

Opinion **Inside Business**

Three shocks unsettle business confidence across Latin America

Developments in Chile, Peru and Mexico trigger dismay in executives and bankers

MICHAEL STOTT



Voters in traditionally moderate Chile handed a first round election victory to José Antonio Kast of the far right, the most extreme presidential candidate in three decades © REUTERS

Michael Stott 9 HOURS AGO

Political risk is nothing new in Latin America. But three big shocks in the space of a few days in previously business-friendly nations have reminded companies that even by the region's elevated standards, risk is rising fast.

Voters in traditionally moderate Chile handed a first round [election victory](#) to José Antonio Kast of the far right, the most extreme presidential candidate in three decades to secure such a strong result. While he aims to be business friendly, Kast will struggle to govern if he wins the second round as he lacks a base in Congress and his radical positions could trigger more street protests.

Peru's hard-left government [announced](#) without prior warning that it would close two copper mines owned by London-listed Hochschild Mining on environmental grounds. Days later it changed its mind again.

Mexico's populist president alarmed markets by [abandoning](#) his nomination of a respected former finance minister, Arturo Herrera, as the next central bank head in favour of a little-known public sector economist who is loyal to him.

Investors in the region have long shunned socialist Venezuela, and Argentina is off-limits for most foreign investors after its perennial debt defaults and the imposition of price and exchange [controls](#). But the latest trio of shocks came from nations regarded

time are all of a sudden in question.”

Top of the worry list is Mexico. After President Carlos Salinas de Gortari led the country into the North American Free Trade Agreement in 1994, the business sector became accustomed to broadly technocratic governments of different political stripes. Nafta and its successor pact [USMCA](#), the reasoning went, provided a solid institutional underpinning.

That now seems much less clear under President Andrés Manuel López Obrador. In the latest development to concern business, billions of dollars of investment in renewable energy are in jeopardy as a result of [proposed electricity reforms](#), which would give priority to the fossil-fuel powered state generator at the expense of the private sector.

The chief executive of General Motors’ local operation, Francisco Garza, [warned](#) last month of the risks of those measures, saying that while the company wanted to continue investing in the country “if the conditions are not in agreement with our long-term vision, then obviously Mexico will not be a destination in the short term, unfortunately”.

Chile has been proving the pessimists right since it was engulfed by a wave of street protests in October 2019. Its hitherto moderate Congress caved in to populist demands for three separate [early withdrawals](#) of savings from private pension schemes. A fourth is under discussion.

An elected assembly [writing](#) a new constitution is dominated by the left and the hard left. It now threatens to upend an economic model which, although imperfect at distributing wealth, did generate some of the region’s best economic growth. Now voters in last weekend’s first-round presidential election have abandoned the political centre, turning December’s second round into a choice between the far right and the hard left.

Further up the Andes, Colombia’s traditionally stable business environment faces its biggest test yet in a presidential election next year, with a former guerrilla from the radical left [leading polls](#).

That leaves Peru, where former rural primary school teacher President Pedro Castillo

“My own view is that the back and forth political dynamics in Brazil won’t affect dealmaking very much,” said one person involved in many of the region’s larger transactions. “Whether it’s [opposition leader] Lula or Bolsonaro, Brazil is not at risk of turning into the next Venezuela.”

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