

COLUMN



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Upheaval in Latin America - the best option is staying the course

Economic and political turnarounds are swiftly, indeed almost simultaneously, agitating 650-million-plus Latin Americans from north to south. For almost a year the new governments in the region's two largest economies have been trying to implement their election promises. And that in opposing directions: in Mexico with a left-wing agenda, in Brazil with a right-wing but economically liberal one. In Argentina, too, the victory of left-wing opposition candidate Alberto Fernández in recent presidential elections brought about a significant political change, and thus a departure from the liberal economic course of Mauricio Macri.

Demonstrations and protests in various countries evince the displeasure of various segments of the population with regard to ongoing government policies, as has been seen in Ecuador, and currently in the former local poster-child for stability, Chile. On the heels of dubious elections, crisis-stricken Bolivia must now elect a new president. Unlike Venezuela, which is still in an ongoing state of emergency.

But it is indeed such situations that render thorough analysis of the countries there the order of the day so that long-term prospects don't go unnoticed in the prevalent fog. Because current circumstances alone don't define the market, its characteristics do. There really is a common denominator that can be seen in almost all ongoing political tensions in Latin America: a more informed society with an unprecedented interest in politics. This presents a challenge to established systems regardless of country or party. And it is precisely this attuned and unrelenting society that represents a significant achievement towards an increase in law and order and improved future framework conditions in Latin America's still relatively young democracies.

Things will remain exciting in 2020. Trade disputes between the US and China are leaving a mark on the region. Companies in Latin America will initially have to adjust to economic uncertainty, an overall economic slowdown, and a broadly tense situation. But not in the long term. In Latin America, upheaval is often followed by revival. And Brazil's role as anchor and source of stability will prove all the more important: should the country manage to implement its ambitious plan for structural reforms, state modernisation and infrastructure expansion, markets in the region will benefit massively. And that's not to mention the opening of markets and free trade agreements with the USA, China and other nations that Brazil now has on its agenda. All of which being a further reason for us in Europe to rapidly move towards ratifying the EU-Mercosur Free Trade Agreement as long as we're still in the race. Staying the course remains the best option! ●

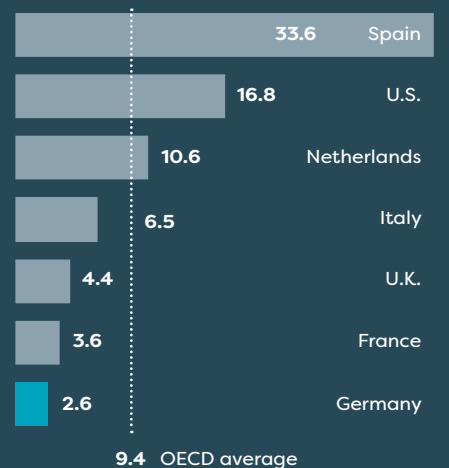
NOTE | The CEO Agenda for Economic Cooperation with Latin America

With this agenda, LADW and McKinsey & Company hope to offer decision-makers from politics and business an up-to-date, factual base for discussion, thereby contributing to the generation of a sustainable perspective for cooperation between Germany and Latin America. The CEO Agenda was developed by McKinsey & Company for the LADW, and its primary findings were summarised in a publication: <https://ladw.page.link/bjYi> ●

NUMBERS FACTS & MORE

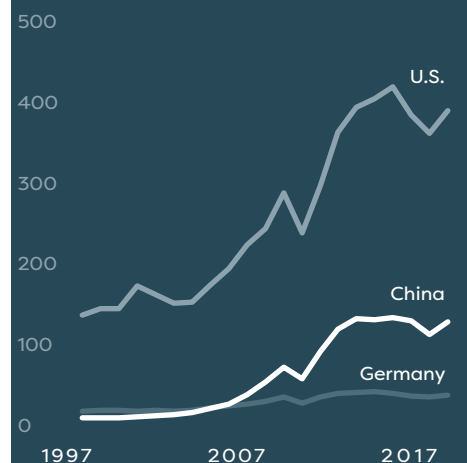
FROM THE CEO AGENDA WORTH KNOWING

SHARE OF WORLDWIDE FDI STOCK IN LATIN AMERICA AND THE CARIBBEAN BY ORIGIN



2017 | SOURCE: OECD; McKinsey analysis

EXPORTS FROM THE U.S., CHINA AND GERMANY TO THE REGION USD BILLIONS



SOURCE: UNCTAD; McKinsey

💡 COMPANIES CAN MAKE MORE
PROFIT IN LATIN AMERICA THAN IN
ASIA.

LEAD ARTICLE

SOUTH AMERICA EXPERIENCES TURBULENT TIMES



Alexander Busch

Correspondent for Handelsblatt, Wirtschaftswoche,
Neue Zürcher Zeitung in Latin America**The continent is in turmoil. And that isn't likely to change soon. Should Brazil or the global economy recover more swiftly than expected, it might stabilise the region.**

Political change in South America is currently so rapidly it's almost impossible to keep abreast of. The surprising changes on the continent began in August with the Argentines; these made it clear that they would vote out ruling liberal president Mauricio Macri – and they did as much in October. Now a Peronist, Alberto Fernández, is again assuming power in the country that, beside Colombia, ranks as South America's second-largest economy. Fernández ran with ex-president Cristina Kirchner as his vice-president. This is not a good omen for entrepreneurs and investors. They've had unfortunate experiences with the latter left-wing populist.

There have been riots in Ecuador and Bolivia, too. In Bolivia, President Evo Morales had to leave the country because the military and police were no longer willing to support him after electoral fraud. The biggest surprise, however, is Chile: the most successful and stable country of the region, no less, has witnessed violent mass protests. The Chileans currently wish to draft a new constitution. But protests continue.

It doesn't seem as if the riots in South America will stop soon – and they might, furthermore, spread to other countries. In Peru, for example, the situation is unclear and new elections are set for January. But only a tiny minority of Peruvians still trust their politicians. In Colombia, tensions are rising because of refugees from Venezuela and the resurgence of guerrilla activity. In Argentina, too, protests might also be held in a few months when voters realise that the new government has little room for manoeuvre and must, above all, save money.

The causes of tensions in these countries are different, but the reasons for dissatisfaction and anger are pretty similar from Panama to Patagonia. The weak growth

that has lasted almost a decade has scuttled the poor's hopes for advancement. The traditional middle classes also fear decline. They increasingly have to pay privately for services unfurnished by a weak state. The great divide between rich and poor and their respective incomes outrage many. As does the fact that campaigns against corruption are increasingly being thwarted even though in some countries they hadn't even really begun. There's a growing risk that, on the one hand, political outsiders will exploit people's frustration, and, employing social media, overtake the political establishment, and on the other, that governments might attempt to restore order in an authoritarian manner by enlisting the military. Both of which would further fuel tensions.

Nonetheless, these developments are not to be generalised. The political basis for a settlement is apparent in Chile: there's a will on both sides of the political spectrum to reach a compromise. It's hard to imagine that the vast majority of Chileans would care to risk everything they've built up over the last three decades. The major Pacific states are also economically sound: inflation is low in Chile, Peru and Colombia, and budgets are balanced. These states thus have room in which to manoeuvre and introduce social expenditure or distribution measures. Economies could quickly recover when protests subside.

Brazil could also stabilise large parts of South America through economic recovery; a strong Brazil would lend growth momentum to Mercosur's Argentina, Uruguay and Paraguay, yet also to Bolivia and even Chile. Under President Jair Bolsonaro's government, Brazil is on a liberal reform course that can be seen, for example, in the implementation of pension reform. The government now

wants to re-rail further reform packages with strict spending regulations for public budgets. Whether it will be able to implement them remains to be seen. Business activity is beginning to recover. Yet it's improbable that this will be enough to soon set the whole of South America in motion like a locomotive. Nonetheless, Brazil's reforms are currently the greatest source of hopes for growth in a region that has become surprisingly volatile.

Renewed growth in global demand for raw materials – both agricultural and industrial – could also have a stabilising effect. South America's economies and national budgets are disproportionately dependent on the export of primary commodities. Growing tax revenues could be directly used to mitigate social tensions.

In the face of this tumultuous situation, one would do well to recall that lasting calm and stability have generally been the exception in South America, whilst abrupt economic and political change have largely been the rule. Most companies that have been active in South America for an extended period are used to this. Even in the boom years, day-to-day business in South America was by no means simple. ●