

## COLUMN

### Latin America an important ally for free trade



**Andreas Renschler**  
LADW Chairman and Member of  
the Group Board of Management of  
Volkswagen AG

The new German government has just established itself, whilst landmark elections are still pending in Latin America. In the German economy, we look with anticipation to Latin America's largest economies, those of Brazil and Mexico. Their new heads of state will have to maintain both countries on an accelerated course of growth, no easy task in these troubled times. For us it is evident that the countries of Latin America are more important allies than ever before.

Despite all the turbulence at home, Latin America has proven itself as Germany's central partner in crucial matters. Global policy-making on issues such as the climate or energy could be dealt with more effectively together. Germany should use this opportunity to join forces. Since other players, especially those from Asia, must seek new alliances in view of the challenge being mounted against globalisation and free trade, Latin America's geopolitical importance is continually growing. Despite the USA's departure, the adherence to the Trans Pacific Partnership (TPP) in the form of the recently signed successor agreement, CPTPP, is just one indication of this, with Chile, Peru and Mexico being its Latin American signatories.

Politics and business in Germany would therefore be well advised to pursue the intensive dialogue with its Latin American partners established in recent years and to take advantage of the opportunities offered by these markets. Mutual understanding and shared political, economic and social values make Latin America an important ally. And that's precisely what we need in times like these! ●

## VOICE



**Ulrich Dietz**  
Chairman of the Administrative Board of  
GFT Technologies SE  
LADW Vice Chairman and  
Co-Spokesman of LADW Working Group  
"Digital Transformation"

### Mr Dietz, how can small and medium-sized IT companies score in Latin America?

The digital transformation is currently driving almost every industry in the world. The Blockchain, the Cloud, the Internet of Things and Artificial Intelligence are technologies that not only open doors to new business fields, but also offer enormous opportunities in terms of productivity-increase and process-improvement. There is great potential here, especially in the industrial sector: According to MarketsandMarkets, global sales powered by Industry 4.0 solutions will increase by an annual average of fifteen percent in the years preceding 2022. IT companies in Germany have long-since recognised this, and have already successfully implemented vanguard projects. This accumulated experience is an ideal starting point from which to support companies in Latin America. These have at times been dependent on the industrial and technological competence of nations with strong manufacturing industries. The challenge for German IT companies, in turn, is to think globally and to dare take the step across the ocean. Otherwise we will be ceding promising business opportunities to other countries, such as the USA. So let us take this advantage, and the cachet of "Made in Germany", to Latin America! ●

## NUMBERS FACTS & MORE

### ELECTION DATA LATIN AMERICA 2018

#### BRAZIL

APR	7	Last day for potential candidates to leave their current posts (if applicable) / party's filiation
AUG	15	Deadline for candidates registration
	16	Start of electoral campaign
OCT	7	Presidential, legislative and local elections
	28	Presidential and governors runoff – second round
JAN 19	1	New officials take office

#### MEXICO

MAR	29	Deadline for officials to leave posts in case of running in the election
	30	Start of electoral campaign
JUL	1	Presidential, legislative and local elections
DEC	1	New president takes office

#### COLUMBIA

MAR	11	Legislative elections
MAY	27	Presidential elections – first round
JUN	17	Presidential runoff – second round
AUG	7	New president takes office

#### PARAGUAY

APR	22	Presidential and legislative elections
AUG	15	New president takes office

Update: April 2018

#### EVENTS

**Mexican-German Business Summit**  
with Chancellor Merkel  
and President Peña Nieto  
23rd April 2018, Hannover Messe  
∅ [www.hannovermesse.de](http://www.hannovermesse.de)

**German-Brazilian Economic Meeting**  
24th – 26th June 2018, Cologne  
∅ [www.bdi.eu/dbwt2018](http://www.bdi.eu/dbwt2018)

LEAD ARTICLE

## It's difficult to make political forecasts for Latin America at present. Which issues are economically topical?

Latin America is facing important elections: a new president will be elected in Colombia in May, in Mexico in July, and in Brazil in October. It is currently difficult to predict who will come to power. This exacerbates uncertainty in the region. Around sixty percent of Latin Americans live in these three countries. More than two thirds of the continent's economic output is generated there.

Nonetheless, issues that will affect the economy and investors in Latin America in the near future can be identified.

### Stable economic framework

All major economies on the continent will grow this year and next, albeit at only about three percent, i.e. less than the global economy as a whole. Agriculture, mining and consumption are the drivers of growth. Industry and investment are staggered but increasing. Inflation, current account balances and foreign exchange reserves are largely as desired. Only Brazil and Argentina are burdened by high budget deficits. In the short term, governments have two options to stimulate new growth despite their limited state resources; on the one hand, by means of increased integration amongst themselves, and on the other through infrastructural investment.

### More pressure for integration

Despite numerous attempts over the last fifty years, Latin America is little integrated. Only seventeen percent of trade takes place within the region, which is why states are ill-equipped for negotiations on integration with other countries or regions. Brazil has long hindered cooperation in the region. This is tentatively beginning to change. Negotiations between the Mercosur economic community and the EU, Canada, and the Pacific Alliance of Latin America are progressing. But scepticism as to whether



Alexander Busch

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Latin America will join together in particular marked in Mexico. In the past, Brazil has failed to adhere to agreed rules. Integration in Latin America might gain fresh impetus from the USA's isolation policy.

### Infrastructure as a driver of growth

One of the causes of poor integration is the infrastructure between the Atlantic and the Pacific. There is a lack of roads, electric connections, ports, and communication networks. Governments can swiftly stimulate the economy by investing in infrastructure. According to CEO of Siemens Joe Kaeser, speaking at the World Economic Forum on Latin America in São Paulo, financing is not the problem: capital for investment is available worldwide, it is the lack of planning that is the obstacle to investment. Given their empty coffers, governments are obliged to work with private investors by way of alternative to quickly create jobs and investment.

### China's growing influence

If Latin America itself does not improve its infrastructure itself, then China will take the initiative as an investor, as is already happening everywhere. According to Georgina Baker, Vice-President of the International Finance Corporation of the World Bank, China has a clear plan, high risk-tolerance, is very familiar with emerging markets and has almost unlimited capital.

### Continued influx of foreign capital

Foreign capital influx has remained stable during the recession and political crises subsequent to 2013. This applies both to the states of the Pacific Alliance (Chile, Peru, Colombia and Mexico) and, most particularly, to Brazil. The cause is macro-stability, says Cândido Bracher, CEO of Itaú Unibanco: Brazil's institutions are inefficient but they do function. In no other BRIC country is the confidence of foreign investors in property rights as high

as it is in Brazil. This could change quickly, however, if investors were to receive the impression that Brazil were no longer in a position to solve its problems.

### Missing leadership

Political disenchantment has increased in the light of major corruption scandals. If governments fail to integrate their populations, there will be "burning cars rather than self-driven ones," warns Kaeser. What is currently lacking is a team of statesmen who can unite the continent and set a shared goal. Established politicians lack vision, according to Ngaire Woods of Oxford's Blavatnik School of Government: an election platform offering voters budget cuts and pension reforms is insufficient. Which is why outsiders have a chance of taking power.

### Growing consensus on reform

To ensure that growth does not remain cyclical, governments must introduce extensive micro-reforms. With a few exceptions such as Chile, this applies to all countries which, year by year, are falling ever further behind in terms of competitiveness. On the upside, consensus for reform is growing. For the first time, the protectionism that has been increasing over the last ten years is coming under pressure. There is broad discussion of how government funds can be used more efficiently, and, unprecedently, entrepreneurs now regard exports as essential for survival. Their weaker currencies help them to open up foreign markets. ●