

Foreign Trade

# New Sales Markets for the Bavarian Economy

vbw

Study

Status: November 2023

A vbw study prepared by Prognos AG  
Shortened version in English

Bavarian Industry Association



## Note

Quotations from this publication are permitted provided the source is acknowledged.

## Foreword

### Diversification of sales markets for an efficient and resilient economy

The Bavarian economy has particularly benefited from globalization over recent decades. The export share of Bavaria's industry is over 50 percent. Foreign business, however, has become a lot tougher. Fragile supply chains, trade conflicts and geopolitical tension have laid bare the dependencies of our economy. Protectionist tendencies are also becoming more and more apparent. It is therefore key to show how companies can diversify their sales markets more and identify less-developed markets where there are opportunities for doing so.

Our study, which we commissioned Prognos AG to prepare, explores attractive sales markets in Latin America that open up potential for Bavaria's key sectors of business and industry to diversify their exports. Besides investigating the general framework of each sales market, the attractiveness of the respective marketplace as an investment location is also analyzed.

In addition to benefiting companies that are well positioned internationally, the Bavarian foreign-trade business model is also gainful for many small and medium-sized companies in the value chains, and ultimately benefits the Bavarian economy and society as a whole.

Bertram Brossardt  
November 2023



# Content

1	Background	1
2	Overview of German and Bavarian Sales Markets	2
3	Factsheets on potential markets in Latin America	5
3.1	Argentina	8
3.2	Brazil	14
3.3	Chile	20
3.4	Colombia	25
3.5	Mexico	31
4	Conclusion	37
	Contact/Imprint	38

# 1 Background

The conditions for the Bavarian export sector have become tougher, while new opportunities are opening up in untapped markets.

Bavaria is a strong business and industry location. A large part of the economic success of Bavarian companies is based - today as in the past – on successful international business: many sectors of Bavaria's manufacturing industry have an export share of well over 50 percent.

Over recent years, however, the framework conditions for foreign trade have weakened noticeably. Business abroad has become tougher. The role played by global exports has been stagnating for years now and uncertainty has increased significantly. Among other factors, this is due to geopolitical developments such as Russia's war of aggression in Ukraine, growing antagonism between the USA and China, the more frequent occurrence of trade conflicts and singular events such as Brexit. The Covid-19 pandemic also showed how vulnerable global supply and value chains can be.

The slowdown in the pace of globalization and increasing uncertainty on the world markets present new challenges for Bavarian companies' international business. For many years they could rely on a steady increase in demand in key foreign markets – including in particular Europe, the USA and China. This has now changed fundamentally.

If the business environment in many of Bavaria's traditional markets abroad is now tougher – where are future growth markets to be found? At this point it is worth taking a look at potential markets in Latin America which are still relatively untapped by Bavarian companies.

Although on a global average, growth in goods trading in relation to economic output may have come to a halt, the economic catch-up process in some emerging markets indicates that, in the longer term, a sharp rise in demand for imports in these markets can be expected. In order to benefit from this development, companies should seek to identify such markets as relevant potential markets at an early stage.

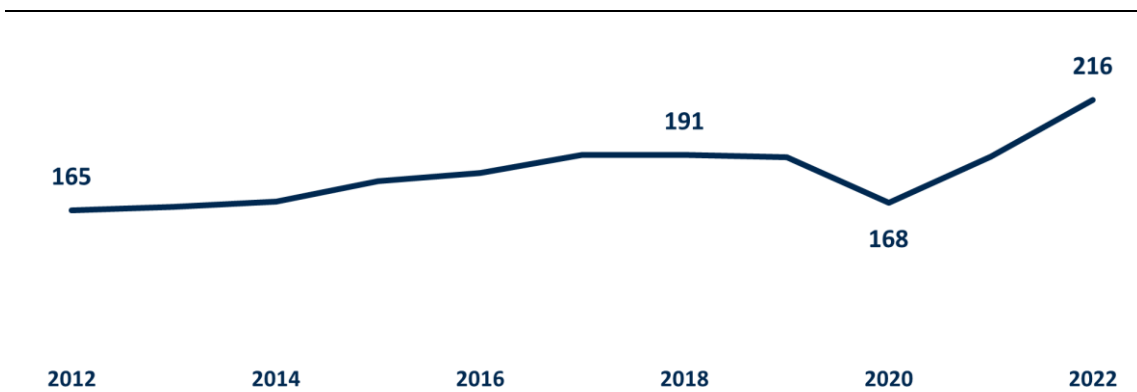
We have identified a group of particularly promising potential markets. The study focuses on altogether five growth markets in Latin America and systematically evaluates the sales potential at the level of individual product groups as well as the attractiveness of these countries as an investment location.

## 2 Overview of German and Bavarian Sales Markets

To date, German and Bavarian companies only export a relatively small volume of goods to emerging markets.

Since 2012, the value of Bavarian exports has grown at a moderate pace, with a temporary pandemic-related slump in 2020. In 2022, Bavarian exports reached a new high at around 216 billion euro (Fig. 1). This strong increase over previous years is, however, primarily due to price effects – besides domestic prices, export prices also increased significantly in 2022, particularly due to the substantial rise in energy costs. There is a very similar trend to be observed over the same period in German exports as a whole.

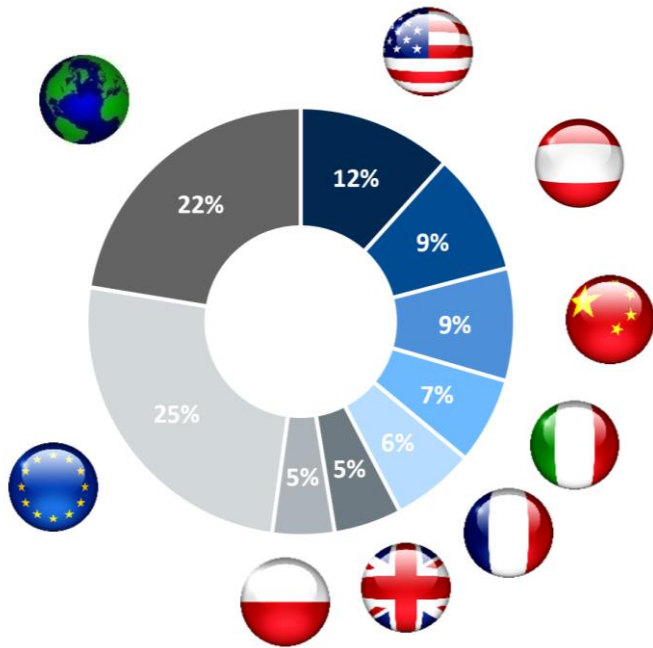
Fig. 1  
Development of Bavarian exports, 2012 to 2022, in billion euro



Source: Destatis 2023

Bavaria’s most important sales markets are by far the other countries of the European Union. Approximately half of Bavarian exports go to this group of countries. The most important single sales market, however, is the USA with a share of 12 percent, followed by Austria with 9 percent and China with 8 percent (Fig. 2). The German export industry as a whole has a similar sales market structure: more than half of German exports go to other EU member states followed by the USA (10 %) and China (7 %).

**Fig. 2**  
Share of the most important sales markets and other EU countries in total Bavarian exports in % in 2022



Source: Destatis 2023

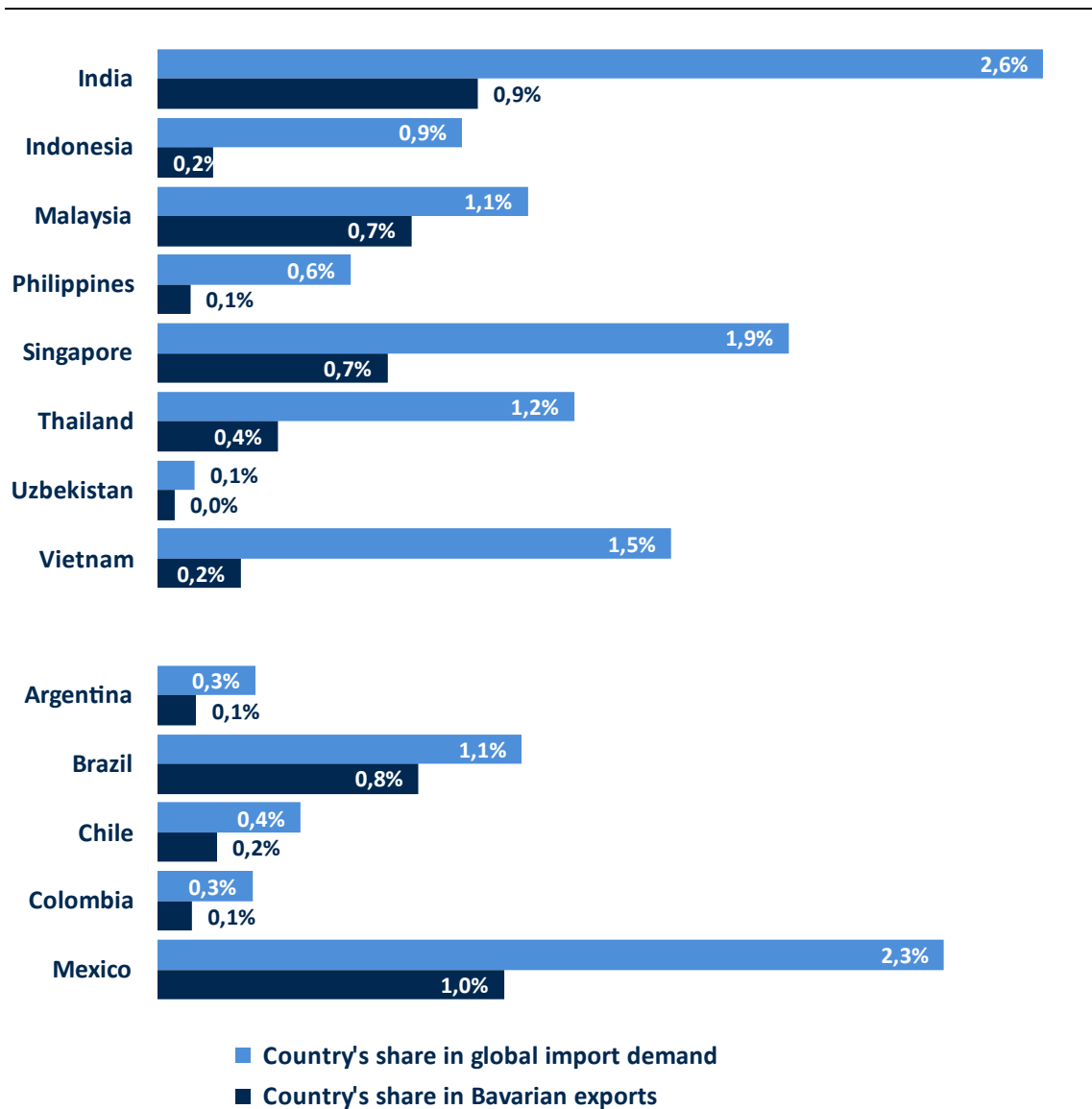
Countries from the top in clockwise direction: USA, Austria, China, Italy, France, United Kingdom, Poland, other EU countries

This shows that so far German and Bavarian companies have only exported a relatively small amount of goods to emerging markets – with the exception of China. This group of countries, however, already accounts for a comparatively large share of global import demand on the world market.

A selection of Asian and Latin American markets illustrates this development. It can be seen that their respective share in global import demand is generally much higher than their share in Bavarian exports. For example, in 2021 Indonesia imported about 0.9 percent of all goods traded on the global market, whereas Bavaria only exported around 0.2 percent of its products to that country (Fig. 3).



**Fig. 3**  
Share of the global import demand from selected emerging markets in 2021 and their share in Bavarian exports in 2022, in %



Source: Destatis 2023 und UN Comtrade 2023

## 3 Factsheets on potential markets in Latin America

Factsheets on the most promising potential markets provide a reliable source of basic data for the evaluation of sales markets.

The following analysis of sales markets that have only been tapped to a comparatively small extent by German and Bavarian companies up until now focuses on five countries in Latin America. Most of these countries feature a large domestic market and a large population as well as dynamic economic growth and a relatively high level of economic openness.



In a first step, the general framework conditions of each market are evaluated in a systematic analysis. This includes

- overall economic development of the country up to 2030,
- demographic development up to 2030,
- foreign trade framework,
- institutional framework and
- political framework.

We then take a detailed look at the respective sales markets. First we provide an outlook on the expected development of import demand as a whole and the expected import demand at the level of the most important product groups for Bavarian companies:

- Motor vehicles and motor vehicle parts
- Machines and machine parts
- Electrical equipment
- IT equipment, electronics, optics
- Metal products

Finally, we assess the countries under review in terms of their suitability as an investment and production location.

### Information on the data used, sources and method of procedure

---

The analysis of the five countries as potential future sales markets for German and Bavarian companies is split into two parts. The first part gives an extensive overview of the framework conditions in the individual potential markets.

The analysis of the development of **economy and demography** sheds light on key macroeconomic parameters, from which conclusions can be drawn on the future attractiveness of the potential markets. We use data from the International Monetary Fund (IMF), the Prognos global economic model VIEW+ and the United Nations to illustrate the macroeconomic and demographic development up to 2030.

The analysis of the **institutional framework** explores to what extent local institutional conditions facilitate or hinder entrepreneurial activity and support or slow down the country's overall economic development. The evaluation of the institutional framework is largely based on information from the World Competitiveness Ranking of IMD Business School, and supplemented by Desk Research. Important sources of information include, among others, Germany Trade and Invest (GTAI), as well as the respective German Chambers of Commerce Abroad.

The qualitative analysis of **foreign trade and political framework**, as further indicators of location attractiveness, is carried out via Desk Research. Key sources of information are GTAI, the German Chambers of Commerce Abroad as well as Access2Markets, the European Commission's information website on trade issues.

Drawing on this, the second part applies qualitative and quantitative methods to show specific sales opportunities for five product groups. The quantitative analysis of trade relations between Germany and the selected countries uses foreign trade statistics from the German Federal Statistical Office to highlight export opportunities for German companies in the potential markets explored.

The **detailed sector analysis** applies both quantitative and qualitative methods. To calculate German exports over the period from 2012 to 2022 we use the foreign trade statistics from the German Federal Statistical Office. The product classification for production statistics enables the allocation of foreign trade data at sector level. The calculation of Germany's market shares as a supplier at sector level is prepared using the Prognos global trade model and data from the UN Comtrade database.

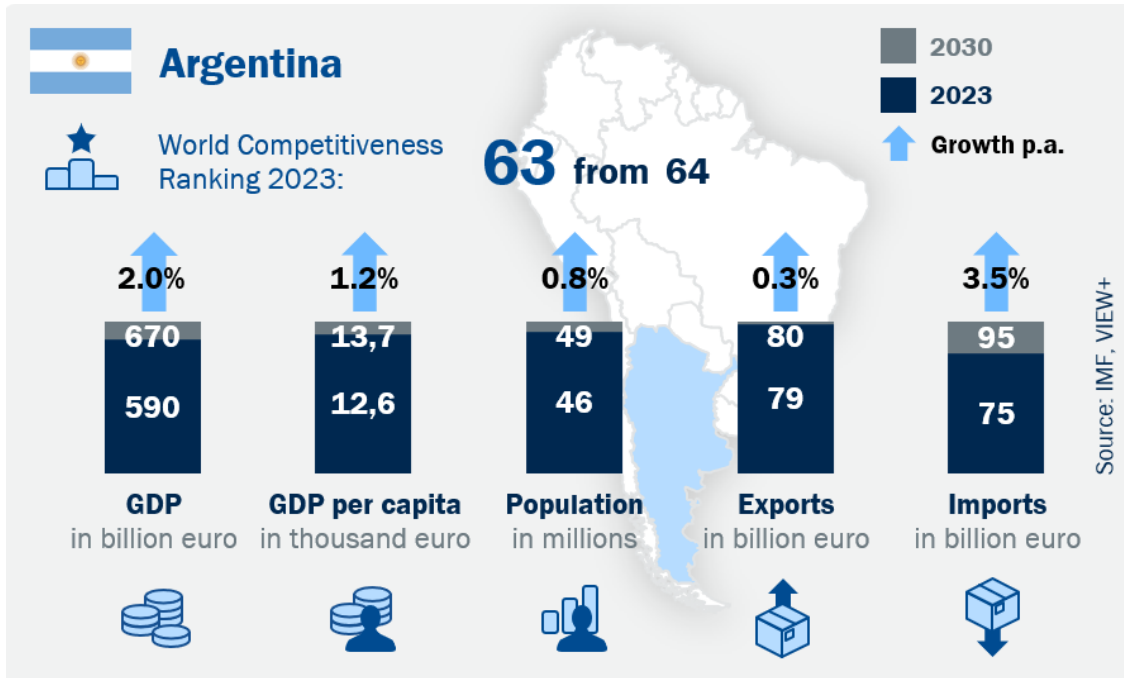
The analysis of **future import demand** indicates which sectors in the examined potential markets can offer sales opportunities in the future. The future development of import demand at sector level is estimated on the basis of data from the Prognos global economy

model VIEW+. In addition, the competitive situation in the sectors of the respective potential markets is analyzed using quantitative data.

Data from the Prognos World Trade Model and the UN Comtrade database serve as basis for this study.

The qualitative and quantitative analysis of the countries examined as **investment location** for German companies relies on data from the Bundesbank and the International Labour Organization (ILO). Further information is taken preferably from the World Competitiveness Index of IMD Business School and from GTAI.

---

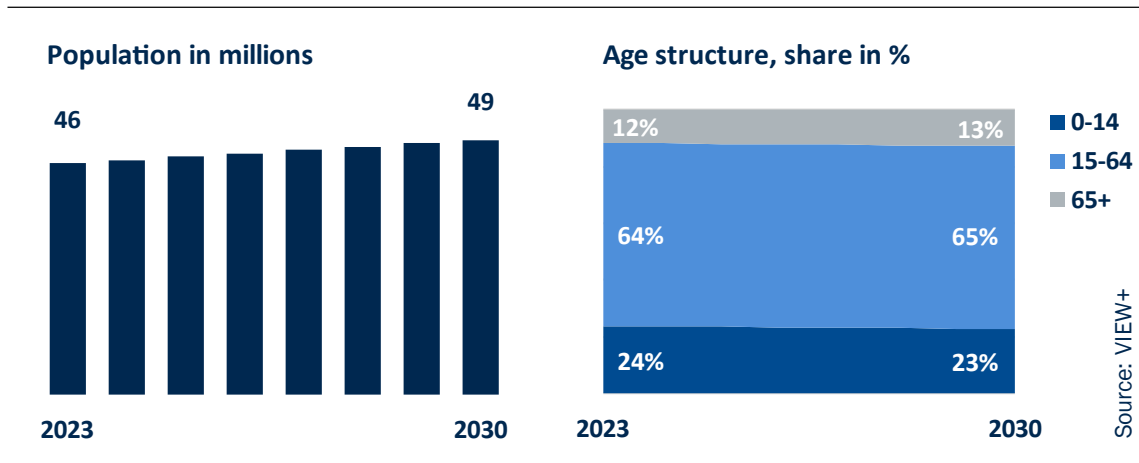


### Macroeconomic forecast

Despite numerous economic challenges, Argentina is an up-and-coming emerging market and belongs to the group of the twenty most important industrialized and emerging economies (G20). With a gross domestic product of around 590 billion euro in 2023, the country is the third-largest economy in Latin America, after Brazil (1,770 billion euro) and Mexico (1,150 billion euro). From 2023 to 2030 we expect GDP to increase by an average of 2.0 percent p.a. In terms of economic growth, Argentina therefore ranks midfield among the Latin American countries under review. Argentina's GDP per capita is high compared to the other countries in the region. In the period from 2023 to 2030, however, we expect only a slight rise from around 12,600 euro to around 13,700 euro. Argentina will nevertheless be one of the richest countries in Latin America at the start of the next decade. By comparison: in 2023, number one, Chile, has the highest GDP per capita of almost 13,100 euro, while the figures for Mexico (8,900 euro) and Brazil (8,200 euro) are significantly lower. A persistent macroeconomic issue is the very high inflation, with annual price increases in triple digits in some cases.

### Demographic development

In 2023, Argentina's population was around 46 million. We expect this figure to rise to around 49 million by 2030. Also the number of people of working age will also rise slightly by 2030. Compared to Germany, for example, Argentina has a significantly younger population. In 2023, the proportion of over 65-year-olds in Germany is 22 percent, compared to just 12 percent in Argentina. This is expected to have an overall positive effect on the country's economic development with companies having a sufficient supply of labor. In economies with a younger population age structure, there is also on average a stronger tendency toward higher consumption.



### Foreign trade framework

The foreign trade framework between Argentina and Germany is based on the general rules of the World Trade Organization (WTO) – there is no free trade agreement between the EU and Argentina. As a result, bilateral trade is subject to customs duties, and non-tariff trade barriers additionally slow down economic exchange. Although negotiations on the EU’s comprehensive trade agreement with the Mercosur states were concluded in 2019, the agreement has not yet been ratified and put into force. It would significantly enhance the framework conditions: on the one hand, Mercosur countries have agreed to liberalize almost 90 percent of imports of industrial products from the EU (including motor vehicles, motor vehicle parts, machines, chemical products, pharmaceuticals). On the other hand, trade barriers have been dropped for some 80 percent of exports of industrial products and food from Mercosur countries to the European Union under the agreement. Today, the USA, China, Spain and Germany are Argentina’s most important trade partners. At the same time, the neighboring countries of Brazil, Uruguay, Paraguay and Chile also play a major role in the country’s foreign trade.

### Institutional framework

The average quality of institutions in Argentina ranks in the lower midfield compared to the other Latin American countries. Generally, the institutional framework conditions are seen as being in clear need of improvement. The main weaknesses are the high level of social inequality, the high poverty rate and the high tax burden for businesses. Moreover, the economic development of the country is hampered by the country’s shadow economy and low productivity. Location advantages include extensive natural resources, a relatively high level of education and high private capital reserves.

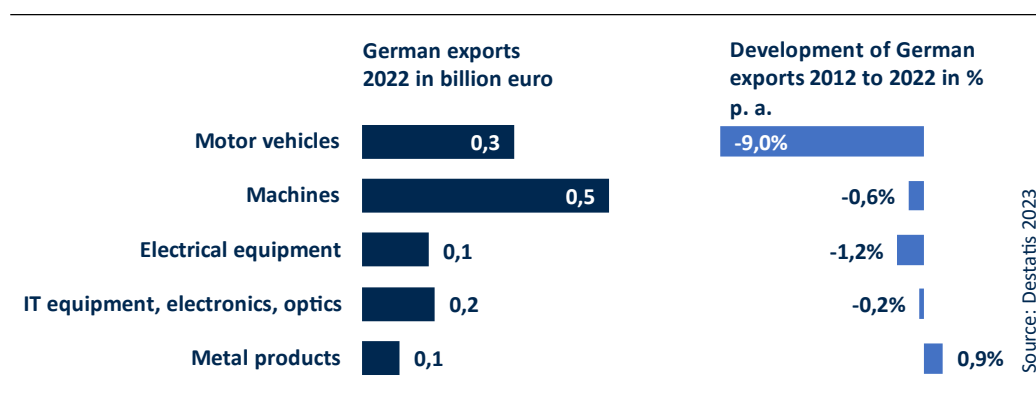
### Political framework

According to the country’s constitution, Argentina is a presidential democracy which gives the president a powerful position. In the last presidential elections, in the fall of 2023, political newcomer Javier Milei won the run-off against the left-wing Peronist Sergio Massa. One of the biggest challenges for the next president will be the introduction of economic reforms in the crisis-ridden country. These reforms are also required to obtain urgently

needed financial aid from the International Monetary Fund. The newly elected Milei describes himself as a supporter of economic libertarianism. According to his plans, the state should withdraw as much as possible from economic activity, and market forces should be allowed to unfold as freely as possible. Furthermore, Milei promised to completely replace Argentina’s peso with the US dollar in order to put an end to the very high inflation. When implementing his plans he will have to expect resistance from the opposition as well as the trade unions and social associations, which are strong in Argentina. The political atmosphere is highly polarized between the political camps, and these are irreconcilably opposed to each other, making it extremely difficult to reach political consensus.

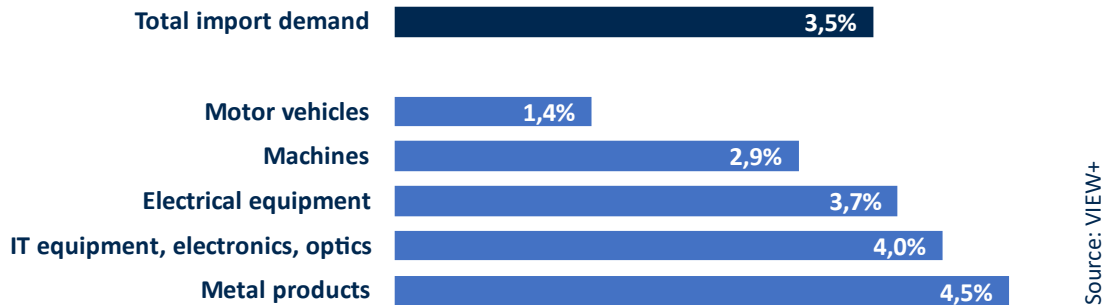
### Focus on export opportunities in Argentina

To date, Argentina is not among Germany’s most important trading partners. Between 2012 and 2022 German exports to Argentina fell by an average of 0.9 percent p. a., whereas overall they increased by 3.7 percent p.a. In 2022 exports to Argentina amounted to a value of around 2 billion euro, meaning that Argentina accounts for 0.2 percent of total German exports, and compared to all other German trading partners Argentina ranked 56<sup>th</sup> in 2022.



Despite an overall low economic momentum in the recent past, we expect relatively high growth in Argentina’s import demand in the years ahead. Between 2023 and 2030 it is expected to grow by an average of 3.5 percent p.a. A particularly dynamic rise is likely in Argentina’s import demand for metal products, electrical equipment, IT equipment, electronics and optics. Growth in the import of motor vehicles is expected to remain below average.

Development of import demand 2023 to 2030 in % p. a.



The product group **motor vehicles and motor vehicle parts** is one of the prime pillars in bilateral trade relations between Argentina and Germany. German exports in this sector have, however, declined sharply since 2012 by an average of -9 percent p.a. In 2022, exports reached a value of around 300 million euro. This means that Germany accounts for around 6 percent of Argentina’s import demand, just behind Thailand (8 %) and Japan (7 %). Brazil is the clear market leader with a market share of 53 percent. E-mobility is still in its infancy in Argentina. There are currently fewer than 30 charging stations for electric vehicles in the entire country. In the future, however, both the charging station infrastructure and the domestic production of e-vehicles are to be expanded. E-mobility companies operating in the country can benefit from Argentina’s lithium reserves – more than half of the global reserves are in Argentina, Chile and Bolivia.



The product group **machines and machine parts** is, in terms of export value, the largest individual category in Argentinian-German foreign trade. Around one in five euros traded belongs to this product group. Nevertheless, bilateral foreign trade declined slightly by 0.6 percent p.a. in the period from 2012 to 2022 and stood at around 500 million euro in 2022. Germany thus covers 10 percent of Argentina’s import market. Only the USA (14 %), Brazil (16 %) and market leader China (25 %) account for a greater share. The Argentinian government has adopted a plan to push ahead the modernization of the manufacturing industry with Industry 4.0 technology. A financial package of over 60 million US dollars has been earmarked for this purpose. The digitalization of the agricultural sector can also open up sales opportunities for German machine manufacturers. Argentina is one of the pioneers for digitalization in agriculture. Here German companies can participate in the development of new agricultural technologies as suppliers of smart machine parts.



German exports in the product group **electrical equipment** have declined significantly by an average of -1.2 percent p.a. since 2012. In 2022, Germany supplied products worth around 100 million euro to Argentina, accounting for 7percent of the country’s total import demand. This makes Germany one of the top 5 players in the market. There nevertheless remains a large gap between Germany and the market leaders China (35 %) and Brazil (20 %). Argentina offers very good condi-



tions for the production of renewable energies. This potential has so far only been exploited to a limited extent, as over 85 percent of energy comes from fossil fuels. In addition to stepping up the production of renewable energies, Argentina's electricity grids are in need of upgrading and modernization to meet the increasing energy demand. The Argentinian government anticipates that some 5 billion U.S. dollars will need to be invested in expanding the high-voltage grid over the coming years. This includes initial projects such as facilitating access to energy and improving the energy efficiency of selected households and communities for around 400 million US dollars. Argentina has very large lithium deposits and is in the process of becoming one of the world's largest lithium producers. This should also stimulate the development of domestic production capacities for battery manufacturing for which lithium is an important initial component.



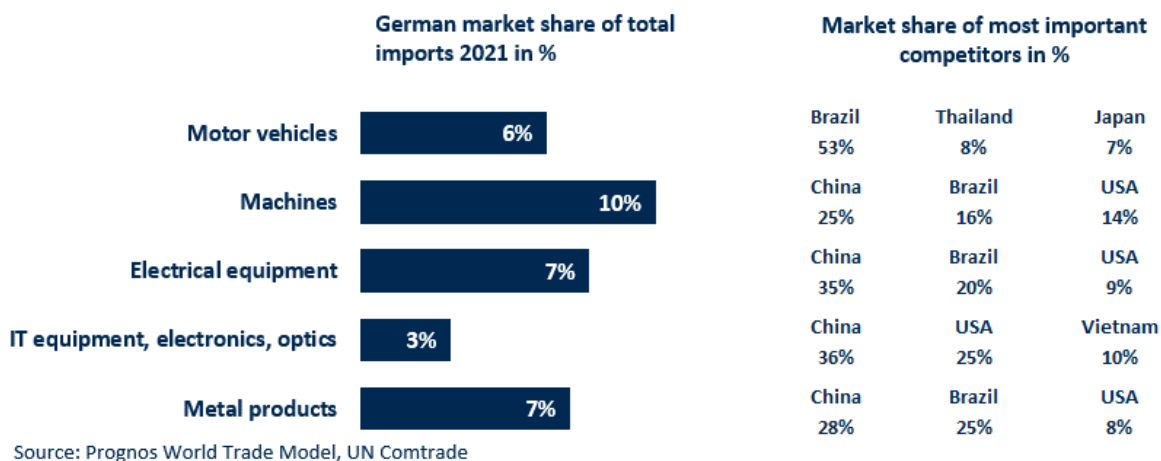
The product group **IT equipment, electronics and optics** lost minimally in importance in the bilateral trade relations between Argentina and Germany during the period from 2012 to 2022. During this period, German exports were down by an average of -0.2 percent p.a. reaching around 200 million euro.

With this comparatively low export figure, Germany is not one of the main players in the Argentinian import market. The major share in import demand is covered by China (36 %), the USA (25 %) and Vietnam (10 %). Potential sales opportunities for German medical technology could arise under the government's project to strengthen the healthcare sector with a financial volume of 1.7 billion US dollars. However, high inflation and import restrictions are dampening opportunities for foreign suppliers in Argentina, and not only in the medical technology sector.



German exports in the product group **metal products** were up on average by 0.9 percent p. a. between 2012 and 2022. With a goods value of around 100 million euro, Germany last accounted for around 7 percent of Argentina's import demand. The largest market shares are held by China with 28 percent

and Brazil with 25 percent. Argentina's construction sector is suffering – like the rest of the industry – under inflation and the sharp rise in costs. Nevertheless, sales opportunities for German manufacturers of metal products could arise in Argentina. For instance, the government is planning to reactivate old railway lines in order to shift a larger share of passenger and freight traffic to rail. For freight transport, investments of some 900 million euro are planned. In addition, the construction of a new subway line is planned in Buenos Aires for approx. 2 billion US dollars. As a result, Argentina's import demand for metal products is likely to increase at an above-average rate over coming years.



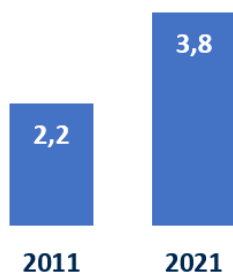
Source: Prognos World Trade Model, UN Comtrade

### Argentina as an investment location

Foreign investment by German companies in Argentina has increased at an above-average rate. In the period from 2011 to 2021 investment figures rose by almost 75 percent – more than the total German investment abroad – and last reached a level of 3.8 billion euro. This means that 0.3 percent of German investment abroad flows to Argentina.

German investment in Argentina is protected by the Investment Protection Agreement of 1993. The key advantages of the location are the country’s vast natural resources and the comparatively high level of education of the workforce. In Argentina, more than one in four people have completed tertiary education. At the same time, the high tax burden, high inflation rates and the brain drain are having a negative impact on the framework conditions in Argentina.

**German FDI in Argentina in billion euro**



**Share of Argentina in total German FDI**

**0,3%**

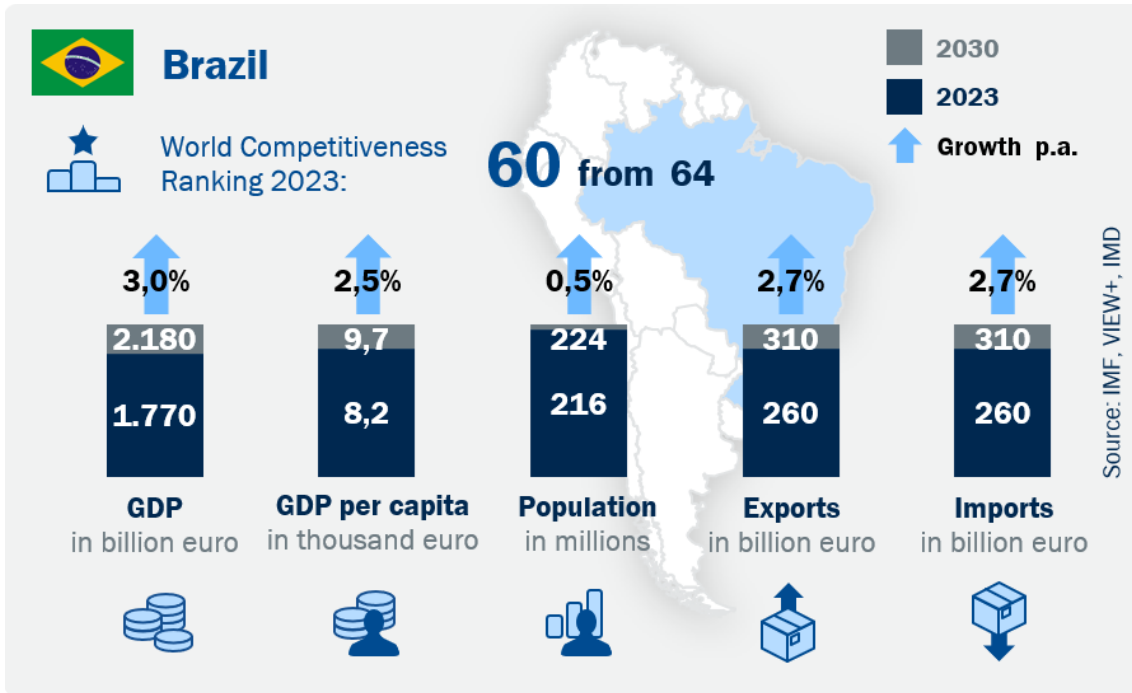
**Population percentage with higher level of education**

**26%**

**Percentage of industrial employees in the workforce**

**22%**

Source: Bundesbank, ILO

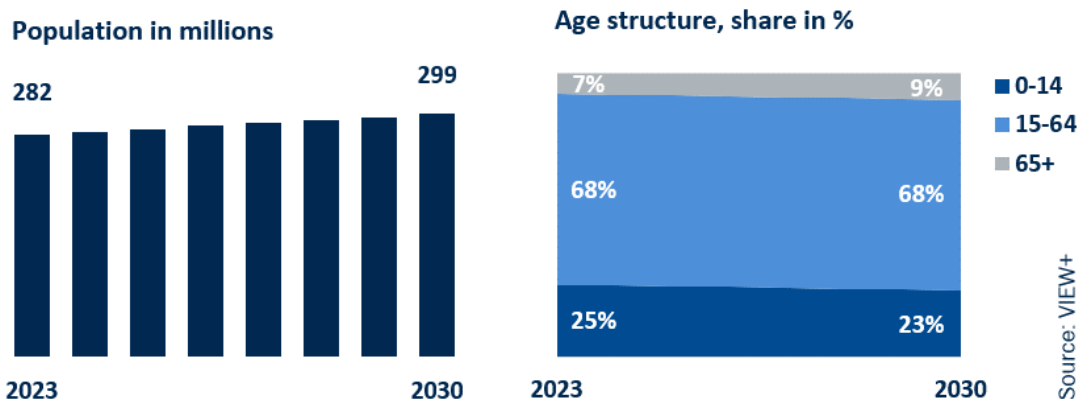


### Macroeconomic forecast

Brazil is one of the largest economies in the world. With a gross domestic product of 1,770 billion euro in 2023, Brazil ranks 11th and is behind Italy in a global comparison. The country's economy will grow significantly in the 2020s. We expect the GDP to increase by an average of 3 percent p.a. between 2023 and 2030 to euro 2,180 billion. The income per capita of around euro 8,200 (as of 2023) is likely to increase by an average of 2.5 percent p.a. in the period under review and exceed euro 9,700 in 2030. This puts Brazil well above the level of India. However, China's GDP per capita already reached the euro 10,800 mark in 2023.

### Demographic development

Brazil is one of the most populous countries in the world. The population will continue to grow slightly in the coming years. Around 216 million people currently live in Brazil, and this figure is expected to rise to around 224 million by 2030. Brazil has a very young population. Nevertheless, it will age slightly over the coming years. The proportion of people of working age will fall slightly from the current 70 percent by 2030. The proportion of under 15-year-olds will fall even more sharply, while the proportion of over 65-year-olds will increase significantly from the current 10 percent to 13 percent by 2030. Overall, the young and growing population will provide a significant impetus for growth: Positive demand effects on private consumption can be expected and the country's companies will benefit from a good supply of labor.



### Foreign trade framework

There is no trade agreement between the EU and Brazil. Accordingly, the foreign trade framework between Germany and Brazil is based on the rules of the World Trade Organization (WTO). As a result, tariff and non-tariff trade barriers slow down economic exchange in many product areas. However, framework conditions could improve fundamentally in the foreseeable future: negotiations on the trade part of an association agreement between the EU and the - MERCOSUR states were successfully concluded in 2019. Individual disputes over sustainability aspects have yet prevented the agreement from being ratified so far. On the other hand, the change of government in Brazil has significantly increased the chances of a breakthrough. Within the region, Brazil is part of MERCOSUR, the Common Southern Market founded in 1991. MERCOSUR is based on the idea of a customs union, but this is not yet in force.

### Institutional framework

There is great potential for improvement in Brazil's institutional framework. According to the World Competitiveness Ranking, the location's advantages include the country's large and dynamically growing economy as well as the high level of foreign direct investment. The weak points, however, are the complex tax system, the high tax burden, the high national debt and a poorly functioning bureaucracy. In addition, Brazil's poor infrastructure stifles business activities.

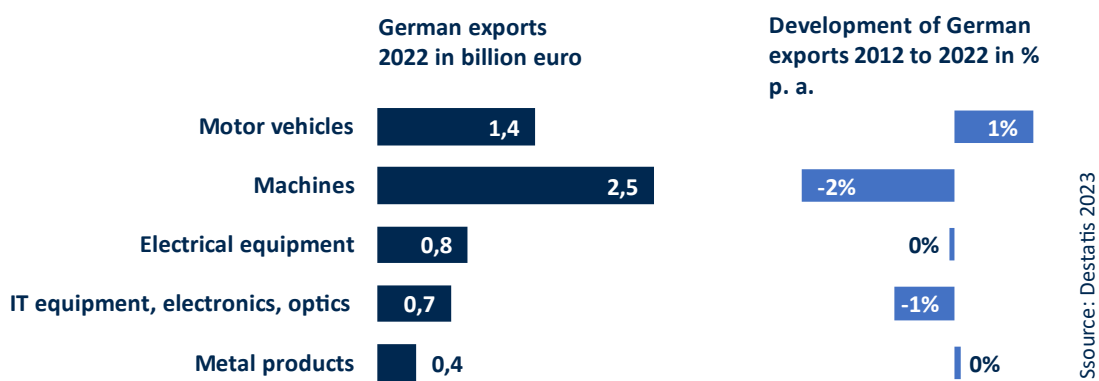
### Political framework

Brazil's political framework has changed in recent years. After the 2022 presidential elections, former President Lula da Silva replaced then President Bolsonaro in office. This changed the country's political orientation from the strongly right-wing Bolsonaro to the social democrat da Silva. Brazilian society remains highly polarized. As a result, da Silva faces the difficult task of bringing more stability back to the country after the politically more unstable 2010s. The recently passed tax reform, which simplifies the tax system, is seen as the first economic policy success. Further major economic policy reforms, that

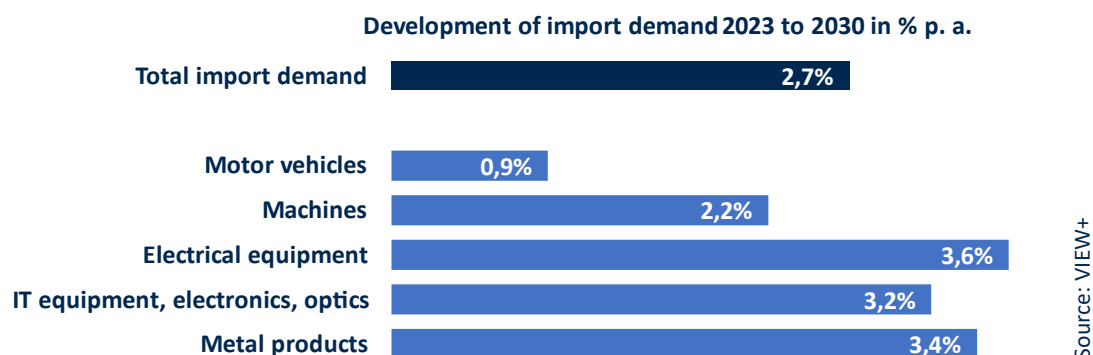
could noticeably improve the business environment in Brazil, are not expected in the near future.

### Focus on export opportunities in Brazil

Within the group of developing and emerging countries, Brazil is one of Germany's most important trading partners. In the period from 2012 to 2022, German exports rose by an average of 1 percent p.a., which is a below-average development compared to total German exports. Overall, German exports to Brazil amounted to a value of around 13 billion euro in 2022 – that is around one percent of total German exports.



According to our forecast, total Brazilian import demand should increase significantly by around 2.7 percent p.a. in the period from 2023 to 2030. We expect demand for electrical equipment, IT equipment, electronics, optics and metal products to rise at an above-average rate. As in the past, imports of motor vehicles and machinery are likely to grow only at a below-average rate.





In absolute terms, the product group of **motor vehicles and motor vehicle parts** plays a central role in bilateral trade relations between Brazil and Germany. There are only a few product groups that Germany exports to the South American country to a greater extent. German exports of motor vehicles and motor vehicle parts to Brazil rose by an average of 1 percent p.a. between 2012 and 2022, reaching a value of euro 1.4 billion in 2022. Brazil's special role as a pioneer in the use of ethanol fuel will continue to influence the local automotive market in the future. At the same time, the trend in Brazil is also moving towards more electrification and connectivity of vehicles. The majority of new registrations are flex-fuel vehicles that run on both petrol and bio-ethanol. Government support for electric and hybrid cars is still in its infancy and autonomous commercial vehicles have so far only been used in mining and agriculture. Overall, the sharp rise in prices is curbing demand on the automotive market. Many people currently prefer to buy a used car rather than a new one. For the coming years up to 2030, we expect Brazilian import demand to grow at a similarly below-average rate (0.9 % p.a.) as before.



Although German exports in the **machine and machine parts** product group to Brazil fell by an average of 2 percent p.a. between 2012 and 2022, they continue to play a special role in bilateral trade relations with a trade volume of around 2.5 billion EUR. With a share of 11 percent, Germany is one of the market leaders in the Brazilian import market after China (30 %) and the USA (17 %). A key growth driver is the increasing demand for agricultural machinery. Important market trends include smart farming, energy efficiency and the use of Industry 4.0 technologies. The specially established I4.0 Chamber supports companies in the digitalization and implementation of Industry 4.0 technologies. New sales opportunities for German manufacturers are arising from the adjustment of the Brazilian customs regime and the harmonization of standards in this area. At the same time, China has been expanding its exports to Brazil since the Covid-19 pandemic.



In the **electrical equipment** product group, there has been little change in German exports to Brazil over the past decade. With an export value of euro 800 million (2022) and a market share of 8 percent, Germany is currently one of the three main players on the Brazilian import market. Nevertheless, the gap to market leader China with 49 percent is enormous. Against the backdrop of rising population and economic growth figures, Brazil's demand for energy is also increasing. As a result, grid expansion in Brazil is a high priority for the government. Accordingly, we expect Brazilian import demand for electrical equipment to increase at an above-average rate over the coming years.

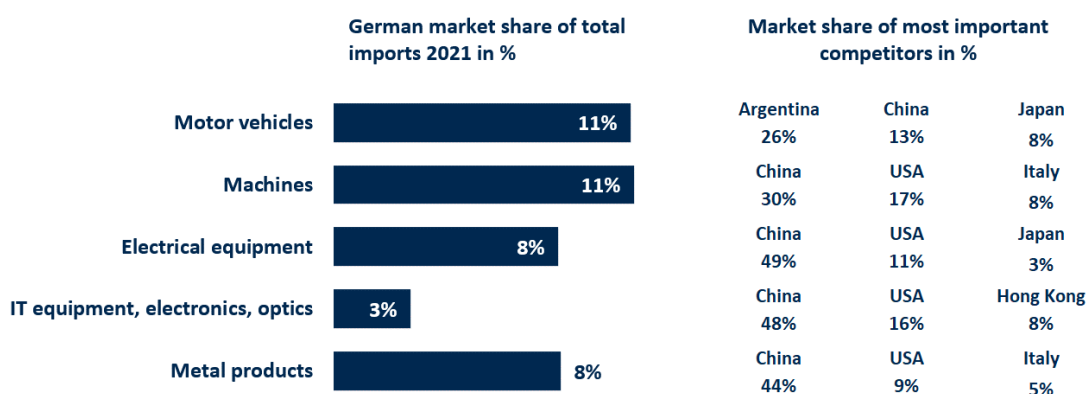


The picture for the **IT equipment, electronics and optics** product group is similar to that for electrical equipment. German exports in this product group have fallen by an average of 1 percent p.a. between 2012 and 2022, reaching a value of 700 million euro in 2022. This means that Germany only covers 3 percent of Brazil's import demand in this sector and lags far behind the market leaders China (48 %) and the USA (16 %). In a regional comparison, the average age in Brazil is the highest. Healthcare expenditure and medical demand will increase accordingly over the

coming years. This will create sales opportunities for German medical technology manufacturers. Brazil is also a growing sales market for semiconductors. Against the backdrop of digitalization and the increasing use of Industry 4.0 technologies in the manufacturing industry as well as the trend towards connected driving, demand for semiconductors is also rising in Brazil. Overall, Brazilian import demand for IT equipment, electronics and optics is expected to grow at an above-average rate by 2030.



German exports in the **metal products'** product group have stagnated over the past ten years at a value of around euro 400 million. With this trade value, Germany covers around 8 percent of Brazil's import demand for metal products, making it one of the main players in the highly competitive import market. The main player - as in many other areas - is China with a share of 44 percent. Sales opportunities for German companies could arise in the coming years in areas such as rail transportation. Brazil plans to double the share of rail transportation to 40 percent by 2035. To this end, the state regulatory agency has launched a funding program and approved a total investment volume of around 33 billion US dollars. We expect above-average growth in Brazilian import demand for metal products during the 2020s.



Source: Prognos World Trade Model, UN Comtrade

### Brazil as an investment location

Brazil has become less attractive to German investors in recent years. German foreign investment in Brazil currently stands at a good euro 18 billion (2021). In 2011, the figure was still almost euro 24 billion. With a share of 1.3 percent of total German investment abroad, Brazil currently plays a rather minor role. This negative development was mainly triggered by the political uncertainty in recent years, which only ended with the presidential elections at the end of 2022.

The election of President Lula da Silva could ensure greater stability and a corresponding rise in Brazil's attractiveness as an investment location. The country's large domestic market, diversified industry and wealth of raw materials offer further advantages. In addition, around one in five people are employed in industry – an indication that investors from the manufacturing sector can find comparatively well-trained specialists.

**German FDI in Brazil in  
billion euro**



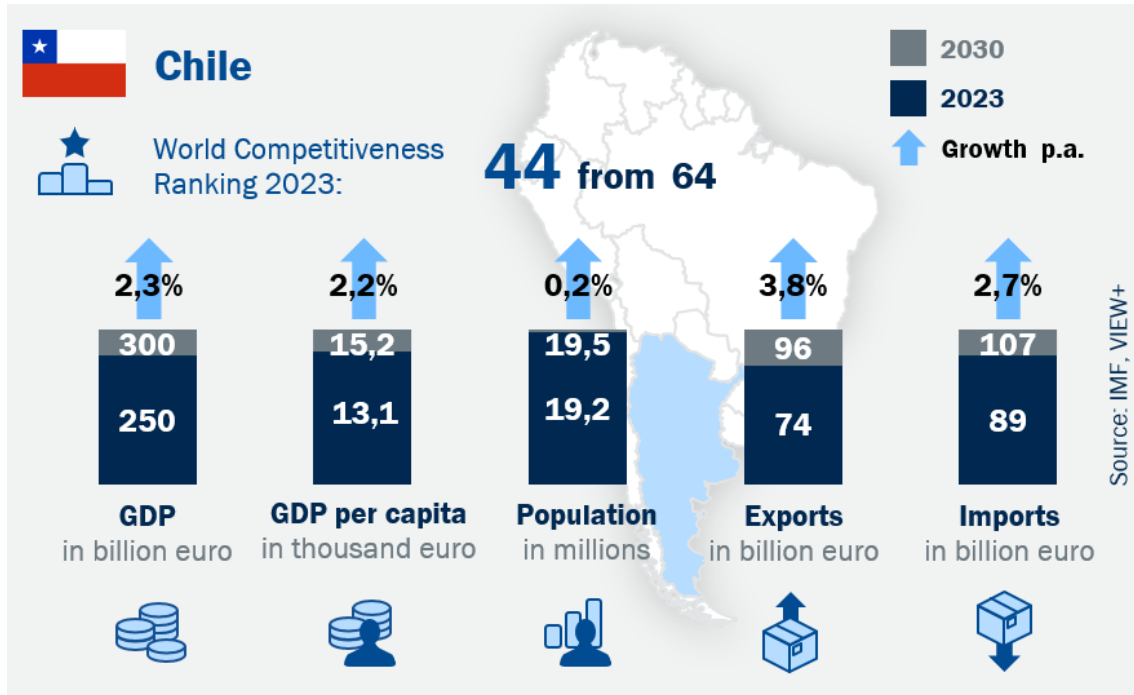
**Share of Brazil in total German FDI**  
**1,3%**

**Population percentage with higher level of education**  
**24%**

**Percentage of industrial employees in the workforce**  
**20%**

Source: Bundesbank, ILO





### Macroeconomic forecast

According to our forecasts, Chile’s economic output will grow by an average of 2.3 percent p.a. between 2023 and 2030. With a per capita income of around 13,100 euro in 2023, Chile is one of the richest countries in Latin America. In comparison, Brazil with a per capita income of 8,200 euro and Mexico with 8,900 euro rank significantly lower. As the population is barely increasing in the period under review, GDP per capita will also rise significantly, and will reach a value of about 15,200 euro in 2030.

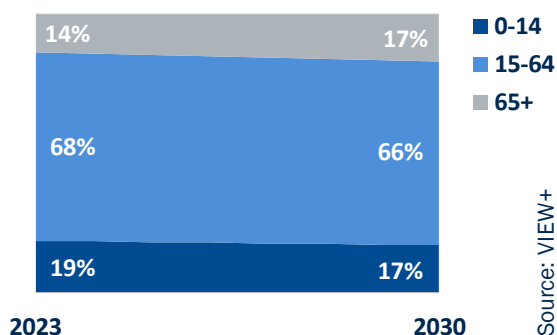
### Demographic development

Despite being larger than Germany, Chile has a significantly smaller population. The population of some 19 million will hardly change over the coming years, except for a rise in the average age. Currently, around 68 percent of the Chilean population is still of working age. Over the coming years, this figure and the percentage of under 15-year-olds will continue to fall due to the birth rate which kept falling over decades. As a result of this development, the percentage of over-65s is likely to increase from 14 percent at present to 17 percent in 2030. Compared to Germany, however, Chile will still have a young population in 2030. In Germany, for instance, the percentage of over-65s has already reached 22 percent in 2023.

**Population in millions**



**Age structure, share in %**



Source: VIEWS+

**Foreign trade framework**

The foreign trade framework conditions between Chile and the EU and Germany are currently still based on the Association Agreement concluded in 2002. There is, however, a significant improvement to be expected in mutual market access in the foreseeable future: At the end of 2022, Chile and the EU successfully concluded their negotiations on an advanced framework agreement. This abolishes customs duties for almost all products. The new agreement will also make it easier to provide services in the partner country. The agreement is currently undergoing legal review by both sides and then needs to be ratified. It is unclear how long this process will take and when the agreement can come into force. Chile is one of the most open economies in the world with numerous free trade agreements and has practically duty-free access to most of the markets worldwide.

**Institutional framework**

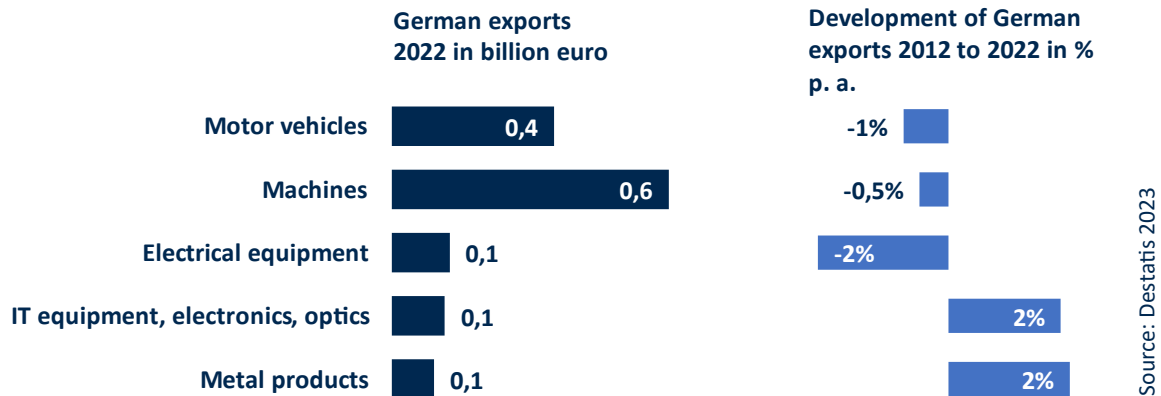
In a global comparison of institutional framework conditions, Chile ranks midfield. In a regional comparison with other Latin American countries, it occupies a top position. According to the World Competitiveness Ranking, the country's strengths include its efficient tax system and low national debt. However, regulatory uncertainties, the prevailing shortage of skilled workers and low spending on research and development are slowing down the country's growth.

**Political framework**

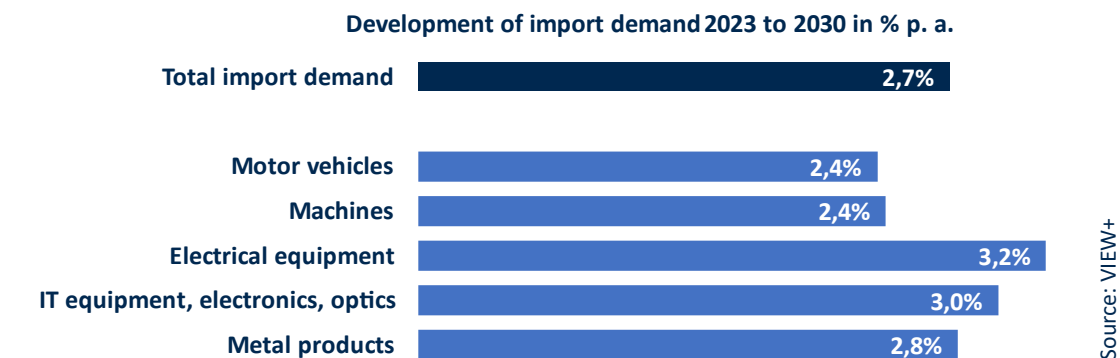
Chile's political framework has been undergoing change in recent years. Social unrest in 2019 triggered a constitutional reform process that is still underway. The first draft was rejected in a referendum at the end of 2022, which was a major setback for left-wing President Gabriel Boric, who has been in power since 2022. Work on drafting a new constitution began at the start of 2023. In terms of economic policy, the Chilean government is pursuing a socio-economic policy, i.e. an economic policy with a strong focus on social issues. Chilean society is seen as highly polarized, which makes constructive cooperation between the political camps rather difficult.

### Focus on export opportunities in Chile

In the ranking of German trading partners, Chile is in the lower midfield. In the period from 2012 to 2022, German exports to Chile rose by just around 0.8 percent p.a. - significantly less than the total German average (3.7 %). Most recently, in 2022, Chile accounted for around 0.2 percent of total German exports.



According to our forecast we expect the Chilean import demand to rise on average by around 2.7percent p.a. in the period from 2023 to 2030. Product areas such as electrical equipment, IT equipment, electronics and optics are set to develop at a relatively dynamic rate. In contrast, import demand for motor vehicles and machinery is likely to grow only at a below-average rate, as was the case in the past.



The central role that the product group **motor vehicles and motor vehicle parts** plays in German exports is also reflected in the bilateral trade relations between Germany and Chile. Although German exports have declined slightly since 2012, motor vehicles are still one of Germany’s top exports to Chile, with an export value of 400 million euro (2022). This means that Germany covers around

5 percent of Chilean import demand. In this market there is intense competition among suppliers from abroad, with no significant domestic players. The main players are China with a market share of 25 percent, Brazil (12 %) and USA (12 %). E-mobility still plays hardly any role in Chile. The reasons for this include the higher price of electric vehicles compared to combustion powered vehicles and the lack of a nationwide charging infrastructure. In the long term, the government is looking to significantly expand e-mobility: Chile is to become climate-neutral by 2050, and to this end, for example, all public transport and 40 percent of private vehicles are to be converted to electric power.



The product group **machines and machine parts** forms the central pillar in bilateral trade relations between Chile and Germany. More than one in five euro exported from Germany to Chile is attributable to this product group. Even though German exports have fallen by an average of 0.5 percent p.a. since 2012, with an export value of around 600 million euro, Germany still accounts for a good 7 percent of the Chilean import market. This makes Germany the third most important player on the market, nevertheless the gap to China (31 %) and the USA (20 %) is still substantial. Against the background of digitalization and decarbonization, Chile has an increased demand for machinery for the digital and sustainable transformation of the economy. The domestic mechanical engineering industry is small-scale and less-well developed. As a result, most of the machinery required is imported. This presents potential sales opportunities for German export companies in the mechanical engineering sector. The fact that Chile only has a relatively small industrial sector as purchasers of machinery and industrial equipment, may be seen as a limiting factor.



In the **electrical equipment** product group German exports have fallen significantly since 2012 by an average of 2 percent p.a. Germany last supplied products worth 100 million euro (2022) to Chile, a good 4 percent of Chile's total import demand. The main player by far is China (47 %). Chile has the ambitious goal of making its energy sector climate-neutral by 2050. To achieve this, the country is planning a massive expansion of solar and wind power plants to optimally utilize the available renewable resources. The success of this project depends largely on a stable electricity grid and reliable electricity storage systems. So far, however, there has been a lack of political investment to strengthen this important infrastructure.



In the product group **IT equipment, electronics, optics**, between 2012 and 2022 German exports rose by an average of 2 percent p.a. to 100 million euro. This means that Germany covers around 2 percent of Chile's import demand in this sector. The clear market leaders are China (46 %) and the USA (21 %). Chile has high per capita expenditure in the healthcare sector by regional standards, with some 90 percent of required medical technology being imported. The president has promised to upgrade state healthcare systems, which includes continued development of hospital infrastructure. When it comes to Industry 4.0, the entire region, including Chile, has some catching up to do. A development loan of 400 million US dollars has been provided to boost digitalization in the public sector.



The picture for the **metal products** product group is similar to that for IT equipment, electronics, optics in terms of development of German exports and Germany’s market share. China is the clear market leader with a very high market share of 61 percent. The Chilean president has announced plans to push ahead with the expansion of local public transport and the rail network. One major infrastructure project is the construction of a new railroad line between Santiago and Chilán, which will involve an investment of around 150 million euro.

	German market share of total imports 2021 in %	Market share of most important competitors in %		
Motor vehicles	5%	China 25%	Brazil 12%	USA 12%
Machines	7%	China 31%	USA 20%	Italy 7%
Electrical equipment	4%	China 47%	USA 9%	Spain 8%
IT equipment, electronics, optics	2%	China 46%	USA 21%	Vietnam 11%
Metal products	5%	China 61%	USA 6%	Brazil 4%

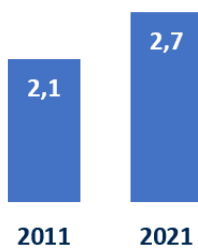
Source: Prognos World Trade Model, UN Comtrade

### Chile as an investment location

Chile currently accounts for around 0.2 percent of total German investment abroad. Most recently, the volume of German foreign investment in Chile amounted to almost 3 billion euros (2021), a 33 percent rise compared to 2011. This means that foreign investment in Chile has only developed at a below-average rate compared to total German investment abroad. One negative factor is the ongoing political uncertainty.

Chile offers many positive location factors, such as market openness, a stable legal framework and macroeconomic stability. At almost 23 percent, the percentage of industrial employees in the Chilean workforce is relatively high - another factor that makes Chile attractive as a potential production location.

German FDI in Chile in billion euro



Share of Chile in total German FDI

0,2%

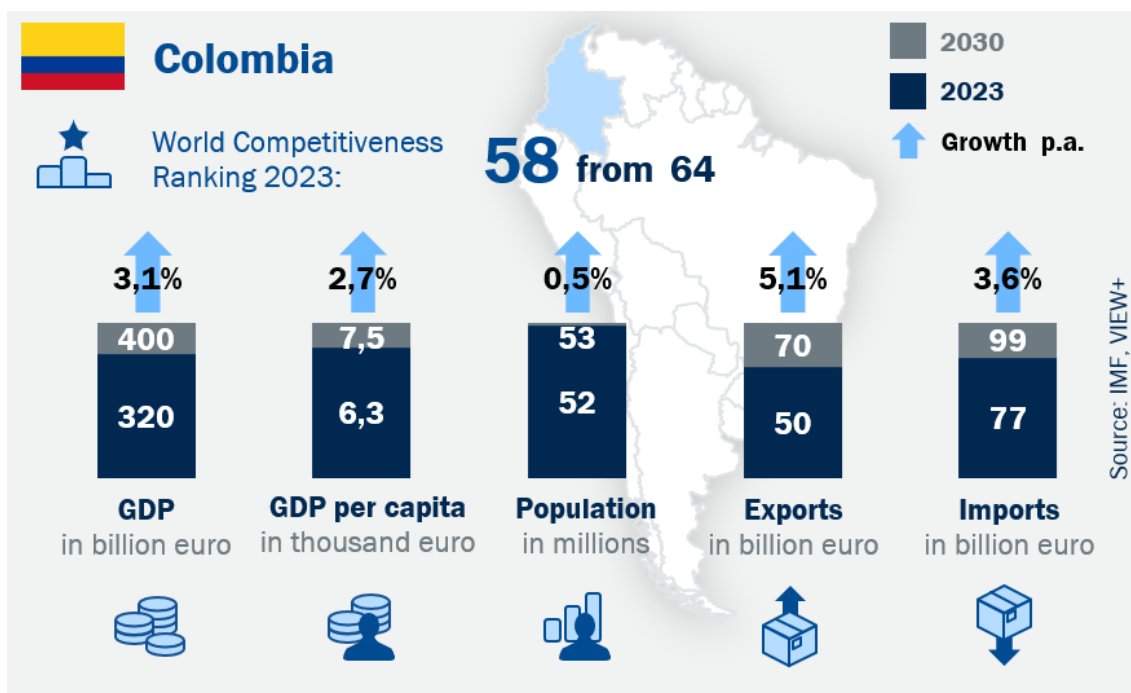
Population percentage with higher level of education

25%

Percentage of industrial employees in the workforce

23%

Source: Bundesbank, ILO

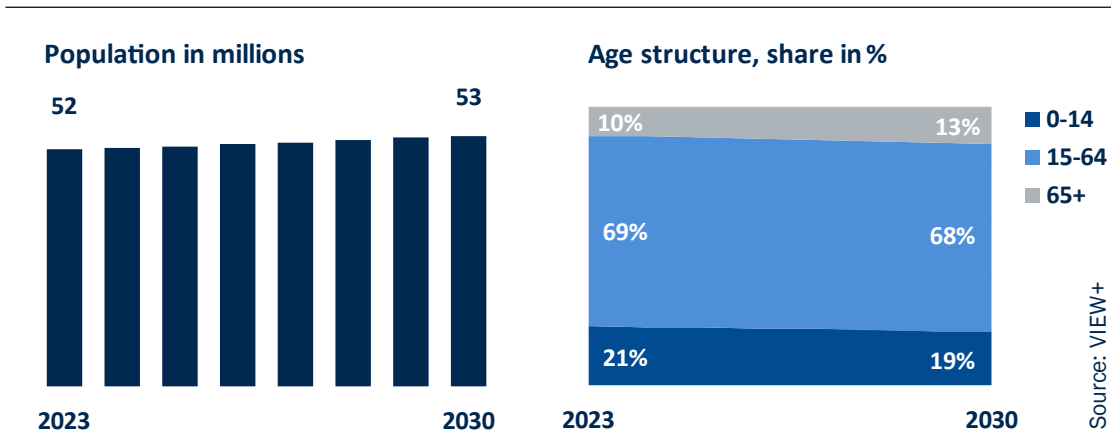


### Macroeconomic forecast

With a gross domestic product in 2023 of around 320 billion euro, Colombia is a medium-sized economy in a global comparison, and, after Brazil and Argentina, the third largest economy on the South American continent. According to our forecast, we expect Colombia's GDP to grow by an average of 3.1 percent p.a. between 2023 and 2030, making it one of the fastest-growing countries in Latin America. We also anticipate a significant increase in gross domestic product per capita in the period under review, from around 6,300 euro in 2023 to around 7,500 euro in 2030. In a regional comparison with other Latin American countries, Colombia occupies a rather low position. In Argentina the GDP per capita is currently around 12,600 euro, in Brazil it is around 8,200 euro.

### Demographic development

Colombia's population today is around 52 million. This makes Colombia the most populous country in South America after Brazil. The population will continue to grow slightly until 2030, meaning that Colombia has a young population structure overall. Nevertheless, a slight ageing process will set in between 2023 and 2030: while the proportion of over 65's will increase by 3 percentage points, the number of people of working age will fall by around one percentage point.



### Foreign trade framework

The foreign trade relationship between Colombia and Germany is based on the rules of the EU-Colombia-Ecuador-Peru Trade Agreement that has been in force since 2013. The comprehensive trade agreement includes substantial duty-free quotas, partial or full tariff liberalizations, the removal of non-tariff trade barriers at regulatory or technical level as well as the introduction of trade facilitating measures such as simplified customs procedures. Cross-border trade between Germany and Colombia is therefore easier than with most other Latin America countries. Colombia also has several other free trade agreements, including those with the USA and EFTA countries. Nevertheless, exporting companies say that there are still major non-tariff trade barriers in the form of bureaucratic hurdles that hinder trade.

### Institutional framework

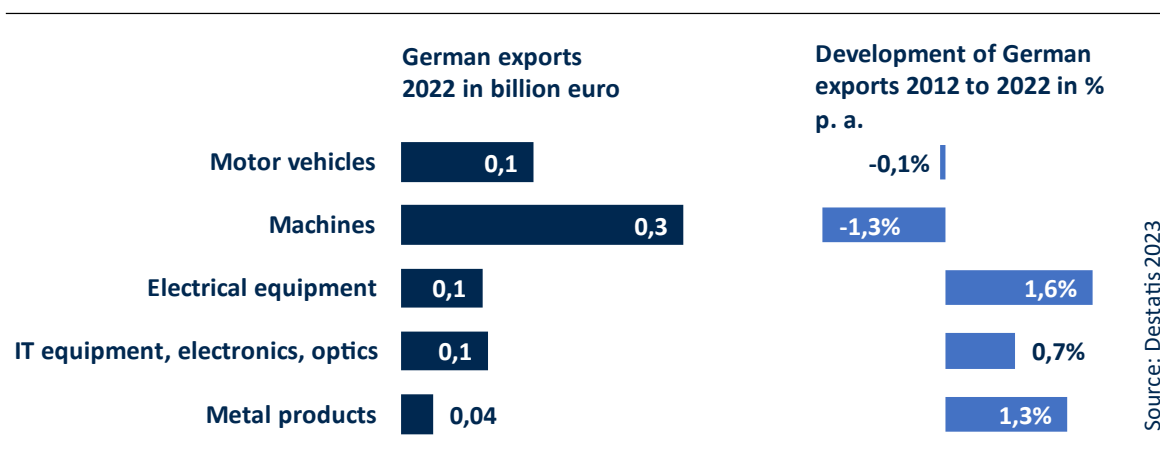
Colombia’s institutional framework conditions are rated as good compared to other Latin American countries. This is evident, for instance, in the World Competitiveness Ranking. In 2023 Colombia ranked 58<sup>th</sup>, making it the fourth most competitive country in Latin America. Important location advantages include its favorable geographical location with access to the Pacific and Atlantic oceans, tax incentives for investments in future-oriented fields such as renewable energies and its large domestic market. In addition, Colombia is a potential hub for facilitating access to other markets in Latin America. Widespread corruption and an inefficient bureaucracy, the high level of income inequality and high transportation costs are seen as factors that hamper the country’s economic development.

### Political framework

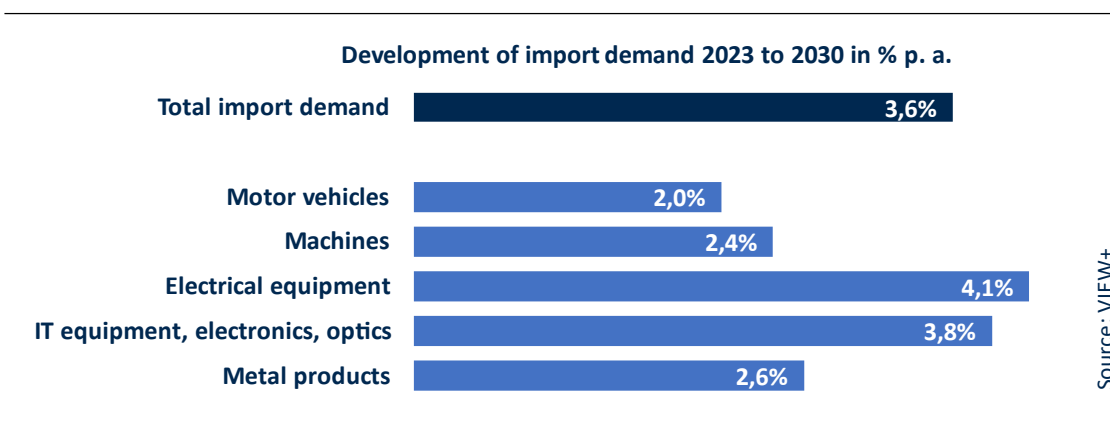
According to the country’s constitution, Colombia is a democratic republic which gives the president a powerful position. The political framework has long been marked by instability. Corruption, police violence and social inequality increased during the term of office of the right-wing conservative President Iván Duque (2018 bis 2022). Since 2022, Colombia has been led by left-wing Prime Minister Gustavo Petro. His leadership has been hampered by the break-up of his governing coalition and accusations of illegal campaign financing. Against this backdrop, major economic reforms are not expected in the foreseeable future.

### Focus on export opportunities in Colombia

To date, Colombia is not among Germany’s most important trading partners. Between 2012 and 2022 German exports to Colombia rose by 1.9 percent p.a. which is less than German exports as a whole (3.7 % p. a.). In 2022, exports to Colombia amounted to a goods value of around 2 billion euro. This means that Colombia only accounts for around 0.1 percent of total German exports.



According to our forecast, we expect Colombia’s import demand to increase significantly in the period from 2023 to 2030. It should rise on average by 3.6 percent p.a. We expect there to be a relatively dynamic rise in Colombia’s demand for electrical equipment, IT products, electronics, and optics. However, as in the past, imports of motor vehicles and machines, are likely to grow only at a below-average rate.



German exports of **motor vehicles and motor vehicle parts** to Colombia have remained stable in recent years at around 150 million euro (2022). This means that Germany accounts for 4 percent of Colombia’s import demand. E-mobility has been promoted by the state in Colombia since 2018, for example, by capping vehicle tax for electric vehicles and by only applying certain traffic restrictions to



non-electric vehicles. This has led to strong growth in the market for electric vehicles in recent years. The number of registered electric cars on Colombia's roads is set to rise to 600,000 by 2023.



Despite a downward trend, **machines and machine parts** are among the most important traded goods in the bilateral trade relations between Colombia and Germany. Between 2012 and 2022 German exports in this sector fell on average by 1.3 percent p.a. With a trade volume of around 320 million euro, Germany covers 7 percent of Colombia's import demand. This makes Germany one of the five key players in this market, well behind China (29 %) and the USA (23 %). Sales opportunities may arise for German machine manufacturers in the agricultural sector which is of major importance to Colombia. The government is planning an agricultural reform that will include a significant increase in state funding. It also aims to expand domestic production capacities for sustainable fertilizers in order to make the country less dependent on imports and consequently reduce production costs in the agricultural sector. Other important sectors of the manufacturing industry in Colombia are the chemicals industry and the food industry.



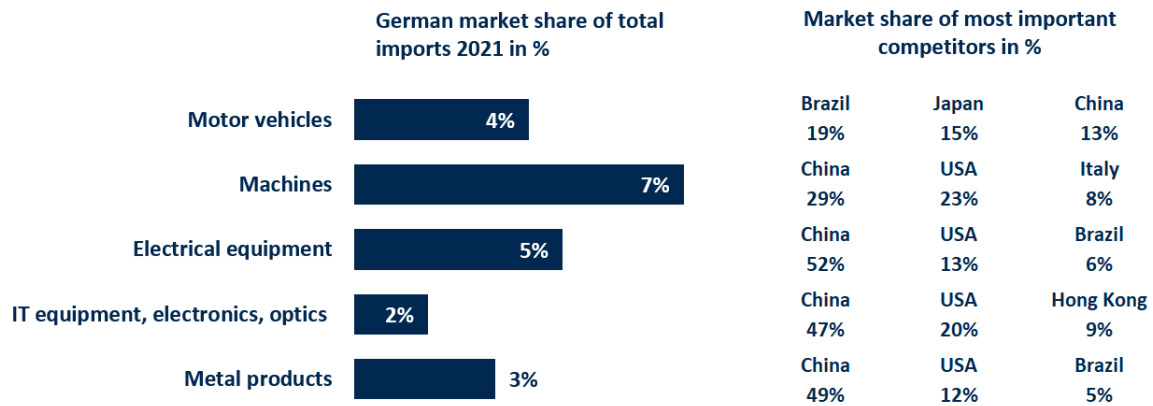
German exports of **electrical equipment** rose by an average of 1.6 percent p.a. between 2012 and 2022. Nevertheless, with a trade volume of around 90 million euro, this product group plays a rather minor role in German-Colombian foreign trade. Colombia's import market is largely in Chinese hands with a market share of 52 percent. In terms of renewable energies, Colombia is already quite well positioned. A large proportion of its electricity demand is covered by hydropower. There could, however, be sales opportunities for German manufacturers of electrical equipment in the infrastructure sector, among others. Energy demand is likely to continue to rise over the coming years. To ensure that the power grid can cope with this development, the government is planning to upgrade the power network at a cost of around 4 billion US dollars.



The product group **IT equipment, electronics and optics** plays a minor role in German-Colombian foreign trade. In the period between 2012 and 2022 the trade volume rose by an average of 0.7 percent p.a. to around 100 million euro. Germany therefore only plays a negligible role in Colombia's import market. As in many other industrial sectors in Colombia the main player is China — accounting for a share of 47 percent. The Colombian market offers potential sales opportunities in medical technology. Demand for this technology is likely to rise in the future due to the spread of chronic diseases, migration from Venezuela and the urgent need for modernization. This can only be partially met by Colombian companies, as they primarily produce consumables and low-tech products. Concrete investment projects include among others the construction of a hospital in Bogotá for the treatment of chronic diseases, for almost 300 million US dollars and the construction of a hospital in Santa Clara for over 130 million US dollars.



German exports in the product group **metal products** were up on average by 1.3 percent p.a. between 2012 and 2022, nevertheless they remain at a low level with a goods value of 37 million euro. Accounting for a 49 percent share, China is currently the clear winner in the Colombian import market. For German companies, there are attractive sales opportunities to be found in Colombia as suppliers for major infrastructure projects. The government has been investing significantly in the upgrading of transport routes in recent years. The fifth-generation infrastructure program of 2021 has a financial framework of 14 billion US dollars and involves roads, rail, waterways, and airports. The railroad line between La Dorada and Chiriguaná is to be modernized for over 330 million US dollars, for instance.



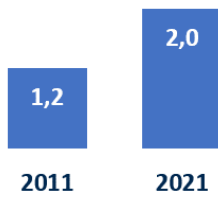
Source: Prognos World Trade Model, UN Comtrade

### Colombia as an investment location

Foreign investment by German companies in Colombia has increased significantly over recent years. In the period between 2011 and 2021 investment figures rose by 73 percent to 2 billion euro. This figure, however, only accounts for 0.1 percent (2021) of total German investment abroad. As the third largest market in Latin America, Colombia is a potentially attractive investment location. Nevertheless, a number of relevant factors have recently deteriorated, making the current investment climate somewhat subdued.

There has been political instability since the change of presidency in 2022 and the dissolution of the coalition shortly afterwards in April 2023. Most recently, increased state intervention in various areas has had a destabilizing effect on the national economy. Another weak point is the high level of informality in the labor market. Advantages of Colombia as an investment location, on the other hand, include the above-average level of schooling in a regional comparison – around 30 percent of the population have a higher level of education. Moreover, since 2013, the free trade agreement between the EU and Colombia has facilitated German investment in Colombia, especially in the specified free trade zones. The legal framework is also considered to be stable.

**German FDI in Colombia  
in billion euro**



**Share of Colombia in total German FDI**

**0,1%**

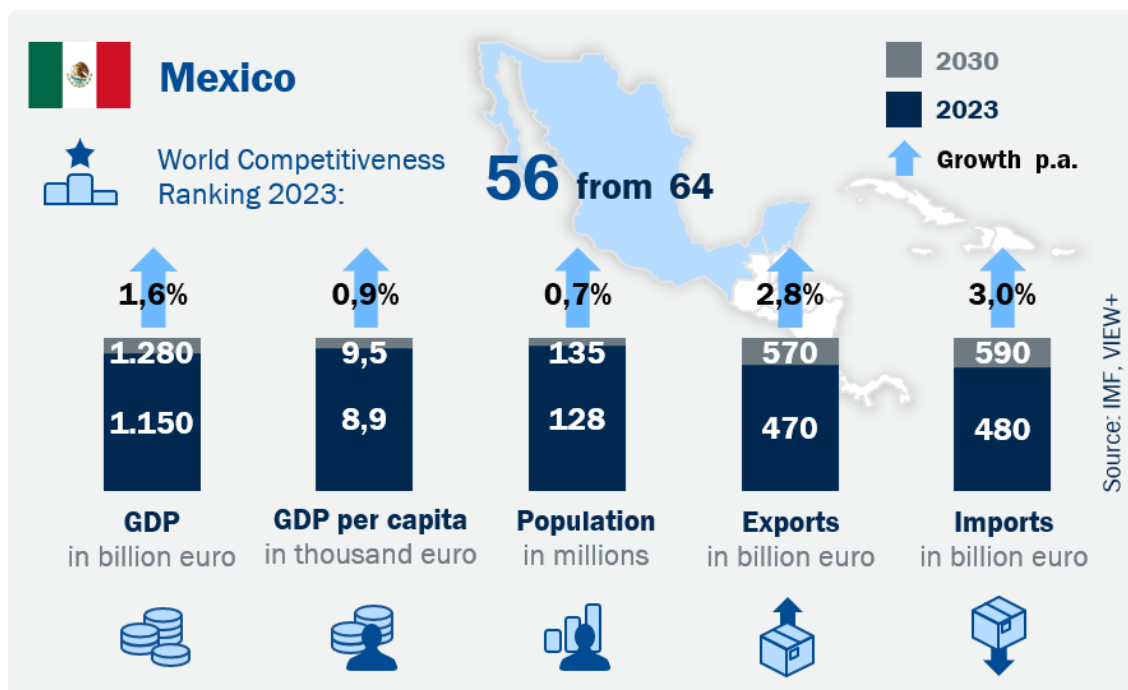
**Population percentage with higher level of education**

**30%**

**Percentage of industrial employees in the workforce**

**20%**

Source: Bundesbank, ILO

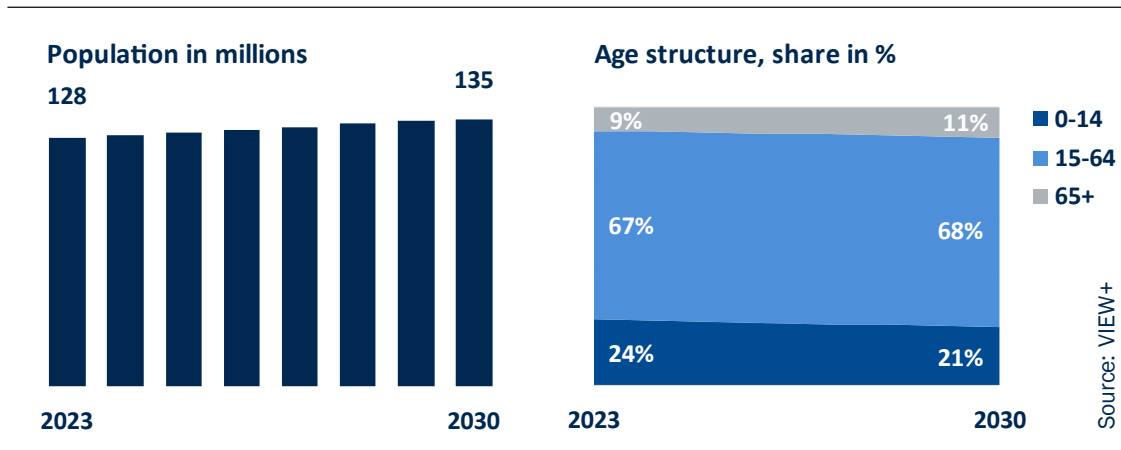


### Macroeconomic forecast

With a gross domestic product of 1,150 billion euro, Mexico is the second largest economy in Latin America, after Brazil. This puts Mexico almost at the same size as the Spanish economy. From 2023 onwards, Mexico's gross domestic product (GDP) is expected to grow only moderately, and with an average growth rate of 1.6 percent p.a., reach 1,280 billion euro in 2030. We expect GDP per capita to grow at a rather slower rate of around 0.9 percent p.a. The most recent per capita income was around 8,900 euro (2022) and is expected to reach 9,500 euro by 2030. This means that Mexico has a level of prosperity similar to Brazil. In comparison, Colombia has a slightly lower per capita income, while Chile and Argentina have significantly higher per capita incomes than Mexico.

### Demographic development

With a population of around 128 million (2023), Mexico is currently the 10th most populous country in the world. By 2030, the population is expected to grow by an average of 0.7 percent p.a. to around 135 million people. At present, the Mexican population is still comparatively young on average. Around two thirds of Mexicans are of working age. Over the coming years, the average age will increase here only slightly, which means that companies in the country will have an abundant supply of labor.



### Foreign trade framework

The foreign trade relationship between Mexico and Germany is based on the free trade agreement between the EU and Mexico that came into force in the year 2000. As a result, Mexico does not levy customs duties on industrial goods from the EU, with exceptions in the agricultural sector. Both parties also completed negotiations on a modernized agreement in 2020. This agreement has, however, yet to be ratified, meaning that the provisions of the old free trade agreement still apply. The modernized agreement would significantly simplify foreign trade between Germany and Mexico, particularly in the areas of food, services and procurement markets. Beyond this, Mexico is a very open economy that is closely intertwined with numerous other countries. The country has many free trade agreements with over 50 nations, including the North American Free Trade Agreement (USMCA) between Mexico, the USA and Canada.

### Institutional framework

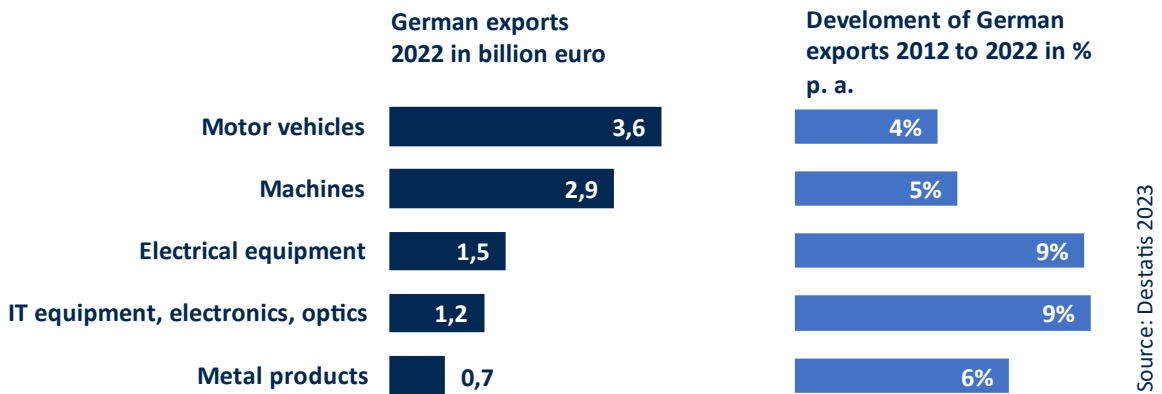
In terms of institutional framework conditions, Mexico fares relatively well compared to many Latin American countries. In a global comparison, however, Mexico only ranks in the lower midfield. This is made evident by its position in the World Competitiveness Ranking where it ranked 56<sup>th</sup> in 2023, making it the third most competitive country among all Latin American countries, behind Peru (rank 55) and Chile (rank 44). Important location advantages include a well-educated workforce, fairly low wages, the strong industrial base and geographical proximity to the USA. Organized crime and widespread corruption, on the other hand, are seen as factors that hamper the country’s economic development.

### Political framework

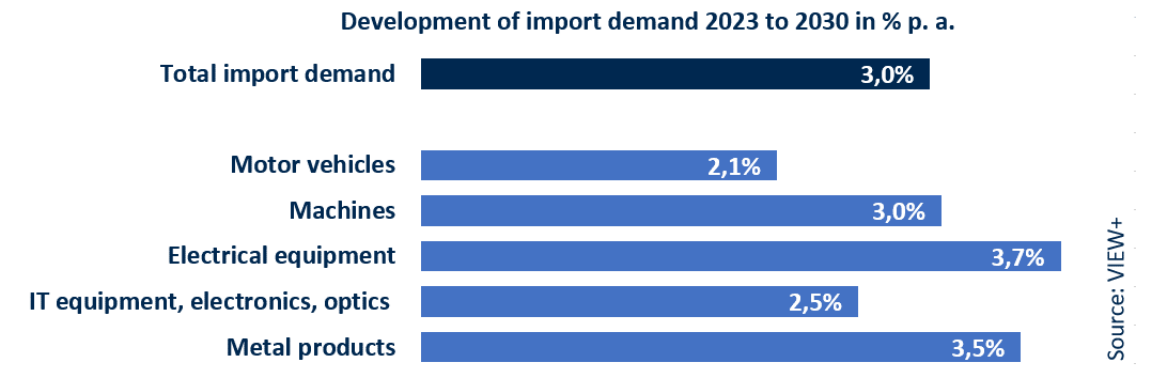
Since 2018, Mexico has been governed by President Andrés Manuel López Obrador from the left-wing Morena party. Despite its lack of success in economic development and internal security, the party has a good chance of being re-elected: it has a stable parliamentary majority, the opposition is divided and the incumbent president, who is not allowed to run again according to the constitution, enjoys high approval ratings among the population. With regard to the political environment, widespread corruption, the tense security situation and frequent human rights violations pose major challenges.

**Focus on export opportunities in Mexico**

The USA is by far Mexico’s most important trading partner: the USA is the destination for around 80 percent of Mexican exports. Germany is Mexico’s most important trading partner in the European Union. Over the past ten years, the bilateral trade volume between the two countries increased significantly and reached a value of over 20 billion euro in 2022, making Mexico Germany’s main trading partner in Latin America.



In the coming years up to 2030, Mexico’s import demand is likely to grow significantly. We anticipate a growth of 3 percent p.a. on average. The demand for electrical equipment and metal products is expected to increase at an above-average rate.



The product group **motor vehicles and motor vehicle parts** not only forms the backbone of German exports and the Mexican industry, it also the prime pillar in bilateral trade relations. More than one in five euro exported to Mexico is attributable to this product group. In the period from 2012 to 2022, German exports rose significantly by an average of 4 percent p.a. and most recently reached a

value of 3.6 billion euro. This means that Germany accounts for around 8 percent of Mexican import demand and is one of the main players in this market. As in many other areas, the USA is the clear market leader (50 %). The Mexican automotive industry has benefited from the "nearshoring" trend.

Companies with customers in North America want to shorten supply chains and favor suppliers who are as close as possible. As a result, more and more tier 1 and tier 2 suppliers are moving to Mexico. The trade agreement with the USA and Canada (USMCA) is also boosting the Mexican automotive sector and has led to an increase in domestic vertical integration. According to the USMCA statutes, the local value-added share of a vehicle must be 75 percent in order for it to be traded duty-free within the free trade zone. The trend towards E-vehicles is also playing a key role in Mexico. Domestic manufacturers are currently converting their production accordingly. Purchase incentives and the charging infrastructure needed are still scarce and there are as yet no government programs planned to change this situation.



The product group **machines and machine parts** is one of the most important product groups in bilateral trade between Mexico and Germany. In the period from 2012 to 2022, German exports in this sector rose by an average of 5 percent p.a. and last reached a value of 2.9 billion euro (2022). Germany thus covers around 7 percent of Mexico's import demand and is one of the main players on the import market, behind the USA (54 %) and China (16 %). Developments in the Mexican mechanical engineering sector are dominated by the "nearshoring" of US companies and the ramping up of E-mobility. Moreover, the general expansion of the manufacturing industry is creating stronger demand for machines and machine parts. These trends open sales opportunities for German companies, as local mechanical engineering production plays a rather negligible role and is primarily limited to the assembly of imported machine parts, whereas the more complex machines are imported. Industry 4.0 has also gained importance in Mexico over recent years and opens sales opportunities for German companies that are already well represented in the field of automation technology in Mexico.



The product group **electrical equipment** has developed at a very dynamic rate over recent years. In the period from 2012 to 2022 German exports were up in this sector by an average of 9 percent p.a. and most recently reached an export value of 1.5 billion euro. This product group thus accounts for nearly one in ten euros of Mexican-German foreign trade. Competition on the import market for this product group is similar to motor vehicles or machines. The USA is the clear market leader with a share of 56 percent followed by China (18 %) and Germany (5 %). To date, the potential for renewable energies in Mexico has only been tapped to a limited extent. This is set to change with the Mexican government's "Plan Sonora" announced at the beginning of 2023. With an envisaged investment volume of 48 billion US dollars by 2030, both photovoltaic plants as well as wind farms are to be built on a large scale, and the mining of lithium reserves is to be promoted. There are, moreover, plans to build a power link from the Puerto Peñasco solar park to the state of Baja California. An extensive range of sales opportunities could open up in these fields for German manufacturers of electrical equipment.



The **IT equipment, electronics and optics** product group has also seen strong growth in recent years. Between 2012 and 2022, the sector grew by an average of 9 percent p.a. and most recently reached a value of 1.2 billion euro (2022). Against this figure, in the overall very large Mexican import market, Germany accounts for just 2 percent of import demand. The clear market leaders in this group are again the USA with a share of 50 percent China (27 %) and Hong Kong (5 %). Sales opportunities for German manufacturers in this product group arise primarily in the medical technology sector. Although Mexico is the largest manufacturer of medical technology in Latin America, the region as a whole is more a sales market than a production location. Domestic manufacturers mainly focus on less sophisticated equipment and consumables. The demand for high-quality medical equipment is driven by health tourism and comes primarily from private hospitals.



The product group **metal products** has so far played a minor role in Mexican-German foreign trade relations. Although German exports rose by an average of 6 percent p.a. in the period from 2012 to 2022, the most recent value of goods traded is still only around 700 million euro (2022). This means that Germany accounts for a 5 percent share of Mexican import demand in this area. Competition in this product group is similar to that in the other aforementioned groups. In the construction industry, Mexico has a lot of catching up to do, both in housing and in transport and general infrastructure. High building material costs and low public investment are slowing down growth. Nevertheless, infrastructure projects offer sales opportunities for German companies in the metal products sector. For instance, in 2022 the Mexican government announced investments worth almost 39 billion US dollars in road and rail infrastructure.

	German market share of total imports 2021 in %	Market share of most important competitors in %		
Motor vehicles	8%	USA 50%	China 11%	Japan 7%
Machines	7%	USA 54%	China 16%	Japan 4%
Electrical equipment	5%	USA 56%	China 18%	Poland 3%
IT equipment, electronics, optics	2%	USA 50%	China 27%	Hong Kong 5%
Metal products	5%	USA 59%	China 17%	South Korea 4%

Source: Prognos World Trade Model, UN Comtrade

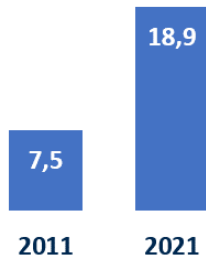
### Mexico as an investment location

German direct investment in Mexico grew by more than 150 percent over the past 10 years to almost 19 billion euro in 2021 – more than twice as fast as German foreign investment overall. As a result, Mexico's share of total German foreign investment has risen to 1.3 percent. In Latin America, Mexico is therefore one of the most important destinations for German direct investment, on a par with Brazil, for example.



This upturn is primarily due to the overall increase in Mexico`s importance as a business location. Strong industry, especially in the automotive and electrical sectors, is driving economic growth and making Mexico an interesting destination for investment. Should the new, already negotiated, free trade agreement between Mexico and the EU come into force, the attractiveness of the location will increase even further. Its weaknesses include the rather low level of education and the lack of skilled labor and specialists. The government`s economic policy is also seen as a risk for foreign investors. For example, there is a lack of significant investment in the national infrastructure, this being needed to meet the country`s economic upturn. Moreover, there is also limited legal certainty and a high level of corruption.

**German FDI in Mexico  
 in billion euro**



**Share of Mexico in total German FDI**

**1,3%**

**Population percentage with higher level of education**

**20%**

**Percentage of industrial employees in the workforce**

**26%**

Source: Bundesbank, ILO

## 4 Conclusion

New potential markets can boost growth and diversification of Bavarian companies' foreign business.

Despite the somewhat subdued environment for foreign trade, Bavaria has good prospects of remaining a successful industrial location with a strong export sector, also in the future. Foreign business has, nevertheless, become noticeably more difficult in many traditionally important sales markets.

The study shows that there are promising alternatives beyond the established sales markets, which have been relatively untapped by Bavarian companies so far. Many of these potential markets are undergoing dynamic growth and a catching up process, which means that their demand for imports can be expected to rise sharply.

**Potential markets in Latin America** are often known for their rather unsettled political environment and sub-standard institutional framework conditions. The plus points include their relatively high level of prosperity and their great wealth of natural resources. In terms of foreign trade openness, there are substantial differences. Comprehensive free trade agreements are in force with some Latin American countries, while tariff and non-tariff trade barriers slow down trade with others.

Compared to the well-established Bavarian sales markets, foreign business in the potential markets presented in this study is likely to be on a smaller scale and more difficult. This is due to the fact that the economies are generally smaller and offer a less open access to their markets. What is more, intense competition is frequently already in place. China in particular has very high market shares in almost all of the potential markets under review, and there is a strong presence of U.S. companies in Latin America as well.

Nevertheless, it could be worthwhile for Bavarian companies to take a closer look at countries outside their existing sales markets: the currently small Bavarian and German market shares and the above-average growth momentum in these countries point to significant and as yet barely exploited growth potential for their international business.

## Contact/Imprint

---

### Volker Leinweber

Managing Director  
Head of the Economics and Foreign Trade Department

Phone +49 89 551 78-133  
volker.leinweber@vbw-bayern.de  
www.vbw.com

### Lisa Zölch

Economics and Foreign Trade Department

Phone +49 89 551 78-258  
lisa.zoelch@vbw-bayern.de  
www.vbw.com

### Imprint

All information in this publication refers to all genders without any intention to discriminate against any gender.

The full version of the study with fact sheets on eight additional potential sales markets in Asia is available in German on our website.

#### Publisher

**vbw**  
Vereinigung der Bayerischen Wirtschaft e. V.  
(Bavarian Industry Association)

Max-Joseph-Strasse 5  
80333 Munich

[www.vbw-bayern.de](http://www.vbw-bayern.de)

© vbw November 2023

#### Other party involved

Prognos AG  
Johann Weiß

+49 89 95 41 586-705  
[johann.weiss@prognos.com](mailto:johann.weiss@prognos.com)