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Local responses to global challenges: Lessons from small economies☆

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ABSTRACT

As part of a cooperative effort between the *Journal of Business Research (JBR)* and the Business Association of Latin American Studies (BALAS), this special issue brings updated research on the Latin American business environment and contributes to filling out the relative scarcity of academic works addressing managerial issues in this region. These papers represent the very best of the 53 papers presented at BALAS 2014 Conference held in Trinidad and Tobago. Only 20 were pre-selected to be double-blind reviewed for publication in this special issue — and of those, only seven were finally accepted after three further post-conference rounds of review. This introduction to the special issue of *JBR* on BALAS 2014 Conference briefly reviews the positive and negative consequences of international trade and investment, as well as the implications for countries/governments, communities, and local companies, and how each of these groups might handle the challenges of globalization positively.

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1. Introduction

The BALAS 2014 Conference took place in April 2014, hosted by the Arthur Lok Jack Graduate School of Business, University of West Indies, in Port of Spain, Trinidad and Tobago. Based on their quality and relevance to management literature and to the Latin American business environment, 20 of the papers presented in Trinidad, were pre-selected to undergo review for publication in this *JBR* special issue. The pre-selection process took into consideration the assessments of BALAS Executive Committee members (who watched the paper presentations and read the works) as well as the comments and rankings by the conference reviewers and track chairs. The authors of three papers declined to participate; the remaining 17 pre-selected papers underwent two rounds of double blind review process by two experienced independent reviewers each, plus a final round of reviews by the two guest editors. This special consists of the seven papers that remained after three rounds of review. The special issue is designed to augment the relatively small existing stock of research papers and teaching cases on Latin America and the Caribbean.

This article proceeds as follows: First, the authors discuss the positive and negative consequences of international trade and investment in small economies. A discourse follows on implications of international trade and investment for countries/governments, communities, and local companies. Next there are some suggestions for each of these groups on coping with the challenges of globalization. Finally the role and content of each of the papers included in this special issue is summarized followed by an acknowledgement of the 32 reviewers who participated actively and insightfully in the double blind review process.

2. Local responses to global challenges

The Caribbean and Latin America consists of small developing island countries in the Caribbean, and a variety of developing countries in Latin America, ranging from small to very large, such as Brazil. In accordance with the theme of the BALAS 2014 conference theme, this foreword focuses on the smaller countries which form a unique subset of the region. However, where appropriate, information is used from the broader region. The conclusions are that the countries throughout the region have to face the challenges of increased trade and investment, and must seek to address these effectively.

To begin let us have a brief overview of globalization starting with a look at Foreign Direct Investment. In the current millennia FDI went from peaked at $ 1.911 trillion in 2007, along with other business activity around the world it fell in 2008 and 2009 bottoming out at $1.171 trillion in 2009 (UNCTAD, 2015). Since 2009 FDI has fluctuated but never reached its prior peak. In 2014 estimated FDI was 1.26 trillion,

☆ Acknowledgment: This special issue is dedicated to the memory of Professor Luis Sanz, who passed away in March 2015, just a few days before the realization of the BALAS (Business Association of Latin American Studies) conference in Puerto Rico—which would be the last one in his 3-year tenure as BALAS president. Prof. Sanz guided, inspired and motivated us in the preparation of this special issue.

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an 8% decline from 2013 (UNCTAD, 2015). Flows to developed countries declined by 14% and flows to transition economies halved; in contrast flows to developing countries reached a new high of 700 billion, up 40% and reaching 56% of global flows in 2014 (the share of developing countries' exports to other developing countries increased from 29% in 1990 to 47% in 2008 (Broadman, 2011)). China received the largest amount of FDI. Brazil garnered one of the top 10 recipient slots; however, overall, Latin America and the Caribbean did not fare as well, with the region's FDI receipts declining by 19%. The Caribbean's FDI receipts declined 16%. UNCTAD does not see an immediate likelihood of major increases, but, as economies improve, expectations are that there will be further increases.

Growth rates in trade were also affected by the economic challenges around the world, but were expected to continue upwards in overall terms. In 2013 for example, the World Trade Organization (WTO) reports year-on-year increases of two percent and six percent for trade in merchandise and services respectively (WTO, 2015). Summarizing, the economic problems encountered in much of the world over the past seven years have affected global trade and investment negatively, but both remain important to the world's economy and both present challenges for small economies and poorer countries. This is certainly the case for the countries of the Caribbean and Latin America.

The United Nations urged a gathering of global business leaders in June 2010 to make investments in developing countries (UN Daily News, 2010). Secretary General Ban said that investment in developing countries was a key to promoting global GDP growth. Secretary General Ban noted that the world could not afford not to invest in the developing world. SG Ban noted that developing countries displayed some of the greatest dynamism and potential for investment. To the extent that the world follows through, the Caribbean and Latin America will feel the impact. International trade and investment impacts virtually everyone, even those who are not aware of the impact; for example, small villages in the Caribbean drink coca cola and have access to the internet. Similarly rural Latin America is seeing changes from the development of alternative energy sources. This all-encompassing effect of global developments means that local companies, communities, and policy makers need to react to the impact of globalization and the challenges engendered by these developments.

The introduction to this series of papers, discusses the implications of increases in trade and investment from a local perspective, with particular consideration of small, developing economies, and more specifically Latin America and the Caribbean. Our discussions and findings also apply to many African, Eastern and Middle Eastern countries. In a speech in Ghana, Punnett (2013) spoke of China's investment in Africa as both a 'marriage made in heaven' and 'one of convenience'. The same dichotomy resonates in any discussion of trade and investment and its local impact. There are both positives and negatives, pros and cons. In the case of trade as well as investment, this article briefly gives an overview of the positives and negatives, and suggests the implications for effective responses. Let us begin by considering trade issues and then look at foreign direct investment.

3. The implications of increased trade

In terms of trade, on the positive side, traditional economic arguments can be used to demonstrate the benefits of going from no trade to freer trade, with the most benefits accruing to all trading partners under a system of free trade. Very simply, with trade, consumers have access to a greater array of goods and services (products) at a lower price than previously. This especially benefits consumers in small developing countries (Alesina, 2005). In these countries resources are scarce and any one country can only produce a limited selection of products on its own (Punnett, 2012). In addition, because these countries are relatively poor, access to less expensive products is particularly beneficial. Small countries, such as the island states in the Caribbean are necessarily dependent on imports to meet people's demand for a variety of products. Physical resources are scarce in these countries and so are human resources. In a country with a population of 100,000 for example, there can only be a few people with highly specialized skills, so needs for these skills must be met outside of the country; further, demand for special skills may be intermittent, and it may be most economic for people with these skills to move to another country with greater demand. For example, one of the authors with a Ph.D. in international business provides occasional lectures in her home of St. Vincent & the Grenadines, to meet the needs of that small population, but she teaches full-time elsewhere. The larger countries of Latin America do not have the same constraints in terms of size, but they have tended to focus production around natural resources (for example, agricultural products, live-stock, minerals), and thus they also depend on trade to access an assortment of products.

On the positive side, one can also illustrate that trade leads to each country using its resources more efficiently. Countries concentrate on making products where they have a comparative advantage. They export these products, essentially in exchange for products where they do not have an advantage, and import these. Classic trade theory arguments are based on this relative relationship among trading partners. Once again, limited resources mean that these countries must use the limited resources as efficiently as possible; thus one could argue that trade can provide particular advantages for small countries (Punnett, 1999). For larger countries, producing on a large scale, trade allows for greater economies of scale, and possible dominance in major markets. Producers of exports benefit from better prices because of their comparative advantage, while less efficient producers of products that are imported will go out of business or switch to the more lucrative export industries.

Advocates of free trade believe that it leads to efficiencies and all sides benefit overall. These arguments are seen as applying to all countries. There are challenges however, when looking at small countries, countries relying on commodities, and countries at lower levels of economic development. In terms of size, the people of small countries may want an array of products, which can be imported from around the world, but they may have limited ability to produce exports to match these imports, thus they end up with serious trade imbalances. Because of limited skill sets, they may be limited to commodities and little that can be considered 'value added'. Small countries and their small companies often do not have the financial resources to invest in the factories, machinery, technology, and so on, to add value to primary products. Countries that rely primarily on commodities can find themselves exporting the basic commodities at a relatively low price and importing these same products that have been changed in some way, at a higher price. The reality in the Caribbean and Latin America has been more of the negative impact of free trade than the positive.

4. Reactions to increased trade

How can smaller countries, and their communities and companies react to positives and negatives associated with increased trade and freer trade? Can they take advantage of the potential positives, while protecting against the potential negatives? From the perspective of countries addressing these challenges, policies need to be developed that provide encouragement for those goods and services that a small country can provide competitively to its trading partners. This usually means moving away from commodities or products that require economies of scale and moving toward niche markets and small-scale value added projects. Unfortunately, the colonial history of countries in the Caribbean and, to some extent, Latin America, has encouraged exactly the opposite. European countries as well as the USA have provided preferential treatment for Caribbean and Latin American products, especially commodities and agricultural products. This discouraged these countries from developing exactly the kinds of products that would have been appropriate for their economies. It also meant that countries focused on production and left marketing to those in the foreign

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