

» Continental Brand: a value proposition for investors in Latin America

Madrid » 12 » 2018

A high-ranking executive of a multinational firm that operates throughout Latin America was asked how he saw the region, considering the stream of negative news, hardships and crises in the media. The executive replied concisely, reminding the journalist of one of the classics in the art of communication: “Look, if we don’t make a clear distinction between trends and headlines, we’re never going to understand Latin America.”

This may be one of those times in the history of a region in which, rather than fixating on the endless flow of alarming headlines, we should take a step back to gain perspective and a better overall view.

The temptation not to do so is strong. We are reaching the end of a complex year for Latin America, with elections resulting in new governments that remain surrounded by uncertainty, especially in regard to their performance. Every day, we wake up to headlines reminding us of court cases against corruption,

continuing inequalities and digital and infrastructural deficits. These headlines feed our perception of developments and influence readers who adapt their notions of reality accordingly.

Vice President of Council of the Americas Brian Winters hit the nail on the head when he said that some investors, reacting in dismay to the uproar and polemics arising from various anticorruption campaigns, have been reluctant to start investing in places such as Brazil, where the Operation Car Wash anticorruption investigation is still making headlines. In this regard, positive actions such as the measures taken by Brazil’s judicial system to fight corruption, triggers a negative perception as investors interpret the case as a sign of systemic weakness. Would things be better if it hadn’t made the headlines?

BEYOND THE NOISE

To provide insight that might help us see through the clouds of smoke generated by the news, let’s consider the main characteristics of Latin America to see how we might adjust perceptions:

According to the International Monetary Fund (IMF) and its recently released regional economic outlook, the good news is that Latin America is still on the road to recovery: forecasts for the whole of Latin America suggest 1.2% growth in 2018 and 2.2% in 2019.

However, this recovery is showing signs of weakening, chiefly as a result of a series of adverse developments worldwide that are clearly detrimental to the region’s growth: these include external demand, weakening global trade and commodity prices that have recovered after bottoming but will probably fall short of levels observed in 2011-2012. Similarly, financial conditions have become somewhat tighter for Latin American countries, and strong performance of the U.S. economy has strengthened the U.S. dollar, pushing down the value of many Latin American currencies.



Other factors that have contributed to slower growth in Latin America have arisen from stressed trade relations that have only worsened with the imposition of trade barriers and other restrictions that have given rise to a range of concerns in each country and sector. At the same time, the cooling of the Chinese economy—the true driver of trade and finance in Latin America— will surely have a major bearing on the region's economies.

“So far, every one of the countries in the region, with more or less success, has attempted to tout their competitive advantages over other markets”

Faced with this inconsistent picture, how can we convince investors that Latin America is an attractive place to do business? How can we approach the subject of this uneven growth in relation to investor perceptions?

So far, every one of the countries in the region, with more or less success, has attempted to tout their competitive advantages over other markets, stressing favorable treatment of foreign investment, facilitation of repatriation of dividends, double-taxation treaties, labor laws and, of course, wonderful weather and beautiful beaches, etc.

Despite the uncertainty, particularly affected by the global context, Latin America's recovery remains in place and is showing some encouraging signs. Private investment is recovering after nearly three years of clear deterioration and is now contributing decisively to growth of the region in 2018 and 2019. In addition, private sector consumption has emerged as one of the driving forces of development, as rising rates of employment and of real wages remain solid in the main economies of the region.

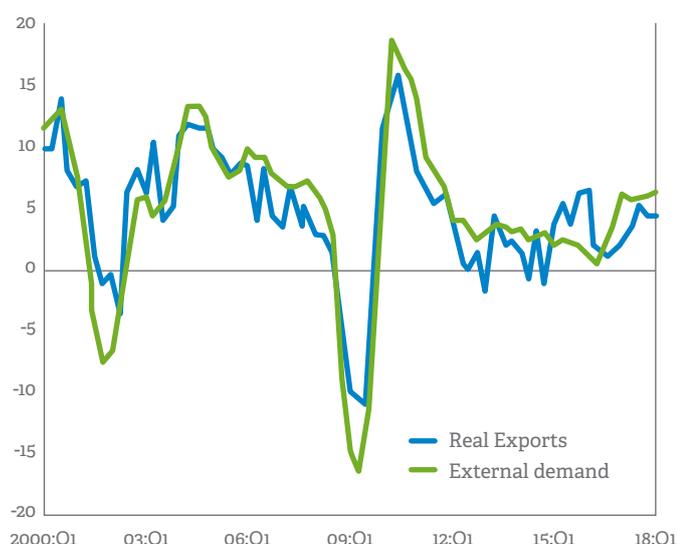
NOT EXACTLY REASONS FOR EUPHORIA

The biggest problem arising from slowing growth in the region is that the process of recovery is uneven. On one hand, some of the leading economies are showing significantly slower rates of recovery, such as Mexico and Brazil in the wake of elections. In Argentina, the improvement has even come to a halt. On the other hand, growth prospects remain bright in Andean economies, where regained confidence shown by consumers and businesses is driving recovery.

All of these advantages and special characteristics have been neatly packaged in spectacular videos with bright colors, local music, provocative slogans and promises of success, instilling in the minds of viewers the region's typically unforgettable sunsets. This has come to form what is known as the “country brand,” which is a strategy of using the reputation and image of a country to enhance perceptions of its market in international relations.

Unfortunately, some of these Latin American countries face complex circumstances that significantly detract from, or raise concerns around their country brands. This may be said of Venezuela and Nicaragua, particularly due to their political problems, but also of other countries, in relation to corruption, legal uncertainty, economic crises and so on. In all cases, the complex developments that dominate the headlines

Figure 1. External Demand and Real Exports Growth (Year-over-year percent change)



Sources: IMF, Direction of Trade Statistics database; IMF, Global Data Source database; and IMF staff calculations.

Note: External demand is the country-specific component of import growth of trading partners, weighted by the share of exports to each trading partner. US dollar nominal GDP-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Figure 2. Real GDP Growth (Percent)

	Projections			
	2016	2017	2018	2019
Latin America and the Caribbean	-0.6	1.3	1.2	2.2
LAC excluding Argentina and Venezuela	0.3	1.8	2.3	2.8
South America	-2.4	0.7	0.6	1.9
CAPDR	4.6	4.0	3.8	4.1
Caribbean				
Tourism dependent	1.1	1.1	1.4	1.8
Commodity exporters	-4.7	-1.3	1.4	1.6
Memorandum items:				
LA6	-0.1	1.5	2.1	2.7
Brazil	-3.5	1.0	1.4	2.4
Mexico	2.9	2.0	2.2	2.5

Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: CAPDR=Central America, Panama, and the Dominican Republic; LAC= Latin American and the Caribbean; LA6= Brazil, Chile, Mexico, Peru, Uruguay.

are fomenting negative perceptions that even country brands are unable to offset.

Worse still: in this age of globalization, in which economic and investment decisions are made at higher levels—practically at the continental level—the sum effect of negative country brands is certainly not helping to promote the region.

Considering that Africa is currently “fashionable,” Europe is struggling and Asia is taking off, how can we promote Latin America?

In this situation, described as “uneven recovery” in the IMF regional outlook, we should consider a more global approach that underscores the competitive advantages that Latin America as a whole offers the rest of the world. This approach should be adopted now, as currently troubled economies emerge from their difficulties, so that they can contribute to the development of the region.

Clearly, this approach is a form of global thinking: a Latin American continent brand or group of characteristics that comprise the reputation and image of a defined geographical space. Its attraction is based on a convergence of Western values, a high-quality lifestyle, a strong and successful business culture, a rich cultural heritage and a strong tourism

industry, all of which equips it to compete with any other region of the world.

Against the focus on local events and circumstances, we suggest projecting before the world an image of a globally-focused and structured Latin America, transcending the headlines and focusing on the region’s considerable opportunities: demographic richness, clearly rising per-capita income, consolidation of the middle classes, surging domestic demand and improvement of educational levels, among other aspects. Such an image portrays a region with clearly significant potential.

This continent brand must show intrinsic values that will make it a true value proposition of what Latin America can offer to investors who seek to develop business undertakings; to tourists who seek culture, leisure and entertainment; and, in general, to visitors who have chosen to see the continent for themselves, despite the abundance of appealing offers from other destinations.

Although the creation of a continent brand may not do much to diminish news arising from the many complex situations that are still faced by some of the countries of this beautiful corner of the world, it can clearly help to avoid confusion in the minds of those who must make decisions regarding Latin America.



Claudio Vallejo. Senior Director of Latam Desk at LLORENTE & CUENCA. Vallejo holds a degree in law and an advanced studies diploma in communication (DEA) from the Complutense University of Madrid, specializing in international relations and international marketing by the University of Kent at Canterbury, UK. He has previously served as senior advisor to the multinational strategic communications and public affairs firm, KREAB. As communications director, he has performed his duties in several relevant companies in leading positions within their sectors, such as CODERE, ENCE, SOLUZIONA, and was the international communications manager for power company UNION FENOSA. Prior to his experience in the private sector, Claudio was a commercial attaché in the Commercial Office of the Spanish Embassy in Quito, Ecuador.

cvallejo@llorenteycuenca.com





Developing Ideas by LLORENTE & CUENCA is a hub for ideas, analysis and trends. It is a product of the changing macroeconomic and social environment we live in, in which communication keeps moving forward at a fast pace.

Developing Ideas is a combination of global partnerships and knowledge exchange that identifies, defines and communicates new information paradigms from an independent perspective. **Developing Ideas** is a constant flow of ideas, foreseeing new times for information and management.

Because reality is neither black nor white, **Developing Ideas** exists.

www.developing-ideas.com
www.uno-magazine.com



AMO is the leading global network of strategic and financial communications consultancies, with over 940 professional consultants and offices in more than 20 countries.

The network brings together local market leaders with unrivalled knowledge of financial markets and cross-border transactions in the key financial centers of Europe, Asia and the Americas.

Providing sophisticated communications counsel for M&A and capital market transactions, media relations, investor relations and corporate crises, our member firms have established relationships with many S&P 500, FTSE 100, DAX 30, SMI, CAC 40 and IBEX 35 companies.

www.amo-global.com

