

COLUMN

What's now at stake for us in Latin America



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New presidents Jair Bolsonaro in Brazil and Andrés Manuel López Obrador in Mexico are daring to make a fresh start on a grand scale. The one is politically on the right, the other to the left. Both hope to win points by eliminating such problems as crime, corruption and bureaucracy. And the economy is to be stimulated. This is impossible without foreign input. That much seems clear to both countries – dubious remarks and inflammatory slogans by both presidents notwithstanding. In 2019 we will see how exactly the rhetoric of these new heads of state translates into reality.

One thing is for sure: these new starts are bound to turn the entire region upside down. Brazil and Mexico not only account for around sixty percent of Latin America's economic output, they also exercise a stabilising function on the continent. Their slightest changes of course are certain to leave a mark on neighbouring countries.

Although German companies are well represented and integrated in Latin America, there is still much more potential. So the question now is not so much "whether" one is involved in Latin America, but rather "how".

Indices of growing confidence are already increasing. A leap of faith is being made by investors from all around the world, particularly in the case of Brazil. And indeed, the country is in a solid economic position. The financial market is more buoyant than ever. And not for nothing – such a political and economic turnaround offers opportunities that have to be seized promptly. By German companies, too. Should we fail to do so, we run the risk of missing out. And this would come at a high price, since the region is, and remains, an important market. ●

VOICE

“Brazil and Mexico – two directions, one mandate: reform”



Guido Kerkhoff
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LADW Vice Chairman and
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Group „Brazil“

The decisive electoral victories of Andrés Manuel López Obrador in Mexico and Jair Bolsonaro in Brazil indicate the faith that the people of both countries have placed in change. As different as the respective political directions may be, the citizens of both countries want smart economic policy that creates prosperity and reinforces social equilibrium, as well as decisive action against corruption and improvement in terms of security. These are issues that are of central importance in the German economy.

Both presidents are at the beginning of their terms. And both carry a banner emblazoned with the same slogan: Reform. The need for action is enormous. So we, as companies, view the future with an open, constructive and optimistic outlook.

Brazil and Mexico are important partner-countries for German companies with great potential to be tapped through clever, business-friendly policies. Both presidents have clear mandates. They are now being called upon to use them for the good of their countries. ●

NUMBERS FACTS & MORE

LATIN AMERICA AT A GLANCE

TRENDS GDP GROWTH 2021 (%)

LATIN AMERICA



BRAZIL



MEXICO



WORTH KNOWING

Degree of urbanisation	78 %
Votes in the United Nations	17 %
Access to world trade	70 %
Energy production from renewable sources	56 %
Share of the world's freshwater reserves	33 %

GERMAN INDUSTRY IN LATIN AMERICA

- Over **4,000 LOCAL COMPANIES** with a German background
- 600,000 EMPLOYEES** working in the region
- 50 BILLION € GERMAN DIRECT INVESTMENT ASSETS**
- 127 BILLION € ANNUAL TURNOVER**

Sources: World Bank, Deutsche Bundesbank, Federal Foreign Office, DESTATIS

LEAD ARTICLE

CHANGE OF GOVERNMENT IN LATIN AMERICA'S MOST IMPORTANT MARKETS



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New presidents have taken office in Mexico and Brazil. How they will govern remains unknown. One thing is for sure: they are bound to change Latin America's political and economic climate.

The year 2019 is getting off to a tense start in Latin America's two biggest countries. In both Mexico and Brazil, presidents have taken office whose manner of governance over the coming years is hard to predict. Their respective success or failure will significantly impact the region: the two countries account for almost two thirds of the gross domestic product, and, with around 335 million inhabitants, slightly more than half of Latin America's population. These are important locations for the German economy. Whilst German industry supplies the large local market in Brazil, it primarily uses Mexico as an export platform to the USA and the world at large.

At first glance the two heads of state contrast starkly: Andrés Manuel López Obrador in Mexico is critical of business and wants to eliminate poverty in the country – primarily through the redistribution of wealth. Mexican entrepreneurs fear that he intends to wind back the clock and return to policies of closed borders, state dirigisme, and social policy in accord with the unions. Jair Bolsonaro in Brazil is a right-wing politician and former captain who wants to carry out neoliberal reform. The business community in Brazil is hoping that Bolsonaro will finally give the country the urgently required impetus towards reform, privatise state-owned companies, and open up the economy.

But despite the ideological differences, the two incumbents bear a certain resemblance. Not only that they are of a similar age, both being in their mid-sixties; both were able to successfully present themselves to voters as anti-establishment candidates. They have promised a break with conventional politics and mean to take a hard line on corruption and crime. The governments preceding them failed. Brazil and Mexico are both

states with extremely high levels of crime and corruption. Furthermore, a significant factor in their respective victories was that they were able to secure the votes of the much-increased evangelical groups in the world's largest Catholic countries.

Neither candidate, however, is a political outsider: both Obrador and Bolsonaro have been professional politicians for decades. The Mexican president began his political career in the Institutional Revolutionary Party (PRI), which ruled the country for seventy years. He was mayor of the capital, Mexico City, and is a three-time presidential candidate. The Brazilian, Bolsonaro, has been a member of parliament for almost thirty years. Yet both politicians have always been mavericks.

The new presidents are celebrated by supporters as saviours; individuals who, unlike the unloved politician-caste, will govern nationalistically "for the people." Yet, given the cult of personality created around them, they each resemble the traditional caudillos of South America. Both are politicians who hardly know the world beyond their national borders and for whom it seems to hold no great interest.

Nevertheless, there are differences between the two countries for businesses and investors: López Obrador is assuming great power in Mexico. His party has a majority in Congress and his government is in control of the budget. With the construction-block of the new airport in Mexico City, he has shown that he will not take the pragmatic course towards the economy that entrepreneurs had hoped he would. Furthermore, the judiciary, media and opposition in Mexico are not strong enough to make the president more willing to compromise. Mexico's

economy is in good shape, too. López Obrador is under no pressure to deliver economic reform in the near future.

Things are different in Brazil: Bolsonaro is obliged to get the problematic pension-reform swiftly under way. Only then can the budget deficit be reduced in a timely manner so that the Brazilian economy might grow again, providing that investors implement their projects and businesses create jobs. Should he fail in this phase, Bolsonaro will be rapidly weakened politically as the economy will stagnate once more – in the wake of three years of recession. Furthermore, he faces a strong Congress, with only a minority of members of parliament on his side. The media, the judiciary and civil society will hold sway over the president. He has also relinquished performative economic competence: his super minister for economic affairs has filled all the relevant positions with capable economists, bankers and technocrats.

In conclusion, then: at first glance the chances for economic reform in Brazil appear greater than in Mexico. Yet both presidents are populists. So it is difficult to predict how they will react in the face of resistance to their policies or to crises. Both heads of state might try to strengthen the executive branch. This would inaugurate a sea-change in Latin America's largest states similar to the one that has been ongoing in Turkey, Hungary, and more particularly the USA, for some time. ●