

# A Reality Check



Will the new left radically change the business environment in Latin America? Will there be more Venezuelas or more Mexicos?

**W**ill the new leftist leaders in Latin America change business conditions in their countries? Will China benefit from its ideological proximity to the region's governments? Will there be a substantial capital flight? Answers from partners of Law firm Greenberg Traurig: Antonio Peña, Co-Chair of the Latin America Practice, and Yosbel A. Ibarra, Co-Managing Shareholder of Greenberg Traurig's Miami office.

**Do you expect that a mostly leftist Latin America will change the conditions for business in their countries in a significant manner in the next four years?**

Changes are happening, but we hope – and, as of now, don't expect – this latest trend to radically alter the way business is done in Latin America, which is a region accustomed to cyclical changes.

This isn't the first time that voters in several large Latin American countries have opted for governments that lean left. So the question is really one of degree: will these be "leftist" governments that recognize the need to pursue economic growth and maintain a good relationship with the business community and private investors? We've seen similar fears in the past, as when Luiz Inácio Lula da Silva first became president of Brazil (and who may become president once again later this year). However, he took advantage of rising commodity prices – something that is happening again today – to bolster the country's economy by increasing output, targeting inflation, and reducing unemployment. During much of that period, although being led by a populist "leftist" president, Brazil was one of the fastest-growing economies in the world.

Of course, there are other examples, like Venezuela, that strike fear in the business community. The hope is that these newly elected leftist governments, as well as the voters who elected them and the legislatures and other civil and governmental institutions that surround them, recognize the need to engage with the business community and promote foreign trade and investment as means to achieve the social programs and other reforms they promised their voters.

**Will China notably benefit from this generalized turn to the left that oftentimes reflects an anti-American sentiment?**

China has steadily increased its investments and trade in the region in the past two decades and is now Latin America's second-largest trading partner behind the U.S. But it's not a given that Latin America's new leaders will cut ties with the United States and favor China. For instance, Chile, Peru, Colombia and Mexico all have free-trade agreements with the U.S., and the U.S., Mexico and Canada managed to implement the United

States-Mexico-Canada Agreement two years ago to supersede their historic NAFTA trade agreement.

If anything, the diversification of trading interests and building more cohesive supply-chain links throughout the Americas is a more likely

outcome. The supply-chain disruptions we saw at the onset of the pandemic in 2020 bolster the argument for diversification, having revealed the downside of overdependence on Asian manufacturing and trade. We all remember the shortages of personal protection equipment and the disturbing news that the majority of the active ingredients needed to manufacture essential medicines weren't made in our region. Several countries in Latin America were hurt when China shut down imports due to Covid-19 health concerns, refusing cherries from Chile, shrimp from Ecuador and meat from Argentina and Brazil.

And while nearshoring isn't a new concept to auto manufacturers based in Mexico who began to move parts manufacturing to the region more than a decade ago to reap the benefits of the trade agreements, the pandemic supply-chain disruptions could be the impetus needed to fuel the development of a broad regional sup-



**Yosbel A. Ibarra**, Co-Managing Shareholder of Greenberg Traurig's Miami office.

ply chain across the Americas. Not only would manufacturers and consumers benefit from a more resilient and efficient supply chain that provides reduced time to market, but the economic impact would be significant as new jobs and wealth are created.

The Biden Administration has already prioritized four critical industries that could benefit from the development of a "Pan-American" supply chain: high-capacity batteries, semiconductors, critical minerals and materials and active pharmaceutical ingredients used to produce medications. Some apparel and footwear manufacturers, again with U.S. administration assistance, have started to source some raw materials in Latin America.

**Capital flight might further slowdown economic growth in the next few years. Do you see businessmen massively leaving Latin America? Capital fleeing the region?**

There currently is uncertainty in the Latin American capital markets, as there is in all markets right now. But despite the uncertainty, capital isn't massively fleeing Latin America. Yet, there is movement and diversification on the investment front.

For many years, countries like Chile, Mexico, Colombia and Peru were reliable business-friendly environments that heavily encouraged and attracted foreign investment. Now, given recent political uncertainty in many of the leading economies in the region, there's movement of capital. Family offices and wealth investors are diversifying their holdings. We're even seeing some merger & acquisition activity that we might not have seen otherwise as some local companies are increasingly willing to sell or bring in new investors to diversify their country exposure.

Data shows that capital continues to move throughout the region, albeit at a reduced pace and volume.

For instance, Argentinean investment in Uruguay is up. Foreign investors are still acquiring companies in Chile in the 2022 first quarter, but volume is lower. Mexico has seen some outflow of capital, but it is considerably lower than what was seen at the onset of 2021. **LT**

**Antonio Peña**, Co-Chair of Greenberg Traurig's Latin America Practice.



DESPITE THE UNCERTAINTY, CAPITAL ISN'T MASSIVELY FLEEING LATIN AMERICA.

IN THE PAST, LULA TOOK ADVANTAGE OF RISING COMMODITY PRICES – SOMETHING THAT IS HAPPENING AGAIN TODAY – TO BOLSTER THE COUNTRY'S ECONOMY.