2004, 2007	Manufacturing	100%	389
OBE Insurance Group Ltd	HSBC Argentina Holdings SA	Argentina	2012	Insurance	99%	215
Pacific Hydro International Pty Ltd	Pacific Hydro Chile SA	Chile	2008	Utilities	>50%	118
Superannuation funds consortium	GasValpo SA	Chile	2008	Utilities	100%	101
SEEK Ltd	Brasil Online Holdings Coöperatief UA	Brazil	2008, 2012	ICT	51%	160
Beadell Resources Ltd	Mineração Pedra Branca do Amapari Ltd a	Brazil	2010	Mining	100%	68
SEEK Ltd	Ontime Career Centre Mexico SA de CV	Mexico	2010, 2012	ICT	47%	63
Australis Mining Ltd	SCM Vallenar Iron Company	Chile	2010	Mining	60%	50
Strike Resources Ltd	Apurímac Ferrum SA	Peru	2008	Mining	51%	39
OBE Insurance Group Ltd	Optima Insurance Group	Puerto Rico	2012	Insurance	100%	38
Admiralty Resources NL	Compañia Minera Santa Barbara SA	Chile	2005, 2008 b	Mining	60%	28
OBE Insurance Group Ltd	Compañía Central de Seguros SA	Colombia	2005	Insurance	97%	26
Tamaya Resources Ltd e	Latin American Copper Chile SA	Chile	2007	Mining	100%	24
Austin Engineering Ltd	Conymet Ltd a	Chile	2009	Mining services	100%	23
BHP Billiton Ltd	Jaguar Nickel SA	Guatemala	2005 d	Mining	100%	22
Voiconet (Aust) Ltd	Rimpex International SA	Chile	2000	ICT	100%	11
Natasa Mining Ltd c	Puquios copper project	Chile	2007	Mining	92%	10
Coffey International Ltd	Geoexplore Consultoría e Servicios Ltd a	Brazil	2007	Mining services	100%	8
Tamaya Resources Ltd e	Compañía Minera Tamaya SA	Chile	2003	Mining	100%	8
Orica Ltd	Andean Chemicals Group	Chile, Peru	2005	Manufacturing	51%	8
By Latin American firms in Australia						
Rinker Group Ltd	Cemex SAB de CV	Mexico	2007 d	Construction	100%	19,392
AMCI Holdings Australia Pty Ltd	Companhia Vale do Rio Doce Ltd a	Brazil	2007	Mining	100%	986
Tatiara Meat Company Pty Ltd	JBS SA	Brazil	2010	Food processing	100%	35
Rositas Investments Pty Ltd	Gruma SA de CV	Mexico	2006	Food processing	100%	18

Notes: Only deals with a disclosed value of over A\$8 million. The deal value may vary from announcements, due to exchange rate differences between announcements and settlements in US\$. a. Divested in 2008. b. Divested in 2010. c. Previously Investika Ltd. d. Divested in 2009. e. Previously SMC Gold Ltd. f. Previously Icarus Derivatives, and now registered in the British Virgin Islands.

Sources: Bureau van Dijk, Zephyr database, May 2010; company public announcements.

(1) The value of deals is not always disclosed. For example, QBE's acquisition of insurance firm Cumbre Seguros in Mexico in 2007, or Ansell's purchase of Blowtex in Brazil in 2007, are not included for that reason.

(2) Systematically collected information on Greenfield investments is not readily available. For example, Agrichem's establishment in 2000 of a joint venture fertiliser production and distribution plant in Brazil is not included, nor is Orica's joint venture with Grupo Merand in Venezuela that since 2000 operates two explosives plants. For the same reason, many of the smaller interests of Australian firms are not included, such as the Nufarm-owned subsidiary companies in ten Latin American countries that distribute Nufarm's products.

(3) Many Australian construction, mining and mining services companies operate in Latin America on a project basis and have either specific project-based subsidiaries or representative offices in Latin America. A relatively large number of Australia-based mining companies have ventures in Latin America that are in different stages of development. They may have concessions for exploration of mineral deposits, or are in the process of acquiring funding for that purpose. Others are still awaiting permissions to commence mining operations and/or are in the process of securing funding for that purpose on Australian or international capital markets. Or they are in the process of creating joint-venture operations for that purpose. Brambles and Bovis Lend Lease have a presence in Argentina, Brazil, Chile and Mexico for the purpose of securing or carrying out construction projects. Queensland engineering company Cullen Grummit and Roe has a presence in Argentina and Peru and conducts port development projects in different Latin American countries. Likewise, mining services companies Maptek in Adelaide and Mincom in Brisbane conduct IT projects in several places in Latin America.

(4) Several Australian companies arranged the acquisitions of firms in Latin America through their other foreign subsidiaries. For example, Amcor acquired a significant presence in Latin America in 2003 through a US\$115 million purchase of nine PET container production facilities from global competitor Alcoa, but the acquisition was completed by its US subsidiary Amcor Holdings. The large mining companies in particular conduct their operations in this way. For example, BHP Billiton invested in Chile via one of its US subsidiaries.¹² Consequently, Australian mining companies, particularly BHP Billiton, Rio Tinto, and Xtrata—an Australian firm since its purchase of MIM Holdings in 2003—have established multiple operations in Latin America that are not captured in Table 5.8. Similarly, the purchase of Rinker was financed through the foreign operations of Cemex rather than by its headquarters in Mexico, but this deal is included in Table 5.8.¹³

¹² Van Ruth, *op. cit.*, note 10, p. 13.

¹³ ECLAC, *Foreign Direct Investment in Latin America and the Caribbean*, 2007, p. 55.

These four factors help in understanding that the investment stock data in Table 5.7, as well as the acquisitions data in Table 5.8 only offer a partial impression of the business relations between Australia and Latin America. On the other hand, it should be kept in mind that Australian firms are altogether not major investors in Latin America. For example, at the end of 2008 FDI from Australia was only three per cent of the total stock of FDI in Chile,¹⁴ and only two per cent of the stock of FDI in Brazil.¹⁵

Nevertheless, sections two and three have together underlined that Australia's business relations with Latin America have grown, but remain of lower significance compared with those with other parts of the world, and vice versa. This impression is confirmed by other sources of information, such as the three 2008–10 surveys among Australian companies by Australia's Export Finance Insurance Corporation (EFIC). They consistently rated Central and South America last among all continents in the world, including Africa, in terms of foreign revenues (14 per cent in 2008), export destinations (12 per cent in 2009; ten per cent in 2010), expected future export destinations (14 per cent in 2009 and 2010), offshore operations (nine per cent in 2008; six per cent in 2009, four per cent in 2010, particularly mining companies), and expected future offshore operations (six per cent in 2008, ten per cent in 2009, seven per cent in 2010).¹⁶ This suggests that there are still ample opportunities for further expansion of trade and business relations. Before analysing how this expansion may be fostered, it would be relevant first to probe the factors that help to explain why Australian companies currently take only a relatively marginal interest in business relations with Latin America.

Business environments: How important are the remaining differences?

Distance across the Pacific Ocean is sometimes identified as a major impediment to Australia's business relations with Latin America. For example, a 2001 DFAT report noted that the long distance between Australia and Latin America increases the share of transport costs, especially for Australia's low-value bulk export commodities.¹⁷ However, physical distance is not necessarily an

14 INE, *Estatuto de la Inversión Extranjera* (DL600), Santiago de Chile: Instituto Nacional de Estadísticas de Chile, 2009. <http://www.ine.cl>, accessed 11 November 2013.

15 BCB, *Census of Foreign Capitals in Brazil, 2000 Base-Year*. Brasília: Banco Central do Brasil, 2010. <http://www.bcb.gov.br/>, accessed 11 November 2013.

16 EFIC, *Global Readiness Index: National Report*, Canberra: Export Finance and Insurance Corporation, 2008–2010: EFIC 2008, pp. 16, 24, 30; EFIC 2009 pp. 18, 24, 30, 46; EFIC 2010, pp. 28, 32, 42, 52.

17 DFAT, *Investing in Latin American Growth: Unlocking Opportunities in Brazil, Mexico, Argentina and Chile*, Canberra: Department of Foreign Affairs and Trade, 2001, pp. 20–21.

impediment. After all, for centuries Australia has conducted long-distance trade with the United Kingdom over distances that span half the globe. Physical distance was overcome through efficient transport connections—shipping and air transport—for goods and people; as well as communications, finance, long-term accumulation of personal and business connections; similarities in institutions relevant to business relations—social and legal; and similarities in living standards. If physical distance is not necessarily an issue, what issues then sustain the notion of ‘distance’ between Australia and Latin America?

Analyses of international business relations tend to use notions of ‘economic’, ‘institutional’ and ‘psychic’ distance, rather than simply geographic distance, to explain the degree of trade and business contacts between two countries.¹⁸ Economic distance relates to differences in the economic situation between Australia and the countries of Latin America. This notion can be captured with some basic numbers, such as those in Table 5.9. It shows that Australia is small relative to the main countries of Latin America in terms of its population. However, GDP per capita indicates that Australia’s standard of living is high relative to Latin America. Despite its significantly smaller population, Australia’s GDP is therefore large relative to the larger Latin American economies. The degree to which the Australian economy depends on foreign trade is broadly comparable to Latin America as a whole, which of course implies that trade per capita is significantly higher than in Latin America, as Table 5.9 confirms.

The difference between the levels of GDP per capita is in itself an indication of a significant economic distance between Australia and Latin American countries. These levels could be broad indicators of the low maturity of markets for advanced goods and services. However, the size of the population in several Latin American countries, particularly Brazil, Mexico and Argentina, combined with significant and persistently high income inequalities,¹⁹ suggests that there could be sizeable mature markets in Latin America. If, for example, only ten per cent of the population in Latin American countries maintains an average level of income comparable to Australia, it would still comprise a potential market of over 50 million people. This market may be imperfectly integrated, but its size would be well in excess of Australia’s.

18 Van Ruth, *op. cit.*, note 10, pp. 19–62, offers an extensive discussion of this literature, as well as the measurable differences in the business environments of Latin American countries.

19 Ewout Frankema, *Has Latin America Always Been Unequal? A Comparative Study of Asset and Income Inequality in the Long Twentieth Century*, Leiden: Brill Publications, 2009.

Table 5.9: Basic economic indicators, Australia and Latin America, 2009-2011

	Population (mln, 2011)	GDP (bln US\$, 2011)	GDP per capita (US\$, 2011)	Trade per capita (US\$, 2009–11 av.)	Trade to GDP ratio (2009–11 av.)
Australia	22.6	1,371.7	60,695	22,764	44
Brazil	196.7	2,476.6	12,591	2,423	23
Mexico	114.7	1,155.3	10,072	5,525	61
Colombia	46.9	331.6	7,070	2,107	34
Argentina	40.8	446.0	10,940	3,706	40
Peru	29.4	176.7	6,009	2,612	50
Venezuela	29.3	316.5	10,810	4,379	36
Chile	17.3	248.6	14,394	8,537	69
Guatemala	14.8	47.0	3,184	1,817	62
Ecuador	14.7	67.0	4,569	2,892	71
Bolivia	10.1	24.4	2,421	1,389	67
Dominican Rep	10.1	55.7	5,535	2,888	56
Honduras	7.8	17.3	2,226	2,231	109
Paraguay	6.6	23.9	3,635	3,104	106
El Salvador	6.2	23.1	3,702	2,408	69
Nicaragua	5.9	7.3	1,243	1,618	140
Costa Rica	4.7	41.0	8,675	6,148	81
Uruguay	3.4	46.7	13,865	6,148	53
Jamaica	2.7	15.1	5,563	4,019	79
Trinidad & Tobago	1.3	22.5	16,704	16,385	96
Total, average	563.2	5,542.1	9,841	3,498	40

Note: The average trade–GDP ratio for Latin America is unweighted.

Source: WTO Trade Profiles, <http://stat.wto.org/>.

Market size matters to business relations, but so does a range of other aspects of the business environment, such as economic stability. During the past 20 years, major countries in Latin America have experienced significant macro-economic crises, particularly Mexico in 1982, 1990 and 1994–95, Brazil in 1994–95 and Argentina in 2002–03 (see Chapter 6). Such instability found its expression in drastic exchange rate fluctuations that enhanced the risk of doing business with these countries. Memories of the specifics of such episodes of economic crisis may now be fading, but they are likely to feed lingering general impressions of economic instability.

Fluctuating exchange rates, lack of full convertibility in some cases, and economic instability are factors that determine impressions of economic distance. A range of other factors impact on business relations also. For trade relations, exchange rate stability may be less relevant because international transactions are generally denominated in relatively stable international currencies, and firms can hedge adverse exchange rate movements. More important in this case is the likelihood that foreign business partners will pay for deliveries, or will deliver goods upon receipt of payment. Normally, the letter of credit and bill of exchange mechanism is sufficient for this purpose. But for transactions involving partners located in countries with higher risk ratings, companies tend to secure the services of government-sponsored agencies that offer export credit insurance and finance for export activities in case private financial companies do not. In Australia, EFIC offers this service. As with similar agencies in other countries it uses the country risk classifications of the Organisation for Economic Cooperation and Development (OECD) as one of the foundations for its activities. These classifications are summarised in Table 5.10.

The OECD consistently ranks Australia, together with most other OECD countries, among the countries where the risk of non-repayment of export credits is very low. This implies that companies can be assured that payments for exports will eventuate and that goods will be delivered for import upon payment. It also implies that there are reasonably effective legal mechanisms available to seek redemption in case payments or deliveries do not eventuate. Table 5.10 indicates that most Latin American countries are in the medium to high risk category. Some countries are perceived as less risky than others, particularly Chile, Trinidad and Tobago, and Mexico, but others such as Argentina and Ecuador are considered to be high-risk. Table 5.10 also shows that some countries have reduced their risk ranking during the past decade; particularly Mexico and Brazil for reasons that will be discussed in Chapter 6. In broad terms, we can expect that there is a positive correlation between the reluctance among Australian companies to export to or import from these countries and their risk rating. Australian firms can of course seek to minimise

transaction risks, for example by dealing exclusively with trusted business partners, or purchasing export credit insurance from financial institutions or possibly EFIC, but such actions increase their transaction costs.

Table 5.10: OECD country risk classifications, Australia and Latin America, 1999–2013

	1999–03	2004–08	2009–13
Australia	0.0	0.0	0.0
USA	0.0	0.0	0.0
Chile	2.0	2.0	2.0
Trinidad and Tobago	2.3	2.0	2.0
Mexico	3.3	2.3	2.9
Brazil	6.0	4.4	3.0
Costa Rica	3.4	3.0	3.0
Panama	4.0	3.7	3.0
Peru	5.1	4.2	3.0
Uruguay	4.1	5.2	3.6
Colombia	5.1	4.6	4.0
El Salvador	4.0	4.0	4.0
Guatemala	6.0	5.5	5.0
Paraguay	5.8	6.2	5.0
Honduras	6.9	6.7	6.0
Jamaica	5.1	6.0	6.2
Bolivia	6.7	7.0	6.4
Venezuela	5.1	6.2	6.9
Argentina	6.1	7.0	7.0
Cuba	7.0	7.0	7.0
Ecuador	6.9	7.0	7.0

Note: The classifications are for export credit risk assessment. The scale is from 0 (low risk) to 7 (high risk). The data shown are calculated from quarterly data.

Source: Calculated from OECD, [http://www.oecd.org/tad/xcred/cre-crc-historical-internet-english-\[25-0-2013\].pdf](http://www.oecd.org/tad/xcred/cre-crc-historical-internet-english-[25-0-2013].pdf).

The authoritative OECD risk indicators summarised in Table 5.10 are based on the OECD's considerations of the payment experiences of partner countries, as well as the financial and economic situation of assessed countries. The OECD does not publish the details of its deliberations, but they are most likely based on an amalgam of factors. McCoy and McLendon offer an intricate discussion of factors that shape the business environment in 18 Latin American countries.²⁰ Key factors are also captured in composite indices that rank countries on the

²⁰ McCoy, Terry L. and Timothy McLendon, *2009 Latin American Business Environment Report*, Gainesville FL: Center for Latin American Studies, University of Florida, 2009.

basis of various aspects of their business environment. For example, the annual Heritage Foundation's Index of Economic Freedom is based on publicly available statistical information that captures aspects of a country's legal, economic, regulatory and governance structures that can confound investment and commerce. *Euromoney's* annual Country Risk rankings of countries uses similar data, but combines them with surveys among company executives into their perceptions of the risks of doing business in other countries. Table 5.11 shows the most recent results for Australia and Latin American countries.

Table 5.11: Diversity in the business environments of Australia and Latin America, 2013

	Index of Economic Freedom	Euromoney Country Risk Index
Australia	82.6	81.2
USA	76.0	74.9
Chile	79.0	74.6
Brazil	57.7	60.2
Mexico	67.0	58.9
Colombia	69.6	58.6
Trinidad and Tobago	62.3	58.2
Peru	68.2	57.0
Uruguay	69.7	51.9
Costa Rica	67.0	50.1
El Salvador	66.7	43.6
Paraguay	61.1	41.3
Bolivia	47.9	39.4
Honduras	58.4	38.0
Guatemala	60.0	37.4
Ecuador	46.9	35.5
Argentina	46.7	33.6
Venezuela	36.1	33.4
Jamaica	66.8	32.0
Nicaragua	56.6	28.4

Note: The scales are from 0 (respectively low opacity, low economic freedom or high risk) to 100 (respectively high opacity, high economic freedom or low risk).

Sources: Miller, Holmes and Feuler 2013; *Euromoney* (January 2013) <http://www.euromoney.com>.

The choice and weighting of the different indicators on which these indices have been based contain an element of arbitrariness. It is possible that the indicators are not able to capture all elements of country risk that are relevant to business decisions. And, for that matter, it is possible that the indicators also fail to take

account of any actions that foreign firms may implement to assess and absorb the risk they face in countries that are ranked low in Table 5.11. Nevertheless, in broad terms, there is a positive correlation between these rankings and the last column in Table 5.10. Table 5.11 therefore confirms that there are very significant differences between the business environments of Australia and most countries of Latin America, as well as between Latin American countries themselves. It also confirms that those differences inform perceptions of risk that companies take into account when considering whether or not to take advantage of foreign business opportunities through trade and investment. For example, research for Latin American countries found that greater economic freedom, as well as minimisation of expropriation risk, financial and trade reforms, good governance and institutional improvements are all positively correlated with greater inflows of FDI.²¹

Most pertinent to companies engaged in international business are issues that the World Bank captures in its annual survey of the business environment in countries around the world.²² The results for 2012 are summarised in Table 5.12. They show that Australia is not necessarily the easiest country in which to conduct business, depending on the indicator used. However, compared with most countries in Latin America, Australia ranks on average highly, as do most other OECD countries. Hence, it is not just on the basis of the opinions of company executives and/or macro-economic and financial indicators that Latin American countries can be regarded as difficult and risky countries for the purposes of international business. A range of micro-economic regulatory issues relevant to business operations points in the same direction, although it needs to be emphasised that there are significant differences between countries in the region.

As mentioned, private companies can find ways to overcome such difficulties in foreign business environments. For example, with specific reference to Australian firms in Latin America, Van Ruth found that person-to-person contact and the creation of networks based on such personal contacts can help to overcome the difficulties that underlie the 'psychic distance' between Australia and Latin America.²³ She determined that networks mitigated risk and thus expedited the

21 Marta Bengoa and Blanca Sánchez-Robles, 'Foreign Direct Investment, Economic Freedom and Growth: New Evidence from Latin America', *European Journal of Political Economy*, 2003, 19, pp. 529–45; Len J. Treviño, and Franklin G. Mixon, 'Strategic Factors Affecting Foreign Direct Investment Decisions by Multi-National Enterprises in Latin America', *Journal of World Business*, 2004, 39, pp. 233–43; Glen Biglaiser and Karl De Rouen, 'Economic Reforms and Inflows of Foreign Direct Investment in Latin America', *Latin American Research Review*, 2006 41(1), pp. 51–75.

22 Brenes *et al.*, 'Latin America: Environmental and Firm-Level Challenges', *Journal of Business Research*, 2009, 62, pp. 849–53, offer a firm-level perspective of the importance of some of these impediments; while Patricio Donoso and Victoria L. Crittenden, 'Strategic Management in Latin America', *Journal of Business Research*, 2008, 61, pp. 587–9, explain the ample opportunities for further research on the international competitiveness and strategic management of firms in Latin America.

23 Van Ruth, *op. cit.*, note 10.

internationalisation of Australian firms in Latin America by providing access to relevant business information that would otherwise be difficult to obtain, e.g., in finding employees, agents or local partners, providing access to customers and suppliers, as well as reassurance and credibility, and an opportunity to share and learn from experiences. It could be argued that networks are particularly relevant to the business environment in Latin American countries, given the opacity and the uncertainties caused by the presence in most of weak formal institutions, but also because of a culturally ingrained penchant for personal relationships that is arguably much stronger than in the United States or Australia.²⁴

While networks may be a solution to overcoming the difficulties posed by unfavourable business environments, a likely problem is that few Australian companies are prepared or able to invest time and effort in the long-term strategy of building them by accumulating and maintaining intercontinental personal and business relations. Creating functional networks that foster business relations on the basis of interpersonal trust tends to be a long cumulative process. Spanish may still be a difficult language for many Australian business people. Although English is likely to be a second language for most business people in Latin America, speaking the same language does not necessarily mean that people entirely understand each other's intentions, as arguably over 90 per cent of interpersonal communication tends to be of a non-verbal nature.²⁵ If so, cultural differences may have an impact on the perceived 'distance' between the business environments of Australia and Latin American countries, and may thus be a barrier to business contacts.

24 Joyce S. Osland, *et al.*, 'Organizational Implications of Latin American Culture', *E&G Economiae Gestão*, 2008, 7(14), pp. 109–20, 111.

25 Merabian, Albert, *Silent Messages: Implicit Communication of Emotions and Attitudes*, 1981.

Table 5.12: Australia and Latin American countries in global ranking of 185 countries by ease of doing business, 2012

	Total	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts
United States	4	13	17	19	25	4	6	69	22	6
Australia	10	2	11	36	37	4	70	48	44	15
Puerto Rico	41	12	156	37	128	12	19	104	96	101
Peru	43	60	86	77	19	23	13	85	60	115
Colombia	45	61	27	134	52	70	6	99	91	154
Mexico	48	36	36	130	141	40	49	107	61	76
Trinidad & Tobago	69	71	101	11	176	23	25	90	75	170
Uruguay	89	39	158	20	164	70	100	140	104	102
Jamaica	90	21	50	123	105	104	82	163	106	129
Guatemala	93	172	94	34	20	12	158	124	117	96
Paraguay	103	111	71	26	67	83	70	141	155	106
Costa Rica	110	128	128	45	46	83	169	125	51	128
El Salvador	113	139	146	131	56	53	169	153	80	71
Nicaragua	119	131	154	129	123	104	100	158	81	55
Argentina	124	154	171	74	135	70	117	149	139	48
Honduras	125	155	65	117	92	12	169	139	90	179
Brazil	130	121	131	60	109	104	82	156	123	116
Ecuador	139	169	104	146	101	83	139	84	128	99
Bolivia	155	174	114	126	139	129	139	180	125	136
Venezuela	180	152	109	160	90	159	181	185	166	80

Source: World Bank, <http://www.doingbusiness.org/rankings>.

Table 5.13 illustrates the extent to which cultural differences between Australia and the countries of Latin America are substantial, while those between Australia and the United States are small. The indicators in this table are based on an aggregation of large numbers of survey responses. The results are not beyond debate, but the existence of measurable cultural differences has been confirmed in later research.²⁶ For example, the table shows an Australian score of 90 on the individualism index, while the average score for 14 Latin American countries is 22. This indicates that Latin American individuals are inclined to establish strong, cohesive in-groups on the basis of personal relationships, while in Australia ties between individuals tend to be very loose. Another example is that Australia scores low on uncertainty avoidance, while most Latin American countries have a high score. This indicates that Australians are more tolerant of the uncertainty and ambiguity of new situations and experiences, while in Latin American countries people prefer to avoid uncertainty. Hence, the results in Table 5.13 reveal significant differences in the norms and values that Australians and people in Latin America tend to evince. They could be a source of miscommunication at an interpersonal level between individuals. Nevertheless, only 15 per cent of all Australian companies identified cultural differences as a major barrier to international expansion, the lowest of all perceived barriers.²⁷ And the difference between companies with and without international experience was marginal in this respect.²⁸ A further 57 per cent regarded cultural differences to be a minor barrier.

Awareness of the relevance of cultural differences tends to be a personal experience that only comes with sustained immersion in a different culture. While large companies may be able to reserve resources to help their key managers to develop ways to overcome cultural differences, small and medium-sized enterprises (SMEs) do not, notwithstanding the increasing ease of communications by internet across the globe. In Australia, SMEs particularly face a steep learning curve when they seek to engage in international business. Consequently, only 10 per cent of Australian SMEs engages in exporting,²⁹ lower than in other country.³⁰

26 Robert J. House, *et al.*, (eds), *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies*, Thousand Oaks: Sage, 2004.

27 EFIC, *Global Readiness Index*, *op. cit.*, note 16, 2008, pp. 42, 52.

28 EFIC, *Global Readiness Index*, *op. cit.*, note 16, 2009, p. 62.

29 Sensis, *Sensis Business Index: Small and Medium Sized Enterprises*, Melbourne: Sensis, August 2010, p. 17.

30 Austrade, *Knowing and Growing the Exporter Community*, Canberra: Australian Trade Commission, 2002, p. 9.

Table 5.13: Cultural differences between Australia, United States and Latin America

	Power Distance Index	Individualism Index	Masculinity Index	Uncertainty Avoidance Index
Australia	36	90	61	51
USA	40	91	62	46
Latin America, average	68	22	49	80
Guatemala	95	6	37	101
Panama	95	11	44	86
Mexico	81	30	69	82
Venezuela	81	12	73	76
Ecuador	78	8	63	67
Brazil	69	38	49	76
Colombia	67	13	64	80
El Salvador	66	19	40	94
Peru	64	16	42	87
Chile	63	23	28	86
Uruguay	61	36	38	100
Argentina	49	46	56	86
Jamaica	45	39	68	13
Costa Rica	35	15	21	86

Note: Averages for Latin America are unweighted.

Source: Hofstede (1997: pp. 26, 53, 84, 113).

Lastly, the perception of significant physical distance across the Pacific Ocean is enhanced by the fact that communications are cumbersome. Telephone and internet connections may now be well-developed, but there are still limited direct shipping connections between Australian and Latin American ports. For example one per cent of the value of outward freight loaded in Australian ports is destined for South America, and 1.4 per cent of freight unloaded in Australian ports originated from South America,³¹ which is lower than the share of Latin America as a whole in the value of trade (Table 5.1). Most of the cargo is transhipped in containers via other ports. For example, shipping company Maersk ships containers between Australia and Latin America via Manzanillo and Balboa in Panama and Cartagena in Colombia, while Evergreen ships them via ports in Asia, such as Hong Kong and Singapore to the East Coast, and via

31 BITRE, *Statistical Report: Australian Sea Freight 2010–11*, Canberra: Bureau of Infrastructure, Transport and Regional Economics, 2012, pp. 8–9.

Colon in Panama to the West Coast of Latin America. Facilities in container ports may be efficient, but transshipments add costs and increase delays in deliveries. Direct air transport routes are few, although they have increased in recent years. Qantas commenced thrice-weekly non-stop flights from Sydney to Buenos Aires in 2008. Codesharing with LAN Airlines, Qantas now offers daily flights via Auckland to Santiago de Chile, connecting there to LAN's extensive network in Latin America. Until mid 2014 Aerolíneas Argentinas flew two to three times a week from Sydney to Buenos Aires, where there were connections throughout South America. Other air transport routes are via the United States, South Africa and Europe.

The fact that the business environment in Latin America poses significant challenges to Australian firms does not mean that it deters all business relations. As Sections 2 and 3 explained, trade and business relations have grown during the last 20 years. However, these relations are largely the result of Australian companies seizing opportunities and finding ways to deal with the elements of risk that exist. Potter discussed the significant difficulties that Australian firms, such as RYCO Hydraulics, had to overcome in Brazil, before their ventures succeeded.³² On the other hand, there are examples of firms whose ventures in Latin America did not live up to expectations. For example, in 1994 Village Roadshow created a subsidiary venture to establish and manage cinemas in Argentina, which it divested in 2005 when the venture became unprofitable. Likewise, in 2000 AGL took a controlling share in gas distributor GasValpo in Chile, which it divested in 2008.

Australian government agencies can assist firms in overcoming the real or imagined risks that firms perceive when considering business relations with Latin America. Three-quarters (76 per cent) of Australian firms identified their lack of local business and market knowledge in foreign countries as an impediment to engagement in international business.³³ About a third (32 per cent) had used the services of Austrade to overcome this impediment, and 15 per cent had consulted EFIC.³⁴ Austrade maintains six offices, i.e., 'posts' and 'sub-posts', in Latin America—Argentina, Brazil, Chile, Colombia, Mexico and Peru—where around 25 business development managers are active.³⁵ In addition, Austrade employs around five officers based in Australia who focus on Latin America.

EFIC's expertise with Latin America appears limited. For example, it does not issue any profiles on the countries of that global region, but refers potential

32 Potter, Ben, 'Bulls on Brazil', *Australian Financial Review Magazine*, 31 July 2009.

33 EFIC, *Global Readiness Index*, op. cit., note 16, 2008, p. 53.

34 EFIC, *Global Readiness Index*, op. cit., note 16, 2009, p. 66.

35 Austrade, *Australian Trade Commission, Annual Report 2011–12*, Canberra: Australia's Trade and Investment Development Agency, 2012, p. 9; Austrade communication to authors.

customers to the OECD country risk grades mentioned above. EFIC's annual reports indicate that the share of South America in the agency's total exposure increased from 0.4 per cent in mid-2006 and 2007 to 2.8 per cent in mid-2008 and 2009. Although still marginal, it suggests that firms have increased their appeal to EFIC for support of their undertakings in Latin America, which is possibly related to the increased activity of Australian mining companies in Latin America. But it should be noted that most firms don't engage EFIC's services at all, which means that they may have only a small number of transactions with Latin America.

The key Latin American countries all have government agencies that are equivalent to Austrade.³⁶ Their websites suggest that they focus on promoting their countries as destinations for inward foreign investment. Where these agencies generate information for the purpose of supporting exports from their countries, they do not specifically dispense information on Australia. This suggests that there is little Australia-specific expertise at these agencies that may foster bilateral business relations.

This section has demonstrated that there are still significant differences between the business environments of Australia and the countries of Latin America; though the latter are far from homogenous. These differences have not deterred several Australian companies from establishing business relations with partners in Latin America. It also did not deter Australian firms from investing in Latin America. In particular, Australia-based multinational mining companies have done so, possibly in response to the tripling of the prices of metals and energy on global markets during 2004–2011.³⁷ The gains became so high in this sector that these firms were able to muster the relevant resources to overcome difficulties of conducting business in Latin America, and absorb the cost of minimising risk. Outside the mining sector there are far fewer examples of Australian firms that have invested in Latin America. There are also few examples of Latin American companies that invested in Australia. Hence, while non-mining companies can in principle also take initiatives to mitigate risk in international business, the differences in the business environments of Australia and Latin America most likely still deter business relations.

36 The agencies are: Brazil, ApexBrasil (Business Intelligence Unit, Unidade de Inteligencia Comercial), and the Ministry of External Relations (Trade and Investment Promotion Department, Departamento de Promocao Comercial); Argentina, ProsperAr; Mexico, Secretaría de Promoción Económica (Jalisco); Chile, Chilean Economic Development Agency (InvestChile CORFO).

37 IMF, *IMF Primary Commodity Prices*, Washington DC: International Monetary Fund, 2013. <http://www.imf.org/external/np/res/commod/index.asp>, accessed 12 November 2013.

Conclusion

The scope for closer trade and business relations between Australia and Latin America—particularly over the past 20 years—appears to have slowly materialised. The rates of growth have been slow and the results meagre, with Australian merchandise imports from and exports to Latin America still only accounting for 2.2 per cent and 1.4 per cent respectively of Australia's total merchandise trade. Nevertheless, trade and business relations between Australia and Latin America are on the move. An especially interesting factor is the growth in operations of the large multinational mining companies such as BHP, Rio Tinto, Vale and Xtrata on both sides of the Pacific. A number of other Australian mining companies and mining technology and services companies are also showing increasing interest in Latin America.

Australia's business relations with Latin America are still very much focused on Argentina, Brazil, Chile and Mexico, which indicates that there are still underexplored opportunities in other countries in the region, particularly Peru, Colombia, Guatemala and Ecuador. The share of manufactured products and services has increased in Australia's trade relations with key Latin American countries, but primary commodities and simple manufactured products still dominate. As diversification has driven a rate of growth of trade relations, there appears to be scope for additional growth in further diversification.

Nevertheless, this chapter has revealed that the business environments of Australia and Latin America are dissimilar in many ways, some to a greater degree than others. Several Australian companies have defied these differences by establishing business relations with partners in Latin America, or by investing there. However, most Australian companies have no intentions to do so, and are focused on traditional markets and host countries in Europe, North America and East Asia. In response to high international prices of minerals during the last ten years, Australia-based multinational mining companies have taken a keen interest in the business opportunities in Latin America and have found ways to overcome real or perceived difficulties of doing business in Latin America, and absorb the cost of minimising risk to assets. Outside the mining sector, there are fewer examples of Australian firms that have invested in Latin America, and even fewer examples of Latin American companies that invested in Australia. This suggests that firms on both sides of the Pacific are still reluctant to take up business opportunities, and that further growth of business relations will be a slow but possibly consistent process.

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This text taken from *Australia and Latin America: Challenges and Opportunities in the New Millennium*, Edited by Barry Carr & John Minns, published 2014 by ANU Press, The Australian National University, Canberra, Australia.