ECONOMIST IMPACT

Cultivating Ties: Deepening trade and investment between Latin America and the GCC

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About this research

Cultivating Ties: Deepening trade and investment between Latin America and the GCC is an Economist Impact report, sponsored by Dubai Chamber of Commerce. The report examines the business and investment environment in Latin America (LatAm) and opportunities for greater economic co-operation with the countries of the Gulf Co-operation Council (GCC)[1] in a post-pandemic era.

The report is based on a survey of 200 senior executives in LatAm, conducted between May and July 2021. Respondents were drawn from a range of sectors, including around 15% each from agriculture and food, financial services and fintech, retail and e-commerce, industry and energy, healthcare, transport and logistics and 10% from professional services and marketing. The survey focuses on how businesses performed during the pandemic, their responses to challenges, the post-pandemic business outlook, and drivers of engagement with different regions such as the Middle East (including the GCC), Africa and South-East Asia.

As part of the research, in January 2022 we also conducted a series of in-depth interviews with senior executives from LatAm. Our thanks are due to the following (listed alphabetically) for their time and insight:

- Reginaldo Arcuri, president, Grupo FarmaBrasil
- Adolfo Babatz, founder, chairman and CEO, Clip, and board member, Fintech Mexico
- Osmar Chohfi, president, Arab Brazilian Chamber of Commerce
- Armando Garcia, director general, APEAJAL
- Marcus Sanchez, vice president, EMS
- Roberto Velez, CEO, Fedecafe

[1] The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE

Executive summary

As Latin American countries navigate the post-pandemic economic recovery, they are discovering that there are fresh opportunities to seize and new relationships to forge. Companies in the region are riding the surge in commodity prices, which benefits their agricultural and metal exports, and are positioning themselves as the partner of choice for companies that are diversifying their supplier base for products ranging from medical devices to cosmetics.

In this report we examine the sectors poised for growth in Latin America (LatAm) and opportunities for engagement with international markets. To this end we are taking a closer look at the trade and investment relationship between LatAm and the Gulf Co-operation Council (GCC) to identify areas where the GCC can be a destination for LatAm products, a supplier for key industries, an investor for growing operations, and a knowledge partner for industry best practice.

Key findings of the report:

LatAm growth will come from sectors that require engagement with international markets. The highest shares of executives who expect revenue to expand in 2022 are in the healthcare industry and the food and agriculture sector (cited by 97% in each). This includes producers of medical equipment, pharmaceuticals (including vaccines) and a host of food products from coffee to poultry. These products are among the region's key exports and will continue to rely on external demand for growth.

The GCC and Latin America have a complementary but limited trade relationship. The GCC imports iron ore from LatAm for the production of aluminium, which it then exports to LatAm. LatAm imports fertiliser for its agricultural sector from the GCC, and the agricultural outputs are then exported to the GCC. However, trade levels are low. In 2020, imports from LatAm accounted for just 3.2% of the GCC's total imports and 1.6% of LatAm's total exports.

LatAm executives are starting to turn to the GCC for investments. Just 5% of the executives we surveyed in 2021 were engaging with the GCC to secure investments, but 28% said they were interested in doing so in the future. Between 2016 and 2021 the GCC invested US$4bn in LatAm countries, 77% of which was sourced from the UAE, 22% from Saudi Arabia and 1% from Qatar.

There is an untapped opportunity for knowledge exchange between the two regions. The GCC countries have successfully executed road, electricity and telecommunications infrastructure projects. LatAm is home to a rapidly expanding fintech industry and has an established agricultural sector. There is an opportunity for sharing best practice in sectors vital for growth.

Introduction

Latin American countries saw an economic recovery in 2021 after being among the regions hardest hit by the covid-19 outbreak in 2020. Covid-related deaths peaked at 11 per million people at the start of 2021 but had fallen to less than one per million at the end of the year.[2, 3] Correspondingly, the region's GDP grew by 6.5% in 2021, following a contraction of 7% in 2020.[4]

A survey conducted by Economist Impact in mid-2021 of 200 senior executives across LatAm confirms these trends. Twice as many executives surveyed reported an expansion in revenue in 2021 compared with 2020 (41% vs. 20%). During the pandemic, in the face of supply-chain disruptions and falling demand, executives optimised their operations by diversifying their supplier base (42%), negotiating better terms with suppliers (34%) and establishing better communication practices with suppliers and other stakeholders (33%).

Among the sectors covered in the study,[5] healthcare, agriculture and food, and financial services and fintech were the three leading economic activities in LatAm in 2021. These sectors expanded on the back of strong domestic demand as the region's economies reopened and household consumption rebounded. The pandemic itself became a major driver of the demand for healthcare products, both locally and internationally, and particularly covid-19-related medicines and protective equipment. Growing domestic and external consumption of food boosted demand for the agriculture and food industry (although rising commodity prices in 2021 also contributed to an overall increase in the value of food products consumed or exported). Restrictions on mobility, especially during the initial waves of the pandemic, generated an exponential increase in digital payments, which benefited the fintech and financial services sector.

Looking ahead, LatAm's economic growth is expected to cool in 2022 to 2.4% as the region remains affected by covid-19 volatility, high unemployment and poverty, and restrictive monetary and fiscal policies to curb inflation and high public indebtedness.[6]

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[2] https://ourworldindata.org/covid-deaths

[3] https://ourworldindata.org/covid-deaths

[4] The Economist Intelligence Unit

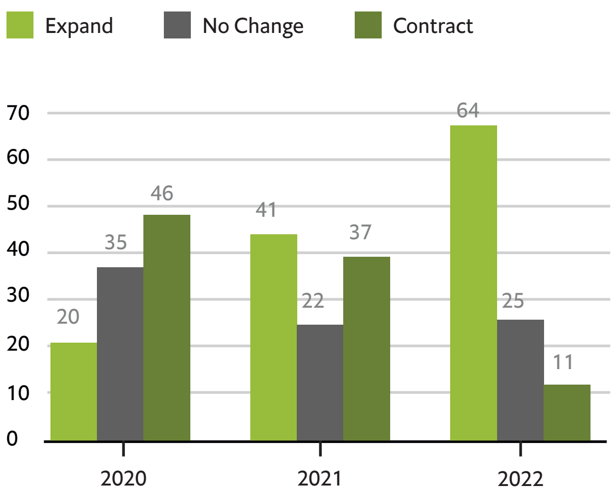
[5] Economist Impact's survey covered agriculture and food, financial services and fintech, transport and logistics, retail and e-commerce (excluding food), health-care, industry and energy, and professional services and marketing.

[6] The Economist Intelligence Unit

Yet, the executives we surveyed are optimistic. A significant share (64%) expect higher revenue in 2022, with healthcare, agriculture and food, and financial services and fintech continuing to lead. (It is worth noting that the survey was conducted before the surge in cases caused by the Omicron variant. However, The Economist Intelligence Unit forecasts that this will not alter the trajectory of the global economic recovery.)

Figure 1: Bouncing back: Business performance and expectations, 2020-2022

% of respondents



Source: Economist Impact survey.

Overall, 60% of survey participants believe that strong post-pandemic economic growth and rising consumer income will be the main drivers of this revenue expansion. Other important drivers include improvements in the ease of doing business in key markets (cited by 35% of respondents), effective pandemic management (31%) and easier access to international markets (27%).

Access to international markets is particularly important in the LatAm context. The region is a leading global exporter of pulp, metals and meat and a host of agricultural commodities. As companies around the world aim to diversify their supplier base, LatAm companies are positioning themselves as the ideal alternative, particularly in sectors that are poised for growth and in which the region has a competitive advantage.

In this report we take a closer look at these growth sectors and opportunities for strengthening ties with international markets. While LatAm's relationship with the US and the European markets is well explored, this report aims to examine opportunities with another emerging market: the countries of the GCC.

Chapter 1: LatAm's growth sectors

Sectors that saw a strong recovery in 2021 are expected to see continued growth in 2022. In fact, an even higher share of respondents in key sectors expects faster growth in 2022 than in 2021: 97% vs. 94% in healthcare; 97% vs. 67% in agriculture and food; and 87% vs. 37% in financial services and fintech.

By comparison, executives in industry and energy, and in transport and logistics, appear to have much more moderate expectations. Only one-third of industry and energy executives and 23% of transport and logistics executives expect an expansion in revenue in 2022. Among the former, and particularly in the machinery and equipment manufacturing sector, shortages in vital raw materials such as microchips continue to disrupt operations. Transport and logistics have also been strained, as many global shipping companies have been focused on catering to high demand from the US and other markets.[7]

Across all sectors, executives are charting a new course for their businesses to navigate persistent challenges. Among the top impediments to growth in Latin America are infrastructure weaknesses

Figure 2: Sectors poised for growth in Latin America
Percentage of executives surveyed expecting revenue to expand in 2022

Source: Economist Impact survey.

[7] Economist Impact to confirm.

“Although on the one hand the pandemic imposed obstacles, on the other hand it gradually opened up a range of opportunities for [us] to expand [our] portfolio and accelerate digital transformation.”

Marcus Sanchez, vice president, EMS

(cited by 65%, the highest share of respondents by far) and poor telecommunications and internet connectivity (24%). In this chapter we examine the recent performance of the leading industries in LatAm as well as the challenges and opportunities they will be facing in the short term.

Healthcare

Although LatAm has a relatively small healthcare industry (it accounted for just 3.1% of the world’s healthcare GDP in 2017),[8] countries such as Brazil, Mexico and Argentina are top producers of active pharmaceutical ingredients (APIs), generic medicines and medical equipment. They are suppliers to domestic, regional and international markets (in North America and Europe in particular). The industry has been booming since the covid-19 outbreak on the back of surging global demand for medicines and equipment to treat and protect against the disease.

Brazil’s healthcare sector is the largest and most advanced in the region, accounting for 1.6% of the industry’s global GDP, followed by Mexico (0.34%) and Argentina (0.23%).[9] Brazil leads in biotech, produces vaccines and medicines for a wide array of diseases, and is an exporter of raw materials and APIs (0.3% of global exports of this type of goods in 2020).[10] Mexico has recently seen a significant increase in its medical equipment exports, accounting for about 2.5% of total global exports in 2020.[11] Combined, Brazil, Argentina and Mexico accounted for two-thirds of LatAm’s total pharmaceutical exports in 2018-21 (with supplies mostly going to other Latin American countries and the US).[12]

The combination of supply-chain disruptions and surging demand for their products—cited by 91% and 50%, respectively, of respondents in the sector as the top challenges—drove healthcare companies in Latin America to rethink their operations. “Of course, the disruption of the supply chain for APIs was the most challenging factor that [the industry] faced at the time,” says Reginaldo Arcuri, the president of Grupo FarmaBrasil, a pharmaceutical industry association in Brazil.

Ensuring workers’ safety was paramount (cited by 72% of executives in the sector as the most effective strategy to optimise operations during the pandemic). “We suddenly had to increase protection for our workers, so we had to change nearly everything, starting with the protocols for the circulation of people inside the plants,” explains Mr Arcuri. Additionally, firms diversified their supplier base (53%), established better communications with suppliers (31%) and renegotiated better terms with them (28%).

[8] United Nations Economic Commission for Latin America and the Caribbean (ECLAC). https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[9] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[10] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[11] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[12] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

"Although on [the] one hand the pandemic imposed obstacles, on the other hand it gradually opened up a range of opportunities for [us] to expand [our] portfolio and accelerate digital transformations in different areas, such as management, development and delivery of products," says Marcus Sanchez, vice president at EMS, a large Brazilian pharmaceutical company. The pandemic presented an opportunity to launch new innovative products and treatments and even brought about unprecedented (positive) regulatory changes in the sector, he adds. In Brazil, ANVISA, the body responsible for regulating the country's healthcare sector, introduced emergency approvals of alternative suppliers, considerably shortening the time to onboard suppliers from months to weeks, according to Mr Arcuri.

LatAm's current participation in global covid-19 vaccine value chains is promising. It builds on Brazil's decades-old experience in producing vaccines and antivirals for different diseases, including HIV, says Mr Arcuri. US-based Pfizer and Brazil's Eurofarma have signed an agreement to produce more than 100m covid-19 vaccines. There are similar stories of other Brazilian firms working with multinationals to produce more vaccines and antivirals. To realise the sector's potential for growth and capture external demand, Mr Arcuri believes that there should be better contract enforcement and more predictable economic policies in the region.

Beyond the pandemic, the need to improve health services across the region will drive future growth. "In Brazil, we have 200m inhabitants and a completely universal, free public health system, so the impact of government purchases of medicines is very important for the industry's growth," explains Mr Arcuri.

Agriculture and food

LatAm is a global powerhouse for agricultural and food production. The region is the world's largest net exporter of food, and by 2024 its agricultural trade balance is forecast to exceed that of North America.[13] Brazil is among the world's five leading agricultural producers, supplying products such as soybean, sugarcane, coffee, beef and ethanol. Mexico, among the world's top ten, is known as a supplier of wheat, sugarcane, corn, livestock and fruits such as avocado, while Argentina is known for its production of soybean, wheat and meat. Other LatAm countries are important producers and exporters of niche products, for example Chile of fruits and wines and Colombia of high-quality coffee.[14]

Economist Impact's survey indicates that 97% of firms in the sector believe that supply-chain disruptions were their biggest challenge during the pandemic, while 43% also reported lower workforce productivity as a top woe. "[One of our] biggest challenges was to prevent covid-19 from spreading in the coffee producing region," says Roberto Velez, CEO of Fedecafe, Colombia's national federation of coffee growers, describing the initial impact of the pandemic on his country's coffee industry. To overcome this challenge, the federation co-ordinated closely with government health officials and enhanced communication with workers (mainly the *recolectores*—the people who hand-pick the coffee grains from the plants) to adopt new protocols that allowed safe operations.

But according to our survey, the top strategy adopted by food companies to address challenges during the pandemic was to diversify their supplier base, cited by 63% of respondents. Others worked closely with existing suppliers, renegotiating payments terms (40%) and establishing better lines of communication with them (33%). Another, possibly temporary, strategy particularly relevant for perishable food items amid lockdowns was the expansion of sales to the domestic market, adopted by 37% of executives we surveyed in the sector.

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[13] https://blogs.iadb.org/sostenibilidad/es/latinoamerica-principal-proveedor-de-alimentos-del-mundo/

[14] https://finance.yahoo.com/news/top-20-agricultural-producing-countries-151350776.html
https://www.tractorjunction.com/blog/top-10-agricultural-producing-countries-in-the-world/

Thus, after falling by 10% in 2020, LatAm exports of agricultural goods rebounded in terms of value by 12% in 2021.[15] In addition, the region's foreign sales of food, beverages and tobacco, which had risen by a meagre 3% in 2020, soared by 26% in 2021.[16] These trends were a result of the recovery in global demand—but they were also driven by a surge in commodity prices. In the interim, while supply catches up with demand and companies navigate logistical challenges, high prices may bode well for LatAm's agricultural exports in 2022 (although prices of inputs such as fertiliser are also increasing, which may eat into profits).

The future of the industry may look quite different from the pre-pandemic era. Some shifts that took place over the past two years may stick even after the pandemic ends. One example is the change in consumer behaviour. "While demand from the services industry (restaurants, hotels, etc.) plunged when the pandemic [started], there was a boom in consumption from households," says Armando Garcia, director general of APEAJAL, the association of avocado producers from the state of Jalisco, Mexico. Mr Velez observed similar trends in coffee consumption: "People started to buy more raw coffee to prepare it at home." Companies had to shift sales and distribution strategies and use more direct-to-consumer e-commerce platforms. In another piece of research conducted by Economist Impact in 2020 we found evidence that, having gotten a taste for online shopping, consumers are likely to continue to use these channels to a greater degree compared with pre-pandemic levels.[17] "Consumers are now more willing to buy coffee via the internet," attests Mr Velez.

It is unsurprising, then, that consumers' growing purchasing power (along with strong economic growth) is cited by an overwhelming majority of respondents (73%) as the top driver of future growth. But the next two drivers—improvements in the ease of doing business in key markets (43%) and easier access to international markets (33%)—are indicative of LatAm's continued focus on export-led growth in the industry.

To realise this growth, however, the region must overcome its perennial problem with weak infrastructure, cited by 90% of respondents in the sector as the top impediment to growth. Unreliable electricity supplies could undermine essential cold-storage services; inadequate road and port infrastructure could mean delays in shipments. Both increase food loss. There is no shortcut to fixing infrastructure, but the case for it to be at the top of the agenda could not be clearer.

Financial services and fintech

LatAm is home to one of the most dynamic fintech industries in the world. By the second half of 2021 there were more than 2,300 fintech firms established in the region, mostly headquartered in Mexico and Brazil. Regulatory improvements over the years have strengthened the industry in these two countries, as well as in Colombia, Chile and Argentina.[18] But the real acceleration took place during the pandemic, when lockdowns meant that customers were unable to access physical branches.

Brazil led the fintech revolution in 2021with 771 fintech start-ups as of August 2020, a 28% increase over the previous year.[19] According to Indexable, a global fintech data and analytics firm, Brazil ranked first in LatAm for its fintech ecosystem in terms of the number and quality of privately-owned companies and its regulatory environment.[20]

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[15] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[16] https://repositorio.cepal.org/bitstream/handle/11362/47535/1/S2100998_es.pdf

[17] https://www.sap.com/dmc/exp/2021-03-74292-data-exploration-tool/

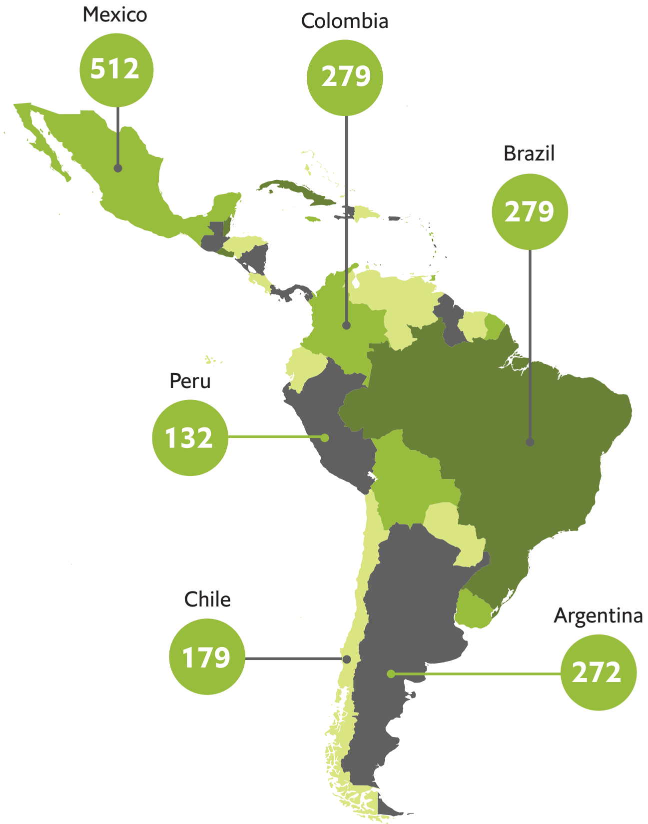
[18] https://www.archyworldys.com/la-jornada-mexico-and-brazil-lead-the-explosion-of-the-fintech-sector-in-la-finnovista/

[19] https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjr59ji2Nr1AhWpRjABHQnyAAwQFnoECEAQA-Q&url=https%3A%2F%2Fwww.linkedin.com%2Fpulse%2Fbrazil-fintech-ecosystem-stella-jemeljanova-%3Ftrk%3Dportfolio_article-card_title&usg=AOvVaw3P-mQLC3fY3zvKavuB1xIPL

[20] https://findexable.com/2021-fintech-rankings/

But nothing epitomises the strength of its fintech industry more than the successful initial public offering of Nubank, a Brazil-headquartered neobank, in December 2021. Its listing on the New York Stock Exchange allowed Nubank to raise US$2.6bn in fresh capital. Its market capitalisation of US$41.5bn made it LatAm's biggest financial institution (including traditional banks).[21] Mexico is the next-biggest fintech market, followed by Argentina and Colombia (see Figure 3).

Figure 3: Number of fintech firms in Latin America, 2021



Source: El Economista.[24]

There were more than 280m fintech clients in LatAm in 2021; of these, 85% were users of digital payments.[22] Covid-19 boosted payment digitalisation, partly because of the mobility restrictions, but also in part due to governments' increased use of cash transfers to support poorer households adversely affected by the pandemic. For example, in Colombia the government's cash transfer programmes integrated 4.5m previously unbanked people into the digital payments system.[23]

A majority of executives in the financial services and fintech industry expect that their revenue will increase chiefly on the back of higher economic growth and rising consumer income (63%), but also as a result of improvements in the ease of doing business in key markets (40%). Combined, these factors reveal the desire of industry members to cater to the wide consumer base across the region, not just in their home markets. The consumer base of 437m unique mobile subscribers is forecast to grow to 485m by 2025, representing 73% of the population.[25]

But engaging each of these subscribers will require a more nuanced approach. "What happens in general, at least in emerging markets, is that the vast majority of the population is either unserved or underserved," says Adolfo Babatz, founder, chairman and CEO of Clip, a Mexico-based payment platform, and a board member of Fintech Mexico, the sector's association. "So growth for fintech does not only come from economic growth; but also, it comes from customer acquisition." He points to the success of the fintech industry not just during the economic slowdown in the pandemic but also the pre-pandemic period, when the region was experiencing only modest economic growth rates. "Make sure you solve a problem for your customer," he advises.

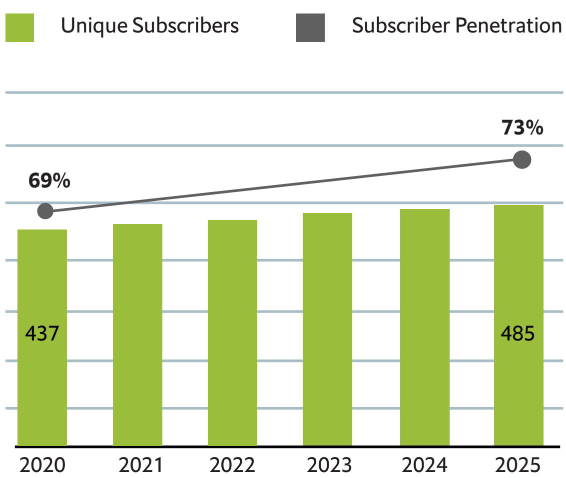
[21] https://www.colombiafintech.co/lineaDeTiempo/articulo/nubank-sale-a-bolsa-como-el-banco-mas-valioso-de-america-latina

[22] https://www.statista.com/forecasts/1241612/latin-american-caribbean-fintech-users-segment[23] https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/11/EIU_Microscope_2020_161120.pdf

[24] https://www.eleconomista.com.mx/sectorfinanciero/Crecio-16-el-numero-de-fintech-en-Mexico-durante-el-2021-ya-son-512-20211206-0044.html
https://www.imf.org/-/media/Files/Publications/WP/2021/English/wpiea2021221-print-pdf.ashx

[25] https://www.gsma.com/mobileeconomy/wp-content/uploads/2021/11/GSMA_ME_LATAM_2021.pdf

Figure 4: Mobile-phone penetration in Latin America, 2021



Source: GSMA.[26]

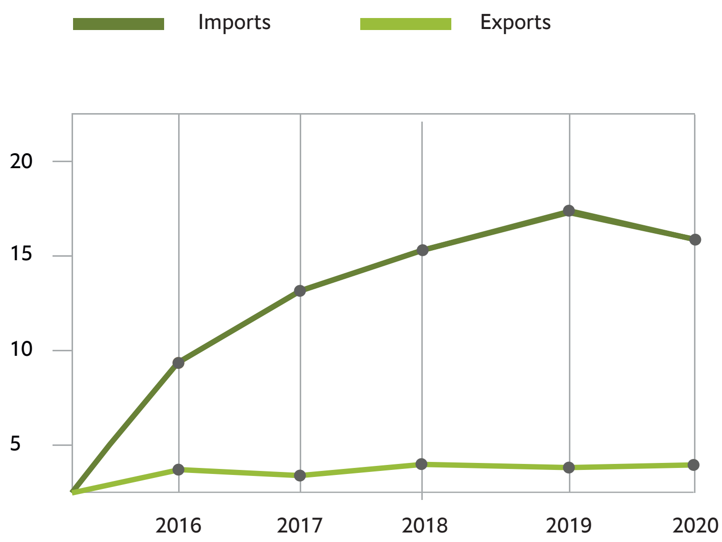
The sector is not without its challenges. Two of the these, which were faced by most respondents in the sector during the pandemic, were cyberattacks and data breaches (cited by 60%) and tax issues related to employees working remotely (57%). "Cybersecurity is [even more] challenging, largely because of remote work—which increased as the pandemic broke out," notes Mr Babatz. He explains that overcoming cyberattacks and data breaches requires "a very high level of co-ordination among different areas and actors within the organisation, establishing new protocols to handle particular situations, and managing workers' access to databases and the corporate network." As such, reskilling the workforce was among the top strategies adopted during the pandemic, cited by 63% of respondents. To achieve future growth, the region must also improve digital connectivity—weak telecoms and internet connectivity is cited by an overwhelming majority of sector respondents (83%) as the top impediment.

[26] https://www.gsma.com/mobileeconomy/wp-content/uploads/2021/11/GSMA_ME_LATAM_2021.pdf

Chapter 2: LatAm-GCC: A complementary relationship

LatAm's ability to engage in international markets will be integral to delivering growth, especially in the key sectors explored in the previous chapter. As companies around the world seek to diversify their supplier base, Latin American firms are positioning themselves as the partners of choice for a range of products, from food to medical equipment. In this chapter we explore existing trade and investment ties between the Latin American nations and the GCC to assess untapped potential and new opportunities for the relationship.

Figure 5: GCC exports to and imports from Latin America, 2016-2020 US$bn



27 ITC Trade Map. Extracted 11th February 2022.

Prior to a dip in 2020, bilateral trade between LatAm and the GCC was growing, with imports in particular increasing sharply between 2017 and 2019. Imports into the GCC from LatAm rose from US$9.6bn in 2016 to US$17.2bn in 2019, before falling to US$15.4bn in 2020.[27] These imports consisted mainly of primary goods, particularly gold, meat, iron ore, cereals, sugar and coffee.

Brazil accounts for the largest share of GCC imports from LatAm (42%). It is the largest producer and exporter of halal meat to the world, and especially to the Gulf nations. "There is a complementarity in our bilateral trade," says Osmar Chohfi, president of the Arab Brazilian Chamber of Commerce (ABCC). "We provide food security to the GCC and the Arab world in general, and they provide us something indispensable for our agribusiness: fertilisers."

Indeed, fertilisers are among the top GCC exports to LatAm, along with plastic polymers, aluminium, ammonia and oil, but the total value of exports remained relatively low at around US$2.5-3.5bn a year between 2016 and 2020.

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[27] ITC Trade Map. Extracted 11th February 2022.

Trade statistics 2016-2020 (% of total)

Top exports from GCC to LatAm: Percentage of total exports to LatAm

Top imports into GCC from LatAm: Percentage of total imports from LatAm

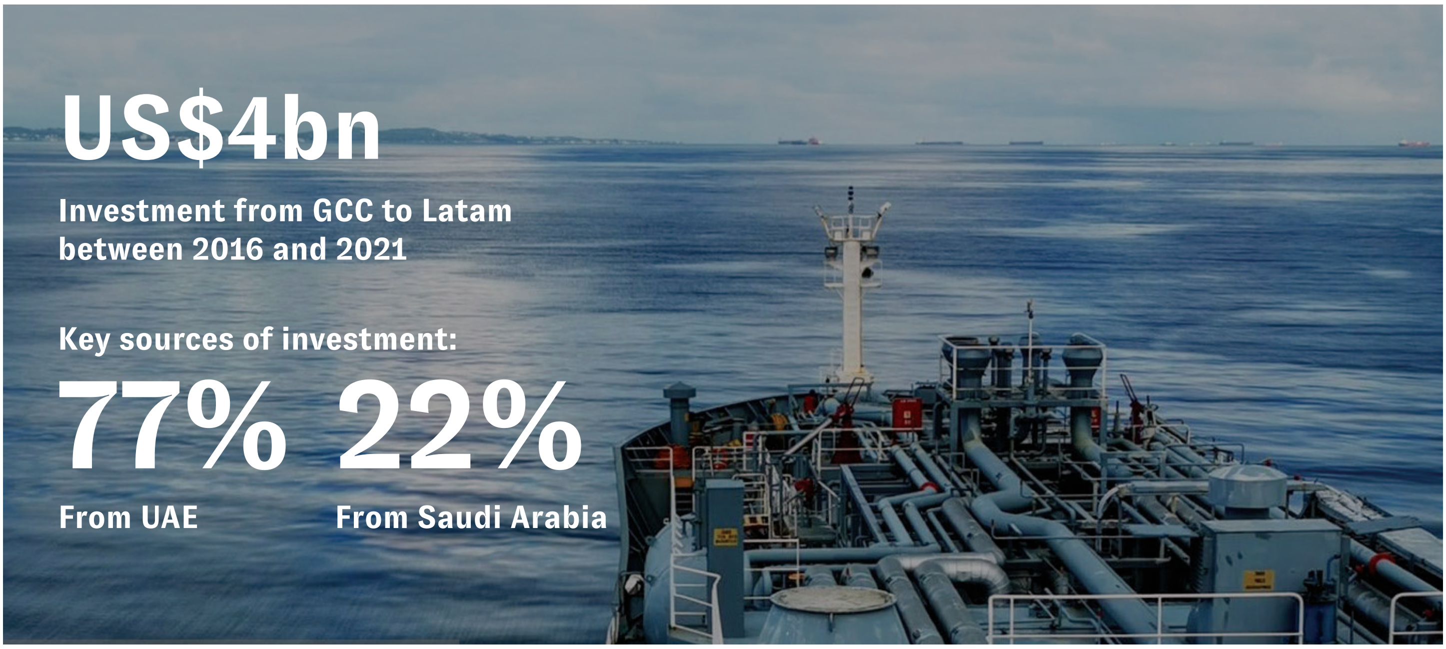
Source: ITC Trade Map.

The iron ore imported from LatAm is used for aluminium production in the GCC countries, which in turn is exported to LatAm. Fertilisers and ammonia exported from the GCC is used in LatAm's essential agricultural sector.

"The goal is to diversify," says Mr Chohfi. To that end, he acknowledges that it will be necessary to overcome challenges, such as competition from countries that already have a closer relationship with the GCC: "We have to compete in many areas, especially in terms of industrial products, but there is an additional challenge, because the GCC and some Arab countries have free-trade agreements with European nations, the US and some South-East Asian countries; that puts us in a less favourable condition." The ABCC is championing a bilateral trade agreement between the GCC and Mercosur (made up of Argentina, Brazil, Paraguay, Uruguay and Venezuela),[28] although discussions have stalled owing to political differences among the members in LatAm.

"That said, there are other challenges for our trade with the GCC, including the lack of direct maritime lines between Brazil and the GCC," says Mr Chohfi.

[28] Venezuela is a full member but was suspended indefinitely on 1st December 2016. https://www.cfr.org/backgrounder/mercosur-south-americas-fractious-trade-bloc



A study by the ABCC showed that in 2015 the volume of trade was insufficient to justify a direct maritime line. "But I think that has changed because our trade has grown over the past five years; we have to try to find a solution to the obstacles in logistics," Mr Chohfi adds.

But even today bilateral trade accounts for only a small share of the total trade that each region conducts with the rest of the world. In 2020 GCC imports from LatAm comprised 3.2% of its total imports and 1.6% of LatAm's total exports. GCC's exports to LatAm comprised less than 1% of its total; it also comprised less than 1% of LatAm's total imports. However, given their reliance on each other for a few essential goods, there is scope to deepen these ties.

GCC presence in LatAm

In terms of foreign direct investment (FDI), estimates from fDi Markets, an online database, put total GCC investment into LatAm between 2016 and 2021 at US$4bn, of which 77% was sourced from the UAE, 22% from Saudi Arabia and 1% from Qatar.

More than half of that investment was directed towards logistics, distribution and transport companies, with a large share sourced from DP World, a UAE-headquartered port and logistics operator. Significant investments were also made into electricity and recycling infrastructure, led mostly by Saudi-based Abdul Latif Jameel. Combined, these highlight the crucial role international markets such as the GCC can play in contributing to LatAm's much-need infrastructure upgrade. Crucially, addressing infrastructure challenges can support growth in LatAm, especially in key sectors such as agriculture, where weak infrastructure is cited as the as the top impediment to growth (see previous chapter).

There is also some interest from the GCC in LatAm's financial services sector. The GCC countries may be an important source of investment in this sector, which is poised for further growth. This is another untapped opportunity as, based on our survey, just 5% of executives in LatAm are engaging with the GCC for investment to scale up operations.

LatAm presence in the GCC

FDI from LatAm into the GCC was much smaller, estimated at less than US$500m between 2017 and 2021, with 85% sourced from Brazil and 13% from Argentina.

Some of the biggest investments were made by Brazil's BRF, one of the world's biggest food processing companies and a leading supplier of poultry to the GCC markets. Over the past few

[29] https://www.reuters.com/world/middle-east/brazils-brf-saudi-fund-set-up-poultry-joint-venture-2022-01-13/
[30] https://www.foodprocessing-technology.com/projects/brasil-foods-brf-food-processing-plant-kizad/

years the company has established food processing plants in Saudi Arabia and the UAE.[29, 30]

Fedecafe's Mr Velez, who served as Colombia's first ever ambassador to the UAE in 2011-14, sees a lot of potential for LatAm's agriculture and food industry in the GCC. "Consumption is booming in the GCC, they need the food, and some countries, such as the UAE, are acting as hubs to import products and distribute them to the rest of the GCC," he says. Mr Velez believes that in order to seize this opportunity, several steps must be taken, starting with fundamentals such as increasing LatAm's diplomatic and business presence in the GCC, as well as facilitating migration and increasing flight connections.

APEAJAL's Mr Garcia also confirms that the avocado industry is seizing the rise in demand from GCC countries: "Logistics and distance are without a doubt factors against our exports, but demand is soaring, and we meet sanitary requirements there."

There is interest in other sectors too, such as healthcare and consumer goods. Biogenesis Bago, an Argentine biotechnology firm, is setting up an animal vaccine manufacturing plant in Saudi Arabia with an investment of US$60m.[31] Brazilian beauty-products company Natura has also made investments in the UAE.[32] Although market size may be a limitation to further growth in the GCC, experts we interviewed say that the region will remain an interesting niche market.

A new scope?

Overall engagement between the two regions is relatively low, as demonstrated not only by the current levels of bilateral trade and FDI between the two regions but also by our survey results. Among the 200 executives we surveyed in LatAm, only 17% are selling products or services to the GCC, and just 6% are purchasing products from there.

But there is a clear desire to increase the level of engagement. Forty-eight percent of LatAm respondents expressed an interest in increasing their engagement with the GCC once the pandemic ends. In the concluding section of this report we explore the scope for expanding the degree of economic cooperation.

[31] https://english.alarabiya.net/business/economy/2021/06/29/Saudi-Argentine-JV-plans-60-mln-animal-vaccine-manufacturing-plant-in-Riyadh
[32] FDImarkets

Conclusion: Forging new pathways for engagement

LatAm may have recovered somewhat from the initial shock of the pandemic, but its long-term economic success will depend on achieving higher and more diversified exports and on increasing inward foreign investment. Here the GCC would be a promising partner. Although efforts are being made to expand local agribusinesses through vertical farming in the GCC, this is at a nascent stage, and the region therefore continues to rely on food imports. As such it offers opportunities for growth to LatAm's exporters, while the GCC's wealth could become a source for LatAm firms in need of foreign capital.

Based on insights from our survey, executives are turning to the GCC mostly to sell products and services (cited by 27%). But there is also greater interest in securing investments from the GCC region, as cited by 28% of respondents, compared with just 5% who are currently engaging with the region for investments.

Indeed, LatAm executives say that access to local financing options is the top reason why they find the GCC appealing (30% of respondents). Other reasons include the ease of doing business in the region (27%) and low trade barriers (23%).

But there is little recognition of the GCC as a knowledge partner to firms in LatAm, and this is a missed opportunity. The GCC has successfully completed large-scale infrastructure projects across the transport, electricity and telecoms sectors. There may be lessons for LatAm on best practices regarding planning and implementing such projects.[33] Conversely, LatAm could offer insight into the development of the GCC's food, pharmaceuticals and fintech sectors.

Figure 6: The role of the GCC in Latam's key sectors

Sector	Role of the GCC
Agriculture and food	Market, Investor
Financial services and fintech	Investor, Market
Transport and logistics	Market, Investor, Adviser
Retail and e-commerce (excluding food)	Market, Investor
Healthcare	Investor, Market, Adviser
Industry and energy	Supplier, Investor
Professional services and marketing	Investor, Market

Source: Economist Impact analysis.

[33] EI to confirm: Latam has other reasons why the infra is still poor (government spending, challenges with land owners etc.)

Forging new pathways for engagement depends on overcoming several obstacles, however. For one, the knowledge among LatAm executives of the GCC appears to be quite limited. In our survey they cite political instability (32%) and limited purchasing power (20%) as the top challenges to operating in the GCC. In fact, the GCC countries are among the most stable politically in the broader Middle East, Africa and Central Asia regions. In 2021, The Economist Intelligence Unit rates political stability in the UAE and Qatar at 7.4 (out of 10, where a higher score represents more stability), 5.7 in Kuwait and 5.1 in Saudi Arabia.[34] In addition, although the GCC's relatively small market size can be a deterrent for some exports, the high purchasing power is attractive for niche products, such as exotic fruits and specialty coffees. The region can also be a destination for services expansion, as exemplified by the presence of the Mexican cinema chain Cinepolis in Oman and Saudi Arabia. More diplomatic activity and trade missions could enhance knowledge about both regions, but specifically for LatAm executives it would be useful to learn about the stability, contract enforcement and purchasing power in the GCC and adjacent markets (including Africa and South Asia).

Transport and logistics are likely to improve gradually, but only as bilateral trade grows. One step towards increasing trade as well as investment flows may be the formalisation of trade agreements—if not between regional blocs then between countries in the two regions. This may provide a framework for collaboration to enhance an already complementary relationship between the GCC and Latin America.

[34] For comparison, the US is at 6.8, the UK at 8.5, France at 7.9

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