REPORT

Latin America TRENDS 2024

OPPORTUNITAS ADVISORS

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INTRODUCTION

In 2024, amid a rapidly changing environment, Latin America faces a year marked by significant challenges and opportunities. The region is at a crossroads marked by dynamic patterns that could redefine both its economic dynamics and its position on the global stage.

This report lays out a multidimensional analysis of the main trends shaping the immediate future in Latin America and affecting the regulatory, political, and reputational risks that companies face. Through an approach that combines political, economic, and social analysis, we provide leaders and decision-makers with essential tools to navigate this changing environment through expert assessments and insights.

2024 TRENDS

1
Increased political polarization and social conflict
2
Greater pressures to implement redistributive and interventionist policies
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Progressive democratic deconsolidation and growth of the influence of the illegal economy
4
Increased influence of the global information ecosystem on the public's behaviors and perceptions
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Rise in the migratory phenomena in the region
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Greater impact of climate change on businesses, regulations, and corporate reputation
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Increased impact of resource nationalism

1 Increased political polarization and social conflict

Public opinion on politics in Latin America have become more radicalized in response to strategies employed by governments, political parties, and social groups.

Polarization creates an incentive structure that reduces the willingness of politicians, and other actors to make concessions perceived as favorable to the "other side." This significantly complicates the environment in which businesses operate, and often places the private sector in the line of fire. Additionally, polarization fuels growing social conflict in the region.

Factors such as increased poverty and inequality, slow economic recovery , and global inflation, particularly in the food sector, have heightened people's predisposition to protest in various countries in the region. This dynamic contributes to political instability and disruption of economic activities in several countries.

IMPACT ON THE PRIVATE SECTOR

Often, in highly polarized environments, the private sector, and specific industries or companies, may become targets of criticism or attacks by political actors or government entities. These attacks often aim to justify certain policies or reinforce specific narratives for those in power.

Within this polarization framework, companies face an increased risk of reputational damage to their brand and image, which can lead to them being perceived as politicized or partisan entities, directly affecting their operations. This polarized discourse can lead to anti-business policies that hinder the private sector's operation in the country. Additionally, increased social conflict directly impact operational costs for companies, limiting their ability to operate, produce, and market their products or services. Furthermore, the increasing political instability, derived from these tensions, undermines the investment climate, generating uncertainty and potential losses for the private sector.

2 Greater pressures to implement redistributive and interventionist policies

The increase in poverty and inequality levels as a consequence of the pandemic and the slow post-pandemic recovery has exerted greater pressure on governments in Latin America to implement rapid-impact policies addressing these issues.

The global food crisis along with inflationary pressures, will push governments to implement interventionist measures with redistributive and populist characteristics. This is already evident in proposed fiscal reforms in countries like Colombia, Chile, and Brazil.

Similarly, some countries in the region have resorted to increased state intervention in private activity through price regulations for public services such as electricity and basic goods, and even some nationalizations.

IMPACT ON THE PRIVATE SECTOR

Companies can expect an increase in their tax burden and greater economic impact caused by redistributive measures. Such policies may result in higher labor costs due to salary increases and labor and social security reforms.

Moreover, the interventionist environment may deter both foreign and local direct investment as investors fear higher risks and a possible decrease in their investment returns.

3 Progressive democratic deconsolidation and growth of the influence of the illegal economy

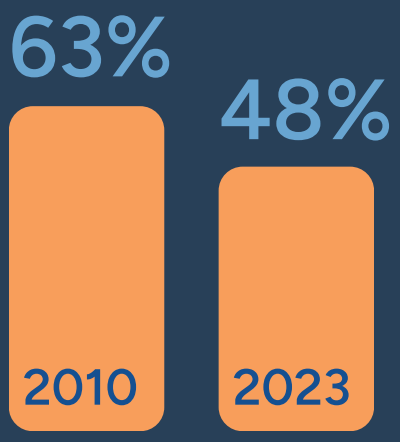
The 2022 Democracy Index from The Economist indicated a decline in the quality of democracy in Latin America. The region has experienced an increase in authoritarianism, which could create an ideal environment for conflict and instability.

The deterioration of democratic quality has far-reaching impacts across the political spectrum. There are circumstantial effects in the immediate political dynamics which manifests themselves in different ways such as the potential increase in polarization driven by social media, social fragmentation, erosion of the technical capacity of public officials, increased corruption, greater involvement of the armed forces in government and politics, expansion of "pseudo-legal" mechanisms, and the growth of the illegal economy, among others. Additionally, there are structural effects related to democratic culture and the weakening of the nation-state. These structural effects are reflected in the 2023 Latinobarómetro study.

In this study, only 48% of respondents expressed support for democracy in the region, representing a 15-point decrease compared to the 63% recorded in 2010.

This trend is due to increasing dissatisfaction with democracy's ability to address the population's demands, especially among young people.

Support for democracy in the region



Source: Latinobarómetro Report 2023

Illegal mining, drug and human trafficking, and smuggling have had a greater influence on economic and political affairs. This influence could translate into tangible public policies which favor these groups at the expense of formal economic actors and, in extreme cases, the weakening of the state. This has led to the loss of territorial control to these agents and the emergence of new de facto political-territorial organizations. Additionally, a rise in criminal activity has led to increased regional violence. Due to the global information ecosystem and migratory phenomena, new violence and criminal practices have been introduced into our countries. We predict this trend will be a crucial issue for political leaders in 2024.

IMPACT ON THE PRIVATE SECTOR

Progressive democratic deconsolidation, characterized by the gradual weakening of democratic institutions, can create an environment of regulatory instability with abrupt and unpredictable changes for companies. This context may increase the risk of arbitrary regulations or even expropriations and nationalizations without fair compensation. Moreover, the deterioration of the rule of law can complicate the resolution of commercial disputes due to less independent and more politically influenced judicial systems. Restrictions on economic freedoms such as exchange controls and trade barriers may arise without institutional checks and balances.

The state's inability to provide essential services, administer justice, uphold the rule of law, and guarantee territorial security implies that businesses may face an unstable and unpredictable operating environment. The rise of the economic and political influence of the illegal economy poses a challenge to the private sector. Companies may face extortion or coercion from illegal groups which, in turn, would drive up operational costs and threaten their assets and personnel. This situation is exacerbated by the introduction of products and services into the market by the illegal economy without regulatory compliance, creating unfair competition. Lastly, the presence and operations of the illegal economy can cause disruptions in supply chains, either through route control, sabotage, or blockades.

4 Increased influence of the global information ecosystem on the public's behaviors and perceptions

The 24-hour social media news cycle, with millions of people simultaneously connected and generating content, mostly led by informal media, facilitates the spread of specific narratives and opinions with political, economic, and social purposes.

Reputational risks increase as information is monetized, decentralized, and disseminated at a large scale. Disinformation and the spread of fake news also undermine the trust of audiences in institutions and democracies.

IMPACT ON THE PRIVATE SECTOR

The global information ecosystem, powered by social media and the massive generation of content by millions of users, facilitates the rapid spread of narratives and opinions with specific agendas, which can shape or alter public perception of companies, products, or services and promote behavioral changes or actions that affect companies.

Reputational risk is amplified in this hyperconnected environment when information is disseminated in a decentralized manner. Criticism or negative campaigns can go viral quickly and by nature, they are particularly difficult to track and counteract.

5 Rise in the migratory phenomena in the region

Migration in Latin America is likely to experience a significant increase in 2024, driven by a combination of economic, political, and social factors.

Economic instability in certain regions, exacerbated by the slow post-pandemic recovery, could act as a catalyst for more individuals seeking opportunities abroad. Political dynamics such as authoritarian regimes and internal conflicts in some countries, push populations to seek more stable and secure environments.

This migration increase will also be influenced by social and environmental changes, including the impact of climate change on agriculture and natural resources, causing migratory displacements in rural and vulnerable areas.

IMPACT ON THE PRIVATE SECTOR

Migration can reshape labor markets, introducing new talents and skills in receiving countries, while causing a loss of human capital in sending countries. Additionally, migration increases the flow of remittances, influencing local economies by increasing purchasing power and demand for goods and services.

Companies will also need to be prepared to address potential social and economic tensions arising from migration, adapting their strategies and policies to manage these changes effectively.

6 Greater impact of climate change on businesses, regulations, and corporate reputation

Latin America will undoubtedly, experience a significant impact from climate change. One of the most notable effects will be the increase in extreme weather events, such as more intense hurricanes, prolonged droughts, and unpredictable variations in rainfall patterns, affecting both agriculture and access to water.

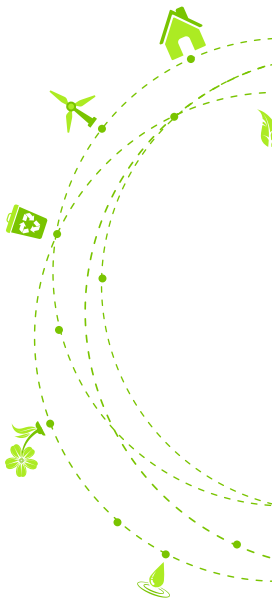
Furthermore, rising sea levels threaten to displace coastal communities and deteriorate vital ecosystems like mangroves and coral reefs. Climate change will affect the performance of the private sector from both a business and stakeholder relationship perspective.

IMPACT ON THE PRIVATE SECTOR

Severe weather phenomena such as floods and droughts can cause disruptions in supply chains and damage to infrastructure.

The implementation of new, stricter environmental regulations to mitigate climate change will also require companies to make significant investments in sustainable technologies and adjust their operations to comply with emerging standards.

These factors, combined with growing consumer demand for responsible corporate practices, will exert additional pressure on business strategies and risk management.



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Increased impact of resource nationalism

Resource nationalism is a government's tendency to exert stricter control and greater sovereignty over the country's natural resources, such as minerals, oil, gas, and other valuable resources.

Minerals like copper, lithium, nickel, iron, and manganese are critical for the energy transition, their demand is expected to increase at a faster pace than their supply. This will lead to an increase in their prices and, consequently, intensify the trend of governments exercising direct and indirect control over these resources.

In the last two years, we have already witnessed how resource nationalism in Latin America has increased regulation and state control over key natural resources. Just last year, Argentina nationalized lithium and Chile defined a National Lithium Policy delegating the development of alliances with other companies to the state-owned enterprise. In Mexico, the administration of President Andrés Manuel López Obrador, approved a reform to the Mining Law to dictate that lithium was a strategic mineral, and its exploitation would be exclusive to the Mexican state.

IMPACT ON THE PRIVATE SECTOR

Companies directly and indirectly involved in sectors such as mining, oil, and gas are likely to be affected by resource nationalism. Governments may implement measures such as the nationalization of certain industries, increased taxes and royalties on resource exploitation, and stricter restrictions on foreign investment in strategic sectors.

Nationalization or the demand for greater state participation in projects could reduce profitability and limit opportunities for private companies.

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