Analysis of the Commercial Relations between Sweden and Latin America

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ABSTRACT

Title Analysis of the Commercial Relations between Sweden and Latin America

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Introduction During 2003, Swedish exports to Central and South America were only 1.9% of the total Swedish exports; furthermore, Swedish imports during the same period to Central and South America were 1.1% of total Swedish imports. The figures show how Swedish trade with Latin American countries is very low. The only Latin American country that in 2003 made part of the main 30 Swedish trade partners was Mexico, in the 22nd position. Swedish exports to Mexico represented 0.7% of total Swedish Exports for the year.

Purpose The purpose of this thesis is to make an analysis of the problems that Swedish companies face when doing business with the Latin American region, and to explore the causes of the low exchange rates in the commercial relations between Sweden and Latin America.

Method Exploratory research with a qualitative study of nine Swedish companies that are currently developing business with the Latin American Region. Interviews were used to collect the data that later on is compared to the information collected by the literature study.

Conclusions Not only one, but several factors could be influencing the low levels of trade between Sweden and Latin America. The main problems regarding cultural differences perceived by the interviewees were the way businesses are conducted in Latin America, the need of knowledge of the language and the amounts of corruption in the authorities. Other issues highlighted by most companies were the unclear legislations and procedures, political and economical instability and insecurity issues.

It would be bold to conclude that lack of information about the market is the only responsible of the poor relations among Sweden and Latin America, but it certainly is an important feature that affects the perception of attractiveness and of complexity to access successfully the market. A second element comes into the picture, which is the presence in the market. The combination of these two elements could explain part of the problem.
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1 Background

The contemporary world is constantly giving signs of how important trade has turned out to be. According to the World Trade Organisation for the year 2004 Global Gross Domestic Product (GDP) is to reach 3.7% and world trade will grow 7.5%. [WTO, 2004] Countries that are more involved in trade and investment practices show a more rapid growth and a significant reduction of poverty than those that are not. [WBG, 2004]

The European Union, with its previous 15 members represented only 6% of the global population, but more than 20% of the global imports and exports, which makes it the first commercial world power. The EU market is the first export market for around 130 countries around the world. The European Union is also the first provider of Foreign Direct Investment (FDI) and the second receptor of the same after the US. Recently the EU has been quite active with its relations with the Latin American region. [European Comission, 2002]

The Latin American region can offer many business and economic opportunities to Europe; moreover, the promotion of trade and investment mean improvement for the Latin American region, bringing the reduction of poverty and the development of cleaner economic systems. However, the current relations between both areas are still insignificant. According to a Survey on European Union and Latin America Relations conducted by Eurochambers, it was concluded that the lack of information among European businesses about the Latin American market is part of the problem. [Eurochambers, 2002]

“A first issue, which most of the interviewees, mainly local Chambers, highlighted was that European companies would be more stimulated to do business with Latin America if there was more information.” [Eurochambers, 2002]

Trade during 2002 between Western Europe and Latin America was minimal, exports and imports represented only 2.1% and 2% of total Western Europe trade. The main trade partners for Western Europe are the countries within the European Union, representing 61.7% and 62% of total exports and imports during 2002 for Western Europe.

Mexico, Brazil and Argentina are the most attractive countries in Latin America for European companies because they offer well developed markets, better infrastructures and business contacts. [Eurochambers, 2002]
1.1 Swedish Trade with Latin America

Swedish trade is mainly done with other European countries (75% of Swedish exports go to Europe). Germany and UK have been the biggest suppliers as well as exports market for Sweden. Main Swedish exports are wood products, pulp, paper and steel, pharmaceuticals, telecommunication equipment, machinery, cars, and auto parts. Main Swedish imports are engineering products and chemical products. [Swedish Institute, 2000]

The following chart shows the behaviour of the Swedish trade among the various regions of the world during the last two years:

<table>
<thead>
<tr>
<th>Region</th>
<th>Exports (SEK Mill)</th>
<th>Imports (SEK Mill)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-Dec 2003</td>
<td>% Share</td>
</tr>
<tr>
<td>Total</td>
<td>819 053</td>
<td>100,0</td>
</tr>
<tr>
<td>Europe</td>
<td>584 981</td>
<td>71,4</td>
</tr>
<tr>
<td>EU Countries</td>
<td>444 095</td>
<td>54,2</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>140 886</td>
<td>17,2</td>
</tr>
<tr>
<td>Africa</td>
<td>13 847</td>
<td>1,7</td>
</tr>
<tr>
<td>America</td>
<td>120 285</td>
<td>14,7</td>
</tr>
<tr>
<td>North America</td>
<td>104 479</td>
<td>12,8</td>
</tr>
<tr>
<td>Central and South America</td>
<td>15 807</td>
<td>1,9</td>
</tr>
<tr>
<td>Brazil</td>
<td>4 368</td>
<td>0,5</td>
</tr>
<tr>
<td>Chile</td>
<td>1 366</td>
<td>0,2</td>
</tr>
<tr>
<td>Mexico</td>
<td>5 521</td>
<td>0,7</td>
</tr>
<tr>
<td>Asia</td>
<td>88 887</td>
<td>10,9</td>
</tr>
<tr>
<td>Oceania</td>
<td>10 464</td>
<td>1,3</td>
</tr>
</tbody>
</table>

Figure 1: Swedish Imports and Exports by region during 2002 and 2003, Statistics Central Bureau of Sweden, 2004

As it can be seen in the above chart, in terms of trade the relations between Sweden and Latin America are very poor. The only Latin American country that in 2003 made part of the main 30 Swedish trade partners was Mexico, in the 22nd position. Swedish exports to Mexico represented 0,7% of total Swedish Exports for the year. The tendency of Swedish exports during the last four years to Brazil and Mexico is presented in the chart below.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>%</th>
<th>2001</th>
<th>%</th>
<th>2002</th>
<th>%</th>
<th>2003</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>796900</td>
<td>100</td>
<td>787900</td>
<td>100</td>
<td>806100</td>
<td>100</td>
<td>819053</td>
<td>100</td>
</tr>
<tr>
<td>Brazil</td>
<td>6198</td>
<td>0,78</td>
<td>6829</td>
<td>0,87</td>
<td>5091</td>
<td>0,63</td>
<td>4368</td>
<td>0,53</td>
</tr>
<tr>
<td>Mexico</td>
<td>9898</td>
<td>1,24</td>
<td>5765</td>
<td>0,73</td>
<td>3559</td>
<td>0,44</td>
<td>5521</td>
<td>0,68</td>
</tr>
</tbody>
</table>

Figure 2: Swedish Exports to Brazil and Mexico during 2000 to 2003, Statistics Central Bureau of Sweden, 2004

The main products that Sweden exports to Brazil and Mexico are telecommunication equipment, vehicles and parts, electrical machines and appliances, industry machinery and equipment, chemicals and pharmaceuticals.
The following chart shows the tendency of Swedish imports from Brazil and Mexico during the last four years.

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>669200</td>
<td>657700</td>
<td>651500</td>
<td>672762</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td>2482</td>
<td>2036</td>
<td>2240</td>
<td>2172</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>253</td>
<td>269</td>
<td>360</td>
<td>293</td>
</tr>
</tbody>
</table>

**Figure 3:** Swedish Imports from Brazil and Mexico during 2000 to 2003, Statistics Central Bureau of Sweden, 2004

Sweden imports products from Brazil and Mexico such as electrical machinery and equipment, machinery and mechanical appliances, iron and steel and coffee.

Large companies (more than 200 employees) in Sweden are accountable for the 71% of the total Swedish exports (during the year 2002). In relation with developing countries (Middle East, Africa and South America) large companies are to be accounted for 80% of the Swedish exports to these regions. [Swedish Trade Council, 2003] Large companies play an important role in Swedish trade.

**Figure 4:** Export Markets of Swedish Large Companies during 2002, Swedish Trade Council, 2003

### 1.2 Swedish Direct Investment in Latin America

The situation of the Swedish investment in Latin America shows the same tendency of the trade. Currently there are about 114 companies in Mexico with Swedish participation in its venture capital; these represent the 0.4% of the total companies registered in Mexico with FDI. The companies that have Swedish FDI are mainly on the manufacturing industry (42.1% of the total), commerce (29.8%) and services (25.5%).

Between 1999 and 2003, Swedish companies invested 180 mn dollars in Mexico, 0.3% of the total Foreign Direct Investment of the country, and the 1.4% of the total European Union
countries investment. Sweden is in the seventh position of main Foreign Direct Investors in Mexico, among the European countries.

The situation in Brazil is somehow better, there are more than 170 Swedish companies currently operating in Brazil, of which more than 15 were established during the last couple of years. According to the Central Bank of Brazil, Sweden was the eighth largest foreign direct investor in Brazil in 2000, with a 2% share of the total of 629 million dollars of Foreign Direct Investment.

The following chart shows the main economic sectors that received Swedish Direct Investment during the year 2003.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Thousand of US dollars</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Automotive Industry</td>
<td>64,619.2</td>
<td>35.8</td>
</tr>
<tr>
<td>2 Professional, technical and specialized services</td>
<td>29,947.5</td>
<td>16.6</td>
</tr>
<tr>
<td>3 Retail sale of non-food products</td>
<td>28,198.7</td>
<td>15.6</td>
</tr>
<tr>
<td>4 Pharmaceutical industry</td>
<td>20,945.5</td>
<td>11.6</td>
</tr>
<tr>
<td>5 Rent of equipment, machinery and furniture</td>
<td>14,604.3</td>
<td>8.1</td>
</tr>
<tr>
<td>6 Manufacture of other metallic products</td>
<td>13,968.4</td>
<td>7.7</td>
</tr>
<tr>
<td>7 Insurance and financial institutions</td>
<td>13,784.8</td>
<td>7.6</td>
</tr>
<tr>
<td>8 Manufacture and repair of machinery and equipment for specific aims</td>
<td>2,635.4</td>
<td>1.5</td>
</tr>
<tr>
<td>9 Manufacture and repair of machinery and equipment for general uses</td>
<td>2,473.1</td>
<td>1.4</td>
</tr>
<tr>
<td>10 Manufacture of household appliances and accessories</td>
<td>1,602.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Others</td>
<td>-12,364.2</td>
<td>-6.8</td>
</tr>
<tr>
<td>Total</td>
<td>180,415.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Figure 5:** Swedish Direct Investment in Mexico by Sector, Secretary of Economy of Mexico, 2004

The accumulated Swedish investment in Brazil to the year 2000 by economic sector is shown in the chart below.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive Industry</td>
<td>36</td>
</tr>
<tr>
<td>Metallurgical Industry</td>
<td>20</td>
</tr>
<tr>
<td>Electro/Electronic industry incl. Telecommunications</td>
<td>14</td>
</tr>
<tr>
<td>Chemical Industry</td>
<td>12</td>
</tr>
<tr>
<td>Mechanical Industry</td>
<td>5</td>
</tr>
</tbody>
</table>

**Figure 6:** Swedish Direct Investment in Brazil by Sector, Swedish-Brazilian Chamber of Commerce.
1.3 International Trade Theories

Several theories have been developed to describe why countries engage in international trade as well as to give an explanation of the current patterns of trade.

One of the first developed theories was the Mercantilism Theory developed by David Hume. This theory has its roots in England during the 16th and 17th centuries, and its initiative was to persuade countries to increase their exports at the same time that they would have to decrease their imports. The logic of this reasoning was that by increasing their reserves of gold and silver, the currency used for trading at that time, countries would become wealthier and would achieve a higher status. [Hill, 1998] Countries are still protecting certain of their industries from imports by using instruments like exports subsidies, the setting of high import tariffs, standards and regulations; situation that tells us that this mercantilist view is still prevailing in the trade policies of the countries.

On 1776, Adam Smith develops his Theory of Absolute Advantage supporting free trade. He explained how the “invisible hand” of the market is the one in charge to decide what a country should buy from another country and what could be produced and exported to other countries. This theory explains how each country has an “absolute advantage” in producing more efficiently certain products over other countries. Smith also argues that economies could benefit from this situation if countries specialise in the production of the goods they produce more efficiently and cheaper, and buy at lower prices from other countries products that otherwise would be produced at home at higher costs. [Webster in Tayeb, 2000] Colombia and its specialisation of coffee is a good example of this theory. In the 1890’s coffee represented 70% of the total exports of the country, generating high incomes; however, during the last decade the world prices of the coffee have gone down, climate phenomena has affected the crops, and the Brazilian offer of coffee has gone up; since then Colombia has been facing the consequences of specialization.

In 1817, David Ricardo further develops the theory of the absolute advantage of Smith. In his theory, Ricardo explains the different patterns of international trade in the Comparative Advantages of different countries, which are ultimately, influenced on their labour productivity differences. Not only Ricardo thought that it was advantageous to specialize in the product which an economy produced more efficiently, but he also added that an economy could specialize in those that are not so efficiently produced. Engaging in specialisation and trade, countries consumption would increase since the offer of produced goods is higher: products that are efficiently produced at home, plus those that are also efficiently produced in the other country. The main critic to this theory is the lacking in the analysis of several factors like for instance, an existence of more than two countries as well as two products, the various differences between the countries resources’ costs, exchange rates, transportations costs, the inconstant existence of resources and the consequence of trade and income distribution in an economy, to name a few. [Hill, 1998]

Even though this theory may not be accurate in explaining the current behaviour of world trade, it shows us some of the benefits that free trade brings to different economies. Opening the economies is something that has become necessary nowadays for any country in the world, and proof of this is the growing rates of trade during the last 50 years (6% annually), the increasing numbers of members in the WTO (150 members presently and 30 negotiating), and the competitive levels that companies and countries reach when present in economies that foster free trade. According to the World Bank, developing countries that are engaged in
export activities and that have taken active part of the global economy experience higher levels of growth than those that have not.

Still, there is the presence of high tariffs and subsidies on certain sectors of the world economy, and these have been blamed for the lack of opportunities for poor countries to take benefit from the advantages of the international trading system. According to reports of the World Bank, lowering of tariffs of agricultural and manufacturing products as well as ending the agricultural subsidies could mean a cut in the number of people living in poverty of about 8% by 2015.

Another theory worth explaining is the Hecksher-Ohlin Theory, which mainly argues that countries export goods which production involves the use of those resources that are found in abundance within the country, and on the other side, imports those goods which production involves the use of resources that are scarce. [Hill, 1998] Or in a more detailed explanation, exports in countries with high levels of capital per worker are of those products which production is capital intensive, and exports in countries with low levels of capital per worker are those products which production is labour intensive. [Tayeb, 2000] This theory could help understand for instance why exports in Latin American countries have been mainly based on agricultural products; these countries have big amounts of land, favourable climate conditions, cheap labour and the experience of producing these goods for many years.

Raymond Vernon developed the Product Life-Cycle Theory in the 60’s and its main purpose was to explain how the patterns of global production and export of a product changes according to its stage of development in the life-cycle. It also explains how countries that initially develop a product can later on become importers of the same. Vernon supported his observations on the tendency of US companies during the 20th century to develop almost all innovative products. [Hill, 1998] This theory is useful to explain the patterns of multinational companies that in order to achieve competitiveness establish their manufacturing plants in undeveloped countries. Let’s take for example the case of the Finnish company Nokia, which has manufacturing plants all around the world from Brazil, US, China to Finland.

Developed in the 1970’s, the New Trade Theory’s main argument is that some countries have developed a strong competitive advantage in certain economic areas as a result of being the first ones to access the market, what makes it difficult for other countries to compete with them. [Hill, 1998] This theory seems easily supported by the current situation of competitiveness and power of many countries and multinational companies that are doing business around the world; take for instance the German car industry which is known for building the first automobile in 1887, and through the years they have been building cars that are safe, have good quality and bring innovation, and not to forget that the main cars manufacturing companies in the world are from Germany (Audi, Mercedes, BMW, Volkswagen, Porche).

In his book The Competitive Advantage of Nations, published in the year 1990, Michael Porter explains why some countries are able to be more competitive internationally. Trying to complement the ideas of the previous theories, Porter’s objective was to explain that the domestic demand and competence play an important role on the strength of an economic sector of the national economy, and explains its supremacy on production and export. The National Competitive Advantage argues that industries would become international successful as a result of their achievement on four areas (The situation of the production factors, The
national demand for the product, The existence and competitiveness of supplier and supporting industries and The conditions of the country regarding creation, organisation, management and competition of the companies). [Hill, 1998]

Porter’s theory is good at explaining the behaviour of the patterns of the world trade; It adds to the analysis of the local situation of industries, the interaction with their external environment, elements like management culture and the imperfections that the world trade currently presents. Furthermore, it tells us that the achievements of a country can be created by knowing how to combine these various forces.

Perhaps if we think about countries as companies, it would be easier for us to understand how they are good at something not only because they have the right production factors, innovation and management styles, but because they are affected by the world around it, especially by what the other companies are doing to keep them out of the market, and more importantly because they have been successful when dealing with these problems.

Experience tells us that in economy matters there seems not to be a single, true theory, but that all these theories above add something to each other in their purpose of explaining the underlying principle of the behaviour of international trade.
Problem Description

2 Problem Description

The establishment chain theory, developed by Johanson and Wiedersheim-Paul in 1975 by observing the patterns of internationalisation of four Swedish firms, describes the existence of problems, such as language, culture, political systems, etc, that act as a barrier of the flows of information between markets and companies consequently affecting international trade. [Ghauri in Tayeb, 2000]

“There is general consensus that market specific experiential knowledge is central to explaining the firm’s internationalisation process. Experiential knowledge is, by its very nature, organisationally specific and unique thereby creating a form of distinctive competence in key markets, for example cultural issues, language, organisational routines, structure and controls; foreign institutional knowledge (government regulations, banking, finance, political/economic analyses); and general internationalisation knowledge (such as international awareness, sensitivity, networking contacts).” [Intercrafts, 2003]

Knowledge about the different aspects of the market becomes essential in understanding the various degrees of internationalisation of a company. The point this thesis is trying to prove is if the low levels of information about the Latin American market are causing a higher degree of perceived difficulty and disinterest among Swedish companies to conduct business with the Latin American region.

In order to understand and explain our problem properly, it has been decided to divide this main problem into several detailed research questions, which can be found in the following title.

2.1 Research Questions

The questions that this thesis work aims to answer will be:
-What is the perception that Swedish companies have about the potentiality of the Latin American market?
-What are the major obstacles that affect the interest of companies to develop stronger commercial links with Latin America?
-Do entrepreneurs sense that there is a lack of information about the Latin American market?
-Could lack of knowledge be the reason of the modest state of the economical relations between Sweden and Latin America?

2.2 Purpose

The purpose of this thesis is to make an analysis of the problems that Swedish companies face when doing business with the Latin American region, and to explore the causes of the low exchange rates in the commercial relations between Sweden and Latin America.

2.3 Audience

I have chosen to write my thesis focusing on the international trade aspects of business administration, not only because it is a topic of great interest for me, but because of its relevancy to the business community. The answers this research will give us would become very useful information for those companies that are currently developing business with Latin America as well as for those that are studying the possibility to develop business in the future. Swedish companies for instance can benefit from knowing what the other companies doing business in Latin America think of the market, what problems they have found, and even get an idea of what cross cultural management issues are significant and should be handled when doing business in the Latin American market.
3 Method

Research can be classified in many ways, according to the nature of the problem it can be classified as exploratory or conclusive. Exploratory research allows the researcher to become familiar with the concept to be studied; its results can provide significant inside into a given situation, giving some suggestions on “why”, “how” and “when”, but they cannot be generalized nor answer questions like “how often” or “how many”. On the other hand, conclusive research supply data than can be use to reach conclusions, to give a reliable picture of the population, usually in the form of numbers that can be measured and summarized. [Joppe, 2004] Because of the nature of the problem and the type of the results that are aimed for, exploratory research is the one that fits better the purpose of this thesis.

3.1 Data Collection

Each of the two types of research discussed above relies on various ways to collect data. Data collection is classified in Primary research and Secondary research. Primary research collects data by observing or communicating directly to the studied subject; it includes techniques such as qualitative and quantitative research. Secondary research collects data by literature review or other already existing sources. [Joppe, 2004]

3.1.1 Qualitative Research

The aim of the qualitative research has been defined as to “develop deeper understanding of certain kinds of human behaviour rather than to provide statistics”. [Central European University, 2003] Since the object of this research is to understand the poor progress of the relations between Sweden and Latin America, it was decided that the most appropriate way to obtain in-depth information was to carry out a qualitative method by collecting empirical data directly from the Swedish companies.

An initial research on the WebPages of the Swedish Trade Organisation and the Statistic Swedish Bureau of Sweden regarding the existing state of the trade and FDI relations between Sweden and Latin America was initially developed. As a result, it was noted that Brazil and
Mexico have the biggest participation in the regional and Swedish trade among the other Latin American economies during the last four years. Since there seemed to be more information regarding these two countries, it was wiser to focus our research on them. Information provided by the Swedish Brazilian Chamber of Commerce made possible to get a list of 32 Swedish companies that are currently developing business with Brazil. These companies are considered to be just right for our research since they have some degree of knowledge and expertise regarding the Latin American market.

3.1.1.1 Interviews

An e-mail with a request for a phone interview along with an attachment of the proposed topics to be discussed was sent to the General Managers, Marketing Managers or Latin American regional managers of each of the 32 companies. During the next two weeks, 9 companies responded positively and agreed to arrange the times of the phone interviews. A model questionnaire was initially developed to help keep the interview on track. However, during the development of the 9 interviews, it was lightly modified so that it became a tool that would help collect accurate valuable information which final aim was to answer the initial research questions.

Each of the interviews took around 20 to 30 minutes. The information gathered on each of the interviews was written down on a journal. The resulted material was organised and classified according to each of the topics and subtopics in the proposed index. The data was then rewritten to the material presented in this thesis.

For the process of data interpretation, the results of the investigation were compared to the theoretical information, trying to find the connection among the theory and the current situation that the Swedish companies are confronting when doing business in Latin America.

3.1.2 Literature Study

Literature study is also important not only because it is an economic and easy accessible source of background, but because it can give some idea of the real extent of the problem and helps the researcher familiarize with the key concepts. This type of research is very helpful on exploratory research. [Joppe, 2004] On this thesis work, the literature study provided information about the current state of the field and gave information regarding other findings on the subject. Furthermore, this information is later compared with the results of the qualitative research in order to provide some answers to the questions initially intended to be answered by this thesis.
4 Theoretical Background

4.1 The Internationalisation of the Company

The theories that are presented next have the purpose to explain the different reasons why companies engage in international business.

4.1.1 The Product Life-Cycle Theory

Raymond Vernon explains how companies have to go through certain stages that go from innovation to standardization and maturity during the process of adaptation to the market and according to the development forces of supply and demand of their product. [Ghauri in Tayeb, 2000]

So, the product is initially innovated and introduced in the domestic market; later comes their export and maturity. The standardisation of the product brings also its production overseas by other firms, which produces a rise in the demand of overseas customers. At this point the production of the good can start in other advanced countries, in factories that are subsidiaries of the initial inventing company. The existence of costs benefits in the production of the good abroad may even make the product being imported to the original invented country. Later on competitors can take advantage of their production costs, cheaper labour or inputs and standardisation of production systems, and compete by exporting their products to markets where the product was originally produced. [Ghauri in Tayeb, 2000]

The best example of this kind of internalisation is the manufacturing plants of so many US garments manufacturers, i.e. Gap, Levi’s and Guess that are set in Mexico, where the lower wages and favourable laws make an attractive site to manufacture their clothes, and export them again to US and Canada.

4.1.2 The Establishment Chain

This theory was developed by Johanson and Wiedersheim-Paul in 1975 by observing the patterns of internationalisation of four Swedish firms. According to this theory there are four
stages that the company goes through in their process of carrying out business abroad. The company must achieve certain degree of success in their domestic market that added to a series of decisions and attitudes toward internationalization makes it overcome the obstacles that could affect the desire of developing operations abroad. A higher stage of involvement in the international market means for a company a deeper knowledge of the market, larger commitment of resources and more progressive experience. [Ghauri in Tayeb, 2000]

The sequence of four steps is what is called the establishment chain. The first one is when there are no regular exports and there is almost no information about the market and a higher perceived risk; in the beginning the company starts their exports to similar countries that are relatively better known for their business practice. The second stage the company sales their products trough agents, which creates a channel of information. In the third stage the company establishes their own subsidiaries, thus having more control over their own operations and learning first hand about the market. The four stage of internationalization is the setting of production facilities in the foreign market. This theory also tells us that companies can jump from one stage to another, as a result of their attitudes and philosophy towards internationalization. [Ghauri in Tayeb, 2000]

This theory also explains some problems that arise and become a barrier on the inflows of information between markets and the firm, affecting international trade. Among these problems we can find: language, culture, political systems, level of education, level of industrial development, etc. Issues like size of the market and market opportunities affect the choice of the market of a firm; also there are a number of factors that can affect the internationalization process at the different stages. [Ghauri in Tayeb, 2000]

In my opinion this approach is quite clear and seems to comprise much of the aspects that companies have in mind when making decisions of entering the international arena. Furthermore, it explains through the four steps sequence the usual approach that companies use when starting to understand markets and develop business in these.

### 4.1.3 The Internalisation approach

This theory was developed by Buckle and Casson, and their purpose was to explain the divisions of markets between domestic and multinational firms. According to this theory a national market can be served in four ways: By indigenous firms, by subsidiaries of multinationals located in the market, by exports from foreign locally owned companies or by exports from foreign owned by multinationals. The first two cases is when the market is served by local production (location effect), and the last two is when the production is controlled by foreign-owned companies (ownership effect).

The division of local and export servicing is largely the result of the economics of the location. The benefits of internationalisation processes are measured, and it is implied that certain markets are more likely to be internalized due to the world economy. Location and ownership effects are linked with the least cost of location of an activity. [Ghauri in Tayeb, 2000]

An example of this approach is the setting of operations of certain appliances companies in Mexico, location that offers a variety of benefits like reduction on costs in manufacturing,
procurement and distribution. The American company MAYTAG has set plants in Mexico for the subassembly work to support major appliances manufacturing in the US.

4.1.4 The Eclectic Theory

According to this theory, companies combine their ownership-specific assets with fixed elements in the global economy to retain control of the generation of revenues. It also explains how, the companies that have the greatest opportunities for and derive from theses internalisation activities will be the most competitive in foreign markets. [Ghauri in Tayeb, 2000]

This approach takes the bases of the Heckscher-Ohlin theory, which explains the existence of certain conditions like two homogeneous inputs, no trade barriers or transaction costs, similarity in international tastes, the specialization in production of goods by countries, the sale and exchange of these products for others that required inputs which the country didn't have and the little competition. The eclectic theory takes three conditions: factor mobility, identity of production functions and little competition, and implies that all markets are efficient, there are no external economies of production and there are no barriers of trade or competition, which means that the only form of international involvement is trade. [Ghauri in Tayeb, 2000]

This theory has been criticised because country and company factors have changed and now companies are combining production and marketing; furthermore, countries have become more open to allow the entry of foreign firms. [Ghauri in Tayeb, 2000] Globalisation means for companies productivity and profitability; for example among other things, we are currently finding that more and more products have no specific nationality, companies are buying their raw materials and manufacturing their final products cheaper and in a more efficient way in different areas in the world, companies have the opportunity to work with a higher variety of intellectual and financial resources, and companies are more able to meet the different customer’s needs in the various markets.

4.1.5 The Network Approach

Under this approach the internalisation of companies is explained by the existence of networks and relationships between companies; consequently, companies in these same industrial systems follow the internalisation decisions of the other companies. Firms that are in the same industrial system are dependent on each other and their activities need some degree of coordination. [Ghauri in Tayeb, 2000]

The case of the automotive industry in Brazil and Argentina can explain this point. Vehicles manufacturers that established their manufacturing plants in these countries created some kind of pressure on their global suppliers to follow them to these sites.

4.2 Foreign Direct Investment Theory

The following theories try to identify the driving forces that make companies choose to engage in the high risks and expenses of acquiring and setting operations abroad.
4.2.1 Horizontal Foreign Direct Investment

We must first start by explaining the meaning of Horizontal Foreign Direct Investment. This kind of foreign investment refers to when a company invests in the same industry in which they work in their homeland. [Hill, 1998] Take for instance the presence of Volvo in Brazil, where it has set manufacturing plants, and by 2003 completed over 25 years of operations in Brazilian territory.

There are a number of factors that could influence the perception of attractiveness of an unknown market, and ultimately encourage companies to invest abroad. Some of these could be the higher transportation costs, the existence of market imperfections, imitating what their competitors are doing abroad, market saturation, and the existence of valuable resources in foreign markets. [Hill, 1998] All these aspects will be further explained in the following titles.

4.2.1.1 Transportation Costs

Shipping expenses can become a big burden for the final cost of some exporting products, making their prices unattractive and unable to compete in international markets. There are products classified as to have low value-to-weight ratio and able to be produced in any location, making their export a less attractive strategy; in these cases companies choose to make Foreign Direct Investment or Licensing. The opposite situation happens with products with high value-to-weight ratio, which transportation costs do not make a big impact on the final price of the good; which means that at the end transportation costs do not represent a great deal for a company, and as a result transportation issues do not make much impact on decisions like exporting, licensing or FDI. [Hill, 1998]

This factor could be considered an interesting determinant in explaining why some European or American companies choose to work in the Latin American market, since distance between both areas could be seen as a barrier to trade. If we think about a company like coca cola, it would not make much logic that they would send their products all the way from the US to each Latin American country, so that is why they have set operations abroad in the form of licensing. However, it would be wrong to analyse this factor independently, since the setting of operations abroad represent by itself high costs, and also because companies could think about other factors that may have more weight on the decision of setting offices abroad, like for instance if the demand is big enough to go trough an expensive operation like setting branches abroad.

4.2.1.2 Internalization theory

According to the marketing imperfections approach (referred also as internalization theory), companies take FDI decisions as a response of problems such as the existence of obstacles in the free flow of products between nations or in the sale of know-how. [Hill, 1998]

Government policies such as high import tariffs or import quotas can increase the cost of exporting goods for a company; as a consequence, FDI and licensing become the solution to
Examples of these sorts of problems are the ones that foreign companies have to face when doing business in Brazil. According to a recent report of the WTO, the Brazilian trade policy represents a big problem for companies interested in importing their products to the country. Brazil is characterised for having high imports tariffs, for constantly change its trading policies and for establishing non tariff barriers to the imported products. However, the Brazilian government offers good conditions to companies that set their offices in the country. For instance foreign companies interested in getting oil and gas concessions in Brazil need to be first incorporated in Brazil or consortia of Brazilian formed companies.

Certain companies enter foreign markets by licensing (or selling their know-how), a solution which offers the advantages of avoiding the risks related of FDI and the earning of royalty fees; However, this is an option than not every company can choose. There are certain impediments that make companies not to choose licensing as an option to enter a market because: with licensing comes the risk of giving the company’s technological know-how to their competitors, licensing means to loose of control over the strategy and operations of the foreign entity, skills and culture are characteristics within the organisation’s processes making difficult for know-how to be licensed. [Hill, 1998]

A good example of these kinds of companies is for instance Ericsson, which has set their own manufacturing phone plants and research and development centres in Brazil. Probably Ericsson is not interested in letting a local Brazilian company manage their operation in the local market and get hold of their own technological progresses.

4.2.1.3 Following Competitors

India has been offering an attractive setting for companies interested in the high tech industry. AOL confirmed some days ago their decision to establish a software development centre in Bangalore, a move that Google and Yahoo had already made, most probably motivated because of the cheap, high qualified labour force and also because the time difference would result in a longer work cycle for the company. Moves like this kind is what are considered when explaining the following competitor’s theory.

Developed by F. T. Knickerbocker, this theory explains how some companies (especially in oligopoly markets) follow the strategies of their competitors for fear of being left behind in the future. For instance when one company makes decisions as a raise in prices, expansion in capacity, or FDI decisions; it is likely that the other rivals in the market will imitate its behaviour. [Hill, 1998]

More specifically, Knickerbocker argues that the motivation of the following companies to imitate the competitors have to do with fear that the strong presence of their competitor would affect their exports to the market abroad, as well as the fear of some competitive asset from the market abroad being brought and threatening their situation in their homeland. [Hill, 1998]

This theory has been criticised because it lacks on explaining the reasons why the first company decides to FDI abroad over exporting or licensing. It also does not tell much about
which option among FDI, exporting or licensing is better when making the decision of entering markets abroad. [Hill, 1998] This theory although accurate in explaining some of the current moves of the companies worldwide, it cannot give a clear reason for this movement, so perhaps by saying that IT companies consider setting their software development centres in India may be speculation or simply one of the many reasons that could be behind this move.

4.2.1.4 The Product Life Cycle

This theory was previously discussed above from the international trade point of view; however, there is a part of this theory that explains the decision of companies of investing abroad.

Regarding FDI, the point that this theory pays attention is that some companies choose to be in charge of their production, sales and marketing operations abroad when the high demand of their product makes the setting of local production reasonable, and when low production costs can assure competitiveness in prices. In terms of Vernon’s theory, companies initially take the decision to open operations abroad in the advanced economies; later on when the product becomes standardised and the fight for lower prices affect the sales, companies search for developing countries to establish production centres that will assure lower costs. [Hill, 1998]

The critique to Vernon is the fact that he limits the explanation of why a company finds more advantageous FDI over licensing or exporting, to the fact it is just the existence of a high demand in the foreign market; thus, underestimating that it may be more profitable to produce at home and later export. [Hill, 1998]

Attractive demand on the foreign market has definitely proved not to be the only reason why companies are currently investing abroad, and not a reason at all in some cases. This theory may not be useful for us to understand all the trends of global foreign investment.

4.2.1.5 Location-Specific Advantages

John Dunning’s purpose was to explain when trying to bring together certain valuable assets that are attached in a foreign location (i.e. natural resources, skilled labour, or location) and the know-how of the company; it becomes necessary for a firm to establish operations abroad. [Hill, 1998]

This theory uses in its argument part of the internationalization theory which sees market imperfections as the problem for a company to license its know-how. This theory has been proved helpful to explain how location factors play such an important role in FDI decisions for companies. [Hill, 1998]

It comes to my mind the case of so many technological companies (Intel, DSC, Microsoft, Acer, Motorola) that have set operation plants in Costa Rica because of the special conditions the government has set in the area to attract foreign investors. Part of the Costa Rican strengths are the fiscal incentives for investors, the offer of lower labour costs, skilled labour force and the lower bureaucracy compared to other countries in the area.

Again I believe that we cannot rule out most of the theories and choose one in order to find the answer for the current behaviour of investment in the world. The answer to our queries
should be given by putting all these theories together and analysing in the light of the situation of a specific economy or a specific country.

4.2.1.6 Horizontal Foreign Direct Investment: A Decision Framework

The following graphic shows the key questions that companies take into consideration when deciding to invest in a foreign market.

```
How high are transportation costs and Tariffs?
   ↓
High
   ↓
Is Know How amenable to licensing?
   ↓
Yes
   ↓
Is tight control over foreign operation required?
   ↓
No
   ↓
Can know-how be protected by licensing contract?
   ↓
Yes
   ↓
Then License
```

**Figure 7:** Horizontal Foreign Direct Investment: A Decision Framework, International Business, Hill 1998

4.2.2 Vertical Foreign Direct Investment

Vertical Foreign Direct Investment is divided in two different types: there is backwards Vertical Foreign Direct Investment when the abroad sales of a company serve as inputs for the downstream operations of domestic companies, and there is Forward Vertical Foreign Direct Investment when there is investment into a foreign industry that sells the outputs of a company’s domestic production processes. [Hill, 1998] In the following part are the theories that try to explain why companies choose to enter foreign markets through vertical foreign direct investment.
4.2.2.1 Market Power

According to this theory, companies choose Vertical FDI to limit competition and strengthen their market control. Backwards Vertical FDI, for instance, is used to control the sources of raw material inputs and make it more difficult for competitors to enter and compete on the market. Vertical FDI is also used when companies want to avoid the existing barriers of the market. [Hill, 1998]

The critique to this theory is that it helped to explain the situation during the 30’s when there was only one large scale deposit of bauxite, located in the Caribbean, and how North American companies used the form of vertical Foreign Direct Investment to get hold of this resource and create a barrier into the aluminium industry. However, this situation changed in the 50’s and 60’s when the discovery of other deposits was made in Australia and Indonesia, but since then there has not been any other case that could help argue in favour of this theory. So that is why this theory has been considered inaccurate in explaining the current situation of vertical FDI. [Hill, 1998]

4.2.2.2 Market Imperfections

A case that could clearly explain this theory is the strong interest and presence of oil and gas multinational companies in the Andean countries of the Latin American region. The economical and development stages of the industries in these countries create the need to open part of the industry operations to companies abroad. In Latin America we have the presence of Mobil, BP, Texaco, Devon, Samson among other companies investing and taking advantage of their knowledge and technological developments in the oil and gas sectors.

Some companies chose to run the operations abroad by themselves, based on their knowledge and ability to extract raw materials, over giving away their technological expertise to foreign companies that are not efficient producers and can not supply raw materials to the firm. [Hill, 1998]

Another part of this theory tells us that firms consider attractive Vertical FDI because it is as a way to lower the risks that may bring investing in a specialized asset; for instance when the value of these assets depends on the inputs that are supplied by a foreign company. [Hill, 1998]

Perhaps Foreign Direct Investment and Trade should not be seen as two different alternatives, but we should consider them as complementing one and other. Competition is increasing and countries as companies are finding the need to grow and survive. Countries have found that they need to open their markets, make their industries more productive, be able to answer the demands of their inhabitants, set favourable conditions for growth, and attract Foreign Direct Investment. Companies on the other hand need to leave their isolation and be able to compete in a globalize market where there are forces that need to be used in their own advantage.
4.3 Major Problems that Companies Face when Doing International Business

4.3.1 Financial Risk

Financial risks are all those changes in the estimation of a firm’s assets and liabilities produced by changes in the value of financial instruments or by the activities in financial markets of the company. The most common sources of financial risk in a company are movements in exchange rates, interest rates, commodity and equity prices in a way that was not initially predicted by the company. [Bowe in Tayeb, 2000] Usually smaller and emergent markets in South America are evaluated as having a higher degree of risk for investors abroad; for instance, currencies can be extremely volatile in Latin America, situation that can affect considerably the value of one’s investment.

Another source of financial risk is the credit risk, which means the default of a company to make the payment of what was stipulated under a contract. This kind of risk can result in the downgrading of the counterparty by a credit rated agency; consequently lose the value in the market of the financial obligations of the counterparty, which are assets of the company. [Bowe in Tayeb, 2000]

Legal risk is also classified under this financial risk. There is legal risk when there is uncertainty concerning the validity of a contract; for example, when there is lack of documentation or when a party does not have the authority to sign a contract. The contravention of government regulations, like market manipulation, is also included under the legal risk. [Bowe in Tayeb, 2000]

Financial risks are caused also from operational risks, which could be originated from management failure to exercise the required control measures of employees and processes, the error of not protecting the access to the systems enough, falsification of information on contracts or financial transactions or human errors that make contracts inappropriate. [Bowe in Tayeb, 2000] The best example of this kind of risks is offered by ENRON and its bad series of administrative decisions that were just aiming to the achievement of profits now without any concern about the ethicality of their methods.

A firm can also experience unexpected losses when attempting to change the composition of the portfolio of assets of a company, and this kind of risk is known by the name of liquidity risks.

4.3.2 Political Risk

Political risk is that which comes from the existence of host national governments in the form of forced investment, inconvertibility of the currency, raise on capital gains taxes and regulatory discrimination against multinational corporations, to give some examples. This kind of situations can be the result of displacement of liberal governments by others that are not multinational-friendly, by deterioration of diplomatic relations between home and hosts states, or in response to misconducts by an international business. [Burmester in Tayeb, 2000] A well known example of political risk that involves the inconvertibility of the currency was
during the Asian financial crisis, when Malaysia decided that money could not be transferred out of the country, affecting investors and businesses.

Political conditions may either be the downfall of a company or create new opportunities to achieve its strategic goals; unfortunately further research into the change of non-market behaviour (political risk) and relationships into market advantages remained overlooked and ignored. There has been in the last years a softening in the position of certain governments in the developing world regarding FDI. According to the Management Division of the United Nations Conference on Trade and Development, FDI policy changes taken by 35 undeveloped countries in 1991 have substantially reduced their restrictions on Foreign Investors. [Burmester in Tayeb, 2000]

Violence is also an issue that makes part of the political risk. A company cannot only experience directly violence toward their personnel or facilities, but it can also be affected by the repercussions of violence that spread through the society and the company’s market capabilities. In situations of war, for example there are few companies that would continue carry on their businesses because the customers would be more concern about seeking refuge, arming themselves or leaving to other countries. Crime and corruption are also situations included in this kind of risk that can affect the firm directly. [Burmester in Tayeb, 2000]

Violence in Colombia has affected the investment of foreign firms in the country. Unfortunately, the criminal and violent actions of the guerrillas have worsened the perception of the country discouraging foreign investment.

Another problem that arises in international businesses are the economic sanctions, which can be explained as the deny of access to export markets, imports, foreign investment, financial transactions and other forms of international contact to certain foreign markets. The nature of certain events can attract international and civil concern and thus bring trouble for international businesses; for instance, the censure on nations that are accused of violation of human rights by intergovernmental and non-governmental organisations. [Burmester in Tayeb, 2000]

4.3.3 Government Intervention

Some governments may decide to limit the trade and investment in their territories. Some of the main driving forces that cause this decision could be the protection of infant industries, the development of a trade strategic plan, restructuring the economy, protection of jobs and industries, national security, and political objectives. [Cortes in Tayeb, 2000]

Protection of infant industries by governments was recognised by the GATT as a legitimate reason for protectionism, and the World Trade has allowed developing countries to use quotas, tariffs and subsidies to endure foreign competition. The main arguments against this measure are that the protected industries will face problems developing competitiveness and that the infant industries should be able to borrow from capital markets rather than being subsidise by governments. [Cortes in Tayeb, 2000]

Government policies in the form of developing of infrastructure, education and promotion of domestic competition could make more favourable the national environment in which the company is located, as argued by Porter. The support of governments to certain industries
could mean the generation of companies that become first-movers in a market, bringing positive effects in an economy as increasing the balance of trade of the country rather than letting a foreign firm gaining the competitive edge of the industry. [Cortes in Tayeb, 2000]

Another common situation is when economies change their policies and philosophies and in order to adjust their industries to these changes, they use certain protectionist measures. An example of this is the liberalization of trade and the adoption of open market economy of countries. [Cortes in Tayeb, 2000]

Protection of jobs in sectors that are important for an economy is also a reason for governments to use intervention. [Cortes in Tayeb, 2000] Like the help that the US government is giving to its cotton industry, in the form of subsidies like producer flexibility payments, market loss assistance, counter-cyclical payments and direct payments to farms.

The National security argument is also related to the protection of certain industries that are mainly income-generating and that have a great effect on the balance of payments; this argument, however, can be misused by countries to place under it unrelated issues. The enhancement of national security can come also under foreign policies, through agreements and alliances that countries develop to protect their common interests. [Cortes in Tayeb, 2000] The best examples of this point are the current existence of various commercial agreements among nations, and their establishment of common external tariffs applied to imports from third countries.

The most common measures that governments use for controlling trade are tariff barriers, in the form of taxes on imports into their territory, and non tariff barriers, which could be quotas, standards, voluntary export restrictions, subsidies, prohibition of conversion of the currency and subsidies among others. [Cortes in Tayeb, 2000]

4.3.4 National Institutions and Resources

The characteristics of the societal institutions are the face of a nation and the base of its society. These institutions run activities that are vital for a society like economic, educational, political and administrative. Companies that are involved in the international business world interact with these, and are required to understand the existing differences among them and those in their home countries, and to learn to deal with them. [Tayeb, 2000]

Educations systems vary among nations, starting from the importance of free and universal schooling for their young people to learning and education practices. Education policies are very important because they determine the levels of technological advancement and the quality of the workforce. [Tayeb, 2000]

The intervention of the government in the private and public life of the citizens, from the economy and trade to artistic and individual rights and responsibilities are characteristics that differs on each country and that affect the business activities in them. The current trend of economic and trade policies in the world have been toward liberalisation, deregulation, privatisations and a small size of the government. [Tayeb, 2000]

Infrastructure in a country could mean difficulties or efficiency in the activities of a company. Technological capability as well as political considerations can play an important factor in the
use of certain facilities. Control by the government of the media, legal, financial and distribution institutions could be a cause concern on foreign investors. [Tayeb, 2000]

Laws concerning registration of new companies, permission or licensing requirements, impact on the environment, off-shore investment, preparation and disclosure of financial accounts, taxation, workers rights, and pension provisions among others can cause confusion and difficulties in multinational firms. [Tayeb, 2000]

4.3.5 Cultural Diversity

All the people and institutions that deal with a business organisation make part of the culture of the society in which they interact. They all share common characteristics in their behaviour that are present at all times. The survival of a company depends on how well this interacts with the characteristics of the surrounding environment. [Tayeb, 2000]

The crucial factor in international business today is not so much the superiority of the product, but the skills of the seller in understanding the dynamics of the business between him and the customer. There is consequently a need for further study of other languages and cultures to be able to know the needs of the international customer and sell abroad as much as it is possible. [Ferraro, 1990]

4.3.5.1 Cross Cultural Management Theory

4.3.5.1.1 Hofstede’s Model

Hofstede proposed the existence of four cultural dimensions based on the results of two attitude’s surveys conducted in US multinationals during 1968 and 1972. [Tayeb, 2000]

- Power distance is explained as the degree in which power is distributed unequally through the organisations and institutions in a society. This could be clearly seen in societies where the concentration of power is by a small elite and the existence of restricted upward communications, or in the opposite side the existence of countries with decentralised organisations and flatter hierarchies. [Tayeb, 2000]

- Uncertainty Avoidance means the difficulty in a society to accept uncertainty and ambiguity. This results in the existence of countries with a higher number of rules, the need of absolute truths and lower tolerance to groups with unusual ideas or behaviours. [Tayeb, 2000]

- Individualism or collectivism which refers to the degree in a society of loose or tight knit of social framework. There are for instance societies that are very collectivist and need more emotional dependency of members of their organisations than others. [Tayeb, 2000]

- Masculinity or Femininity which shows patterns of assertiveness or nurtures in the socialization processes of a country. [Tayeb, 2000]
In the following chart the results of the study can be found. Take in consideration that an index scored for the dimensions was created, ranging from 0 to 100, higher scores mean higher degrees of the evaluated characteristic. [Hill, 1998]

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty</th>
<th>Long-term Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab World**</td>
<td>80</td>
<td>38</td>
<td>52</td>
<td>68</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>49</td>
<td>46</td>
<td>56</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>90</td>
<td>61</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>Austria</td>
<td>11</td>
<td>55</td>
<td>79</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>65</td>
<td>75</td>
<td>54</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>69</td>
<td>38</td>
<td>49</td>
<td>76</td>
<td>65</td>
</tr>
<tr>
<td>Canada</td>
<td>39</td>
<td>80</td>
<td>52</td>
<td>48</td>
<td>23</td>
</tr>
<tr>
<td>Chile</td>
<td>63</td>
<td>23</td>
<td>28</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>China*</td>
<td>80</td>
<td>15</td>
<td>55</td>
<td>40</td>
<td>114</td>
</tr>
<tr>
<td>Colombia</td>
<td>67</td>
<td>13</td>
<td>64</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>35</td>
<td>15</td>
<td>21</td>
<td>86</td>
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A fifth dimension was added some years later that refers to short-term or long-term orientations in cultures. Short terms characteristics are personal steadiness, stability, respect for tradition, reciprocation of greetings and favours. Long-term refers to persistence, ordering relations by status and thrift. This new dimension was named Time Orientation. [Tayeb, 2000]

This theory also added that these dimensions seem to have a relation and effect on the behaviour of employees in work-related framework and on the economic performance of a country; however, this idea is not based on empirical evidence, but just suggested. [Tayeb, 2000]

Critiques to this model are that this study is extremely narrow to generalize the existence of certain characteristics in countries, also the fact that this model is too simplistic and that it fails in studying other complicated reasons that may explain better people’s behaviours. [Tayeb, 2000]

Despite the critics this model seems to be quite interesting for what it tells us about differences in cultural behaviours. [Hill, 1998]
4.3.5.1.2 Trompenaar

The cultural model of Trompenaar consists of seven dimensions, five of which are related to relationships with people and the other two are concerned with time and environment. The dimensions are the following [Tayeb, 2000]:

- Universalism versus particularism: This aspect refers to rules or relationships as the determinants of interpersonal behaviour. For instance in the case of a Universalist culture the personal relationship should not interfere with the business decisions, contractual agreements are the referees of conduct and logical, rational thinking and impartiality are the standards to maintain.
- Individualism versus collectivism: This point is identical as the one developed regarding individualism and collectivism in the Hofstede’s model.
- Affective versus neutral culture: This aspect makes distinctions among societies according to the way feelings are expressed during interpersonal communications.
- Specific versus diffuse relationships: This feature is related with the fact that in some cultures leisure and family life is not rigidly distinct from life at work, and relationships transcend many or all aspect of life.
- Achieving or ascribing status: Status in some societies is determined by the achievements of the person in comparison of other societies where durable characteristics, like age, determine it. In addition, ascribing cultures justify a high-power distance, achievement is a collective concern, and power doesn’t require legitimising.
- Perceptions of time: It identifies cultures where time is perceived as sequential, the focus is rational efficiency and where there is to be a time and place for everything; and on the other hand, it identifies cultures where parallel activities are accepted and there is a less orientation towards punctuality.
- Relating to nature: This feature separates cultures where there is a wish to control nature and a tendency to identify with mechanical models for institutions; and on the other hand, cultures that feel more dependant on the environment, even a part of it.

4.3.5.2 Problems Relating Culture in International Business

4.3.5.2.1 Understanding of the Culture

The issue that determines the success or failure of a company carrying business abroad is the ability of their employees to use their skills in the new environment. Several studies have shown that the problems companies face when doing business abroad come mainly from their inability to understand and adapt to the foreign ways of thinking and acting. [Ferraro, 1990]

Cultural ignorance can bring not only economical effects, but also it could mean the loss of time, effort, reputation and businesses for companies. It becomes necessary for companies to understand how cultural variables affect the international business ventures. [Ferraro, 1990] The process of doing business in a different culture requires the adaptation of the company’s operations into the values and norms in the new culture. Aspects like pay systems, negotiation methods, structure of the organisation, marketing approach and the relations between managers and labour are some of the characteristics that have to be evaluated by companies going abroad. [Hill, 1998]
4.3.5.2.2 **Language and non-verbal Language**

Organisations require effective communication to be efficient and achieve their goals; moreover, international firms need to communicate with their employees, customers, suppliers and host governments. The communication process with people from different cultures and in a different language increases even more the risks of miscommunication. [Ferraro, 1990]

There are several key reasons, in the international business context, to learn the foreign language. For example learning it facilitates the understanding of the culture and the understanding of communication patterns, it increases the rapport with foreign business counterparts, it eliminates the problems that can come from translation errors, and it could prevent the involvement in unnecessary problems. [Ferraro, 1990]

The understanding of non-verbal communication is quite important because it helps us to read the linguistic messages being sent. It has been suggested that only about 30% of the communication between two persons within a similar speech community is verbal. Misreading of non-verbal signs generates cross-cultural friction, and it lowers the chances of achieving success in international businesses situations. [Ferraro, 1990]

Both verbal and non-verbal communications are interrelated, therefore it would be wrong to learn one and ignore the other. Being able to read accurately non-verbal behaviour enhances our sensitivity to comprehend all the details in the communication process. The process of getting to understand completely a culture starts with learning the language, and continues with the hearing of the silent messages and reading of its invisible words. [Ferraro, 1990]

4.3.5.2.3 **Gathering Information about the Culture**

There exist several sources available that can facilitate the process of constructing cultural country profiles to businesses interested in going abroad. However, there are some considerations that are recommended to keep in mind when analysing these data. Like for instance, there is a clear relation among the amount of specific data a person gathers about certain culture and its success dealing with it, it becomes necessary to keep constantly searching for cultural information and connect it with the other sources, and it is also important to understand that the learning process starts before arriving to the new culture and continues throughout the period the company is developing business with this new culture. [Ferraro, 1990]

To prevent the problems that lack of information about the different cultures brings, companies are encouraged to employ local staff which facilitates the businesses process in the new culture. It is also recommended that the executives assigned to work abroad are open minded enough to understand the differences in cultures and its effect in the way business are run. [Hill, 1998]
4.3.6 Transaction Costs Theory

This theory was initially developed in the 1930’s by Ronald H Coase, and later on in the 70’s expanded by several scholars, among them Oliver Williamson. The transaction costs theory deals with the real costs of distributing resources in an imperfect world of misunderstandings, misaligned goals and uncertainty. [Canback, 1998]

For the better understanding of this theory, it becomes necessary to make the distinction between transaction and production costs. Production costs are those associated with the production activities like manufacturing, logistics and production development. Transaction costs are those related with organising the economic activity. [Canback, 1998] A clearer definition could be that transaction costs are those that come as a consequence of the market failures, which results in firms incurring in costs when trying to buy or sell goods or services. [Barron, 2002] Furthermore, for Coase the identification of the transaction costs could be done by answering the following two questions: “Why is there any organisation?” and “Why isn’t all production carried out by one big firm?”. Cease concluded that there are transactions costs that determine what is done in the market, being price the regulator, and what is done in the firm, with bureaucracy as the regulator. [Canback, 1998]

This theory aims to describe the particular structure of a firm, mainly the degree to which it will integrate vertically. Williamson says that companies aim to minimize their costs, and under certain circumstances transaction costs can either be lower or higher if these transactions take place in the open market or if they are coordinated by the managers. [Barron, 2002]

Coase identified the most important market transaction costs in determining the price of a product or service, negotiating and creating the contract and in information failure. He also classified as the most important internal transaction costs, those which are associated with the costs of determining what, when and how to produce, resources misallocation and demotivation. The relative importance of the market and internal transaction costs will determine what is done where. [Canback, 1998]

Williamson added some elements to this theory. First that people in organisations behave deliberately rational, but to a limit; and second that individuals behave opportunistically. This means that it is impossible to structure perfect contracts, even if information is available, and that people will act in self-interest with guile. Williamson also proved the existence of three factors that determine if market or bureaucratic transactions are optimal: assets specificity, uncertainty and frequency of transactions. [Canback, 1998]

Asset specificity refers to physical, human, site or dedicated assets that have a specific use and cannot easily be transferred. Uncertain situations refer to business cycles volatility or technological uncertainty and cause the internalisation of activities because it becomes difficult to create contracts that cover all possible outcomes. And high levels of frequency on a transaction will cause also bureaucratic transaction rather than the acquiring of a high number of repetitive contracting costs. [Canback, 1998]

This theory has had a lot of criticism because there seems not to be a clear definition of what transaction costs are. [Canback, 1998] The Transaction Costs Theory is usually used to explain vertical integration, and frequently used to understand any internalisation or externalisation question. [Barron, 2002]
5 Perception of the Problem by the Business Community

The aim of the interviews was to obtain in-depth information regarding the perception of companies about the Latin American market and the struggles they have to confront to develop further commercial relations.

The nine interviewed companies were chosen among a group of 32 Swedish companies that are currently developing business with the Latin American region.

5.1 Interviewed Companies

5.1.1 MediTeam Dental AB

MediTeam is a wholly-owned subsidiary to Biolin AB, and it works in the dental sector. At the present the company has two products for removal of caries and root canal treatment.

Their headquarters are near Gothenburg, and they are present in the Latin American market through distributors, which are in charge of marketing and sale of their products.

The history of this company goes back to 1987 at the Biochemistry department in the University of Chalmers and the school of dentistry at Gothenburg University. In the years 1996 – 2000, the products were improved, documented in clinical studies and introduced in Europe. The company MediTeam was established.

The interview in this company was made to Mr. Kenneth Sternberg, in charge of marketing and sales.

More information about the company can be found at www.mediteam.se
5.1.2 ReadSoft

Read soft is a Swedish company that specializes in the creation of software that automatically extracts information from e-mail, fax, web or paper and puts this information into a computer system.

This company was founded in 1991, and now it has become a world leader multinational company with more than 275 employees in four continents.

ReadSoft Latin America is a subsidiary of the Swedish company ReadSoft, and is responsible of 18 Latin American countries, from Mexico to Chile, and the Caribbean.

The interview in this company was made to Mr. Joakim Gustavsson, Business Developer.

More information about the company can be found at www.readsoft.se

5.1.3 Hörnell International AB-3M

Hörnell is a Swedish company engaged in the business of personal protective equipment for welding applications. Their brands are known as Speedglas® and Adflo®, and are sold in 60 countries worldwide.

This company was initially established in 1980, with the name of Hörnell Elektrooptik AB. In the beginning of this year the company was acquired by 3M, this acquisition is expected to join the strengths of 3M in health and safety products with those of Hörnell’s products for eyes, respiratory and face protection in welding applications.

This company has been doing business with the Latin American market since the beginning of the 90’s trough distributors, and in 2000 they established operations in Brazil.

The interview in this company was made to Mr. John Danielsson, Sales manager.

More information about the company can be found at: http://www.hornell.com/

5.1.4 Elof Hansson

Elof Hansson is a company established in the year 1897, and works in the sector of forestry products, industrial products and consumer products. Their main offices are located in Gothenburg with subsidiaries around the world.

They are currently developing business in the Latin American region, where they sell and buy paper, pulp and machinery for industry. They have offices and local representatives in Mexico, Cuba, Argentina, Brazil and Chile. They have been working with the Latin American region for about 65 to 70 years.

The interview in this company was made to Mr. Hans Sandberg, Division Papers-Latin America Section. More information about the company can be found at http://www.elof-hansson.se/
5.1.5 AGA – Linde Technische Gase

This company is in the business of supply of gas. Their main offices are in Sundbyberg, outside Stockholm, and it has also established offices in all the Latin American market, with the exception of Bolivia and Paraguay, for over 50 years.

Since 2000 AGA of Sweden and Linde Technische Gase of Germany have joined and formed a new company called Linde Gas. This company has over 1.5 million customers over 50 countries around the world.

The interview in this company was made to Mr. Jan Magnusson, Global Marketing.

More information about the company can be found at http://www.aga.com/se

5.1.6 Trelleborg AB

Trelleborg is a global industrial group, founded in 1905. This company has around 21600 employees in 40 countries. They produce polymer products for the automotive, construction and other industrial sectors.

They are present in the Latin American market. In Brazil they have their own manufacturing plants of around a couple of hundreds of workers. Their operations in Brazil are focused on the automotive market, auto parts and agricultural tires.

The interview in this company was made to Mr. Magnus Axén, Business Developer.

More information about the company can be found at http://www.trelleborg.com/

5.1.7 Åkers AB

This Swedish company provides to steel and non-ferrous industries worldwide with roll products and services for hot and cold rolling applications. Their head office is located in Åkers Styckebruk, they have manufacturing companies in France, Belgium and USA, sales offices in Germany, UK, USA and Brazil, and representatives in more than 50 countries.

Their presence in the Latin American market is of about 30 years. Their total net sales for the Latin American market are 4% of their total worldwide sales. Their main target in Latin America is Brazil, and that is why they have opened their own offices there.

The interview in this company was made to Mr. Björn Lyckstrom, VP Sales.

More information about the company can be found at http://www.akersrolls.com/index.php
5.1.8 Electrolux Group

Electrolux is the world's largest producer of appliances and equipment for kitchen, cleaning and outdoor use; as well as one of the largest producers in the world of similar equipment for professional use. They work with several brands, but Electrolux is their biggest and most important brand. Their more than 80 years of experience have made them gain recognition of millions of users in more than 140 countries.

They started operations in Latin America by doing direct sales of floor care products, and in 1995 they acquired the Brazilian company Refripar. Currently they have three production units in Brazil and subsidiaries in countries like Argentina, Peru, Venezuela, Colombia and Ecuador.

There is a special division in the company in Sweden in charge of the operations with Latin America and Asia, and it presently has 150 employees.

The interview in this company was made to Mrs. Sonat Burman-Ölsson.

More information about the company can be found at http://www.eletrolux.se

5.1.9 ITT Flygt AB

This Swedish company was founded in 1901, and their main offices are located in Stockholm. They are leaders in the production of submersible pumps, mixers and accessories. Currently the company is developing businesses in 130 countries around the world.

They are present in every country of the Latin American market, either through distributors or by their own subsidiaries. In some of these countries they have been working for as long as 50 years.

The interview in this company was made to Mr. Fredrik Åkesson, Area Manager for Latin America.

More information about the company can be found at http://www.flygt.com/

5.2 Results

5.2.1 Market Potentiality

Almost all of the interviewed companies found the Latin American market attractive for their operations abroad. It must be noted that the companies that had this perception of the market were the oldest, biggest and those that had already established offices and manufacturing plants in at least one of the Latin American countries.

The few companies that did not share this perception of high attractiveness of the Latin America market, still considered important their presence in this area of the world. Some of
the reasons that the companies used to explained this opinion was the fact that either they were focusing their business with other areas of the world, or because they find difficult to get into the market, especially when dealing with distributors.

Further Comments:

Read Soft
[Comment 1] Latin America has been a sleeping market the last three years, but businesses are starting to go up now.

Hörnell International
[Comment 1] Argentina is now recovering from a bad economic situation.

Electrolux
[Comment 1] Latin America is one of their most attractive markets because it is growing.

5.2.2 Main Obstacles

5.2.2.1 Distance

The only company interviewed that has not established offices in any of the Latin American companies said that distance was perceived as the main problem when dealing with that region of the world; furthermore, since they work through distributors the differences in cultures were not considered a big issue.

It was noted by all of the companies that the technological and communication developments have made easier not only to reach the Latin American market, but to carry on business with their offices in Latin America. Tools like e-mail, fax, telephones, internet and video conferencing facilitates the processes of information exchange.

Further Comments:

Hörnell International
[Comment 2] Those countries have achieved high levels of technical development.

Åkers AB
[Comment 1] We transfer documents electronically. Latin America is quite advance in technological developments; In China and India we still have to use fax.
ITT Flygt AB

[Comment 1] There is space for some improvement in small countries where access to internet is not easy and cheap.

5.2.2.2 Cultural Differences

Some of the companies perceived that the main problem that arises regarding cultural differences was the distinct way businesses are conducted in Latin America. Issues like different payment habits, corruption and the existence of practices like “money under the table”, and bureaucracy were highlighted.

It is worthy to emphasize that the majority of companies said that problems regarding cultural differences are not a major issue. This could be because most of these companies have been established in the Latin American market for quite sometime, they are global companies and they are aware that they have to deal with different people and practices.

It was noted by a company that cultural problems arise with a bigger intensity when doing businesses with Asian countries.

Further Comments:

Read Soft

[Comment 2] Lack of trust is reflected in the way businesses are conducted in Latin America. We have changed our paying terms: get cash now.

Åkers AB

[Comment 2] The business tradition in Latin America is not to use letter of credits, but to work with other payment conditions. We have to use credit insurance from the Swedish Government, assuring at least 80% to 90% of the sales. Countries in the northern area of Latin America are not good payers; they pay, but late.

ITT Flygt AB

[Comment 2] Culture is a little different, for example their sense of time. It is hard to “be on time” for meetings; this way it becomes difficult to keep projects of schedule.

[Comment 3] It is important to have personal relations in Latin America to do businesses. We have to invest time to know people before they start doing businesses and trusting.

Electrolux

[Comment 2] The only problem regarding cultural differences is the way of seeing things; for example attitudes like “we will do it”, but it
takes a while. This “positive thinking” is something that we have to learn to understand if they want to survive tomorrow.

5.2.2.3 Language

The language was an issue that was evaluated in this section of the interview. All the companies considered necessary the knowledge of Spanish or Portuguese for developing business with Latin America. They commented that their language of business is English, but that it was necessary to have local workers in the company, and even some of the companies have Swedish chiefs that have some knowledge of the local language.

However, a company added that language was not a big issue because they communicate in English with their personnel, which was carefully selected and required to meet certain qualifications.

5.2.2.4 Relations with the Customer

The need to establish a good and close contact with the customer was also highlighted for most of the companies, and consequently perhaps the main reason for establishing their manufacturing plants and offices abroad.

The only company in the group that works through distributors considered that the easiest way to approach the market for them was by distributors since they are not that big, they are in need of fast results, and FDI requires huge investments.

Further Comments:

Read Soft

[Comment 3] The easiest way to reach the market is by getting in close contact with the customer. Partners are not loyal, and it means low control of what is going on.

Hörnell International

[Comment 3] It is necessary to establish a good relationship with the customer. It is necessary to be there, so they can rely on service.

Trelleborg AB

[Comment 1] Brazil is a big market, and because of the nature of our business we need to be near our customers. No matter what these companies establish, it is necessary to open our offices near them.
Åkers AB

[Comment 3] It is necessary to be close to the customer. Brazil is a big country, and it is difficult to cover all the customers. We need to have our own employees located centrally to visit the customers.

Electrolux

[Comment 3] It is a very different market; you need to be close to the customer. It is difficult to understand the market dynamic from here.

ITT Flygt AB

[Comment 4] Establishing own operations in the Latin American countries is an issue that depended on many factors like the size of the company and the country, company needs and objectives.

5.2.2.5 Other Problems

Other problems not regarding cultural differences that companies stressed played an important role when doing business with Latin America were the existence of high import duties, the lack of legislation around their products, the complicated regulations and processes regarding central banks and the flow of money, the economical and political instability of the region, the insecurity around sending their staff to countries where there are political unrest and the currency risk.

5.2.2.6 Development of Further Agreements among Governments

Few companies noted that it would be helpful for their business to develop these agreements further.

Further Comments:

Read Soft

[Comment 4] There is the need for commercial agreements. It would make it easier to get in the market and to pass the obstacles in it. For instance the taxation law in Brazil is crazy.

Hörnell International

[Comment 4] Since the main problem we have found has to do with tariffs, perhaps it is the WTO that has to deal with that.

AGA

[Comment 1] Setting of commercial agreements is not a major issue for us. The main problem is the lack of legislation around our products, and authorities seem not to be aware of this problem.
Trelleborg AB

[Comment 2] It would be helpful to facilitate certain procedures regarding tax harmonization, facilitating the flow of currency, and lowering down the amount of paper work.

Electrolux

[Comment 4] Europe is more focused on Asia. The Latin American market needs to be explored.

5.2.3 Evaluation and Availability of Information

An interesting phenomenon occurred when evaluating this area. Almost all of the companies found the collection of information to be not a big issue for them. I would consider that the fact that almost all of them, except one, had set their operations abroad, have local staff in their offices and have long experience in the market, make them perceive the collection of information about the market a problem that is already solved.

However, I was able to obtain some interesting answers about the lack of information about the Latin American market:

The company that works only with distributors in the Latin American region recognised the fact that their information about the Latin American market is not that complete, but yet they did not consider to get information about the market a problem and stressed that they have contacts in the region.

The majority of the companies said that their offices abroad are the ones in charge of collecting information; consequently obtaining information about the market, legislation and other aspects does not represent a difficult task. However, some added that it becomes necessary to have the support of local staff, consultants, banks or representatives that know details about the market and that know how things are working there.

Further Comments:

Read Soft

[Comment 5] The local governments should have websites in English to make it easier for Europeans to get information. Language here is a barrier.

Hörnell International

[Comment 5] It is hard to obtain information about certain market segments.

ITT Flygt AB

[Comment 5] The hardest part is to obtain information about specific markets. It is necessary to hire expensive consultants and wait one year or so to get the information we require.
5.2.3.1 Assistance of the Swedish Government

It was highlighted by almost all of the companies interviewed, which have received assistance by the Swedish Government represented by the Swedish Trade Organisation, evaluated their services as good. Also the assistance of the Swedish Chamber of Commerce in Brazil was considered by one company as pretty good for a start.

Almost all the companies said that these organisations provide basic information, legal advice, in some cases they help to make the business contacts and hold seminars to customers in the region.

A company noted that even though the help from this trade agency is excellent, there is still some room for improvement; especially since the agency only has offices in Mexico and Brazil, and the information that companies can get from the other countries is made through embassies.

5.2.4 Complementary Aspects

In addition to the aspects above, the companies gave several possible reasons to explain the low levels of trade among Sweden and Latin American countries. Several companies mentioned the political and economical instability as issues that put businesses in jeopardy and question their presence in the market.

Some companies noted that it is difficult to see the potentiality of the Latin American market; it could either be overestimated or underestimated. A company said that the common perception of Latin America was regarding football and samba, which shows that companies lack information about the potentiality of the market.

Another interesting answer was that Latin America is a continent that has many differences among their countries and it was wrong to generalize. The interviewee said also that in his opinion it was easier for Europeans to develop businesses with the southern countries of Latin America (Chile, Peru, Brazil, and Argentina), since the countries in the north have developed closer relations with US.

Further Comments:

MediTeam Dental AB

[Comment 1] The reason could be historical. Europe has developed more relations with Canada and US.

Read Soft

[Comment 6] The statistical trade data could be biased. Since there are such complicated tax and export rules; companies find the need to open branches in Latin America

[Comment 7] For countries like Spain is easier to develop business with Latin America. They understand more the culture of those countries.
Trelleborg AB

[Comment 3] For us the perceived risk is relatively high compared to the estimated growth.
Analysis of the Results

6 Analysis of the Results

Some of the theories that explain Foreign Direct Investment can be applied to the results obtained on the interviews and can explain the reasons why Swedish companies are moving their business to Latin America. However, there is one that can be directly connected to the answers of most of the interviewees. The internalization theory explains how FDI is chosen as a solution for the existing obstacles in the free flow of products between nations. Most of the interviewed Swedish companies identified Brazil as a very important market in the region, (it is the biggest country in Latin America with almost 179 million inhabitants), and highlighted its complicated trading policy as well. One of the companies, for example, noted that it was better to open their own offices in Brazil, since the taxes they would have to pay for retrieving the money of their businesses to Sweden was lower than if they did not have set any offices in the country. In conclusion Swedish companies choose FDI over classic modes of trade as a more profitable way to approach the Latin American market.

Another theory that can be undoubtedly applied to the results of the research and that connects these results with our initial hypothesis is the establishment chain theory, which tries to explain why companies do international businesses. One of the points of this approach argues that according to the degree of involvement of the company in the international market, there exists a deeper knowledge and understanding of the same, a larger commitment of resources and a more progressive experience of the market. In the interviews we can clearly identify how one of the smallest and youngest Swedish companies in the group that is only present in the Latin American market through distributors, is the one that has a quite negative perception about the market; situation that does not happen with the biggest companies or the ones that have set operations in the area. We could say that the state of internationalization thus affects perceived opportunities and risks, which in turn influence commitment decisions and current activities. Complete, first hand information about the market becomes quite important to judge its attractiveness and thus the decisions of pursuing further business operations in an overseas market.

The establishment chain theory also talks about certain problems that arise and become a barrier on the inflows of information between markets and the firm, affecting international trade. In the case of Latin America the main perceived problems identified along the
interviews were the understanding of the business culture, the need to speak the language, and the political and financial risks that the region presents.

The transaction costs theory tells us that firms run their businesses in imperfect markets, with incomplete information and imperfect competition, and that these failures in the market are what produce the incurrence of costs in companies when attempting to buy or sell goods or services. The information that was gathered by the interviews shows us that in their attempt to survive in the Latin American market; Swedish companies have to acquire several sorts of costs that can be classified as transactional costs. For instance, if a company lacks of information about the potentiality of a market, the business culture, the language and the legislation, then this company could make wrong business decisions that can lead them to not be able to become competitive in a market, to get bad debts or to perceived risks that do not exist.

The search for information regarding the market was not identified as a problem for almost all of the Swedish companies that have their own offices and factories in Latin America. Does this mean that search and information costs do not exist for these companies? In my opinion they actually do exist, and they are much higher and significant than those in companies that work only through distributors. This is because these costs of gathering information are tacitly embedded in the costs of setting up operations abroad.

Throughout the interviews, I had the feeling that the setting of operations abroad was profitable for companies not only to avoid any barriers in trade of the market, but because it would mean a clearer understanding of the customer, the market and of its existing risks.

The understanding of the business culture can be categorised as a transaction costs for these multinational companies. For instance a couple of companies talked about how it was necessary for them to create and work with a different system of payments to assure their sales. Some of them talked about how issues like bureaucracy, practices like “money under the table”, the working attitude of “we will do it tomorrow” and the Latin Americans unpunctuality were affecting their ways of conducting businesses.

The need to learn the language or to hire qualified personnel in their subsidiaries to understand better the market and to facilitate the communication process among subsidiaries and main offices is also identified as a transactional cost. The establishment of close relationships with trading or industry organisations that offer support in the process of internationalisation of a firm, as well as the process of building close relations with the future clients are transactional costs. Situations like changing the schedule of projects because of the sense of time for the Latin American culture implies also higher costs when developing business that can be classified as transactional costs.

To conclude this analysis, in addition of the political and economical risks that are so clearly identified throughout the results of the interview, there seems to exist several other factors that are tacit in the process of economical exchange and that imply higher costs. All the energy and efforts to study, evaluate and understand the Latin American market, to make contacts or set up operations abroad, the developing of products that satisfy the domestic needs, the learning of the language and business culture (items that can be referred as cultural characteristics), imply higher costs that a firm has to assume and that can explain its behaviour towards a market.
Conclusions

7 Conclusions

After gathering and analyzing the empirical data of this research, it can be concluded that not only one, but several factors could be influencing the low levels of trade between Sweden and Latin America.

The Latin American market is considered attractive, but this perception seems to depend on how complete the information the company has about it; Moreover, the information the company has about the market seems to vary according to their degree of incorporation in the market, meaning the existence of establishment of offices or manufacturing plants in the region. This perhaps can help us understand why the largest Swedish companies (over 200 employees), which are the oldest, more experienced and with longer presence in other markets, are the ones that account for 80% of the sales to the undeveloped areas of the world, which includes Latin American countries. [Swedish Trade Council, 2003]

The main problems regarding cultural differences perceived by the interviewees were the way businesses are conducted in Latin America, the need of knowledge of the language and the amounts of corruption in the authorities. An important issue highlighted by most companies was the unclear legislations and procedures, political and economical instability and security issues.

It was considered that there is enough general information about the market, but is somehow difficult to get specific information regarding certain market segments. Consequently, information regarding statistics and market segments should be further developed and more available. Furthermore, there is the idea among the companies that is definitely necessary to have someone locally to avoid problems and get complete information about the market. The presence in the market in the form of offices of their own was an issue that several companies noted was very important to understand and be able to have complete coverage of the Latin American market.

It would be bold to conclude that lack of information about the market is the only reason for the poor relations among Sweden and Latin America, but it certainly is an important feature that affects the perception of attractiveness and of complexity to access the market successfully. A second element comes into the picture, which is the presence in the market.
The combination of these two elements could explain part of the problem of the low levels of trade among Sweden and Latin American countries.
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Appendix 1: Questionary

Company__________________________________________________
Name of the Interviewee______________________________________
Position___________________________________________________

Evaluation of the Market Potentiality

1. Is your company currently investing or developing business in the Latin American region?
2. How do you evaluate the Latin American market in terms of how attractive it is for your company?

Evaluation of the Obstacles

1. What are the main problems that come to your mind when considering doing business with Latin America?
2. What problems regarding cultural differences have emerged when doing business in the Latin American region, and how has your company coped with them?
3. Do you feel that communication and technology developments have made more reachable the Latin American market?
4. What is the easiest way that a Swedish company interested in doing business in Latin America should initially approach the Latin American market: as an investor, finding distributors for its products, opening a branch in the country, other?
5. Which language do you usually use when doing business with Latin-American companies? Is it essential some knowledge of the Spanish or Portuguese language when doing business with the Latin American region?
6. Do you feel that there is a need to develop further commercial agreements between Sweden and Latin-America?
7. How do evaluate the assistance offered by the Swedish government to companies interested to export to Latin America?

Evaluation of the lack of information

1. The recollection of what kind of information about the Latin American market you feel is the hardest to obtain?
2. Do you feel there are enough information sources in Sweden for companies with interests of doing business with the Latin American region?
3. How do you evaluate the quality of the information that the Latin American government or agencies provide about their countries?
4. Do you think that is there any kind of information about the LA that being further developed would make it easier for the Swedish companies to increase business with the Latin American region?

Others

1. Has there ever been a particular problem that has made you consider not developing further business with the Latin American region?
2. In your opinion what is the reason of the low levels of trade and investment with the Latin American market?