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## OP-ED

Latin America is poised for a turnaround in 2018

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In these early days of 2018, it is sad and ironic that just as Latin America is reemerging from a prolonged period of recession and sluggish growth, its most important trading and investment partner, the United States, is looking inward and embracing economic nationalism.

The importance of U.S. commerce with the Americas cannot be overstated. U.S. producers export three times more to Latin America than to China. Central and South America (excluding Mexico) purchase 50 percent more U.S. goods than do the Chinese. In total trade, Latin America accounts for approximately 25 percent of total U.S. trade, and the United States runs a surplus of more than \$2 trillion with the region. As for foreign direct investment, 73 percent of the total ((\$170 billion) comes from the United States.

So, how will our neighbors to the South likely fare in 2018? We can expect a recovery, albeit a modest one, in 2018. Growing confidence among the private sector, accommodative financial conditions, rising commodity prices and overall improvement in the global economy will usher in 2.4 percent growth in 2018 and 2.7 percent in 2019.

While macroeconomic projections are important, it is the microeconomic outlook and performance — based on individuals' and firms' decisions on resource allocations — that offer a more accurate indication of how business — is likely to fare in 2018.

In that regard, there are three drivers that merit careful watching in the new year:

**Digitization:** The digital revolution is having a transformative impact on how people interact, make purchases, bank and spend leisure time, and how companies do business and how government performs services such as e-procurement. There are almost 400 million Internet users, and by 2019 the user penetration rate is expected to jump to 61 percent. Latin America has the highest daily mobile Internet usage in the world. Social media is one of the most popular online activities, with Google Sites and Facebook dominating. E-commerce is sweeping the region with over 150 million digital buyers spending \$85 billion at major sites such as MercadoLibre and B2B Digital. Digitization is affecting the public sector, as well. The Colombian government's Vive Digital is fostering

a national digital ecosystem benefitting farmers, students and women-led households. In Chile, ChileAtiende provides a platform for accessing procedures, services and benefits provided by the State.

**Entrepreneurship:** Business growth and expansion are being fueled by an entrepreneurial ecosystem in Latin America that comprises incubators, accelerators, co-working spaces, angel investment, venture capital firms and university-based entrepreneurship centers. The region possesses the second highest rate of entrepreneurial intention after the African continent, according to the Global Entrepreneurship Monitor; and accelerators such as Start-up Chile and Wayra and venture capital firms such as VOX and NXTP Labs are providing opportunities for tech-savvy young people to stay at home (rather than emigrate) and build sustainable businesses. Colombia's Tappsi, a ride-sharing venture and Argentina's Galicia Move, a digital bank are illustrative. However, low-tech and no-tech entrepreneurship are driving economic growth as well, from bicycle repair shops and food service delivery to organic farming and customized furniture making.

**Business-oriented reform:** Perhaps the most important driver of all is the legal, tax, financial and regulatory environment that affect business. This includes indicators such as starting a business, obtaining credit, enforcing contracts, registering property, protecting minority investors and trading across borders. In the World Bank's Doing Business 2018 report, half of the 32 economies in Latin America implemented at least one reform last year, with the region carrying out nearly 400 reforms during the last 15 years. However, compared to other regions in the world, Latin America performed poorly.

Recognizably, external forces will have an impact on Latin America's fortunes in 2018. For example, tax reform in the United States could create greater financial volatility for the region due to an increase in capital flows back to the U.S. And Latin America's need to invest in infrastructure, human capital, strengthen governance and combat corruption, and advance trade and financial integration is enduring and challenging.

At the start of the new year, it indeed appears that region is poised for a turnaround. Harnessing the power of digitization, further fostering entrepreneurship, and successfully reforming the business environment will enhance the likelihood that 2018 will be a winning year for Latin America.

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