Lateinamerika Verein e.V.

Growing German Awareness of Latin America's Potential

In the last few years Latin America has attracted more attention than usual from the German business community. Up to 2008 the reasons for this were obvious: more growth and less volatility. In 2009 we can see recession in some countries and little growth in others. However, the region as a whole will be considerably less affected by the crisis than the industrialized world.

Because of the recent economic boom phase Latin America has not only become more resistant to external distortions. The internal volatility of the economies has decreased at the same time, partly in spite of complicated domestic policy conditions. Today in most Latin American countries stock indices have nearly reached pre-crisis levels. Latin American companies are in good shape and expanding both locally and internationally. The majority of Latin American banks likewise show strong performances. Other assets are high currency reserves and reduced debt burdens. Apart from that, Asia's demand for agricultural and mining products is again on the rise.

But it has never been more difficult to make general statements on the region than now. Latin America is deeply divided on economic-political lines: Most countries embrace market economy but a few try to revive socialist models. Some countries have a well-balanced economy (Brazil), others depend on few products, or even on just one (Venezuela). And whereas some countries enjoy a worldwide net of trade partners, others do most of their trade with only one country (Mexico). There is also a considerable difference of size and of the level of development. Only few Latin American countries can aspire to the status of a global player. As a whole, South America will weather the crisis a lot better than Mexico, Central America and the Caribbean. Brazil might in the end even gain some of the economic weight the United States is bound to lose as a result of the crisis.

The region's key problem remains the huge income disparity. The traditional elites in power up to a few years ago had 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 some cases still is - inevitable and promises an improvement of general conditions. This is the reason why German companies are not unduly worried about the left-leaning tendencies of most of the present Latin American governments.

Apart from that, Latin America has ceased to be the Cinderella of the world. Its wealth of natural and energy resources and agricultural potential plays an ever more important role for the region's position within the world economy. To the same extent, the number of large Latin American corporations acting on the world stage is growing. This is also true for Latin American foreign investments. And more than 550 million Latin Americans with average incomes on a medium level constitute an increasingly interesting market.

The attractiveness of Latin America as a trade and investment partner continues to grow also 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 rather 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. But normally investment inflows 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 above all 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 all 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 have increased activities, among other countries, in Brazil, Chile and Panama. Further activities in non-traditional sectors are to be expected. 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.

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Hamburg, 2-12-2009