



Economic situation in Latin America

(Annex to Minutes of the AGM 2022 – Agenda point 12)

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As business people and members of LATCAM, one of your major interests is to **assess** economic perspectives.

- How is business going to develop?
- Where are the best opportunities?
- Who are my competitors?
- What are the major risks?

Looking at Latin America, should we look at the glass half empty or half full?

Let me make the following three points.

1. Swiss companies overall stand on Latin America

If you had followed Nestlé and Roche webinars recently organized under LATCAM, you would not have any hesitation. The continent is **young** and offers significant **opportunities**. It is worthwhile to commit and engage resources in Latin America.

Nestlé's message in the webinar is clear and straightforward: dual education, training and coaching can contribute to skills development and youth employment.

A key element of Nestlé's mission is to create jobs, revenues and promote growth at each step of the value chain from the small coffee, cocoa and milk farmers to the manufacturers of intermediate goods and to the final product.

Roche' message has no ambiguity: new health technologies can facilitate alleviating health problems in Latin America.

Roche's mission is to advance new technologies and improve health in the world and in Latin America.

Swiss firms are **strongly** present in Latin America with substantial investments. **Diversification** and **long-term commitment** have been key to offset and absorb shocks and difficulties in some markets.

Last year several Swiss firms invested in **new production facilities and created** jobs with namely Nestlé in Ecuador and in Brazil (US\$200 million), Georg Fischer in Brazil, Sika in Argentina, Givaudan in Mexico and many others.

What about **SMEs**? Over the past 8 months, I led projects on business opportunities for Swiss SMEs in the Medtech, Cleantech and mining sectors with experts in Argentina and Peru, and the Swiss-Argentine and the Swiss-Peruvian Chamber of commerce in Buenos Aires and in Lima.



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The conclusions are crystal clear: Swiss technology can address **key sustainability** and **health issues** in Latin America.

The findings for Argentina and Peru can apply **across the board**.

All the reports are available on S-GE website with videos presenting interviews of local entrepreneurs and heads of economic associations.

Growth perspectives in these sectors are well-beyond GDP growth because **critical needs** cannot wait much longer and governments understand this very well.

Overall, the continent has a **large potential** with significant natural resources and a large income gap to catch-up with industrial countries.

Take the **mining sector**; firms such as ABB, Sulzer, Sika, Geobruugg, Geotest, Marti, Soleol -an integrator of solar panels-, SICPA and Argor-Heraeus – a Swiss-based precious metals refinery-, to name a few, are making significant contributions to a more sustainable mining economy. And we are only at the beginning.

2. The gamechanger: the war in Ukraine

Latin America is highly interdependent on the world economy.

The **war in Ukraine** has triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict will contribute to a significant **slowdown** in global growth in 2022 and add to **inflation**.

Global growth is projected to slow from an estimated **6.1 percent in 2021** to **3.6 percent in 2022 and 2023**.

This is important for Latin America. **Mexico** is strongly dependent on the US market and several South American countries on **China**. Their growth will be subdued. China will only grow by 4.3% in 2022.

The Ukraine war has triggered a **lack of fertilizers** and **seeds** and tensions on the cereals markets leading to higher food prices.

Fuel and gas prices have also skyrocketed. Soaring cost of living has led to a serious conflict between **indigenous people** and the government of **Ecuador** paralyzing the country. In **Peru**, the lack of fertilizers had significant consequences on agricultural production leading to sky-high prices. The poor people are affected most.

On the positive side, some Latin American **commodity exporters** are benefitting from higher export prices and are also key producers of minerals such as lithium, essential in the ongoing electrical car revolution.

Russian ambitions in Ukraine have reignited **anxiety** over China's aims on Taiwan.

This clearly implies that the **new world order** resulting from the fall of the Berlin Wall is now heavily **disrupted, if not broken**.



Not only must the **defence** of Europe be considerably strengthened including with additional US troops, but also billions must be invested in the **democratic world** to shore up societies and economies to freedom and the rule of law, and to establish a **counterweight** to China's silk road. Latin America will certainly be part of an **ambitious investment program** led by the United States, Europe and Japan.

Latin America is also viewed under a new light as the world is being **politically** more and more **polarized** and **faces significant commodity** and **energy challenges**. The buzz words are not any more delocalisation and globalisation, but **reshoring, less dependence** and seeking **new equilibria**.

In seeking new equilibria, the Western world attributes a paramount importance to maintaining **peace** and **stability** everywhere including in Latin America.

Swiss firms play their part with billions in investments and millions yearly in social projects to ease hardships in societies.

This will continue with Swiss and European **values** being spread all across Latin America inspiring new generations.

3. Latin America's economic growth

Looking closer at Latin America, we witnessed a strong rebound last year with a **6.3% GDP growth** following the **7.4% decline** in 2020. For an excellent panorama on last year, I highly recommend the "*Switzerland-Latin America Economic Relations Report 2022*" issued by SECO in particular for LATCAM. Let me thank warmly SECO and the architect of the Report, Deputy Assistant State Secretary for Bilateral Economic Affairs, Minister Hervé Lohr.¹

This year, Latin America will grow modestly at **1.8%** as the region is seen returning to the slow growth pattern exhibited from 2014 to 2019 with only 0.3% annual growth on average, with the resulting decline in GDP per capita.

The region confronts domestic contexts marked by **rising inflation** and a slow and incomplete recovery of labor markets, which will increase poverty level at **33.7%** and extreme poverty level at **14.9%**.

This outcome reflects the sharp increase in **food and fuel** prices. These levels are markedly higher than those seen before the pandemic and entail another setback in the fight against poverty. They led to a critical situation in Ecuador.

While the region's annual inflation amounted to **6.6%** by the end of 2021, it had risen to **8.1%** by April 2022, and many central banks anticipate that inflation will remain high for the rest of the year.

To contain **inflationary pressures**, which are fundamentally driven by **supply-related factors**, monetary policy must utilize the broadest possible spectrum of available tools.

This necessitates combining the use of the **monetary policy interest rate** with macroprudential and **foreign exchange instruments**, with the aim of tackling inflation while minimizing the negative effects on **growth** and **investment**.

¹ [Switzerland - Latin America: Economic Relations Report 2022 \(admin.ch\)](#)



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Pro-growth **fiscal** and **monetary policies** will be needed to respond to the current slow growth scenario and stimulate **sustainable** and **inclusive growth**.

Fiscal policy will continue to be used as a central component of development policy, which requires strengthening **public revenue** to increase fiscal space.

It is necessary to reduce tax evasion, **reorient tax expenditures** and bolster the progressivity of the tax structure.

On the **trade side**, the price increase for several of the main products that the region buys and sells abroad raises the projection for 2022 to a **23% expansion**, both for **exports** and **imports**.

While Swiss exports to the world grew at an average of **12.4%** from January until Mai this year, exports to several Latin American countries exceeded that average with namely **Ecuador** (+34%), **Panama** (+32%), **Costa Rica** (+27%), **Chile** and the **Dominican Republic** (+17%) and slightly below **Mexico** and **Argentina** (+11%) and **Brazil** (+ 7%).

And, if you were to look at trade in the **medtech** and **cleantech** sectors, you would see even larger growth rates. Investment also fares well.

Based on this data and my former remarks on Swiss firms, you may see that you can always find the glass more **half full** than half empty.

Let me now conclude with the following:

Latin America has been undergoing important **political changes** and will continue to do so. So are the **United States of America** and so is **Europe**.... maybe at the exception of Switzerland. **Peace** is of paramount importance.

Democratically elected governments are also essential to **legitimate** macroeconomic policies **and** policies covering health, education, transport, energy, industry, services and climate change. Expectations in new governments are often **much too high**, given the constraints they face and the means at their **disposal**.

Never forget that politics is the art of allocating **scarce resources** among **unlimited needs**.

If you understand this basic point and if you know that **many expenditures** such as pensions, health and education are legally earmarked, you will see that changes will be **at best progressive**, you will plan for the long term and you will be successful in Latin America with **good advice**.