

COLUMN

A decisive 2018 awaits us in Latin America!



Andreas Renschler
 LADW Chairman and Member of
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Pioneering negotiations are currently in full swing. In addition to a possible restructuring of NAFTA, the modernisation of the EU-Mexico Global Agreement and the Free Trade Agreement between the EU and Mercosur, now almost twenty years in the making, are hopefully both entering their final rounds. As to whether successfully or not will become apparent over the coming year. The political constellations for this strategic rapprochement between the two regions are currently very good. The politically favourable window of opportunity could, however, close again in mid-2018 as a result of the election campaign in Brazil.

The second largest economy in Latin America, Mexico, is also due for a tense 2018. Elections of head of state, as well as senators and deputies, are scheduled for July. And, as has been seen recently in various EU countries, their results are far from certain. But it is most particularly in Brazil that they are paramount. It is only recently that the severe and prolonged recession has been overcome and that growth forecasts could again be revised upwards. Once more, political stability remains a key prerequisite for the good economic situation. Colombia is also electing a new president and congress in May. Furthermore, Argentina will be attracting the world's attention through its G20 presidency - the first ever to be held by a South American country.

So it is crucial and right that we, too, more closely pursue development in a region that is home to more than four thousand companies with a German background and an investment portfolio of just under fifty billion euros - and, of course, continue to venture forth in Latin America! ●

NOTE

NEW MOMENTUM IN COOPERATION WITH BRAZIL

“In the 4.0 era, reliable partnerships are more important and valuable than ever! Brazil and Germany are best served if they exploit digital potential together.”

LADW Chairman Renschler opening the conference



At this year's German-Brazilian Economic Meeting in Porto Alegre in mid-November, the two-thousand-plus participants demonstrated their strong interest in further extending cooperation. Local and global challenges, such as digitalisation, are to be tackled jointly.

Politicians and business representatives from both sides agreed in the Joint Commission meeting that the EU-Mercosur Free Trade Agreement negotiations must be swiftly and successfully concluded. Brazil's aspired-to OECD membership also opens up new opportunities for the resumption of negotiations on the still-missing double taxation agreement. The next German-Brazilian Economic Meeting is to be held in Cologne from 24 to 26 June 2018. This highly successful format is organised annually by the BDI and its partner, CNI, and alternates between Brazil and Germany. ●

NUMBERS FACTS & MORE

TRENDS GDP GROWTH 2021 (%)



GERMAN COMPANIES IN LATIN AMERICA

- Over **4,000 COMPANIES** with a German background
 - With **567,000 EMPLOYEES** in the region
 - € 49 BILLION VOLUME OF GERMAN DIRECT INVESTMENT**
 - € 120 BILLION ANNUAL TURNOVER**
- Sources: Federal Foreign Office, Deutsche Bundesbank

LEAD ARTICLE

ARGENTINA IS A BEACON OF HOPE
FOR LATIN AMERICA

**Mauricio Macri's ongoing success is
an important signal for the upcoming
elections in Latin America.**



Alexander Busch

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For twenty-five years, Alexander Busch has been reporting from Brazil on Latin America for Handelsblatt, Wirtschaftswoche and Neue Zürcher Zeitung. Born in 1963, he grew up in Venezuela before attending the Cologne School of Journalism and studying Economics and Politics in Cologne and Buenos Aires. He is the author of the book "Wirtschaftsmacht Brasilien – Der grüne Riese erwacht" (Economic power Brazil – The green giant awakens).

It was no coincidence that the current World Trade Organization's Ministerial Conference was held in Buenos Aires. The WTO, which has been hard pressed by the USA's growing protectionism and stonewalling, wanted to send an unprecedented signal in South America; for the last two years, President Mauricio Macri has been implementing in Argentina almost precisely the policy that the WTO committed itself to at its foundation. Macri has ended his predecessor's isolationism, state dirigisme, and my-country-first politics in his presidency. The chances of a sustainable recovery in Argentina are better than they have been in a considerable time.

Macri is being closely watched in the region. After all, decisive elections are due to be held in Latin America over the next twelve months. Two-thirds of Latin Americans are being called to the polls to elect new heads of state: in Chile just now, in Colombia in May next year, then in Mexico in July and in Brazil in October. It is therefore all the more important that a liberal-conservative president like Macri should show that market-economy reforms can not only bring growth and reduce poverty – they can even win elections.

In October, Macri's government received a clear vote of confidence in congressional elections, which even surprised the government. Over fifty percent of Argentinians continue to support Macri. This is astonishing, because since taking office at the end of 2015, the son of one of the country's richest entrepreneurs has swiftly streamlined the Argentinian economy towards a market-based course. The return to free markets and exchange rates, and the lifting of price freezes on public tariffs, did lead to a severe adjustment recession in 2016 and high inflation. The economy, however, is

now gaining momentum. Private companies are beginning to invest, growth is up for the first time, Argentina's GDP will increase by 2.8 percent this year. In 2018, the figure is set to rise to over 3 percent. The government has now introduced tax system and labour law reform packages into Congress. On the one hand, the tax burden on companies is to be gradually reduced – excessive corporate taxes are one of the main reasons for low investment in Argentina – on the other, labour law reform is intended to bring down the incidental wage costs that are the highest in Latin America.

The government wants to increase Argentina's low productivity after decades of decline. The need for reform in both the state and the economic environment is enormous. Critics of the government point out that the government has hitherto "merely" corrected the errors of previous governments but no fundamental reforms have yet been achieved.

Thus structural reforms are important in order to convince businesses, other countries, and, indeed, Argentinians themselves that the government is working unstintingly to modernise Argentina. A halt to reform would quickly entail economic stagnation. And the next crisis would be in sight. The victory in congressional elections has significantly reduced the risk of political stagnation.

The government intends to get the two reforms through Congress by March. The current economic recovery affords it a tailwind. Furthermore, the government is gaining ground by consistently involving such traditional opponents to reform plans as trade unions and opposition governors, which is increasing the acceptance of its projects. Generally, Argentinian presidents enforce laws by decree or a majority in Congress. This is

admittedly effective in the short term, but creates legitimacy problems in the long run. Macri has repeatedly made it clear that he prefers the gradual implementation of reforms to the shock programmes typically favoured in Latin America.

The President's ongoing popularity, just two years after his inauguration, is a source of relief for the economy. The scope for planning in business and politics has increased. There is a greater likelihood that Macri will be returned to office in the presidential elections in two years and that he will be able to govern for six. That would be a novelty in Argentinian history: never before has a president who wasn't a Peronist been able to conclude his mandate.

For politicians throughout Latin America, it would be a clear sign that market-economy reforms can also guarantee political survival. ●