LATIN AMERICA: Corruption poses investment risk

OxResearch Daily Brief Service. (Jul 15, 2013).

Abstract

Corruption perceptions are on the rise in Latin America, according to Transparency International's Global Corruption Barometer 2013 published on July 9.

High-profile examples of bribery and corruption continue to be uncovered in the region, also hitting the corporate sector. Quite apart from the damage done to the reputation of international companies, this undermines the standing of countries were these activities take place. Latin American countries vary in their approaches to tackling corruption. While all have passed anti-corruption legislation, the extent to which this is implemented varies.

Full Text

EVENT:Corruption perceptions are on the rise in Latin America, according to Transparency International's Global Corruption Barometer 2013 published on July 9.

SIGNIFICANCE:High-profile examples of bribery and corruption continue to be uncovered in the region, also hitting the corporate sector. Quite apart from the damage done to the reputation of international companies, this undermines the standing of countries were these activities take place. Latin American countries vary in their approaches to tackling corruption. While all have passed anti-corruption legislation, the extent to which this is implemented varies.

ANALYSIS: Impacts.

Failure to crack down on corruption may encourage companies, particularly Western-based ones, to relocate to more conducive environments.

This means that Latin American countries may have to rely more on investment from local or regional sources.

Anti-corruption legislation depends on strict enforcement to be effective.

High-profile corruption cases involving multinationals have emerged in Latin America recently:

In April 2012, it was revealed that US retail giant Walmart was facing investigations into allegations of systematic corruption and bribery during the build-up of its operations in Mexico.

In April 2013 US firm Ralph Lauren agreed to pay 1.6 million dollars to settle allegations that its Argentine subsidiary had paid bribes over a five-year period.

The fact that such major cases can be exposed in countries such as Mexico and Argentina (the two Latin American countries where perceptions of that corruption had increased were highest, according to the latest Global Corruption Barometer) reflects badly on their governments, casting doubt on both their will and capability to enforce anti-corruption legislation.

Non-adherence consequences.

Both Argentina and Mexico have signed up to international agreements such as the OECD Anti-Bribery Convention, as well as enacting domestic legislation. However, concerns about adherence could have economic consequences:

International companies may not want to invest in countries perceived to be prone to corruption, since this could leave them at risk of being solicited for bribes and either being unofficially penalised for not paying them, or at risk that individuals within the firm will agree to participate in corrupt practices. These companies could then face investigation in their home jurisdiction or in the Latin American country in which they are operating. This is particularly risky for firms subject to specific legislation such as the US Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act, both of which apply to firms that conduct any business on, respectively, US or UK soil (see INTERNATIONAL: Firms face growth of anti-bribery laws - August 10, 2012).

The costs of doing business in countries viewed as corruption-prone may increase because of the need to put in place anti-corruption controls. These could take the form of requiring enhanced due diligence measures to establish the credentials of local partners before beginning operations, and the costs of ensuring transparent accounting and relations with local partners once operations have begun.

For these reasons, companies may choose to locate in countries that offer greater protection against corruption. This can result in economic losses for countries viewed as corrupt, with foreign investment slowing and a vicious cycle building up in which slower investment due to corruption concerns results in a less dynamic business environment, which then becomes less attractive in itself for investors.

Corruption in Latin America.

Views of corruption vary across Latin America:

Transparency International's Global Corruption Barometer 2013 reveals that across 14 participating countries in Latin America, an average of 58% of citizens believe that corruption has worsened over the past two years.

In Transparency International's 2012 Corruption Perceptions Index, Chile scored best within Latin America, being ranked 20th out of 176 countries in the world, just ahead of Uruguay. Notably, Chile was just behind the United States at 19th, demonstrating that it is among the global leaders in terms of anti-corruption efforts.

Colombia was ranked 94th.

Other major business-focused economies within the region did not fare so well, with Venezuela ranked 165th, Mexico 105th and Argentina 102nd. Brazil, the region's largest economy and one that is aiming to present itself as a major hub for companies investing in Latin America, was ranked 69th.

That corruption perceptions matter in economic terms is borne out by the World Bank's Ease of Doing Business Index 2013, which specifically looks at regulatory frameworks designed to protect investors. Here Venezuela fares worst again, ranked 180th out of 185 countries, with Brazil 130th, Argentina 124th, and Chile and Colombia faring better, at 37th and 45th respectively. This indicates that there is a correlation between the level of corruption and the ease of doing business, suggesting that companies facing a choice between a corrupt and a less corrupt country would do better in business terms to choose the latter.

Facing corruption.

Many Latin American countries have not yet taken on board the economic risks associated with being viewed as corrupt. Chile has been steadily implementing anti-corruption measures since the 1990s and is well-regarded globally. Colombia has a more recent reputation for fighting corruption. The country's efforts to join the OECD mean that as part of its entrance criteria it will also be required to sign up to particular legislation. However, this does not necessarily equate to implementation. An October 2011 report by the OECD noted that Mexico had made some improvements to its legislative framework but that several deficiencies remained, and the overall pace of reform was slow. The report was particularly concerned that Mexico was not focusing on bribery as a criminal act to the same extent that it was committed to combating organised crime and violence.

The OECD was more positive about Brazil, noting that it was making efforts to plug gaps in its legislative framework, but warned that these changes were not being communicated effectively to Brazilian nationals and companies operating abroad, putting them at risk of non-compliance. Brazil has passed several anti-corruption laws, such as a 2010 norm that establishes direct liability of individuals and companies for acts of corruption. However, corruption is still viewed by many Brazilians as the normal way of doing business. Some attempts have been made to crack down on high-level corruption but this is mainly associated with politicians, as evidenced by recent demonstrations (see BRAZIL: Protests expose middle-class grievances - June 19, 2013).

Attracting foreign investment has not been a priority in Argentina, especially given the nationalist stance of President Cristina Fernandez de Kirchner's administration (highlighted by the 2012 renationalisation of oil company YPF). The government is currently focused on issues including surging inflation, judicial reform and legislative elections in October.

Venezuela is the worst regional example of corruption, with the government unwilling to attack it amid suspicions of high-level involvement, particularly in the lucrative oil industry. Venezuela, for instance, is not a member of the Extractive Industries Transparency Initiative, a voluntary initiative designed to provide reassurance about anti-corruption efforts in major extractives producers.

CONCLUSION: Without a clear demonstration of efforts to reduce corruption within their business environments, some countries in Latin America could be perceived as a risk -- particularly for companies from OECD countries which are signatories to Anti-Bribery Convention (ABC) -- and therefore fail to attract international business and forego opportunities for economic development.

Details

Subject	Politics; Corruption; Courts; Political parties; Police
Location	Latin America, Caribbean area, Argentina, Brazil, Chile, Mexico, Venezuela
Classification	9173: Latin America 1210: Politics & political behavior
Identifier / keyword	Latin America, Caribbean area, Argentina, Brazil, Chile, Mexico, Venezuela, Politics, Corruption, Courts, Political parties, Police
Title	LATIN AMERICA: Corruption poses investment risk
Publication title	OxResearch Daily Brief Service
Pages	n/a
Publication year	2013
Publication date	Jul 15, 2013
Year	2013
Publisher	Oxford Analytica Ltd
Place of publication	Oxford
Country of publication	United Kingdom
Publication subject	Business And Economics
Source type	Reports
Language of publication	English
Document type	News

ProQuest document ID	1399959934
Document URL	http://libproxy.nps.edu/login?url=http://search.proquest.com/docview/1399959934?accountid=12702
Copyright	Copyright Oxford Analytica Ltd. 2013. No publication or distribution is permitted without the express consent of Oxford Analytica.
Last updated	2013-08-09
Database	ProQuest Central