CUIBE
JGBC JOURNAL FOR GLOBAL BUSINESS AND COMMUNITY
ISSN: 1934-4244

Is Latin America Competitive Enough for the Commercial Satellite Services Industry?

Elan Keene

elankeene@gwu.edu

George Washington University

Abstract

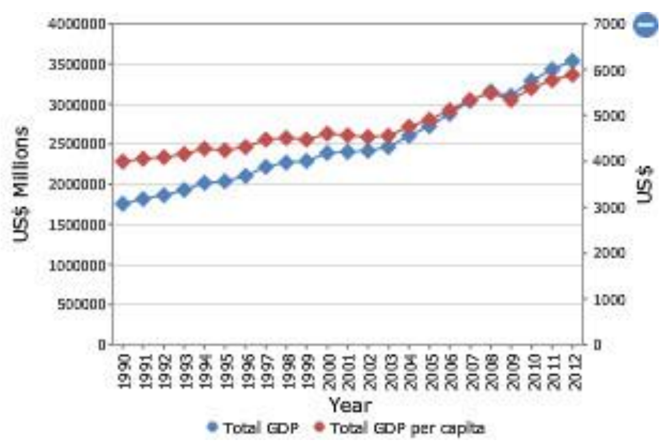
As a result of slowed growth in developed countries, such as Europe and North America, commercial satellite service providers are seeking opportunities in developing regions such as Asia and Latin America. This paper seeks to examine the competitiveness of Latin America for commercial satellite service multinationals to expand their business and create competitive advantage for their respective corporations in the region.

When assessing foreign direct investment opportunities, many organizations look to five distinct factors: Gross Domestic Product (GDP), Employment Indicators, Consumer Price Index (CPI), Central Bank Minutes, and Purchasing Manager's Index (PMI) for both manufacturing & services. This paper will evaluate these five statistics to gather a rounded view of region's economic standing. Following the economic statistics evaluation, this paper will also identify specific countries that offer the most opportunity in the region. Their respective competitiveness as it pertains to government policies, infrastructure, and service demand will be explored.

Economic Environment

GDP

Between 2008 and 2012, Latin America experienced a steady growth in GDP.[1] During the past few years, growth has slowed; GDP growth projection for 2014 is expected to be around 2.3%. At the current rate, the region will experience a slight decline in growth compared to the 2.6% increase in GDP that was estimated for 2013.[2] However, while many emerging markets have been volatile during this period, Latin America as an aggregate has consistently provided a positive return on investment, and the region's GDP is expected to rise to 3.0% in 2015 due to a stronger global demand and key structural reforms that some countries are implementing. Currently GDP per capita is $9,499 compared to the North American GDP per capita at approximately $50,000[3].



[1] ECLAC
[2] FocusEconomics
[3] Index Mundi

(GDP chart courtesy Economic Commission for Latin America and the Caribbean)

Employment Indicators

According to the Economic Commission for Latin America and the Caribbean (ECLAC), unemployment is the lowest it has been in the region for the last twenty years.[4] However, the recent drops in unemployment have not coincided with an expansion in jobs, although the proportion of wage employment did increase.[5]

Many South Europeans are immigrating to Latin America, a role reversal from just a few years ago. The emigrants are typically "young single people aged between 25 and 35, with a high level of education and professional objectives."[6]

(Unemployment chart courtesy Economic Commission for Latin America and the Caribbean)

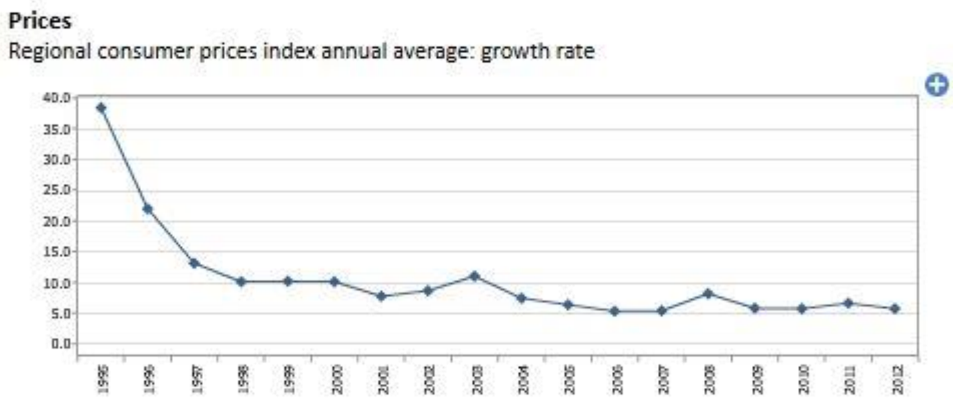
Consumer Price Index

The CPI for Latin America and the Caribbean region (LAC) has remained within a 1% differential within the past five years, between 5.7% and 6.7%.[7] The relatively low and steady CPI correlates with the increasing foreign direct investment (FDI) in the region. The FDI has increased from 68.8 million to 149.4 million during this time.

Recently, regional inflation expectations have risen. Inflation is projected as a regional average to close 2014 at 10.7%. At this forecast rate, inflation will close the year in double-digits for the

[4] ECLAC
[5] IBTimes
[6] The Portugal News
[7] ECLAC

first time since 2002. For 2015, forecasters also raised their inflation projections from March's 8.5% to 9.3%."[8]



(CPI table for LAC Courtesy Economic Commission for Latin America and the Caribbean)

Inter-American Development Bank Minutes

The 2014 Latin American and Caribbean Macroeconomic Report released by the Inter-American Development Bank (IADB) states that with the anticipated recovery of the global economy, assuming monetary normalization runs nominally, LAC growth rates will stabilize to normal rates. These forthcoming rates are predicted to be insufficient to meet social demand in the region and accompany low productivity that will not provide enough growth to advance or maintain relative income levels.[9]

Current high levels of credit bring enhanced opportunities, while the region remains under-banked. Standard & Poor's financial organization expects 2014 to show stronger growth in the region amid the financial market volatility. Even with capital inflows falling and the normalization of monetary policy by the Federal Reserve, Latin American regional retail, branded consumer products, media, and telecom sectors will still benefit from the current economic situation.[10]

PMI

Manufacturing production expanded approximately 2% in Latin America in 2013. The Manufacturers Alliance for Productivity and Innovation (MAPI) predicts a faster and slightly larger manufacturing growth in 2014. The expansion is expected to top at 3.1 %.

Specific industries either drive or slow down the manufacturing growth. While automotive manufacturing led growth in 2013 and continues to lead in 2014, Medical supplies manufacturing

[8] FocusEconomics
[9] Inter-American Development Bank
[10] Standard & Poor's

finds itself in the new last place, falling to a negative growth percentage. Communication equipment, although slowed significantly, finds itself still growing in the upcoming year.

Table 1 – Manufacturing Production Forecast, 2013-2014 (Annual Percent Change)

	2013 (F)	2014 (F)
Food and beverages	1.1	3.7
Motor vehicles, trailers, semi-trailers	8.9	9.7
Wood products (excluding furniture)	3.6	1.4
Paper and paper products	0.4	2.4
Coke, refined petroleum products, nuclear fuel	5.6	1.5
Chemicals and chemical products	0.2	1.7
Rubber and plastics products	2.5	2.0
Nonmetallic mineral products	0.6	2.9
Basic metals	0.6	5.3
Fabricated metal products	1.2	2.7
Machinery and equipment n.e.c.	4.9	5.1
Office, accounting, and computing machinery	8.5	1.4
Electrical machinery and apparatus	1.1	0.9
Radio, television, and communication equipment	5.8	1.3
Medical, precision, and optical instruments	4.0	-3.2
Other transport equipment	7.7	12.9
Latin America Manufacturing Index	**2.0**	**3.1**

F=Forecast
Source(s): MAPI

(PMI table for Latin America, courtesy The Manufacturers Alliance for Productivity and Innovation)

Some of the more prominent countries in Latin America, such as Mexico and Brazil have seen a stagnation and decline of PMI services over the past year.[11] However, these and similar countries are rebounding and staying near 50%.[12]

Country Competitiveness

In Latin America, the average composite Global Competitive Index is approximately 4, with Chile ranking at 34 and leading the regional numbers with a score of 4.61. Mexico, Brazil and Panama, follow closely with respective scores of, 4.34, 4.33 and 4.5. The lowest scores in the region belonged to Venezuela, Paraguay, Honduras and Argentina with respective scores of 3.35, 3.61, 3.7, and 3.76. [13]

Latin America is expected to outpace advanced economies in projected growth for 2014. However, due to low levels of productivity, the Global Competitiveness Report suggests that a series of reforms need to be put in place along with “significant and sustained” investments to support recent rapid growth.

Brazil

[11] Itau BBA
[12] Reuters
[13] Word Economic Forum

According to the World Economic Forum, Brazil comes in at 56th place on the GCI scale this year, falling seven places from last year's ranking. Macroeconomic indicator deterioration, fiscal policy uncertainty and concerns over corruption have contributed to the drop. In early 2014, Standard & Poor's downgraded Brazil's long-term credit rating of BBB to BBB- as a reflection of the previously mentioned issues. As of 2013, Brazil's corruption perception index rank was 72 out of 177, and as of 2012, the population count was 198.7 million.

<u>Mexico</u>

Mexico is ranked 55th overall, according to the World Economic Forum; two down from its spot last year. The country continues to experience a stable macroeconomic environment, a sound financial system, an internal market that continues to allow for economies of scale, good transport infrastructure, and a number of sophisticated businesses that have expanded within the market. Moreover, reforms to fight corruption, increase competition and grow the domestic education and the labor supply are underway. As of 2013, Mexico's corruption perception index rank was 107 out of 177, and as of 2012, the population count was 120.8 million.

<u>Chile</u>

Chile remains the most competitive country in Latin America, ranking 34th, one position down from last year. Traditional strengths such as: low levels of corruption, an efficient government, along with macroeconomic stability and stable financial institutions have allowed for its market to thrive.[14] As of 2013, Chile's corruption perception index rank was 22 out of 177, only three positions behind the United States. As of 2012, the population count was 17.46 million.

The Chilean government also publicizes programs that are in place to grant subsidies to companies willing to offer their services in the farther rural areas of the country, which are hard to access through methods such as fiber infrastructure.

<u>Panama</u>

Panama has sharply increased in rankings over the past three years. It currently holds steady at the 40th position. It is the most competitive country in Central America and the second in Latin America, following closely behind Chile. [15]This is in part because the country has actively been focused on making itself more accessible to foreign investors. Panama hosts one of the best port and airport networks in the region and with an influx of foreign multinational corporations setting up operations in the country, its financial markets and technological adoption are thriving. As of 2013, Panama's corruption perception index rank was 102 out of 177, and as of 2012, the population count was 3.8 million.

[14] World Economic Forum
[15] World Economic Forum

Opportunities

The highest demand in Latin America is for video and broadband, with OTT and IPTV seeing the fastest growth. OTT and IPTV are not typically satellite based technologies.
SmartLNB and SAT>IP are two technology market disrupters that allow satellite operators to enter the OTT and IPTV market within their own ecosystem.

Partnering with established companies in the area, such as DirecTV, or acquiring smaller ones creates an easier access to market. In Chile, the Swedish Space Corporation (SSC) is ground equipment operator and a key to joint ventures as they own most of the gateway ground stations in the country and can easily access the content providers; companies can also go through the government for ground station access.

Invest in HTS (high throughput satellites) Expanding services to the lesser served markets in rural areas of Chile will help saturate the brand outside of highly populated areas. Although a new business model may have to be implemented to scale to this market or a cheaper service may have to be created, the subsidies that the Chilean government continues to offer for underprivileged area growth will help fund the expansion. Courting the Chilean government and content providers with cost-effective and innovative technology will trigger brand saturation and increased sales

Conclusion on Most Competitive Location

Latin America's landscape for FDI is still ripe for investing. The steady growth in GDP, the low GDP per capita and relatively low CPI are all indicators of a substantial investment opportunity. Some countries stand out more than others for FDI. Considering Chile's rank in competitiveness and the corruption index, it takes lead as an investment location for multinationals. Even though it has less than 10% of the population of Brazil, Chile's stable market means an investor will have less to worry about when it comes to fiscal reforms as they pertain to foreign multinational companies.

Chile offers a stable operating environment and is one of the most advanced telecommunications markets in Latin America, with a strong demand for new technologies.[16] Chile has one of the highest Internet penetration rates in Latin America and is only expected to grow. Despite an earthquake in early 2010, the telecoms sector is performing better than other sectors of the Chilean economy; more-positive government policies are encouraging investment in communication services and infrastructure. [17]

Macroeconomic stability and growing integration with international capital markets has earned Chile an A+ credit rating, the highest in Latin America. Chile remains one of the most stable and

[16] Business Monitor International
[17] PWC

prosperous developing nations and consistently ranks high on international indices relating to economic freedom, transparency and competitiveness.[18]

As of 2012, the population count in Chile was 17.46 million. By 2050 the population is expected to reach approximately 20.2 million people. About 85% of the country's population lives in urban areas.[19] Chile is the seventh most populated country in Latin America.

Though the market is not as large as Brazil, Chile has the same percentage of middle class as Brazil, though it is slightly less than Mexico. Brazil has high taxes, increasing prospect of regulations that will put pressure on large market share holders and currently insufficient infrastructure for its country's needs.[20]

The Chilean government has many subsidies for the telecommunications industry, one being for expansion into more rural areas. By using these subsidiaries, the satellite services companies can work in low-income markets and still make a profit. One example is a satellite hub that allows villagers to use one central location for broadband services, making it cost-effective for the village.

Establishing wireless backhaul and trucking with mobile service providers, allows for increased opportunity in the market. Working with fiber providers to provide services to hard to reach areas may make cost-effective sense to the consumer and the government.

Summation

Chile is a prime market for commercial satellite service providers to focus on. Partnering with local content providers will help the commercial satellite service providers stay ahead of the market and keep their existence crucial for commercial use in television and broadband. In addition, by expanding reach to the lower class market in a upside down pyramid business model, providers can use the profits to create more jobs in Chile and expand the middle class, their main customer base.

References

Business Monitor International, Latin America Investment Opportunities in Telecommunications: Risk/Reward Analysis, 2014
http://www.businessmonitor.com/sites/default/files/whitepaper/Latin%20America%20Telecommunications.pdf

Economic Commission for Latin America and the Caribbean, Regional Economic Profile
http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp?idioma=i

[18] US Commercial Service
[19] Wikipedia, Demographics of Chile
[20] PWC

FocusEconomics, Latin America - Economic Outlook, April 2014
http://www.focus-economics.com/en/economy/region-outlook/Latin_America

IBTimes, United Nations Reports Falling Unemployment In Latin America, November 2013
http://www.ibtimes.com/united-nations-reports-falling-unemployment-latin-america-1450748

Index Mundi, North America - GDP per capita
http://www.indexmundi.com/facts/north-america/gdp-per-capita

Inter-American Development Bank, 2014 Latin American and Caribbean Macroeconomic Report: Global Recovery and Monetary Normalization: Escaping a Chronicle Foretold?
http://publications.iadb.org/bitstream/handle/11319/6417/Global%20Recovery%20and%20Monetary%20Normalization%3a%20Escaping%20a%20Chronicle%20Foretold%3f.pdf;jsessionid=FF844A896337BA5525BD3B362ED2AC75?sequence=1

Itaú BBA, Scenario Review – Mexico, April 2014
https://www.itau.com.br/itaubba-en/economic-analysis/publications/scenario-review-mexico/emerging-signs-of-recovery

The Portugal News, Crisis reversing migration between Europe and South America, November 2012
http://www.theportugalnews.com/news/crisis-reversing-migration-between-europe-and-south-america/26956

PWC, *Communications Review:* Exploring telecom markets in Latin America, Volume 16, No.2, 2011
https://www.pwc.com/en_GX/gx/communications/pdf/communications-review-latin-america-vol16-no2.pdf

Reuters, Brazil Services Recover in February as costs spike –PMI, March 2014
http://www.reuters.com/article/2014/03/05/brazil-economy-services-idUSS8N0M100220140305

Standard & Poor's, Credit Conditions: Growth in Latin America Expected to Pick up In 2014 Amid Continuing Financial Market Volatility, December 2013
http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245361728398

US Commercial Service, Doing Business in Chile: 2012 Commercial Guide for US Companies, 2012
http://export.gov/chile/static/CCG%20Chile%202012_Latest_eg_cl_050006.pdf

Wikipedia, Demographics of Chile,
http://en.wikipedia.org/wiki/Demographics_of_Chile

World Economic Forum, The Global Competitiveness Report, 2013-2014
http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf