

Latin America 2010: International Outlook Q&A

Latin Business Chronicle asks leading international experts on Latin America about the region's outlook for 2010.

BY CHRONICLE STAFF

How do you view the outlook for your country's business with Latin America in 2010? How do you view the general business outlook for Latin America? What will be the main challenges? *Latin Business Chronicle* asked four leading international experts on Latin America. Our panel includes:

- **Peter Rösler, deputy general manager of Latin-Amerika Verein, Germany,**
- **Jiang Shixue, vice president of the Chinese Association of Latin American Studies.**
- **R. Viswanathan, Ambassador of India to Argentina, Uruguay and Paraguay**
- **Ryoji Watanabe, Researcher, Latin America Division, Overseas Research Department, JETRO (Japan External Trade Organization)**



Ambassador R. Viswanathan at an India-Latin America Conclave in Buenos Aires earlier this year.



Jiang Shixue, vice president of the Chinese Association of Latin American Studies, with Costa Rican President Oscar Arias in this archive photo. (Photo: CASS)



Latin Business Chronicle: How do you view the outlook for your country's Latin American business and trade ties in 2010?

Jiang: Faced with the global crisis, growth rate of exports from both Latin America and China has witnessed cutbacks. In order to make up for the loss of their market shares in the developed nations, Latin America and China have been trying to diversify their external markets. So the bilateral trade between Latin America and China will continue to grow in 2010.

Economic recovery in both Latin America and China will also accelerate the growth of the bilateral trade. Furthermore, the implementation of the FTA

between China and Peru will also stimulate China's trade with Latin America to a certain extent.

Viswanathan: India's exports to Latin America, which went down in 2009, will pick up growth. India's imports will also increase. Imports of crude oil, edible oil, sugar and other food products as well as minerals will continue their steady increase. Indian companies will increase their investment in the region especially in IT, pharma, energy and mining.

Rösler: The attractiveness of Latin America as a trade and investment partner continues to increase for German companies. However, German-Latin American economic relations are often judged by the very small participation of trade with the region: In spite of rising import and export figures, the exchange of goods with Latin America accounts for only 2 percent of total German foreign trade. But Latin America is a lot more important for German companies as an industrial base than a simple trading partner. In Brazil, German companies produce 10 percent of the industrial GDP of the country. The total value of the production of goods and services by German daughter companies in Latin America quadruplicates the value of German exports into the region. Thus German exports account for only a fifth of German-Latin American economic relations. With stocks of more than US\$70 billion, German investors take third place in Latin America behind the United States and Spain due to, among other factors, a high reinvestment level. The most striking example of a fresh investment is the huge new ThyssenKrupp steel mill near Rio de Janeiro, Brazil that costs about \$5 billion dollars and should go on line in 2010. But normally investment flows like these account for only a small part of German direct investment in Latin America. Most of the companies with production activities in the region finance their investments above all from their local cash-flow. The largest part of all German direct investment in Latin America went to Brazil and Mexico, and is to be found in the industrial sector. Traditionally, German investments in Latin America concentrate on car manufacturing, the chemical and pharmaceutical sectors, electrical engineering and machine building. On the whole, manufacturing accounts for more than 90 percent of German investment stocks in Latin America. In the industrial sector German companies occupy the second place after U.S. companies. As a region, Latin America is responsible for about 3-5 percent of the global turnover of large German companies. There is also some German investment in infrastructure, agriculture, tourism, mining, oil and gas production and the financial sector. Large German building companies are increasing activities, among other countries, in Brazil, Chile, Colombia and Panama. Further activities in non-traditional sectors are to be expected, not least because of the World Cup and the Olympic Games in Brazil. Already, German companies cooperate in the construction of four stadiums as well as in the security and traffic infrastructure. They also hope to be awarded the order for the fast train between São Paulo and Rio de Janeiro. Altogether, the confidence of the German business community into

Latin America has returned. For the first time after nearly 20 years we can see new Latin American investment and trading projects also of small and medium-sized German companies hitherto not active in the region.

Watanabe: We believe that business and trade relationships between Japan and Latin America will further strengthen in 2010. Because of the faster economic recovery in Latin America compared to the developed countries, and the region's potential in consumer market, an increasing number of Japanese companies are interested in the region. Many Japanese consumer product companies have started new marketing methods by introducing products that are targeting the middle-class in the emerging markets, including Latin America. For example, Panasonic has traditionally been targeting the high-income segment, but they have started introducing a wider range of products that would match the needs of the middle-class segment, which is increasing its buying power in recent years due to the economic boom. Panasonic calls them the "Next Rich" customers. We believe that considering the trend of middle-class expansion in the region, Japanese companies will aggressively be aiming to capture the market in 2010.

The Japanese government is also strongly promoting the strengthening of the economic relationship with Latin American countries. The Japan-Peru Investment Agreement entered into force on December 10, 2009, and the EPA (Economic Partnership Agreement) is under negotiation between the two countries. Japan is also negotiating an investment agreement with Colombia. Moreover, Japan's presence in the region has increased in 2009 with the adoption of Japanese technical standards in digital television, ISDB-T, in many countries in South America, such as Brazil, Chile, Peru, Argentina, and Venezuela. These factors will increase the business opportunities for Japanese companies in the region in coming years.

BUSINESS

OUTLOOK

Latin Business Chronicle: How do you view the business outlook for Latin America in 2010?

Watanabe: We are optimistic about the business outlook for the region in 2010. With the higher prices for commodities and improvement of export demand especially by China, the region is bouncing back from the impact of the global economic crisis. The countercyclical policies, such as stimulus packages with public expenditures and reduction of interest rates have also helped the nations to recover at a fast pace. The implementation of these countercyclical policies was possible for many countries in the region due to sound macroeconomic fundamentals, which have been achieved over the recent years. Although there remains uncertainty in external demand and the prices of commodities, the increase in internal

demand in Latin American nations will continue to be attractive for businesses. According to "The Survey of Japanese Companies in Latin America" conducted by JETRO between July and August of 2009 among 300 Japanese companies located in nine Latin American countries (i.e. Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Panama, Peru, and Venezuela), 49 percent of them forecast their profits to increase in 2010 compared to the previous year, and 83 percent are planning to keep the investment at the same level or increase in the same period. This clearly demonstrates the optimistic view of the Japanese companies operating in the region for 2010.

Viswanathan: It is going to be better than 2009 surely. Growth will resume. Imports which were restricted by the governments in 2009, will increase in 2010. Exports will go up to the developed world coming out of recession and financial crisis. Commodity prices will be higher which means more income for South America. The Latin American governments and business which have learnt lessons from the global financial crisis will be more prudent in seeking external credit and exposure. The crisis has also made the governments less adventurous and more responsible in fiscal and monetary policies. The crisis has put an end to the ideological debate of the region which was caught between the anti-neoliberalists and free marketeers. There is a growing consensus that both the government and the market need to have a constructive partnership in creating wealth and jobs. There are exceptions to this by a few radicals, whose influence is bound to diminish.

Rösler: In 2009 we saw recession in some countries and little growth in others. However, the region was considerably less affected by the crisis than the industrialized world. And as a whole, South America looks better than Mexico, Central America and the Caribbean. But because of the economic boom phase Latin America experienced in the five years before 2009, the region has become more resistant to external distortions. It should be noted that this also refers to the countries that have in the meantime opened their markets to international competition. In the past these countries used to suffer more than others the effects of external crisis. The recovery in the second half of 2009 is likely to continue in the year 2010 with even more impetus. Already now stock indices have reached pre-crisis levels in most Latin American countries. In 2010 we might see new historic records. Latin American companies are in good shape and bound to expand both locally and internationally. The majority of Latin American banks likewise will continue to show strong performances. Other assets of the region are growing domestic markets, high currency reserves, reduced debt burdens, immense natural and energy resources and a huge agricultural potential. New crude oil and ore deposits are being discovered nearly every week. Apart from that, Asia's demand for agricultural and mining products is again on the rise and might soon reach pre-crisis levels. So the business outlook for Latin America is excellent.

Because of a slower take-up of growth in the industrialized world Latin America's foreign trade might still remain beneath 2008 levels. Also, financing flows from the industrialized world into Latin America will probably be lower than two years ago. All the same, the region as a whole might grow between 4-5 percent.

Jiang: Latin America's economy still depends heavily on the advanced countries. It has proved that de-coupling only lasted for a very short period of time before the current global crisis broke out in 2008.

According to the IMF, the advanced economies are believed to grow at 1.3 percent in 2010, compared with -3.4 percent in 2009. Therefore, Latin America is likely to see a recovery as well. IMF predicts that the region will grow at 2.9 percent, much higher than 2009 rate of -2.5 percent.

CHALLENGES

Latin Business Chronicle: What will be the main challenges facing business in the region in 2010?

Jiang: First, recovery after the crisis tends to be fragile. So Latin America needs to consolidate the anti-crisis measures to sustain the growth. Second, commodity prices might fluctuate in the recovery process. Finally, social conditions might not be able to react to economic recovery immediately. Therefore, Latin American governments should continue to work hard to mitigate the negative effects of the crisis on the social area.

Viswanathan: For India, there are no challenges. We have only opportunities, which have increased even more now. It is up to our companies to take advantage of these opportunities. One of the challenges faced in the past has gone. It was the Latin American mindset which was oriented to Europe and the United States and did not take India seriously. Now we are flooded with inquiries and offers from Latin American companies who are taking the initiative. They offer companies and assets for acquisition, knowing that Indian companies have the money, willingness and reach. The Latin American exporters are serious about exploiting the opportunities of the large and growing market of India. Despite the crisis, the number of visitors to India from Brazil and Argentina have gone up in 2009 from 2008.

For the world, there is a political challenge in the region in 2010. The Honduras crisis and the Colombia military base issue have reopened old suspicions of external interference and political polarisation. The reversal of democracy is more serious for the region than that is assumed by those who have chosen to sell democracy for a small domestic bargain. This will make the leftist governments of the region review their positive and optimistic view of the Obama administration. These governments will

intensify their diversification of political and economic relations and reduce their dependence on the United States. Latin America's business with emerging markets will increase more in 2010 and in the years to come.

There are elections in ... Brazil. But no one is expecting any change of course, whoever comes to power. Policies have to be pro-poor and at the same time market-friendly.

Rösler: The region's key problem remains the huge income disparity and low employment rates in the formal sector. Up to a few years ago the traditional elites in power utterly failed to tackle key issues such as poverty, the extreme income gap and democratic participation of the majority of the population. Today these failures constitute the breeding ground for anti-market politicians. But a substitution of the traditional elites was – and in many cases still is – inevitable and promises an improvement of general conditions. All governments of the region must therefore try harder to reduce unemployment and poverty levels, especially as the crisis will have added tens of millions to the number of poor Latin Americans. This said, today Latin America is deeply divided on economic-political lines. Whereas most governments embrace [the] market economy, a few follow socialist models. Up to now, such models have led to a loss of international competitiveness and to even more poverty. As a result, government support tends to decline. This might mislead some government leaders to try to pick fights with neighbors in order to divert attention from falling living standards. So one of the challenges for the region in 2010 will be to reduce tensions between neighboring countries. Apart from that, countries governed by populist regimes and dominated by anti-market concepts are not attractive for foreign direct investment by private companies. But without money from outside they can hardly survive. So they look for dubious friends, like Iran and Belorussia, to satisfy their investment needs. Also, they open their doors to the non-regional BRIC countries, hoping to counterbalance the weight of the United States and also the E.U. As is well known, Chinese investment does not look for democratic credentials in the target countries and one of Russia's main aims is to sell arms, her major export line apart from crude oil and gas. All this means that in 2010 Latin America will not only have a problem with rising tensions but also an image problem. Even though populist governed countries account for only a small percentage of the economy and the population of Latin America (approx. 15 percent), the other countries will have to undertake additional efforts to defend a prominent place in the list of interesting business partners.

Watanabe: We believe that the main challenges are the protectionist policies and political tensions in parts of the region. According to "The Survey of Japanese Companies in Latin America" conducted by JETRO, almost 70 percent of all Japanese companies operating in the region are concerned about the negative impacts of protectionist policies, particularly after the global financial crisis. The decline of trade due to the political

tension between Colombia and Venezuela is a concern for Japanese companies trading. The weak fiscal situation for some Latin American countries is also a risk factor, and countries need to implement reform to maintain credibility with investors.

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