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After Brexit, can the UK build its trade ties with Latin America?

Buenos Aires, capital of Argentina. The UK is looking to build trade ties with Latin America

By Jon Yeomans
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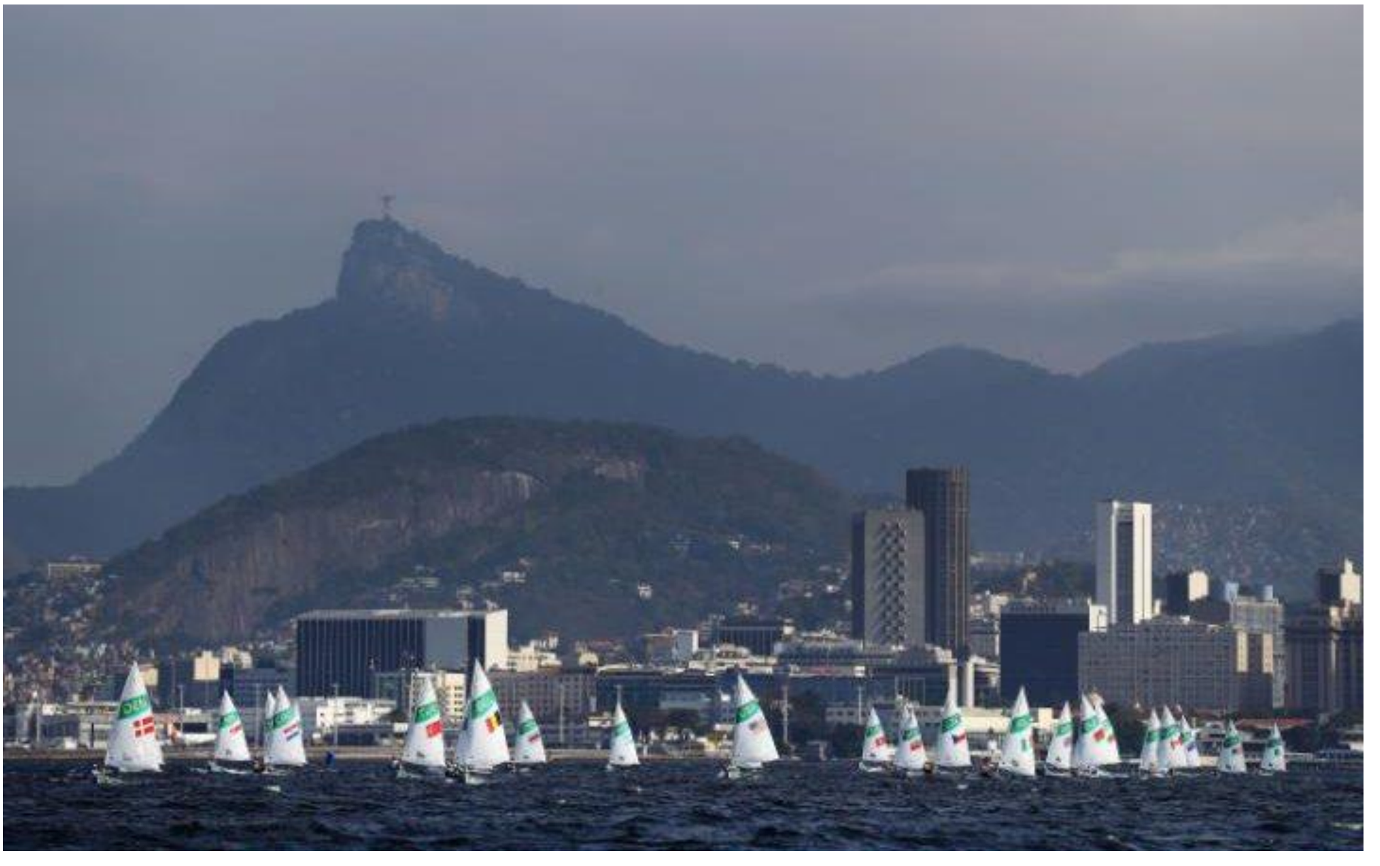
On the day of the opening ceremony of the Rio Olympics, UK trade minister Lord Price issued a rallying cry. “The Rio Games reminds us that sport unites everyone as equals. And business can unite us too,” he told an audience at British House at the foot of the statue of Christ the Redeemer. Lord Price wanted Brazilian investors to know that, post-

Brexit, the UK was “open for business”. In May, before the referendum result was known, he led the UK’s first trade mission to Argentina in 10 years, saying: “The growing economies of Latin America offer huge opportunity for British business.”

The charm offensive is a sign of the Government’s willingness to look at new regions for British trade, especially Latin America. The UK exported £7bn in goods and services to South America in 2015, down somewhat from its peak of £8.8bn in 2013. Can Britain push that number higher once again? And can Latin America make up for any economic shortfall as the UK disentangles itself from the European Union?



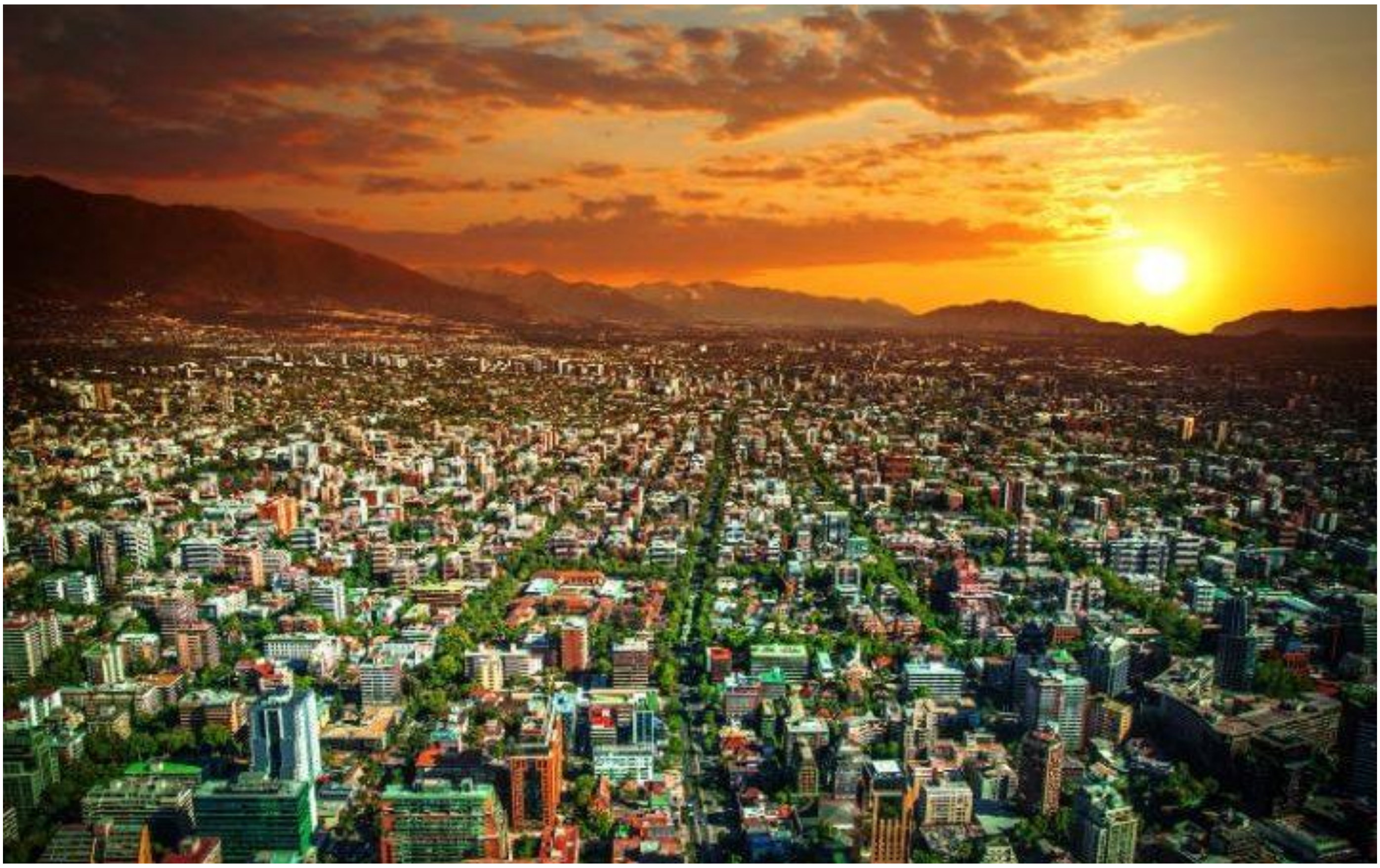
The Rio Olympics have proven a catalyst for thinking about Latin America

The official enthusiasm for Latin America is an extension of a policy under former foreign secretary William Hague, who in 2010 outlined his “Canning Agenda” to boost ties with the continent. This scheme was named after George Canning, a 19th-century foreign secretary who championed Latin American countries in their bids for independence.

“Ministers have made that same speech for 30 or 40 years,” says Prof Victor Bulmer-Thomas, an expert at UCL, who believes that reversing the UK’s “poor” trade with the region will be difficult. “We’re terribly far behind our European, Chinese and American competitors,” concurs Robert Capurro, chief executive of Canning House, the body dedicated to boosting UK-Latin American relations. “We’re punching well below our weight.”

For many British businesses, Latin America seems distant and even “alien”. “There’s a perception that it’s further away geographically, culturally and linguistically than reality would suggest,” says Capurro. But British visitors to the continent can quickly dispel that impression, argues Gabriela Castro-Fontoura, director of Sunny Sky Solutions, a Montevideo-based company that specialises in helping British firms do business in the region. “There’s not a huge cultural difference from the UK. You can go to any big city and it will feel like being in Madrid,” she says.

For most of the 19th century Britain was the biggest foreign investor in South America, forming a particularly strong relationship with Argentina. It provided sovereign debt and built railways and utilities across the continent. But two world wars and a depression in the 20th century pushed the UK in other directions – towards the Commonwealth and Europe. Britain lost its "privileged position", Bulmer-Thomas explains, while French, Italian and German companies built up networks and partnerships to push their own exports.



Santiago de Chile, capital of Chile, which has been the most open trading nation

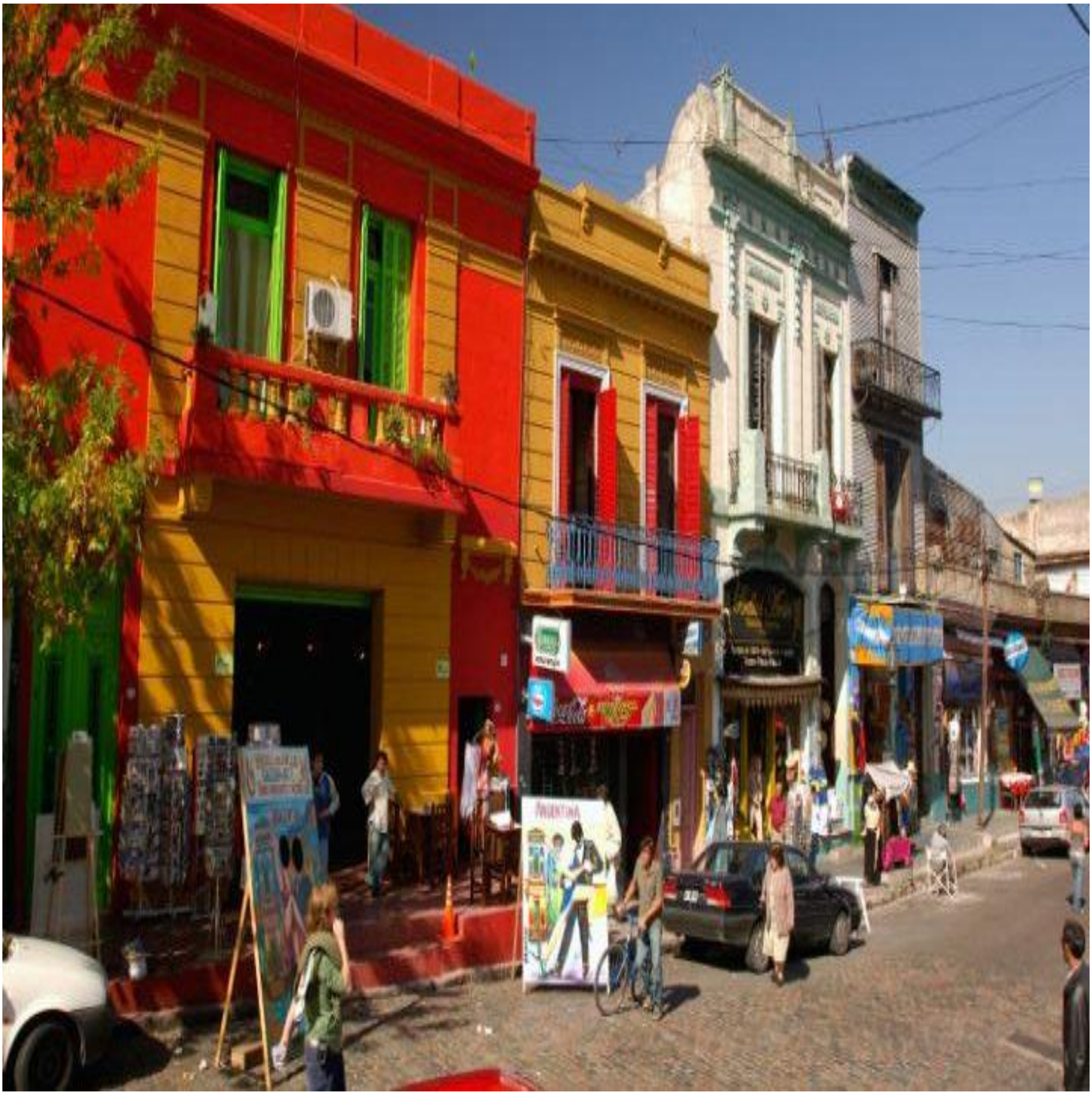
British products and services retain a reputation for quality, however. "The British brand sells extremely well, especially financial products, engineering expertise, and fashion," says Capurro. Alex Henderson, MD of centrifuge maker MSE, agrees. "In places like Colombia and Chile, they appreciate that our product is made in Britain even more than British people do," he says. The fall in the value of the pound has been a timely boost, he adds.

The first challenge for a company looking to tackle Latin America is its sheer size and diversity. "It's perceived as a bloc, but it's not," says Castro-Fontoura. "Doing business in Uruguay is quite different to Brazil, for example." Free trade agreements with Latin America are patchy: Chile has traditionally been the most open South American nation, concluding a free trade agreement with the EU in 2002. Mexico also has an agreement with Europe, but its trade is dominated by the US, making it hard to crack.

By far and away the largest market is Brazil, accounting for 48.6pc of South America's GDP. It is also the UK's largest trade partner there, soaking up 69pc of trade between the two regions in 2015 – though the Office for National Statistics does not break down data into goods and services, making it hard to know how well the UK is doing in each area.

Brazil's dominance in UK-South American trade belies the fact that it is an extremely tough country in which to do business, owing to stringent import duties and regulations that vary from state to state. Moreover, says Bulmer-Thomas, "there's not an awful lot they can get from us that they can’t get from our European competitors or from China”. “But because it’s so big, the prize is big,” adds Capurro, with a nod to Brazil’s 200 million-plus population.

Companies that need a quick return on investment may be advised to steer clear of Brazil; large multinationals with deep pockets can afford to build up a presence, and wait out storms such as the current recession and instability caused by the suspension of president Dilma Rousseff.



Argentina is opening up after years in the wilderness

FTSE 100 education giant Pearson employs more than 1,000 staff in the country. “Despite the current economic challenges in Brazil we believe that longer-term growth trends will prevail,” says John Fallon, chief executive, who was named ‘personality of the year’ by the Brazilian chamber of commerce earlier this year. “For Pearson in Brazil we are focussed on expanding our two main businesses, English teaching franchises and Sistemas schools partnerships, as well as continuing to launch new products and services as we focus on the growth potential of the market."

Other UK firms can side-step Brazil's protectionist measures by manufacturing in the country, or by buying Brazilian firms outright, as in the case of Britvic, which last year acquired soft drinks maker Ebba.

While Brazil struggles, South America's second-biggest economy, Argentina, is emerging from years in the wilderness. President Mauricio Macri, elected last year, has lifted currency controls and abolished import licences. "Argentina is one to watch. It's a big country with a lot of potential," says Castro-Fontoura, who adds that British business people needn't worry about encountering hostility over the Falkland Islands dispute. "On a day-to-day basis, they are incredibly pro-British."

Pupils at COC, Pearson's Sistema school in Brazil

The interest in trading with the UK cuts both ways: one success story is Argentine vineyard Tapiz, which supplies the Gaucho chain of restaurants. Tapiz was introduced to the British market on a trade trip organised by the local chamber of commerce 10 years ago. "We met our importer in the UK, developed a strategy, and we've been growing from there," says proprietor Patricia Ortiz. "In the last year we've seen growing demand for our wine, both in quantity and quality."

Brexit marks a clear opportunity to redefine these trading relationships, though the reaction to the vote in Latin America has largely been one of "dismay", says Capurro. "They can't understand what we've done to ourselves." Bulmer-Thomas adds: "Latin Americans are very familiar with voters shooting themselves in the foot."

Some countries have indicated their willingness to strike trade deals with the UK; Brazil's foreign minister said last month it could open talks via Mercosur, the trading bloc comprising Brazil, Argentina, Paraguay, Uruguay and Venezuela. Though the latter might take some persuading, a deal would allow the UK a way around Brazil's import duties. It would be "relatively easy" to achieve, says Bulmer-Thomas, because Mercosur has been negotiating such an agreement with the EU for the last 20 years. This deal has foundered on the unwillingness of the EU to liberalise trade on agricultural products. “Britain wouldn’t have a problem with that,” he says.

Central America, too, has possibilities. Though its individual countries are small markets, together they are members of the Central American Integration System (SICA), an economic and political union modelled on – ironically – the EU.

No one is expecting these deals to come quickly, and with so much uncertainty, businesses may adopt a “wait and see” approach before entering a tricky new market. But for those firms willing to approach Latin America, the experts have straightforward advice: “Do your homework, and get some good local advisors,” says Capurro. “It does take an awful lot of time to get anything done and personal contacts in business are very important,” says Castro-Fontoura, “but there aren’t the etiquette issues you find in other regions.”

Henderson says his business relies on “proactive” local distributors; he recommends making trips in person and using a translator, though people shouldn’t regard language as a barrier. “I see it as a great opportunity to really connect with these markets now we’re not tied to EU rules,” he adds. “I hope in future we will be able to trade even more with these countries. I would definitely recommend it.”