2024 LATIN AMERICA INSIGHTS

FTI CONSULTING

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About Our Latin America Practice

FTI Consulting advises companies doing business across Latin America to navigate the stakeholder dynamics around high profile corporate events, from transactions and market entry to crisis, disputes and litigation. We help clients anticipate critical political, policy and reputational risks and effectively overcome them, unlocking long term opportunity. Our Latin America practice works in a coordinated manner through our offices in Mexico City, Bogotá, and São Paulo, as well as with our teams in Washington D.C., Brussels, Madrid, Houston, Miami, and other important hubs. Through our vast network of strategic partners, we have coverage on all Latin American countries.

Foreword

Welcome to the second edition of the FTI Consulting Strategic Communications Latin America Insights Report, a selection of perspectives on critical issues from our dedicated teams on the ground in Brazil, Colombia, Mexico, and regional experts based in the United States and Canada.

Latin America remains a pivotal region for businesses with established operations. It is also emerging as the next frontier for many more. Yet, corporates seeking success in the growing Latin American economies are confronted with ever-evolving challenges. With its diverse resources, differing regulatory landscapes, shifting stakeholder and political dynamics, success is predicated on a nuanced understanding of the region and having a strategic approach to maintaining license to operate. Companies operating in Latin America must navigate not only economic and political considerations but also social and environmental factors to manage widespread risks to their operations and the knock-on effects to their overall reputation. The ability to engage and communicate effectively with a diverse set of stakeholders is, more than ever before, paramount in earning and maintaining the trust and support necessary for long-term success in this vibrant and complex region.

Through seven chapters, our Latin America team dives into critical topics such as the upcoming regional elections in 2024, media dynamics, cybersecurity, investment and dispute arbitration, human rights and transitional justice, and sustainability.

In Chapter 1, "Can Government-centric Economies in LatAm Convert into Market-centric Investor Darlings?" Gustavo Morales Oliver provides an astute analysis of Argentina's ongoing transformation under President Milei. His insights shed light on the issues to monitor closely as Argentina, as well as other Latin American governments, seeks to pivot towards a market-driven economy.

Chapter 2, "A Year of Elections in Latin America: Navigating Political Cycles, Seizing Long-term Opportunity," authored by Damián Martínez Tagüeña, unveils the political dynamics across the region and enlightens readers to look beyond shifting electoral cycles to identify strategic opportunities that have sustainable impact.

Cybersecurity takes center stage in Chapter 3, "Cybersecurity in Latin America: Cyber Threats Evolve in a Landscape of Incipient Resilience," where Adriana Prado, Isaac Morales, and Ana Maria Muñoz analyze the proactive measures organizations must take to enhance cybersecurity readiness and foster sectorial collaboration to mitigate cyber threats effectively.

Chapter 4, “Legacy of Conflict: Businesses Grapple with Complex Transitional Justice in Colombia,” features contributions from Jorge Del Castillo, Juan Viana, and Pablo Amaya. Via a spotlight on Colombia, the authors shed light on the unique challenges of doing business in conflict zones. Their insights underscore the importance of having long-term risk management and clear communication strategies while navigating legal complexities and safeguarding corporate reputation.

In Chapter 5, “De-Risking Against Weaponization of News in Latin America,” Jorge Padilla addresses the challenges posed by misinformation and disinformation in the regional and local media landscape. His analysis underscores the need for robust risk mitigation strategies to counter the weaponization of news and protect information integrity.

In Chapter 6, “Neither Fight nor Flight: The Case for Corporate Derisking in Populist Latin America,” Pablo Zárate and Alejandra Soto offer a strategic roadmap for companies navigating the complexities of adversarial populist governments, advocating for derisking strategies that balance legal defense with stakeholder engagement and corporate diplomacy to maximize shareholder value and ensure successful business operations.

Finally, Chapter 7, “One Region, Different Paths: Understanding the Multifaceted Energy Transition in Latin America,” features the expertise of Juliana Gomez and Kelly Souza and their comprehensive analysis into the diverse energy transition strategies across Latin America, highlighting opportunities for businesses to align with country-specific priorities and drive sustainable economic development.

We hope you find these insights and actionable recommendations helpful. We enjoyed sharing our perspectives with you. As always, we are grateful for your suggestions on topics that warrant further dissection based on the challenges you are facing operating in this vital region. To reach us or to receive periodic updates from us, please visit **here**.

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Can Government-Centric Economies in LatAm Convert into Market-Centric Investor Darlings? Argentina Will Offer Clues in 2024

When the Chileans elected Gabriel Boric into office, back in December 2021, many heard a death knell for free markets. Even Chile, the regional referent of the Chicago-University style economic policies[1] that many see as radical laisez faire, had chosen the government-centric political alternative.[2] In 2018, so had Mexico.[3] In 2019, so had Argentina.[4]

Was that game-over for free markets in Latin America? 2022 brought the question into sharper focus when both Colombia[5] and Brazil[6] fell for the more government-centric discourse.

In that context and considering the country's long affection for a government-centric economy, no one foresaw Argentina electing a new president who openly shouts to the world that a free market economy is the only way to embrace growth and development.[7]

Milei's Game Plan to Transform Argentina

Milei won the presidency of Argentina in November 2023, by fundamentally diverging from the traditional playbook, candidly stating government spending must be strongly reduced[8] and blaming politicians for the deterioration of the country.[9] Despite contradicting conventional election strategies by explicitly stating that he would cut government spending, he captured almost 56% of votes to unexpectedly ascend to power and pursue change.[10]

Transforming Argentina doesn't come about easily, though. Milei's biggest battle is happening in early 2024 with a massive reform he attempts to get through congress and the judiciary,[11] two areas of government where his political party has little strength.[12] This initiative is fueled by Milei's big win in the presidential elections and the popularity he still has[13] among the Argentine people. Will that support last long with annual inflation ascending beyond 180% and a possible recession on the horizon?[14] The first semester of 2024 will be critical for Milei's reform plan in Argentina.

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Fundamental Realities Shaping Argentina

Milei asserts that Argentina needs three decades of liberal policies to become a global power,[15] a radical transformation that prompts skepticism. While time will reveal the validity of these aspirations, there are immediate realities shaping Argentina's landscape that businesses in Latin America should consider.

1. Argentina's legal and cultural frameworks concentrate power in the presidency. Despite the relevance of congress, provincial governors, and the courts, the president plays a pivotal role in shaping the nation's trajectory.

2. Milei swiftly attempts to amend hundreds of laws and regulations,[16] emphasizing the urgency of change towards decreasing the role government in Argentina's economy. Even if only a fraction of those amendments survives scrutiny, a significant shift in how the country operates could occur.

3. Another consideration is whether altering the legal framework alone is sufficient for meaningful change. Rules, subject to presidential decree, can be easily reversed. Furthermore, changing a society's beliefs and behaviors ingrained over decades poses a formidable challenge.

Investing in Today's Argentina

Investors, however, stand at a unique juncture. If Milei succeeds in modernizing Argentina, current investments may prove to be at historically low prices, offering an opportune moment to engage with the evolving market.

Privatization of public companies may offer significant upside to investors, strategic investments in promising sectors of Argentina's economy such as mining, agriculture, energy, oil and gas, or infrastructure also could yield fruitful returns.

Lastly, Argentina's history of leaning towards a government-centric economy for more than seven decades raises skepticism. Past attempts at change by President Menem in the 1990s[17] and President Macri in the 2010s,[18] fell short. The question remains: will Milei's efforts mark a departure from this pattern?

Will Milei succeed in his mission to depart from a government-centric economy?

Our Takeaway

Argentina's President has launched a real blitz to reshape the country into a market-driven society. Whether Argentina pivots away from its government-centric philosophy in 2024 remains uncertain. Regardless, Milei's government will undoubtedly be a focal point in the months and years ahead, making Argentina a case to closely monitor for any company interested in Latin American business in 2024.

A Year of Elections in Latin America: Navigating Political Cycles, Seizing Long-term Opportunity

Around 4.2 billion people will go to the polls in 2024, in what many are calling the biggest electoral year in history.[19] This includes pivotal processes in both the United States and for the European Parliament, which will have major global impact. Six, or maybe five,[20] general elections will take place in Latin America.[21]

Companies in the region know that elections matter. This year's results will weigh heavily on the regulatory and business environment – and thus it is always tempting to focus on horserace dynamics. However, looking beyond political cycles to identify opportunities should be the priority. Longer-arch analysis can be helpful.

The current context is shaped by a "pink tide" that in many cases came at the expense of traditional parties – one of Latin America's historic swings between left and right.[22] Individual elections do have cross-border implications, as strong connections exist between national authorities and political systems. Yet, regional political trends are by no means homogeneous, as proven late last year by right-of-center wins in Argentina and Ecuador.[23]

The Case Against Short-termism in Corporate Strategies

Corporate focus on reacting to emerging trends and short-fuse issues is justified. The importance of strong stakeholder engagement strategies to navigate shifts in local politics is real. So is the need to not lose track of long-term strategies and goals. After all, very few investment projects are undertaken with a view to only achieving immediate gain.

Socio-economic fundamentals move much more slowly than political cycles. As business strategies are set, and inevitably adjusted, companies need to continue to look at the underlying structure of the economy, infrastructure and human resources. It is also key that they recognize, and leverage, policy anchors such as the USMCA, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and even the MERCOSUR treaties. And, perhaps more importantly, they should be wary of overlooking legitimate social aspirations. These include development, sustainability and inclusion.

An unattributed Argentinean phrase is that if you travel abroad for twenty days you will come back to find all has changed, but if you are away for twenty years you'll conclude that nothing has.[24] This is meant in jest, of course, but it holds a kernel of truth about the region. The private sector needs to adapt to quick shifts in their operating landscape, many times driven by electoral politics. In most cases, they must do so while finding a way to steady the course. In that way, they can not only survive, but thrive.

> The importance of strong stakeholder engagement strategies to navigate shifts in local politics is real. So is the need to not lose track of long-term strategies and goals.

In Focus: Mexico Election

A highly polarized electoral process will come to an end when nearly 100 million Mexicans vote on June 2, 2024.[25] The presidency will be in play, with the top contestants being women[26] and the candidate of the ruling coalition so far consistently ahead in the polls.[27] Congress will also be up for grabs, with a supermajority that allows for constitutional change a potential ultimate prize.

The stakes are high, and the contending visions are indeed very different. Voters will choose between a "second floor"[28] of the current state-centric project and the return of a pro-business approach.[29] Yet, again, the outcome will not by itself change the core characteristics of the world's 12th largest economy.[30] Not surprisingly, both camps are highlighting the importance of continued industrial, export-led growth under the USMCA,[31] and promising to redouble efforts to nearshore production to North America from Asia.[32] Both also are underscoring the need for renewable energies[33] – in the sole G20 country yet to adopt a net-zero target.[34]

Our Takeaway

Companies would seem to agree that major opportunities exist. Foreign Direct Investment into Mexico hit a record high last year.[35] Of note, around 92 percent came from incumbent companies, with reinvestment of profits driving an overwhelming 76 percent.

However, this does not mean corporates are always clear on how to best push forward – more so in a year of elections. A traditional top-down approach to stakeholder management no longer seems to make sense. President López Obrador has said more than once that "public affairs are more and more public,"[36] and in that vein has played out policy and regulatory matters in open view.[37] In such a scenario, which is likely here to stay, to mitigate risk and advance projects, stakeholders must be mapped and core social concerns identified.[38] After all, as has been said by practitioners[39] and leading experts[40] alike, companies can indeed deliver on both profit and purpose.

A traditional top-down approach to stakeholder management no longer seems to make sense. Stakeholders must be mapped and core social concerns identified.

Cybersecurity in Latin America: Cyber Threats Evolve in a Landscape of Incipient Resilience

The volume and sophistication of cyber-attacks registered in Latin America are on the rise, with organizations in countries like Brazil and Mexico ranked among the top global targets for cyber criminals.[41] They are particularly appealing for hackers due to the region's combination of increasing digitization and generalized cybersecurity immaturity.[42] Governments have yet to enforce robust regulations imposing clear cyber resilience requirements for companies in all industries. Without such "incentives", they tend to neglect or postpone addressing this issue, either because they fail to see cybersecurity as a critical issue for their business, or because they have other conflicting priorities. Improving cyber capabilities can be a tricky challenge for organizations across Latin America that are falling short in other critical areas – as it demands time, expertise, and money that some might think should be applied elsewhere.

In its recently launched Global Cybersecurity Outlook 2024, the World Economic Forum (WEF) called out the "cyber inequity" among certain geographies as a concerning issue, describing the lower number of self-reported cyber-resilient organizations in Latin America and Africa (in comparison to higher numbers in North America and Europe) as a gap that "unsurprisingly […] tends to mirror other global development indicators".[43] Disparities in development of cyber capabilities across the region and between small and large organizations are also an issue, as the pace for improvement might vary, but impacts of cyber incident can be systemic.

> Organizations in the region should not wait for regulators to impose readiness requirements, as preparation is key for mitigating impacts of increasing attacks

Challenging Road to Cyber Resilience in Latin America

To complicate matters further, as Latin American countries continue to promote further digitization to foster socioeconomic growth, they become even more vulnerable to cyber criminals, given the increased use of technology also increases the potential for attacks. Additionally, there are challenges such as increasing cost of access to cybersecurity services, tools and talent as cyber threats evolve with emergence of new technologies such as Generative AI.[44]

After suffering increasingly harsh cyber-attacks,[45] local authorities across Latin America have rushed to advance cyber resilience improvement initiatives such as bills to create cybersecurity agencies in Colombia[46] and Chile.[47] The idea of having such a regulatory body is also on the radar in Brazil, which has just established a new National Cybersecurity Policy (PNCiber) and the creation of a public-private National Cybersecurity Committee to respond to the evolving landscape and pursue international collaboration.[48]

> While more robust regulatory frameworks and greater public-private cooperation are necessary and positive, there is concern in the region about the effectiveness of emerging regulations that do not meet the real needs of the local markets.

While more robust regulatory frameworks and greater public-private cooperation are necessary and positive, there is concern in the region about the effectiveness of the emerging regulations. When attempting to adapt regulations from more mature markets, Latin American countries often experience misalignment between those regulations with the specific needs of emerging local economies.[49] For instance, trends seen in mature markets towards imposing strict requirements for supply chain risk management and cyber insurance might be too advanced for Latin America right now. Moreover, a tendency for vague and unclear guidelines might hinder the creation of common cybersecurity baselines for all organizations in Latin America. An additional hinderance for fostering broad-based cybersecurity accountability may be the tendency to place the burden of cybersecurity resilience solely on the private sector – as already seen in some sector-specific directives in Brazil, for example.

Still, taking ideas from paper to reality is typically a hard endeavor in Latin America, and robust regulations that are both effective and enforceable will take time to materialize.

How Can Latin American Companies Proactively Become Cyber Resilient?

Latin American organizations cannot afford to sit back and simply wait to comply with whatever regulations that may come up. Taking action starts with understanding that cybersecurity is not an IT issue, but a strategic business subject that can potentially lead to wider systemic risks that put entire industries (if not economies) in peril.

> “Taking action starts with understanding that cybersecurity is not an IT issue, but a strategic business subject that can potentially lead to wider systemic risks that put entire industries (if not economies) in peril.”

With the correct mindset established, the next step is to conduct a serious assessment of the current state of the organization’s cybersecurity culture, tools, expertise and protocols. The analysis will provide insights on vulnerabilities and help identify priority action areas to be addressed through a multidisciplinary approach that prioritizes preparedness, including incident response protocols and continuous testing, via simulations and table exercises, for instance.

Our Takeaway

More than having each organization increase its own resilience, sectorial collaboration is also critical. Although this will require a shift in mindset to surpass existing trust issues, talking about cybersecurity with additional stakeholders (including the public sector) should be less tabu and more of a standard practice. Collaboration can lead to efficiencies and help entire economic sectors learn from past experiences. Perhaps most importantly, it can create a culture of intelligence sharing to strengthen prevention efforts for all parties involved.

Legacy of Conflict: Businesses Grapple with Complex Transitional Justice in Colombia

Since the 2000s, Colombia's peace processes have aimed to demobilize various illegal armed groups, garnering international attention due to human rights concerns arising from the conflict. These efforts have significantly impacted the political landscape, shaping and ending the careers of prominent figures. The demobilization of right-wing paramilitaries in the early 2000s followed a decade later by the disarmament of the left-wing FARC guerrillas stand as stark examples of this dynamic. Today, a complex transitional justice system grapples with the legacy of the conflict, seeking accountability and reconciliation.

Corporations have historically kept this dynamic at arm's length. To be sure, safety concerns and human rights protection have been a major issue for companies operating in Colombia for decades. Many analysts suspect that major multinational corporations have paid monies to illegal armed groups in other to obtain the necessary safe-conducts that enabled business continuity – a perception which is fueled by the fact that there are 16,000 testimonies that may involve civilian parties in connection to armed conflict-related activities.[51] Considering that the U.S. government lists many of the illegal armed groups that operated in Colombia as terrorist groups, it is quite daunting to see such high volume of civilian involvement with sanctioned entities. But, other than the internationally famous Chiquita Brands case,[52] companies have faced little scrutiny.

That is likely to change, as a shift in focus for transitional justice is forthcoming, changing from the direct protagonists and perpetrators of violence to the 'enablers' and financers of such violence. As such, Colombian authorities' focus on primarily investigating armed groups and former combatants has shifted.

Transitional justice mechanisms like the JEP (Special Jurisdiction for Peace) are now calling on companies and individuals to answer for their actions,[53] as seen in the recent case involving a major Colombian oil company allegedly linked to a massacre in Barrancabermeja in May 1998.[54]

This shift becomes evident with the support of the highest executive level; President Gustavo Petro has publicly reiterated that "the truth is the basis of peace" and Justice must have effective mechanisms to find it, referring to transitional justice.[54]

Are Businesses Operating in Conflict Zones Adequately Prepared for the Legal and Reputational Risks They Face?

Companies operating in post-conflict territories face three major risk categories that demand expert attention: **criminal risk, civil risk,** and **reputational risk**. Criminal[55] risk arises from the multiple, overlapping justice systems that can hold companies and private individuals accountable,[56] while civil risk appears from the interpretation of transitional justice principles to allow legal entities, individuals, and third parties to seek legal recourse against companies.[57]

Reputational risk emerges from public revelations of accusations and evidence in judicial proceedings, which can severely damage a company's reputation.

The global market is responding with stricter regulations like the EU's Conflict Minerals Regulation (EU 2017/2302).[58] However, many industries – agriculture, mining, hydrocarbons, infrastructure, energy, and manufacturing – operate in conflict zones or their vicinity. These sectors require robust due diligence systems to assess their own risk exposure to potential links to human rights abuses.

> The global market is responding with stricter regulations like the EU's Conflict Minerals Regulation. Highly regulated industries must have robust due diligence in place to adequately assess their human rights-related risk exposures.

Our Takeaway

In today's conflict-stricken landscapes, businesses hold a growing responsibility. Executives face potential liability for past transgressions, making a proactive, long-term approach crucial. This entails mapping the entire supply chain, from source to consumer, to identify potential risks at each stage. Comprehensive risk assessments should inform mitigation strategies, including sourcing from certified suppliers, conducting regular field audits, developing robust oversight mechanisms, and employing forensic research. Public disclosure of due diligence measures and risk assessment results fosters transparency and accountability. Additionally, clear communications strategies are vital to safeguard reputational assets by engaging with market actors, shareholders, and the public.

Navigating the evolving legal landscape in conflict zones like Mexico, Colombia, and Central America demands in-depth understanding of their complex justice systems and transparent communication of their potential reach and risks. By embracing these measures, businesses can operate ethically and create a more sustainable future in conflict-affected regions.

The complex legal framework and evolving nature of transitional justice systems in Colombia have drawn the attention of both national and international authorities seeking to address issues such as terrorism, child recruitment, extortion, and human rights violations. This heightened scrutiny underscores the importance of companies operating in this context to navigate these complex legal landscapes effectively and responsibly.

Cases like the agriculture company [59] and the French giant cement company[10] serve as stark reminders that the risks of private sector involvement in conflict are real and present.

> A clear communications strategy is the foundation to safeguard corporate reputation and navigate the complex and evolving legal landscape effectively and responsibly.

De-Risking Against Weaponization of News in Latin America

Misinformation and disinformation represent major challenges for news media organizations in 2024. Companies should think about risk mitigation strategies to prevent them from becoming the “bullet” of weaponized news.

It seems ironic that in the peak of the “Information Age,” misinformation and disinformation are such a significant threat. According to The Global Risks Report 2024, which captures insights from nearly 1,500 experts, “misinformation and disinformation” will emerge as the most severe global risk over the next two years.[61] The report, published by the World Economic Forum, concludes that “foreign and domestic actors alike will leverage misinformation and disinformation to further widen societal and political divides.”

This risk certainly applies across the Americas in 2024, where key elections are set to take place in Mexico and the United States. The incentives are aligned for the widespread use of misinformation and a propagation of the tools used to disseminate it. Although this identified risk is focused on foreign nations that try influence the internal political dynamics of other countries, this risk certainly applies at the national level as well, with the use of misinformation and disinformation to influence domestic politics becoming ever more prevalent.

Historically, “newspapers of record” have been the local gatekeepers of misinformation and disinformation. Newspapers such as The New York Times, Reforma, Clarín, El Espectador or Folha de S. have all played a crucial role in controlling the dissemination of fake news, providing a highly curated news platform that restricted the publication of false statements or information.

Unfortunately, news media organizations in Latin America are operating in a society that already suffers from a growing distrust of information, and their unique position to reduce the prevalence of misinformation and disinformation has become limited.

News media organizations face challenges of their own to maintain their standing as gatekeepers because journalism has radically changed. Across Latin America, magazines and newspapers are struggling to survive or closing, as they see their revenues decreasing and their readership looking for information elsewhere. As a result, newsrooms throughout the region are suffering from a significant reduction of journalists whose skills are needed to generate and present relevant and objective information.

The challenging environment for news media organizations is not reducing the spread of misinformation and disinformation but, in a way, contributing to the “weaponization of news,” that is, when false or inaccurate information is reported and packaged to appear as legitimate and used to sow divisiveness that could lead to real-world harm.

> The challenging environment for news media organizations is not reducing the spread of misinformation and disinformation but, in a way, contributing to the “weaponization of news.”

Speaking with editors and reporters across the information ecosystem in Latin America reveals that, in many newsrooms, the traditional standards of objective reporting are being replaced by a more “militant” form of journalism. Readers and sponsors of the newspapers alike are demanding not objective reporting, but rather news with a political viewpoint that resonates with their particular audiences.

How Does the Current News Media Landscape Affect Corporate Communications?

The answer depends on the nature of the information that a company is trying to convey. If the information is traditional marketing or commercial, then there are minimal risks involved. The situation radically changes when there is substantive information about a significant milestone (i.e. litigation, M&A, infrastructure or energy projects, etc.). In brief, substantive information should trigger companies to prepare a risk mitigation strategy so they don’t become the “bullet” in the weaponization of news about or pertaining to them.

Given the highly polarized political situation in Latin American countries, 2024 will not be the year where news "without fear or favor" returns to center stage and publishers rethink their editorial decisions. On the contrary, 2024 will be the year where newsrooms turn into war rooms. Weaponized news is the ammunition in a battle across the political spectrum, and companies can easily be caught in the crossfire.

Even with the challenges and risks described above, it is important to highlight that traditional news organizations still play a very important role in politics across Latin America. For example, Mexican President Andrés Manuel López Obrador regularly questions stories from traditional media outlets, and even dedicates a weekly section entitled "Who's who in lying," where reporters and media outlets are criticized for being part of the "Power Mafia."[61, 62]

> 2024 will be the year where newsrooms turn into war rooms and where companies can easily be caught in the crossfires of weaponized news.

The President of Colombia, Gustavo Petro, has waged a comparable conflict with traditional media outlets, particularly with Semana magazine,[63] and President Javier Milei of Argentina has followed a similar playbook against El Clarín.

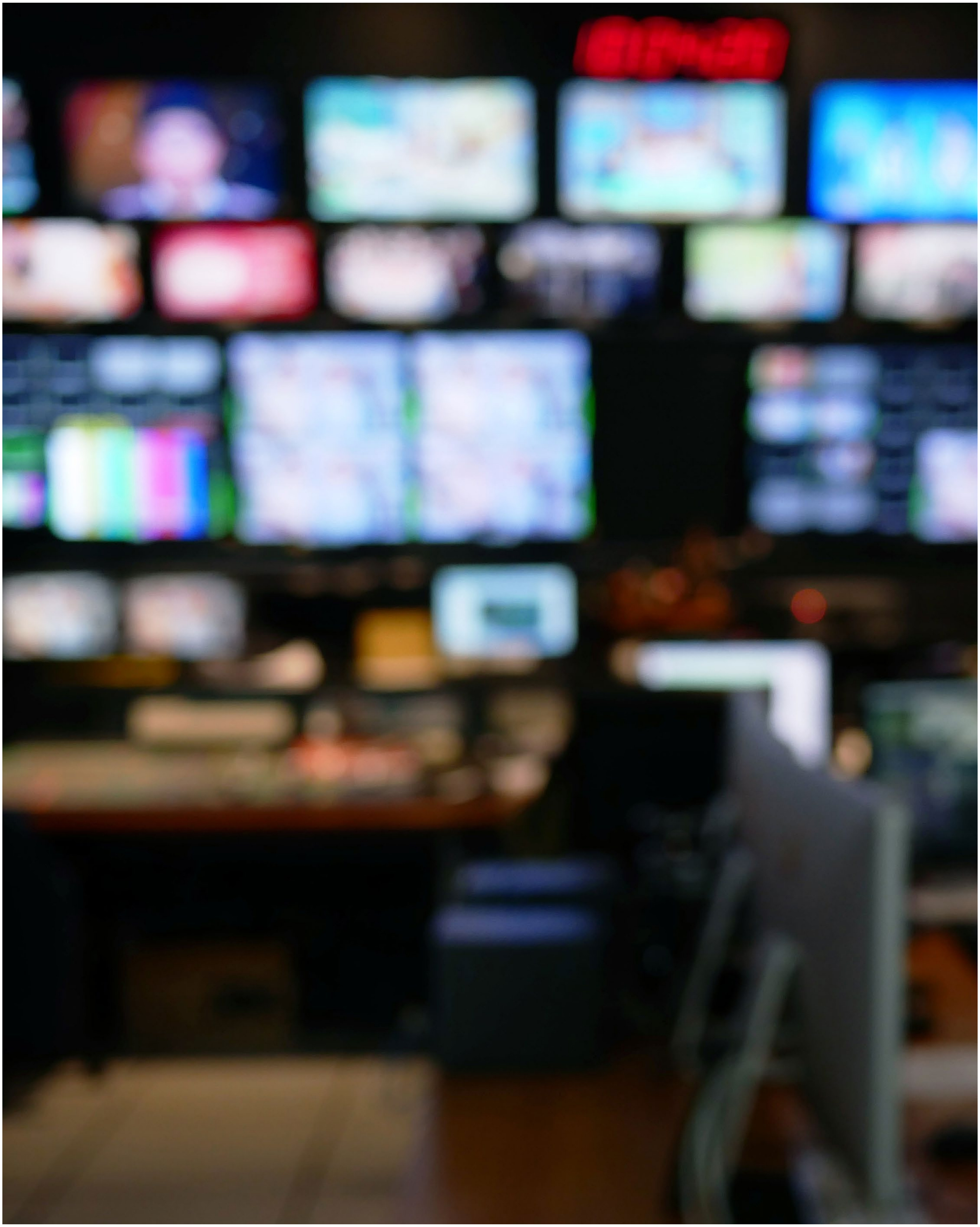
Still, there are reasons for optimism in 2024, specifically regarding the consolidation of regional media outlets that have flourished in Latin America and will play a significant role in the reduction of propagation of misinformation and disinformation. Regional outlets such as Bloomberg Línea and Infobae, as well as foreign correspondents from major media organizations – including the Wall Street Journal, Washington Post, El País and DW News – are playing an increasingly significant role, and steadily becoming the regional and international information gatekeepers.

Coverage by objective regional and international media outlets are having a significant impact on corporate communications because they operate within a less politicized and polarized ecosystem and where objectivity can be more easily achieved. Therefore, substantive information can be conveyed with lesser risk of becoming a "political football," and the information that originates from these reputable sources have higher chances of avoiding major distortions when cascaded to local media outlets.

Our Takeaway

The relevance of regional outlets clearly demonstrates that there remains an enduring informed audience demanding credible sources that provide less politically charged information. Figures from Comscore from August 2023 revealed that Infobae is the second top news site in Mexico with 11 million unique users, while El Universal holds a close first place with 11.9 million users.[64] As Infobae was founded in 2002 while El Universal's history stretches back to1916, it is evident that both traditional sources and modern digital channels have a major role to play in the future of news coverage in Latin America. Another example is Argentina. In 2022, Infobae has 23.5 million unique users versus 22.1 million unique users for Clarín according to Comscore.[65]

To make things even more complicated, 2024 is the true dawn of Artificial Intelligence, which will play an increasingly significant role in the spread of disinformation and misinformation. Companies must prepare to mitigate this new risk that makes it difficult for anyone, even journalists, to determine the accuracy of information. Buckle up for the ride.



Neither Fight nor Flight: The Case for Corporate Derisking in Populist Latin America

Unorthodox, sweeping policies from populist governments in Latin America are hindering, if not outright harming, investors. Should they fight? Or take flight? We suggest a third way: finding a new balance between legal defense and stakeholder engagement through derisking strategies for corporates and investors.

Sweeping winds of policy change are blowing across Latin America. Mexicans, Colombians, Brazilians, Salvadorans, and Argentinians, just to cite a few, have all witnessed presidentially-espoused attempts to upend economic and political frameworks.[66] Many of those have failed– true.[67] But, the fact that these reform proposals are being driven by the countries' most powerful leaders, often with widespread support in the public opinion, should make investors take heed. Political risks in the region are rising, deepening and broadening.[68] At this point, does anyone paying close attention to Latin American politics still dare to claim that radical political positions announced in electoral campaigns are only rhetorical?

Whether emanating from populist leaders that identify with some form of leftist politics, or with a radical right, they have proven to be much more than mere gusts. They are prevalent.[69] More often than not, when one key proposal for regulatory change is stopped, two disruptive legislative bills in the same sense emerge. When these fail, constitutional reforms are drafted. The cycle starts again. A new government comes in, but only to push a new revisionist campaign.

This is a new normal for Latin America. Yet investors and corporates still often disregard the growing pile of evidence that proves that issues management and public affairs strategies have, unfortunately, not kept up. It is all too common to find corporate issues management teams – whether with a legal, government relations or communicational bent – insisting on unnuanced deference or deterrence tactics. Across the board, cases abound of corporates that become too friendly towards those in power, compromising shareholder value and setting a target on themselves vis-à-vis the political opposition.[70] Or too adversarial, risking retaliation that can eventually compromise business continuity.[71] Even worse, sometimes they swing between the two approaches.

To capitalize on Latin America's abundant investment opportunities, there is a more sustainable (and precise, and context-driven) stakeholder derisking approach.[72] This requires advancing two seemingly contradicting ideas at once:

- In the face of governments (and other stakeholders) that are increasingly adversarial to private investment, litigation and arbitration ultimately constitutes the only material lever of substantive value defense. It is often the only source of real influence to advance negotiations. No relationship-building efforts should jeopardize legal defense strategies.
- All-out conflicts with any host government (and/or full divestment from the country) typically results in loss of value. Even if some form of compensation is eventually awarded, companies that have openly antagonized governments are seldom made whole in terms of missed opportunities and wasted time and resources.

The way to make them compatible – the derisking path in the face of sweeping policy changes – is to strike a delicate balance. While delving deeper on the technical detail of a specific critical issue that harms an investor (often to present a legal claim that can eventually turn into leverage), the public, political scope of a conflict either at company or industry level needs to be proactively limited. This means that, as conflict with a government over a specific policy or action progresses, relationship preservation efforts need to be redoubled without surrendering the possibility of taking legal action. Relationship-building efforts, in fact, should be used to advance technical and legal actions while mitigating the risks of complete relational destruction and potential retaliation.

To capitalize on Latin America's abundant investment opportunities, consider stakeholder derisking as a more sustainable approach to issues management or for public affairs strategy.

In short, within this derisking framework, it is essential to strategize for different levels to be better prepared for shifting political contexts. Counterintuitively, this starts with recognizing that the range of strategic responses from corporates and investors (individually or as an entire industry) to adversarial government action are actually limited.

In the face of government intervention, recognizing that the menu of options is limited is a first step

DEFER	DETER	DERISK	DECOUPLE	DEPART
Assumes that:	Assumes that:	**Assumes that:**	Assumes that:	Assumes that:
1. Opportunity offered or enabled by the government outweighs risks and costs.	1. Government can be dissuaded from taking adversarial action.	**1. Government will be, at times, intensely adversarial.**	1. Government will always be adversarial.	1. Government is intensely adversarial.
2. Blowback from other stakeholders can be managed.	2. Government will de-escalate in the face of strong deterrents	**2. In some instances, scenarios, taking defensive action is indispensable.**	2. Business continuity is not dependent on any form of government support.	2. Political risk is unmanageable, or clearly outweighs opportunity.
		3. Defensive actions can be explained in technical, politically non-threatening terms.		

In Focus: Mexico

President Andrés Manuel López Obrador has sought to shake-up the status quo in unorthodox ways. He has, for instance, used his presidential prerogative to introduce constitutional reform bills to Congress, some of which would have a negative impact on the business environment.[73] So far, the most controversial have not been approved by the legislative branch.[74] But the lack of support in both chambers notwithstanding, he aims to lay out his agenda and force political actors – within and outside his party – to take a stance on hot-button issues, contributing to uncertainty for business operations.[75]

Taking the energy industry as an example, President López Obrador has sought to bring the sector under state control using numerous instruments throughout his term.[76] This has resulted in regulating agencies rulings against some of these attempts, and myriad legal challenges– most notably against the President's reform to the Electricity Industry Law (LIE), which seeks to rollback previous reforms that opened the industry to private investments and favored power generation from renewable sources.[77, 78, 79]

The originally expected avalanche of arbitration and international litigation from investors demanding compensation from the Mexican government has not yet materialized. That said, the US and Canada have requested consultations over Mexico's energy policies under the United States-Mexico-Canada Agreement (USMCA), which could lead to a dispute settlement panel.[80] However, instances in which companies (at an individual or industry level) have used a derisking approach – taking critical issues to courts while proactively engaging with the government

– have been the most successful in overcoming policy and regulatory challenges.[81]

Democratic checks and balances – with a key role of the judiciary – have ultimately stopped the proposed regulatory changes that contravene the constitution and the Mexican legal framework more broadly.[82] Nevertheless, the president's initiatives, along with executive actions, smaller policy changes and a hostile narrative towards private investment in critical industries, have already altered the range of possibilities in mainstream politics.[83]

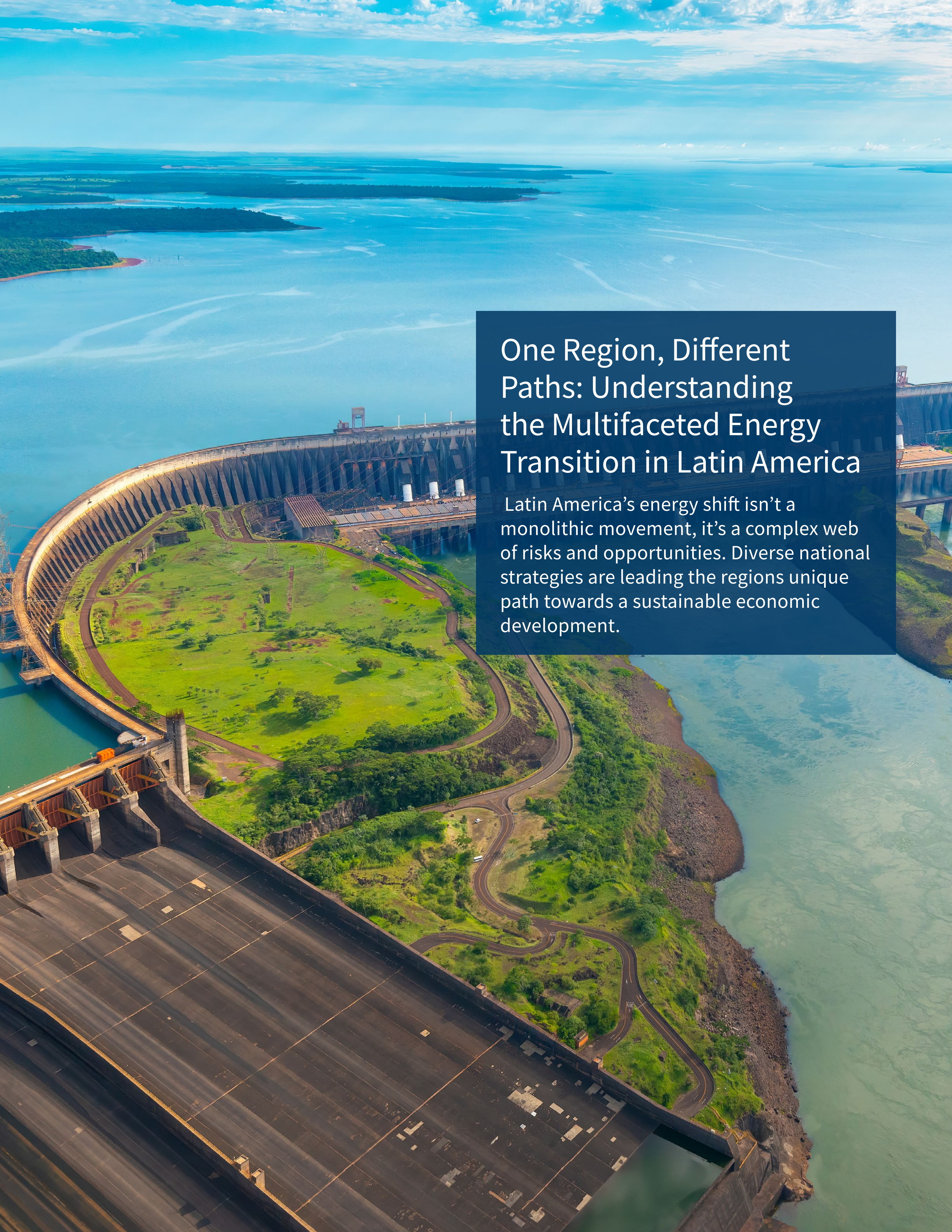
This situation entails short-term challenges for investors and corporates, as the latest reform package the President introduced to Congress (to be discussed in Congress over the next months) reveals.[84] Among other dispositions that would undermine competitiveness and the rule of law more broadly, the reform package includes proposals to eliminate regulating agencies, transform the judiciary, change the rules for water concessions and – once again – favor the national utility company (CFE) over private electricity producers.

There are also longer-term risks for shareholder value across industries as the president's agenda and narrative will likely continue to drive uncertainty into the next administration for investors and corporates, especially in extractive industries.[85] This is particularly the case since the President's party will likely remain in a strong position after the June general elections and, thus, continue to push for core pieces of his platform and use similar rhetorical tactics in this endeavor.[86] Therefore, it remains essential for investors and corporates to think strategically about legal pathways for value defense all while creating the conditions for strong business operations under a new government.

Our Takeaway

The end of López Obrador's tenure, the government transition period and the consolidation of the upcoming administration will put companies' issues management teams to the test as they try to navigate a volatile business environment. Their ability to identify not only immediate but longer-term risks, key stakeholders, critical legislative and bureaucratic procedures, along with relevant political trends, will be essential to build sustainable business strategies, leverage options, maximize shareholder value and capitalize on the myriad opportunities the country has to offer.[87]

The Mexican case illustrates the time and resources lost for companies fluctuating between deference, deterrence, decouple and departure tactics to try to conduct business under a populist government instead of using a more sophisticated derisking one to build a robust, comprehensive risk management strategy.[88] Under this approach, the strategic use of legal defense, relationship-building efforts and 'corporate diplomacy' is essential to enable substantive value defense and, thus, ensure successful business operations even in contexts in which governments are, at times, strongly adversarial.



One Region, Different Paths: Understanding the Multifaceted Energy Transition in Latin America

Latin America’s energy shift isn’t a monolithic movement, it’s a complex web of risks and opportunities. Diverse national strategies are leading the regions unique path towards a sustainable economic development.

Global Commitments, Regional Nuances

From COP 28 in Dubai last year to the recent WEF in Davos, energy transition has been at the top of the agenda in 2023 and will continue. The challenge is clear: rapid, sustained action to keep global emissions down 43% by 2030 and 60% by 2035 (compared to 2019 levels) to reach net-zero commitments by 2050.[89]

> For most of the region's current governments, energy transition has become a priority and a catalyst for change. However, the approaches for garnering international support are different.

In this context, many have argued that Latin America is destined to shine. According to the International Energy Agency, 30% of its energy comes from renewables, compared to just 12% globally.[90] Moreover, Latin America's leadership potential transcends its resource wealth, and there is a growing demand for sustainable alternatives and clean energy, and with that comes geopolitical and economic opportunities. For most of the region's current governments, energy transition has become a priority and a catalyst for change, making Latin America a key player for meeting the global agenda for sustainable development. According to IEA, Colombia's energy transition policy-making is an inspiring example of a fossil fuel producing country committed to climate action.[91]

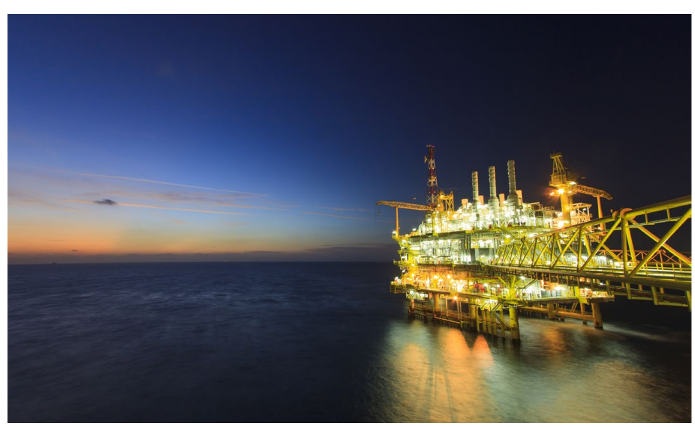
However, national pronouncements and regional potential don't paint the full picture. Renewable adoption across Latin America varies greatly. Mexico, for example, lags behind and Argentina is about to face considerable transformation under President Javier Milei's administration.[92, 93] The region houses over one third of the global silver, copper and lithium reserves and offers a multitude of low-carbon nature-based solutions.[94] Nonetheless, it holds 15% of global oil and gas resources, and while state-controlled oil and gas companies like Ecopetrol (Colombia) ranked third in the hydrocarbon production sector for sustainability by the Dow Jones Sustainability Index World ("DJSI") and Petrobras is looking into building a robust renewables portfolio, Pemex, for instance, is recognized as a laggard.[95, 96, 97, 98]

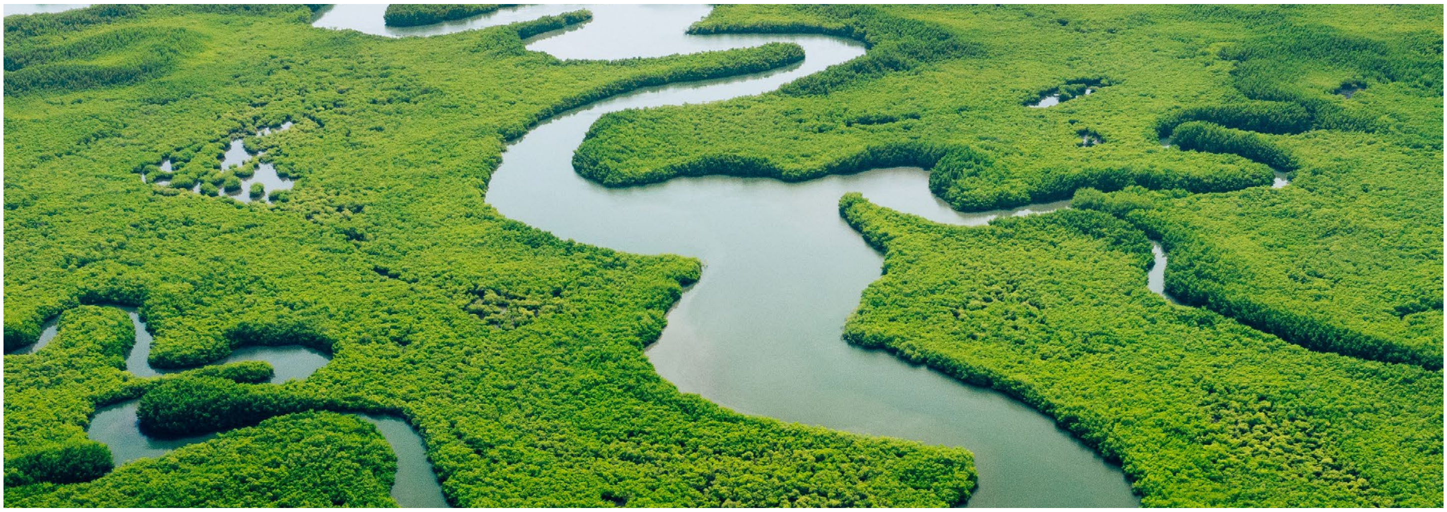
Lula and Petro: Divergent Paths Emerge

The differences in approach to the energy transition is best illustrated by the two countries whose presidents have made some of the boldest commitments to the green agenda, often angling to be recognized as a regional champion. Brazil's President Luiz Inácio Lula da Silva and Colombia's Head of State Gustavo Petro have contrasting views on energy transition, both prioritizing environmental protection and fighting climate change.[99] However, the difference is how they are leveraging those commitments and gather international support to rise as regional leaders of the global green transition led by Latin America.[100, 101]

Since Petro took office in 2022, he has made energy transition his mission and has been vocal in international stages about the need to phase-out fossil fuels to achieve rapid decarbonization.[102] In Davos, he announced no new hydrocarbon exploration contracts will be accepted during his administration, despite criticism.[103, 104, 105] In Brazil, energy transition also dominates political discourse. As G20 president, Lula aims to showcase recent legislative changes, clean energy programs, and the Brazilian Development Bank's ("BNDES") BRL57.4 billion investment in energy transition projects (the highest in five years). While Lula claims to firmly believe in energy transition, he takes a more pragmatic approach, seeking compromise. At COP28, Brazil joined OPEC+ "as an observer" as a way to encourage oil-producing countries to participate in the transition, in Lula's words. [106, 107, 108]

But Lula is criticized for his "old" mentality on oil, which can potentially lead to ambiguous environmental policies.[109] The government views oil revenue as key to financing transition plans and argues co-existence of hydrocarbon extraction and renewable energy sources is possible.[110] An argument repeated ad nauseam by government representatives and echoed by Petrobras's current CEO as he announced a five-year investment of over $100 billion to expand oil production and exploration.[111] By comparison, while Petro's anti-oil policy resonates internationally, it faces internal criticism from affected groups.[112]





Opportunities and Challenges for All

The global shift towards clean energy presents new trade and investment opportunities for Latin America. Opportunities vary from green ammonia to green hydrogen projects and the region's untapped potential in critical minerals to other renewable energy sources like wind and solar.[113, 114] Longstanding industries reliant on fossil fuels in the region must innovate and adapt to guarantee the longevity of their business and green finance mechanisms will be crucial to drive this change.

The IEA estimates doubling capital injections into clean projects by 2030 (to $150 billion) and quintupling it by 2050 is needed to meet climate and transition goals.[115] Bridging the technological gap between Latin America and developed economies hinges on attracting this "massive reallocation of capital," expected this year.[116] Additionally, management capabilities and navigating political pressure and shareholder demands are crucial to a successful transition to the green economy.[117, 118] The energy transition is viewed a catalyst for broader sustainable development.

State-owned oil producers seem to have realized that rebranding fossil fuel companies as "energy companies" depends heavily on financing. Even if that financing comes from the fossil fuel business. Petrobras is exploring opportunities in the 'green economy' and has recently announced a $5.2 billion-dollar investment in wind and solar by 2028.[119] Ecopetrol's revised 2040 plan emphasizes a just transition and increased efficiency, albeit without abandoning its traditional business.[120]

Navigating the Course: Our Takeaway

Latin American countries share similarities but viewing them as a single block is misleading. Each nation has unique characteristics that should guide investment strategies. With rich biodiversity, plentiful lithium, abundant wind and sun, Latin America has enormous potential to drive decarbonization solutions, paving the way for the global energy transition. Unlike developed nations, the sustainability agenda often unites diverse political factions and drives public policies in some countries. Understanding stakeholders, building Public-Private partnerships, promoting sustainable finance mechanisms, deploying de-risking strategies and aiming for an inclusive and just transition will help companies aligning business strategies with country-specific priorities.[121]

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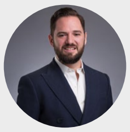

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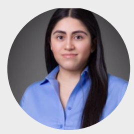

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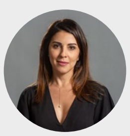

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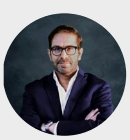

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