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Opportunities for an enhanced UK-Latin America relationship

Where the UK meets Latin America & Iberia

Today's Topic

Executive summary

- The election of a new Labour Party government opens up possibilities for refreshing relations between the UK and Latin America and the Caribbean (LAC).
- There is enough ideological alignment, for instance, between the UK and LAC's two biggest economies – Mexico and Brazil – to make greater co-operation a realistic prospect.
- However, it is notable that while the Labour Party manifesto talked of a strategic partnership with India, trade and investment in the Gulf, and a new approach to Africa, LAC was not mentioned at all.
- Electoral calendars, political uncertainty, fragmented legislatures, and the region's propensity for pronounced political swings could also hamper progress.
- New initiatives are needed if LAC-UK bilateral trade is to grow significantly, and there are possibilities. For instance, the Labour government's idea of an international clean power alliance could lead to a mutually beneficial marriage of Latin American renewable energy resources and UK technology and innovation.
- Another possibility is that, in the absence of a US-UK free trade agreement, British companies may find that investing in Mexico is a cost-effective access route into the US market.
- In one scenario, at a time of growing protectionism, regulation, and supply-chain security concerns, Latin American countries could see a lighter-touch, free-trade leaning UK as an attractive partner, providing some welcome diversity to the US, EU, and China trade blocs.
- Another scenario, however, is that, for the new Labour government faced with multiple pressing challenges, LAC could remain low down on the priority list and the region will continue to represent less than 5% of total UK trade.

Introduction

The election of a new Labour Party government in July 2024 opens up possibilities for reviewing and refreshing diplomatic and trade relations between the UK and the countries of Latin America and the Caribbean (LAC). This briefing paper sets out what some of those opportunities may be, but it attempts to do so from a position of realism, namely the fact that successive UK governments have placed relations with the region relatively low down their list of priorities.

To assess the present and future of the relationship, some context-setting is required. First, this paper will look at some of the political issues and uncertainties that are shaping the relationship now. Second, it will examine long term trends in bilateral trade and investment, including perceived obstacles to greater dynamism. Third, we will focus on the approach to the region taken by the UK's superpower friends and competitors: the United States, the European Union (EU), and China. Fourth we will look at the Labour Party's foreign policy positioning as it transitions into office. This will then pave the way for a discussion of some of the major opportunities including the green economy and nearshoring.

Difficult political cycles

For at least half a century there has been a tendency for the two main UK political parties to view Latin America through an essentially ideological lens. Margaret Thatcher (1979-1990) was an outspoken defender of Chile's authoritarian leader, General Augusto Pinochet (1973-1990). Parts of the Labour left, particularly during the leadership of Jeremy Corbyn (2015-2020), expressed enthusiasm over the equally authoritarian 'Bolivarian Socialism' imposed in Venezuela, which since 2013 has been under the rule of President Nicolás Maduro.

Perhaps in contrast, the new UK government is of the moderate centre-left, projecting itself as business friendly and pragmatic in its approach. Still, it will need to adapt to LAC's ongoing political cycles and trends. Absent any major surprises, the Labour administration, led by Prime Minister Sir Keir Starmer and backed by a large majority in parliament, can be expected to remain in office for five years, 2024-2029, and possibly longer.

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This first period overlaps almost exactly with the expected six-year term of Claudia Sheinbaum, Mexico's left-leaning first woman president, who will be in office in 2024-2030 – she is due to be sworn in on 1 October this year.

In Brazil, Latin America's largest country by territory, population, and GDP, there are local elections this October, followed by a general election in 2026. Moderate leftist incumbent Luiz Inácio Lula da Silva could run again, for what would be a fourth term in office at 81 years of age. There is enough ideological alignment between his administration and the new British government to make greater co-operation a realistic prospect. Lula's decision to run again may be swayed by the perceived strength of the populist right and so-called 'Bolsonarismo,' or an assessment of the potential for a rightward swing by Brazilian voters in 2026.

In Argentina, currently led by libertarian President Javier Milei, who took office late last year, there will be a new general election in 2027. Milei's government, just a little over six months into its term, is attempting to implement a policy platform starkly contrasting with that of its Peronist predecessor led by Alberto Fernández.

Among other key countries, elections are due in 2025 in Chile and Ecuador, and in 2026 in Colombia and Peru.

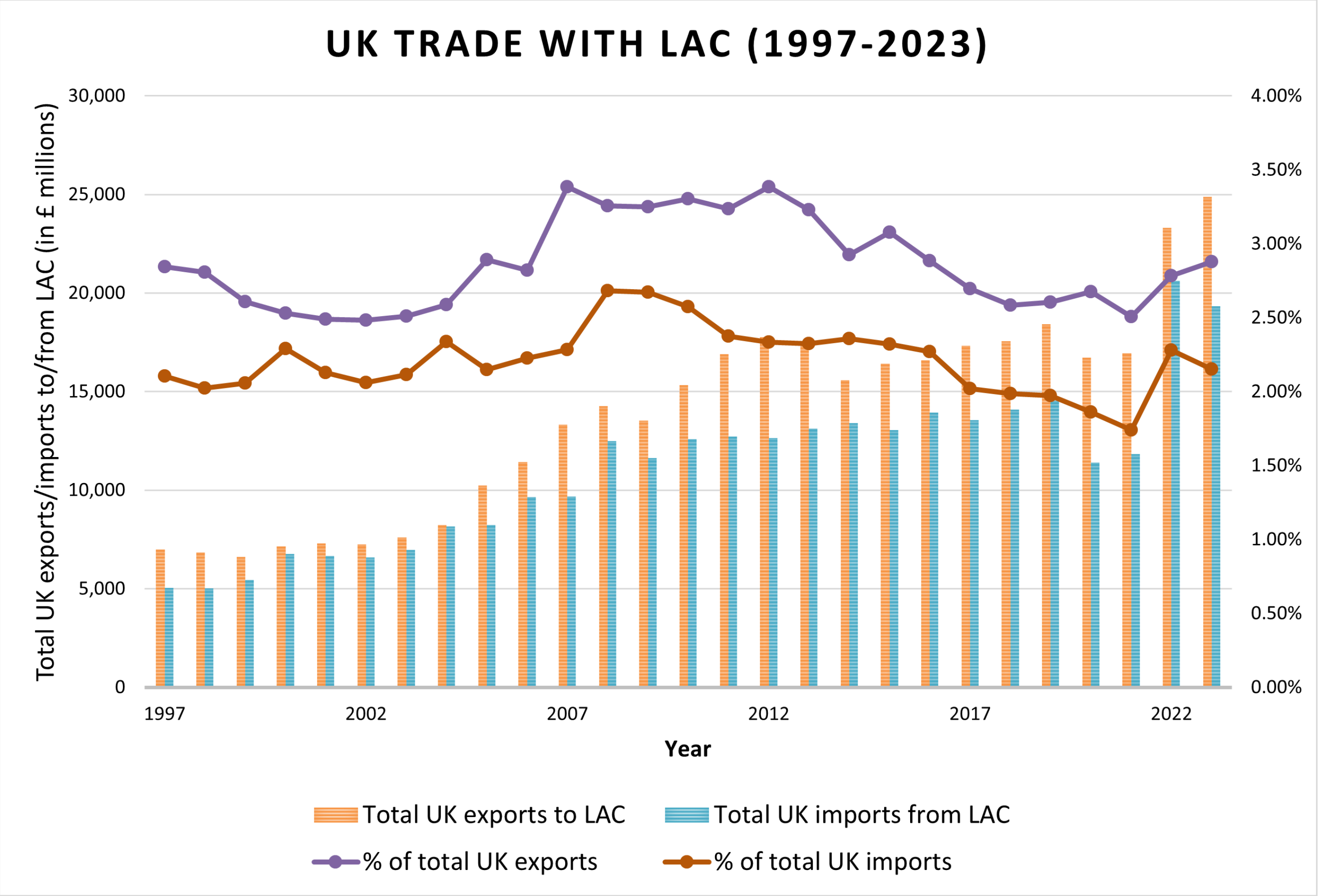
Immediately pressing, meanwhile, is Venezuela's presidential election due in late July. The vote is likely to be contested and accompanied by claims of electoral fraud. This will provide an early diplomatic test; at present, the UK government does not recognise the legitimacy of the Maduro administration.

Forging closer trade and investment links is a process which takes time and relationship-building effort, meaning that the region's tendency for rapid political swings may prove something of a hindrance. So too will wider global factors, including US-China tensions, the rise in the anti-democratic far right in a number of countries, and deep concerns over high rates of crime and drug trafficking. Moreover, deadlocks are possible, and some LAC governments may struggle to get anything done in the face of opposition-aligned congressional majorities.

It is also worth noting that the UK has an historic involvement in a handful of unsettled territorial disputes. These include its own with Argentina over the Falklands/Malvinas, together with indirect involvement with the Venezuela-Guyana dispute over the Essequibo region and with Guatemala over its claim to Belize. The chances of these disputes flaring up in the next five years are low, but the possibility cannot be excluded.

In practical terms, this means opportunities for forging closer economic relations between the UK and the LAC countries could be challenging. Short-term electoral calendars, political uncertainty, fragmented legislatures, and the region's tendency to experience pronounced political swings will hamper progress.

Opportunities for a 're-set' will nevertheless be present. The electoral calendar clearly favours advancing UK-Mexico relations. Also, if there is continuity, or a shift towards the centre, in the 2026 elections in Brazil there may be scope for new bilateral trade initiatives there. Collectively, Mexico and Brazil account for more than half the region's GDP and are its two largest trade markets in LAC, making them two critical nodes in westward-facing foreign policy for the UK.



Source: *Office for National Statistics*

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The ‘below 5%’ problem

A central problem for the new British government is that UK-Latin America trade has been largely stagnant over the last half century. Substantial time and political will is necessary to change this.

UK exports to the region last year (2023) totalled £24.87 bn, representing only 2.9% of total UK exports. By order of importance the UK’s main LAC export markets were Brazil (22.9% of the regional total), followed by Cayman Islands (18.7%), Mexico (13.1%), Bermuda (12.2%), Guyana (5.5%), and Chile (4.9%). Top UK goods exports to LAC countries include gas turbines, packaged medicaments, hard liquor, and cars; with services exports largely comprising the banking and insurance sectors.

Imports from LAC in 2023 were £19.33bn or 2.15% of total UK imports. The main supplier countries were Brazil (24.4% of the regional total), followed by Mexico (17.3%), Bermuda (8.0%), Peru (7.5%), Argentina (6.2%), and Costa Rica (4.7%). By product type key UK imports from LAC include soya, gold, coffee, prepared meat, cereals, raw sugar, hydrogen, refined petroleum, and engine parts.

The low level of total UK trade conducted with the countries of Latin America, persistently less than 5%, follows a noteworthy historical trend. The share of total British exports going to Latin America was around 11% at the time of the First World War, dropping to 8.0% by 1938, and falling further, below the 5% mark to 4.5% in 1960. Since then, and for six decades, UK exports to LAC have languished. Imports from Latin America have followed a similar disappointing trajectory. This century of decline in trade, as well as investment flows, reflects major trends including the rise of the US as a military and diplomatic superpower, and the emergence of China as a major trade and diplomatic competitor.

Cultural factors mean many UK businesses hold back from seeking opportunities in the region. An informal survey of commercial attaches conducted in 2021 cited many common themes, including a lack of familiarity with regional markets, a lack of contacts, insufficient information on regulation and local business culture, misperceptions and negative generalisations about Latin America, and the UK’s traditional focus on other emerging economies in the Middle East and Asia.

An optimistic, ‘glass half full’ analysis of the UK’s limited trade performance in Latin America and the Caribbean would emphasize that these low numbers mean there is plenty of room for growth, and room to develop in specific sectors (which we will consider later in this briefing). Boosting trade with LAC to over 5% of the UK total during the lifetime of the next parliament seems a reasonably ambitious medium-term target for the new government to consider. Without new initiatives, however, bilateral trade is likely to continue to hover under the 5% mark.

Global shifts: The US is neglecting Latin America and the Caribbean

In seeking to bolster its relations with LAC, the new UK government will need to keep abreast of shifts on the global stage, and their significance for the region.

The United States has been traditionally regarded as the leading power in the Western Hemisphere, playing a key role in regional politics, diplomacy, and economic development. Today it remains LAC’s main trading partner, ahead of both China and the EU, but it is losing market share, especially to the former.

However, there is a significant school of thought, both within the US and outside it, arguing that Washington’s leadership role in Latin America has weakened significantly in recent years. During Donald Trump’s presidency (2017-2021) the US became more unpredictable and sharply more polarised domestically.

Trump’s focus on US voters’ concerns over illegal migration and organised crime caused some consternation in Latin America, and the enhanced Mexico-US border wall served as a metaphor for US isolationism. In foreign policy, Trump tightened economic sanctions against Cuba and Venezuela, but otherwise displayed little interest in the region.

Balanced against that, and despite initial fears of a US withdrawal, the North America Free Trade Agreement (Nafta) was renamed and renegotiated as the US, Canada and Mexico Agreement (USMCA). It preserved the pre-existing North American free trade pact while incorporating greater protections for US automobile industry workers.

Joe Biden, who took office in 2021, promised a more constructive approach. Despite a more liberal tone on immigration, however, Latin America has fallen down his priority list.

That limiting of scope has, it seems, been reciprocated: at the 9th Summit of the Americas (SoA), convened by Biden in Los Angeles in 2022, an agreement on regional migration was reached but nearly half the visitors did not sign it. Some presidents stayed away because the Biden administration had refused to invite Cuba, Venezuela, and Nicaragua, which it judged to be dictatorships. The summit was labelled by some as the 'Washington Dissensus,' in a reflection of how politically divergent the region had become.

What does all that mean for the UK? A faltering in the US's ambition for relations with LAC in recent years may leave space to recoup some faded political and economic relationships. Though the US remains unquestionably an economic juggernaut in the region, with some strategic work more firms could be attracted to London as a financial hub over New York, for instance. Moreover, with the UK government's hopes to foster growth and stability, and complementary values on democracy, the environment, and other areas, Britain could even take advantage of the US pullback.

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Global shifts: Europe takes a protectionist turn

Like the United States, the European Union appears to be failing to fully engage with Latin America. [An EU briefing paper] written in mid-2023 acknowledged that, like the United States, the European Union appears to be failing to fully engage with Latin America. It said that EU-LAC relations have "lost intensity and relevance." Josep Borrell, the EU's High Representative for Foreign Affairs and Vice President (HR/VP), said that while the US has maintained a "steady" engagement with LAC, China has overtaken the EU to become Latin America's second most important trading partner, and the EU's engagement was "not proportionate" to the region's importance, leading to "a growing sense of neglect."

The UK was a member of the EU for nearly half a century prior to its exit in 2020. The new government thus inherits a vast European regulatory framework, much of which remains unchanged. Going forward, as EU trade policy evolves, it will create both threats and opportunities for the new UK government. The London administration will therefore face options to remain aligned or diverge from the EU approach to trading partners. An important point is that the prime minister, Sir Keir Starmer, has ruled out any formal attempt to rejoin the EU, promising instead to concentrate on improving relations with the 27 member nations on a sector-by-sector basis.

Key issues are illustrated by the proposed EU-Mercosur free trade agreement (FTA). This deal took over 20 years to negotiate, hampered by the coming and going of governments both in the EU and in Mercosur (which is a five-country trading block composed of Argentina, Bolivia, Brazil, Paraguay, and Uruguay). By 2019 the parties had reached broad agreement.

The almost-final draft FTA allows for tariffs to be cut in a phased manner over 15 years, permitting greater access to EU markets for Mercosur's agricultural and livestock products, while enabling greater access to Mercosur markets for EU manufactured products including cars and other equipment. Supporters of the FTA said its long-term nature offered the parties a sustainable way of increasing the sales and competitiveness of their respective economies.

However, the EU governments changed their position. France and others said they would not now ratify the treaty unless it included greater environmental protections. The EU also took unilateral action announcing a new anti-deforestation regulation (EUDR) which requires companies in Europe importing cattle, cocoa, coffee, palm oil, rubber, soya, and wood to provide detailed certification that their supply chains are "deforestation free." This imposes extra costs on commodity exporting countries; their importing partners will be exposed to hefty fines for non-compliance.

As a result of these measures many Latin American exporters have begun accusing European governments of "green protectionism." Meanwhile, advances made by parties advocating for protectionist policies in the recent European elections (June 2024) are likely to further heighten such hurdles.

The EU-Mercosur FTA therefore poses complex issues for the next UK government. Britain could essentially take a passive role, wait for negotiations to conclude, and then seek to 'copy and paste' the resulting trading framework into its own bilateral trade deals with the Mercosur countries. Alternatively, it could swoop in with a proactive stance, perhaps offering more favourable terms and less onerous requirements than the EU.

This latter option might deliver a short-term boost to UK-LAC trade, but it would almost certainly be heavily criticised by the EU – already sensitive to what it sees as any British attempts to undercut its trading terms. As it seeks to rebuild bridges with the EU, its largest trading partner and geographically nearest neighbour, it is likely the new Labour government will tread cautiously on such issues.

Global shifts: Chinese trade and influence on the rise

In contrast to the US and EU, China has been intensifying its presence and contacts in Latin America and the Caribbean. Diplomatically China has been building close relations with the Community of Latin American and Caribbean states (CELAC), and it has observer status in the Organisation of American States (OAS – the hemispheric organisation traditionally dominated by the United States).

In 2013-2023 Chinese President Xi Jinping visited the region 11 times, roughly once per year, well ahead of either US or EU leaders. China has signed strategic partnership agreements with Argentina, Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela. During the Covid-19 pandemic China was highly active in LAC, providing over 300m doses to LAC countries, compared to the 125m supplied by the EU, dubbed by some critics as 'vaccine diplomacy'.

The Chinese economy has expanded rapidly over the last two decades triggering a sustained boom in trade with Latin America. China has overtaken the EU to become LAC's second most important trading partner after the US; and is already the number one trading partner, ahead of the US, for the countries of South America.

According to the World Economic Forum (WEF), China-LAC bilateral trade in goods has multiplied by a factor of 26 this century, up from US$12bn in 2000 to US$315bn in 2020. It is predicted to more than double to US$700bn by 2035. Driving this expansion is China's appetite for Latin American raw materials including agriculture, livestock, and mining products. However, there are also signs that trade is diversifying to include critical minerals, fintech, electric vehicles (EVs), and renewable energy. Backing up this remarkable expansion, Beijing has signed free trade agreements with Peru, Costa Rica, Chile, Nicaragua and Ecuador; it has also been negotiating with Uruguay.

For LAC countries China offers at least two big attractions relative to the US and the EU. First, it appears - on the surface - to require that its trading partners meet fewer political conditions (whether that remains the case in the longer term remains open to question). Washington and Brussels have large trade-related regulatory requirements covering the protection of human rights, labour rights, anti-corruption and counterterrorism, and environmental protection. China, meanwhile, makes notably fewer demands of its suppliers.

A second attraction is that Chinese companies have been much more prepared to carry out and help fund massive investment in Latin American transport infrastructure, through the Belt and Road Initiative (BRI). To date, 21 LAC countries have joined BRI. Both the US and the EU have responded by launching their own infrastructure development initiatives, but they are widely seen as much less ambitious.

The Biden administration promoted a G7-backed initiative called Build Back Better World (B3W), later renamed Partnership for Global Infrastructure and Investment, but it has been slow to start and has only a small fraction of the funding attracted by BRI. The EU's response has been the launch of the Global Gateway connectivity strategy. The aim, according to an official statement, is to "speed up sustainable development, create inclusive growth and jobs, and transition to a cleaner and more circular economy." Projects listed for support include a 6,000km fibre optic cable linking the EU and LAC; a partnership to develop vaccines and medical technologies; and pilot projects on the development of green hydrogen. However, Global Gateway remains years behind BRI, and comparatively underfunded.

It will come as little surprise that the UK is not able to compete on the scale of China, nor indeed the US, in regional infrastructure development or trade volume. However, the UK has previously illustrated its offer on other levels; collaborating on infrastructure projects in Peru, or medical development in Brazil, for example. With a strategic focus, the new UK government can continue to carve out a space for British expertise, quality goods and services, and shared values, in a competitive regional market.

Early indicators of new British foreign and trade policy

On 20 January this year, David Lammy, now foreign secretary, gave a speech to the Fabian Society outlining the likely foreign policy stance of a future Labour government. He dubbed his new approach as "progressive realism" saying it would avoid making "a false choice between values and interests."

Expanding on this, Lammy invoked the realism of Ernest Bevin (foreign secretary 1945-1951) who led Britain into NATO, and the idealism of Robin Cook (foreign secretary 1997-2001), who called for an "ethical foreign policy."

Setting out the broad strokes of a foreign policy platform, Lammy said Britain should seek a partnership with Europe to resist Russian aggression. A Labour government would pursue recognition for a Palestinian state, support Ukraine, rebuild ties with the EU, and work towards a global climate order. Furthermore, it would adopt a 'three Cs' approach to China based on the idea of "cooperating where possible, competing where needed, and confronting where necessary." Lammy said that UK diplomats would also work to build a Clean Power Alliance of developed and developing countries to drive forward the energy transition, set the pace for global action, and lower the cost of clean energy at home and abroad. A number of these stances could have beneficial knock-on effects for UK policy toward Latin America. For example, UK support for Ukraine and a lasting Middle East peace settlement, together with its pro-democracy stance, could create points of diplomatic agreement with many LAC countries, favouring wider cooperation. The idea of a clean power alliance in particular could lead to a mutually beneficial marriage of Latin American renewable energy resources and UK technology and innovation.

In earlier comments, made in August 2023, Lammy stated that a future labour government would focus diplomatic efforts on building relations with emerging economies such as Brazil and India. He visited Brazil at the time for talks with local officials, advocating for a "green foreign policy." Both the Brazilian government of Luiz Inácio Lula da Silva and the Labour Party had previously shared a commitment to green growth and the energy transition, through Brazil's US$350bn PAC (Growth Acceleration Programme) and Labour's £28bn Green New Deal – though the latter was diluted by then-Shadow Chancellor Rachel Reeves over funding concerns. In general, the overall mood music between Lammy and Brazil – and, indeed, the wider 'Global South' – is largely good.

When it comes to trade, Jonathan Reynolds, now Secretary of State for Business and Trade, told Canning House at a February 2024 roundtable that Latin America is "on the list" for Labour, recognising the underutilised potential for UK to do business with the region. He particularly highlighted the environment as an area of leadership from Latin America that the UK could tap into.

From the manifesto

The Labour Party's election manifesto was published in late June. The following are points relevant to the UK's relationship with Latin America and the Caribbean.

- The creation of a new state-owned energy company called Great British Energy which could conceivably become involved in the LAC energy transition.
- Government based on achieving five "missions" including "kickstart economic growth" and "make Britain a clean energy superpower" as well as commitments on crime, education reform and public health.
- An "unshakeable" commitment to NATO, the special relationship with the US, and European security.
- Britain to stay outside the EU but to reset the relationship.
- The UK to seek "targeted trade agreements aligned with our industrial strategy and economic strengths."
- Specific mentions of a strategic partnership with India, trade and investment in the Gulf, and a "new approach" to Africa, but no mention of Latin America or the Caribbean.
- A commitment to create an international Clean Power Alliance. A "coalition of countries at the cutting edge of climate action."
- Diplomacy focused on long term peace and security in the Middle East and recognition of a Palestinian state.
- A new approach to international development, including a commitment to boost aid to 0.7% of GDP "as soon as fiscal circumstances allow."

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UK opportunity: the energy transition

Several countries in Latin America and the Caribbean have already marked themselves out as leading lights of the global energy transition. Most LAC countries now rely on renewables for more than half of their electricity needs, and the region's wind and solar energy capacity is expected to double from its current levels by 2027. Many were also prominent participants in the Paris climate agreements of 2015, committing themselves to making voluntary "nationally determined contributions" (NDCs) to try and reduce global warming.

Mauricio Cárdenas, a former Colombian energy and finance minister (2011-12 and 2012-18), has said that the region is uniquely well-placed to benefit from the energy transition, for three key reasons. First, it is one of the world's top food-exporting regions; second, it has a wealth of renewable and non-renewable energy sources; and third, it is home to major biodiversity, particularly in the Amazon and other tropical rainforests.

Latin American countries are also a source of critical minerals used in the energy transition, including copper, lithium, cobalt, and rare earth elements. About 60% of known lithium reserves are concentrated in Latin America, many in the 'lithium triangle' formed by Argentina, Bolivia, and Chile. Largely because of its use in electric vehicle (EV) batteries, demand for lithium is expected to multiply by a factor of 40 in the next two decades.

Some analysts believe the region can play a leading role in the development of green hydrogen, using renewable electricity to power electrolysis (splitting hydrogen from oxygen atoms in seawater). Green hydrogen has zero carbon emissions; it can also be used as an energy store. A number of companies are experimenting with green hydrogen-fuelled vehicles. According to the World Economic Forum (WEF) green hydrogen could account for up to 12% of global energy use by 2050.

To achieve a successful energy transition, LAC countries will need to overcome multiple challenges. UK companies have some of the technology and know-how to make that happen. Green hydrogen will need major investment in new pipelines, ports, and tankers; sustainable lithium mining requires water conservation; and despite a global slowdown there will still be 'new frontier' booms affecting oil and gas exploration and production in Guyana, Suriname, and northeastern Brazil.

The growing importance of the energy transition in Latin America is therefore likely to provide valuable new opportunities to develop UK-LAC trade and investment, for the region as a whole and for Brazil in particular. Brazil is a key market because of its size (a population of 210m and an economy worth US$2.17trn, one of the world's ten largest). It is also one of the top 10 wind and solar generators in the world.

UK opportunity: nearshoring

Leaving the European Union has restricted UK access to one of the world's largest trading blocs. Both post-Brexit Conservative governments and the new incoming Labour administration have been keen to open up other markets to UK exports. The outgoing Conservative government signed three new post-Brexit trade agreements: one each with Australia and New Zealand, and one gaining UK access to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In addition, there have been digital trade agreements with Singapore and Ukraine.

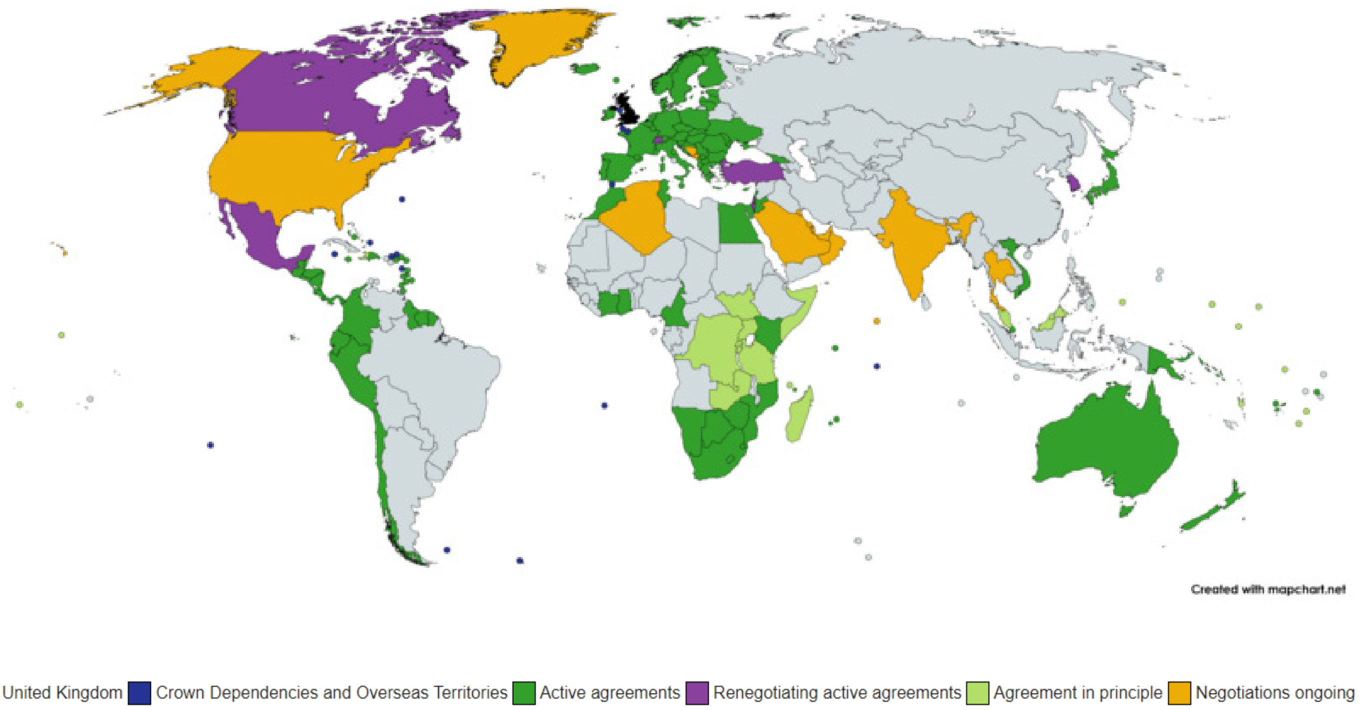
None of these will have a dramatic short-term impact on existing trade patterns although the deal with the CPTPP, an 11-country trade block which includes LAC countries Chile, Mexico, and Peru (as well as major economies such as Canada, Japan, and Vietnam) could be strongly positive from a long-term, strategic perspective. Bilateral negotiations continue with Mexico. Successive UK governments have sought a free trade agreement with the United States, but this is widely seen as a long-term aspiration.

Pre-existing trade agreements with Central America and the Andean countries provide more regional coverage, though the UK still lacks agreements with key regional markets including Brazil and Argentina – both within Mercosur. Below provides a map of the UK's global trade agreements.

Changing patterns in global trade may also open up opportunities for the UK in Latin America. US-China rivalry, anti-immigrant sentiment, the aftermath of the Covid-19 pandemic, and a swing to less economically liberal policy positions, have ramped up protectionism. Some have described the current period as one of de-globalisation and decoupling between rival US and China-led trade blocks.

This has also triggered nearshoring, a process by which major western companies relocate production from China to countries such as Mexico, which can offer proximity, less geopolitical risk, and, because of the USMCA, low or zero tariff access to the US market. A study by the Inter-American Development Bank (IDB) in 2022 suggested nearshoring could add US$78bn to annual LAC exports mainly in Mexico (US$35.3bn) but also in Brazil, Argentina, Colombia, and Chile. By sectors, nearshoring was judged to offer quick wins for the automobile industry, textiles, pharmaceuticals, and renewable energy. In the absence of a US-UK free trade agreement, British companies may find investing in Mexico is a cost-effective access route into the US market.

UK Trade Agreements



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Conclusion – scenarios for the future

There are at least three possible scenarios for the future of the UK–LAC bilateral trade and investment relationship. Put bluntly, in the first of those scenarios not much changes: despite a new government in London, the current comparatively low level of engagement between the two sides will continue. The new Labour government faces multiple pressing challenges over the economy, public finances, education, housing, and health. This means that, despite good intentions, and measured from a UK perspective, LAC will simply remain low down the priority list. The region is likely to continue representing less than 5% of total UK trade. Ministerial visits to the region will remain intermittent and the rapid Latin American electoral cycle will limit windows of opportunity for greater cooperation. Nevertheless, in this scenario the more pro-active UK companies will still find profitable business in the region.

The second scenario could be described as one of 'quiet improvement'. After an initial period necessarily focused on re-setting its relationship with the EU, it is likely that the UK will find a strong niche role in regional trade. At a time of growing protectionism, regulation, and supply chain security concerns, Latin American countries may see a 'lighter touch' free-trade leaning UK business partner as an attractive proposition adding welcome diversity to the US, EU, and China trade blocs. The gradual expansion of UK trade agreements within the region, including the Pacific-facing CPTPP, will also have a positive cumulative effect. In this scenario trade will grow from a low base in 2024-2029 perhaps close to the 5% of the UK total.

The third scenario is the most optimistic. It envisages growth being driven forward by two major global trends: the climate transition and nearshoring. Taken together these trends will accentuate a new type of energy transition based comparative advantage. LAC governments are acutely aware of growing climate change risks and will welcome UK expertise on building in resilience and exploring the potential for new technologies such as green hydrogen. Meanwhile the nearshoring boom in Mexico and elsewhere, in the absence of a US-UK trade agreement, will provide a low tariff way into the US market, still the world's largest single economy. For this scenario to work the new Labour government will have to be pro-active and demonstrate political will, for example by pushing forward with its idea of a 'clean power alliance'. New private sector investment could in this scenario push trade with the LAC countries up beyond 5% of the UK total in the next 5-10 years.

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