



The Global Outlook

Michael Stott

Latin America editor, Financial Times

Outline of today's talk

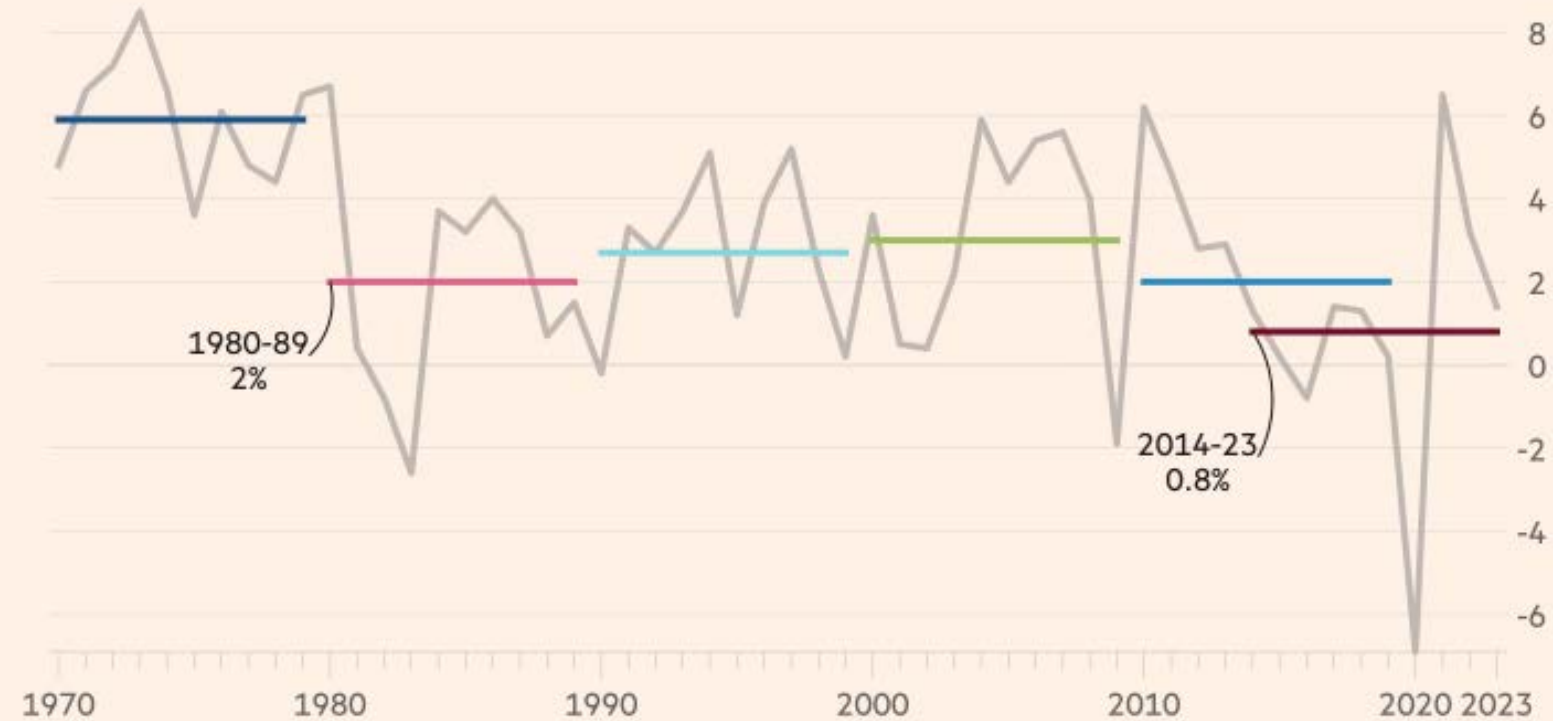
- Why Latin America matters
- What's the starting point?
- China and Latin America
- Latin America and the West
- The new left presidents
- Opportunities for the region



- GDP of \$5.5 trillion – more than Japan
- 19.2 million square kilometres in size – almost the US and China combined
- 23% of the world's forests, 30% of its fresh water and 25% of its cultivable land
- 650 million people, 81% living in towns and cities – the world's most urbanised region after N America
- 58% of the world's lithium reserves of 41% of its copper
- The world's third most widely spoken language

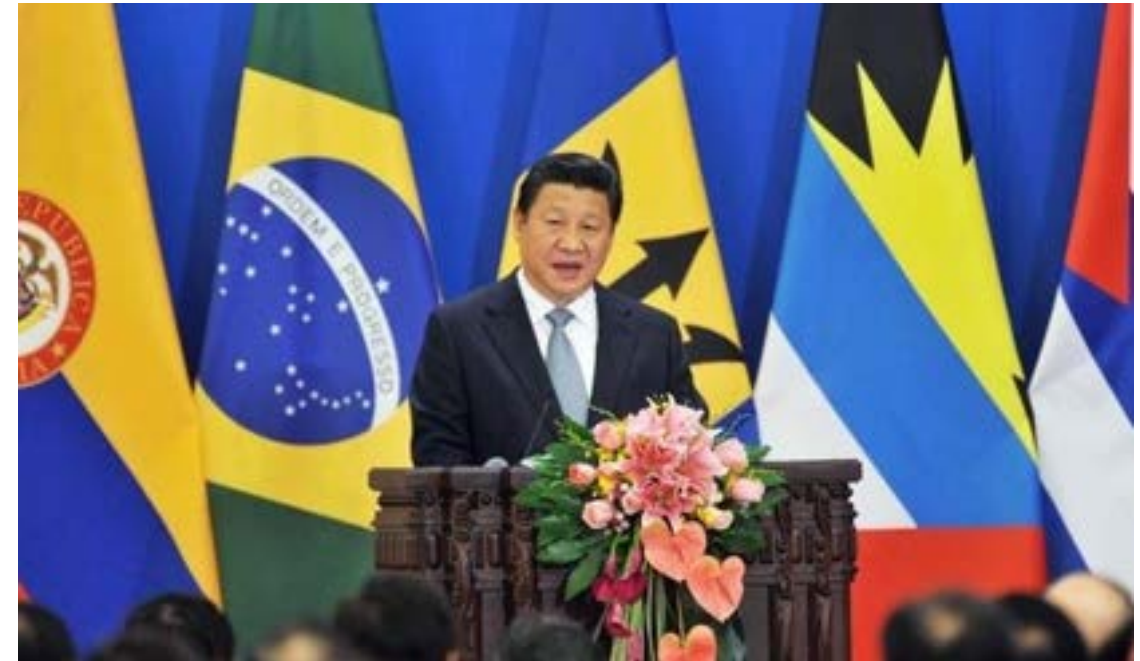
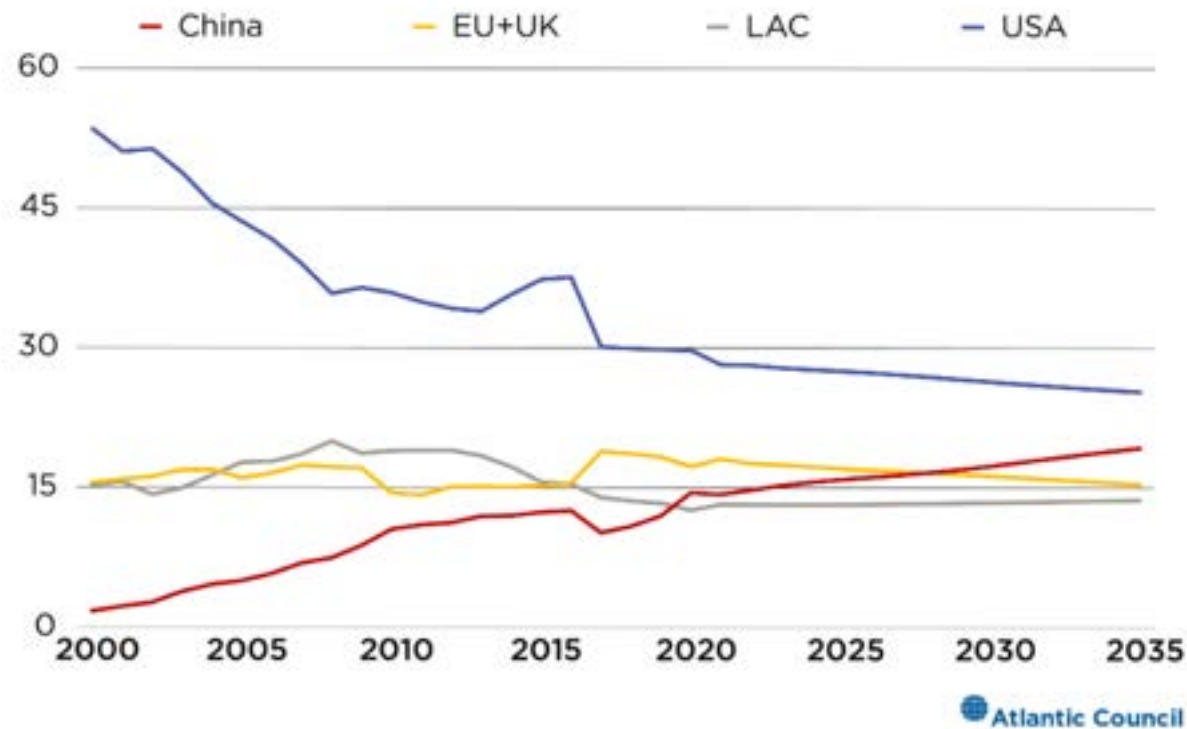
Latin America is seeing worse average annual growth than in the 1980s

GDP (%)*



*Figures for 2022 and 2023 are estimates
Source: ECLAC

LAC's Main Trade Partners through 2035



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S • 2022



Latin America and the West



Latin America and the West (2)

The new left presidents

- Mix of ideas
- Very different era to Pink Tide
- Big expectations
- Major constraints



Food and fuel
supplies

Metals for the
energy transition

Abundant low-
cost renewable
energy

Straddle China
and the West

Distance from
big geopolitical
conflicts

Strong tradition
of democracy
and respect for
human rights

Growing
environmental
awareness



Commodity boom followed by decade of stagnation has led to excessive pessimism

Rapid rebound from pandemic shows Latin America's underlying strength and sound macro management

Political turbulence will persist but so far Latin America's institutions and democracies have held up very well

Latin America will look better relative to rest of the world over the next 10 years than over the past decade: investment is a relative decision

Grounds for cautious optimism



The Political Outlook

Alejandra Soto

Associate Director, Control Risks

Democracy

- Democracy prevails in Latin America and the Caribbean, but it is fragile.
 - Electoral democracy remains strong
 - Waning trust in institutions
 - Lack of representation
- Increasing frustration with the quality of democracy.
- Voting incumbents out and the rise of political “outsiders” and non-traditional political parties underscore that credibility in key democratic institutions is undermined.
- Democracy vs authoritarianism.

Political orientation in LatAm*



Social protest

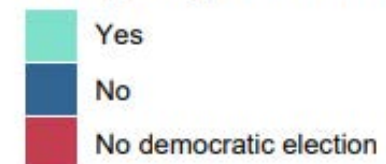
- Voting and protest.
- Political alternation entails appetite for better results.
- Governments' capacity to address civil concerns will determine their legitimacy and political prospects.
- Political leaders have fallen short in meeting these demands – a key factor driving alternation in the region.

Source: The Global State of Democracy 2022 (International IDEA)

Incumbent defeats in Latin America, 2018–2022



Change of government since 2018



Authoritarian temptations

- Undemocratic processes and authoritarian decisions are usually effective in achieving rapid change
 - Appealing to a growing proportion of voters amid democracy's eroded legitimacy to ensure social progress.
 - Undemocratic tactics attractive to a new wave of politicians.
 - They are likely to succeed if incumbents fail to effectively address the most pressing issues for citizens through democratic processes.
- ◆ **Cuba, Nicaragua, Venezuela and Haiti, in the list of authoritarian countries**
 - ◆ **Setbacks in Brazil and El Salvador**
 - ◆ **The Dominican Republic and Ecuador have improved their democratic performance**

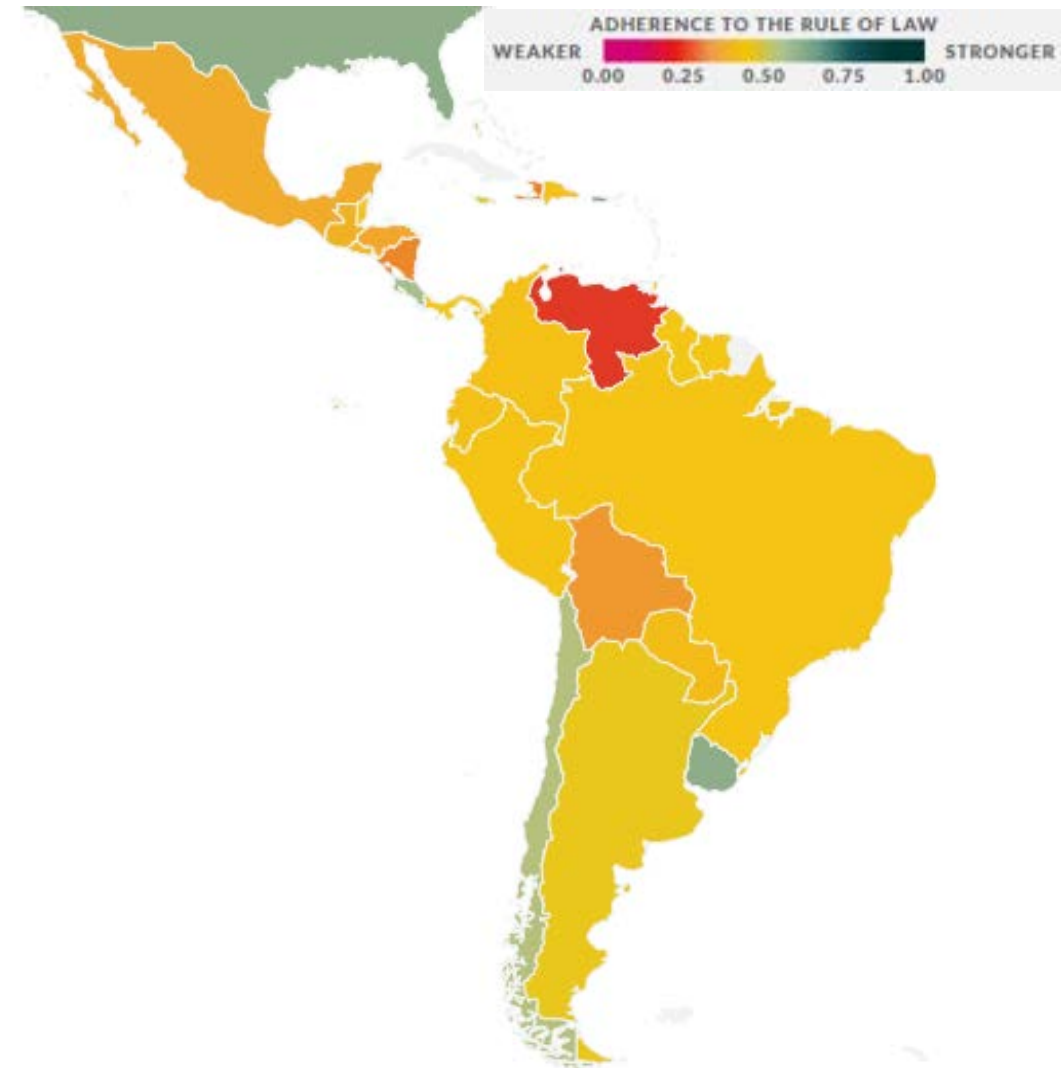
Calls to reform government institutions

- Citizens' calls to reform the institutions they feel have failed to improve their living standards.
- Efforts throughout the region to push forward ambitious reforms
- The governments of Brazil, Chile, Colombia and Mexico will attempt to pass some of these reforms in 2023, but it will not be an easy task
- Despite the need for institutional change, not all the aggressive reforms proposed are aimed at strengthening democracy.
- Incentives for some leaders to seek initiatives that pose threats to democratic governance.

Rule of law

- A common thread in the region is the weakness of the rule of law. As long as new waves of reforms fail to address this, the erosion of democracy will continue.
- This trend will be evident throughout 2023 in parts of Central America. Government opacity and undemocratic policies in Guatemala and El Salvador risk them following the same path as Nicaragua.

Source: Rule of Law Index 2022 (The World Justice Project)



Economic headwinds

- The shockwaves of the COVID-19 pandemic, combined with conflict in Europe, set the stage for enduring economic hardships in the region.
- The combination of high inflation rates and frustration with governments and institutions unable to support citizens will further fuel social unrest in 2023.
- To navigate this context, authoritarian leaders will become increasingly appealing by promising effective – albeit undemocratic – solutions.

Nearshoring

- Latin America and the Caribbean is well placed to capitalise on the US-China decoupling and the growing need in the Americas to bring supply chains closer.
- Despite democratic challenges, prospects for social unrest and macroeconomic complications, nearshoring trends will ensure the region remains attractive for FDI in 2023.



The road ahead

- The resilience of democracy amid global and domestic complications will be tested.
- Governments will be faced with both old and new challenges. Those that manage to revamp public institutions and restore trust in them will be better placed to navigate uncertainty in the economic and social arenas.
- Brazil and Colombia are the most likely to achieve this (given some congressional agreements), albeit to a limited extent.
- The inability of democratic institutions to evolve will contribute to increased social unrest and the rise of undemocratic political leaders, with dire effects in the long term for citizens and the business environment alike.

The road ahead

Argentina

- Deteriorating governability in the lead-up to the 2023 election

Brazil

- Energised right-wing opposition

Chile

- Government moderation after setbacks in pushing reformist agenda

Colombia

- Radical reforms unlikely amid declining government popularity

Mexico

- Continued efforts to undermine autonomous government agencies

Peru

- Instability and uncertainty



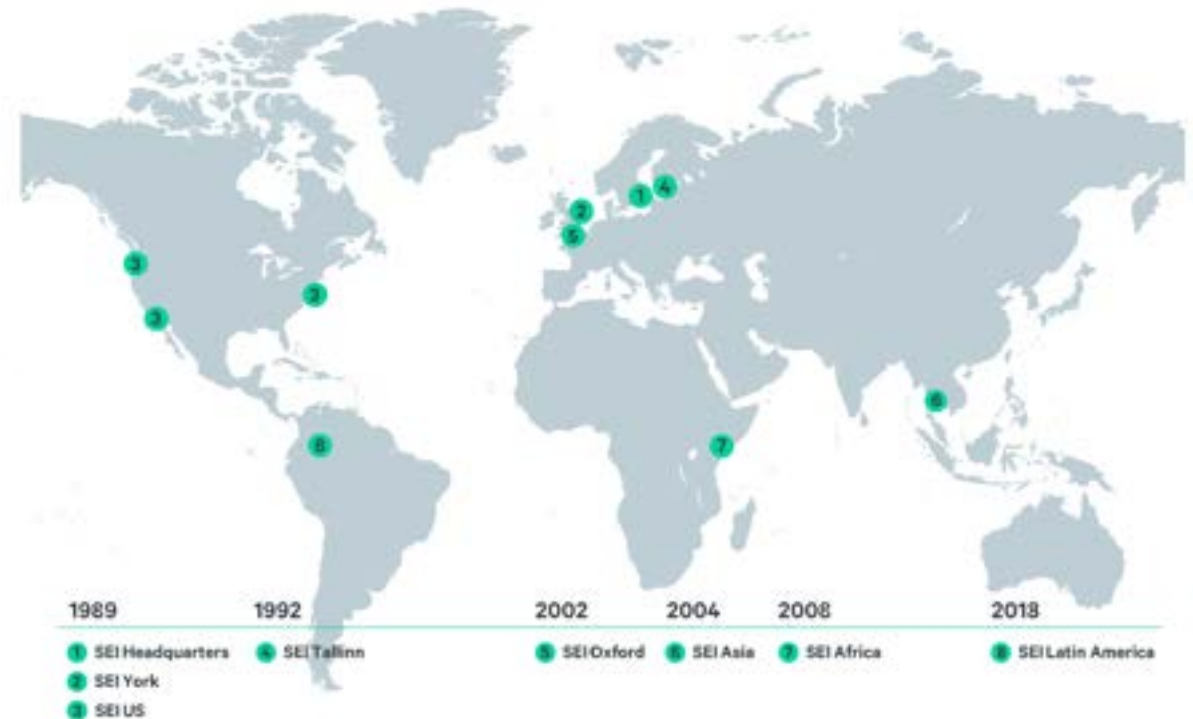
The Environmental Outlook

David R. Purkey, Ph.D.

Latin America Regional Director
Stockholm Environment Institute

Why SEI?

- Globally ranked think tank focused on sustainable development
- Broad expertise on pertinent issues such as energy planning, climate change, water management, air quality, just energy transitions, sustainable agricultural systems and resource conservation.
- Operating a Latin America research centre since January 2018.



Climate ambition

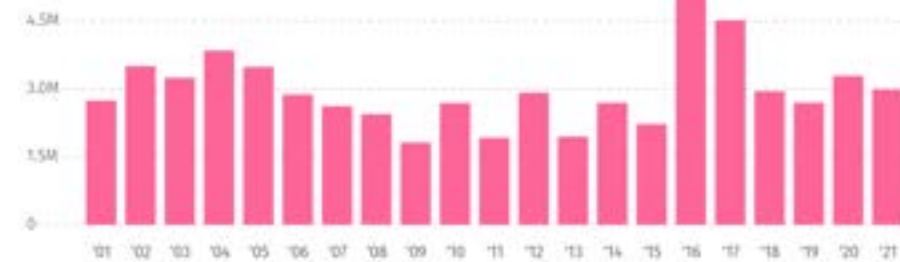


Tree cover loss

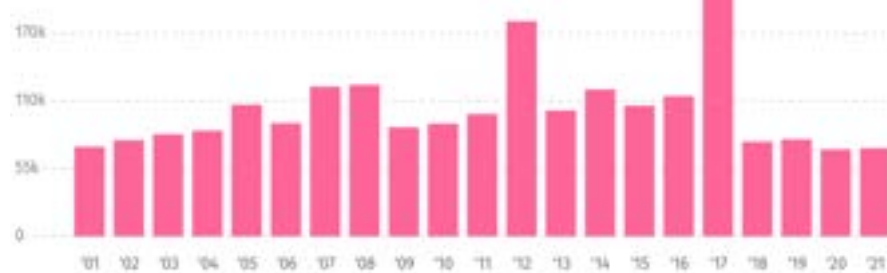
600Kha Argentina



6Mha Brazil



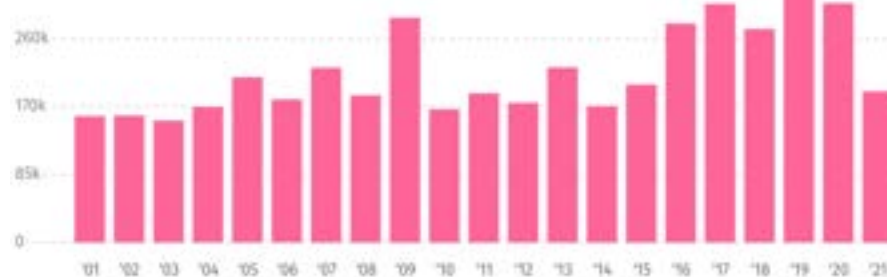
220Kha Chile



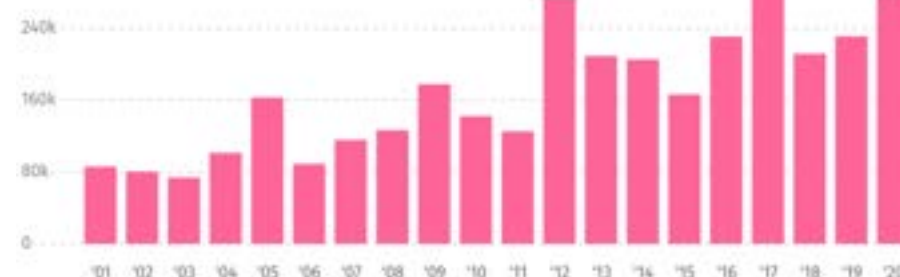
600Kha Colombia



340Kha Mexico



320Kha Peru



2022 Outlook

1. Deforestation
2. Extractive industry dependence
3. Water contamination
4. Water scarcity
5. Air quality
6. Tourism
7. Climate impacts/natural disasters
8. Bioresource-based economic development



Environmental focus

Argentina: Gran Chaco Americano



Brazil: Pantanal



Chile: Salar de Atacama



Colombia: Monposina Depression



Mexico: Riviera Maya



Peru: Caplina River Basin



- Many of the region's new left-leaning administrations are beginning to articulate more ambitious political narratives related to environmental sustainability.
- Unfortunately, as a region, Latin America is not yet demonstrating global leadership in terms of climate ambition.
- One reason is that the region's fossil fuel producers have not made any clear commitments to phase out this production.
- Another reason is that deforestation makes up a significant portion of the greenhouse gas emissions portfolios of many Latin American countries, and in most cases, deforestation is not being reduced to the level required to meet climate commitments and to protect biodiversity.
- There are variations between countries, however, and if one country can be recognized for better performance in terms of climate ambition and biodiversity protection, it would be Chile.

- To demonstrate how more holistic water resources management, including the use of green infrastructure, can produce better outcomes within river basins
- To set the standard for ecotourism, so as to capture a larger share of a growing sector poised to expand dramatically post-pandemic.
- To develop and promote a market the strategic minerals needed to support the global energy transition that are produced in a just and sustainable manner.

Thank you, Gracias, Obrigado

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The Commercial Outlook

Cristina Irving Turner

DIT Latin America Business Specialist

Contact: cristina.irvingturner@trade.gov.uk

The macro picture

Latin America is made up of over **30 countries**, is home to over **650 million people**, and represents circa **5% of global GDP** (US\$bn).

The UK has a significant trading relationship with the region, with imports + exports totalling **over £22 billion** in the 12 months leading to Q1 2022.

Country	Total trade (£bn), 12 months to Q1 2022
Brazil	£6.5b
Mexico	£4.2b
Peru	£2.0b
Argentina	£1.7b
Chile	£1.6b
Colombia	£1.3b

UK Exports to LATAM*
£10.0bn



UK Imports from LATAM
£12.2bn

Source: Office for National Statistics, UK Total Trade: all countries, seasonally-adjusted. * LATAM totals do not encompass the Caribbean, Cuba, Venezuela, Haiti, Suriname, French Guyana or British Overseas Territories. [\[link\]](#).

What is there to be excited about?



The UK is joining the **Comprehensive and Progressive Trans-Pacific Partnership**, which represents 13% of Global GDP. Also, **Chile, Peru and Mexico** are set to join. The UK has several **strategic trade agreements** in LATAC:

- **UK-Mexico** Trade Agreement.
- **UK-Central America** Association Agreement,
- **UK-Andean** Trade Agreement,
- **UK- Chile** Association Agreement,



Double Taxation Agreements

The UK benefits from these with most countries in LATAC, which provide additional certainty over cross-border investment flows between the UK and these markets.



Non-Tariff Barriers

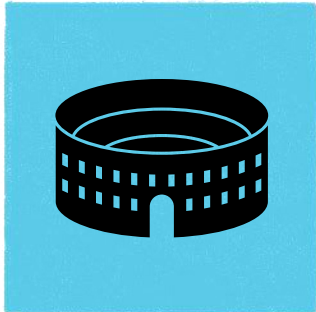
- DIT has been working on:
- Securing **improved regulatory** frameworks for financial services
 - Supporting new regulations for **offshore wind**
 - Helping UK life-sciences companies to provide **innovative medical treatments**
 - Opening trade opportunities, such as for **agri-food products**



What is there to be excited about?



Infrastructure, including Sports Economy



- Pan American Games 2023- 2027
- Panama and El Salvador ports and roads infrastructure
- United 2026 FIFA World Cup
- Central American and Caribbean Games
- Water infrastructure projects in Brazil
- IMF Loan to Costa Rica to fund resilience projects

Government-to-Government, Development Banks and UK Export Finance



- Continuation of partnership with Peru (G2G programme) across road, rail, water and sports infrastructure
- IDB, CABI and CAF funding for green transition in Central America
- Potential UKEF funding for Central American investments in hospitals



What is there to be excited about?

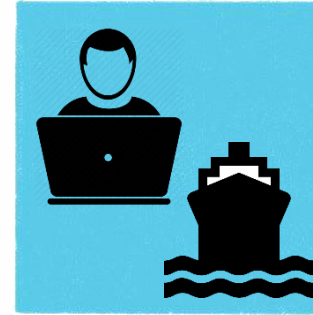


Healthcare and Education



- Medical tourism
- New technologies
- Bilingual education
- Vocational training
- Ed-Tech
- Private schools
- Higher education

Security and Defence



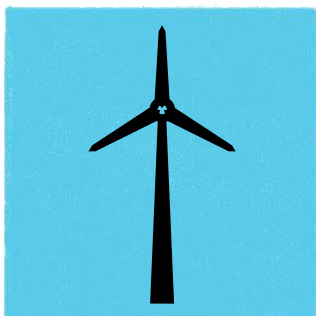
- Border security
- Cyber security
- Police capacity building
- Maritime defence and security



What is there to be excited about?



Renewable Energy and Clean Growth



- Electric vehicle opportunities in Mexico
- Offshore Wind (OSW) in Colombia
- Hydrogen and OSW projects in Brazil
- Hydrogen opportunities in Spanish-speaking Mercosur countries

Financial and Professional Services



- FinTech opportunities in Mexico
- Open finance opportunities in Colombia and Brazil, with UK-influenced frameworks now in place



Who should be excited and *how* to explore Canning House

For the experienced:

- Not for first-time exporters
- Goods exporters able to manage the risks
- Hedging currency
- Managing customs and other risks

For the committed and competitive:

- Plan to invest time
- Frequent visits
- Resource local setup
- Scale up market by market
- Seeking place in global supply chain
- First mover advantage opportunity



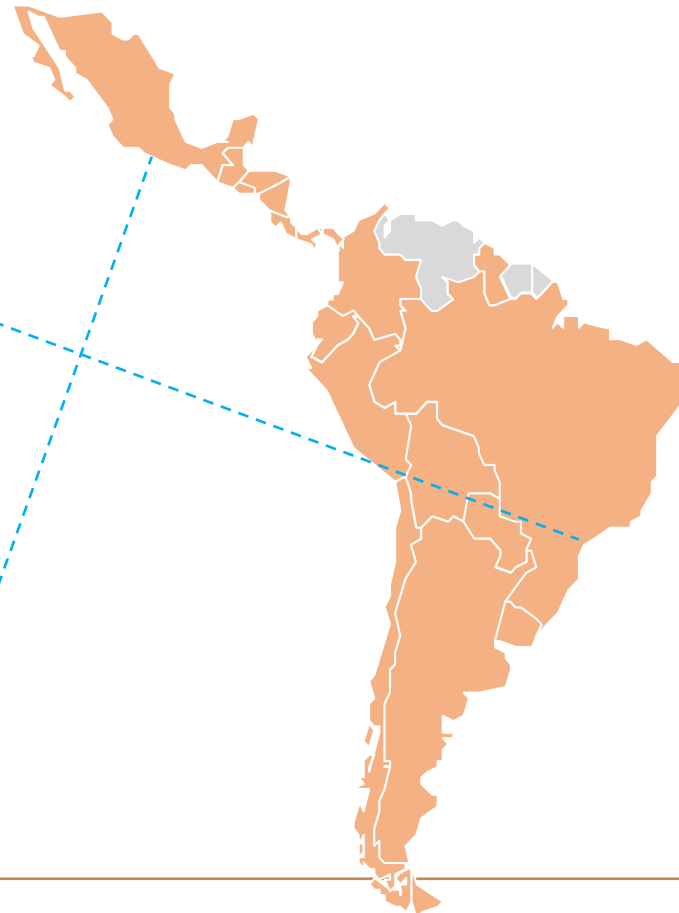
18 Markets · 100+ Staff



His Majesty's Trade Commissioner
Jonathan Knott
Based in Sao Paulo, Brazil



Deputy Trade Commissioner
Spencer Mahony
Based in Mexico City, Mexico



Business Specialist
Cristina Irving Turner
Based in Leeds

Thank you!

UK-wide Trade Opportunities in Latin America

Cristina Irving Turner

DIT Latin America Business Specialist

Contact: cristina.irvingturner@trade.gov.uk



The Economic Outlook

Julio Ruiz

Chief Economist, Mexico and Peru, Itaú Unibanco



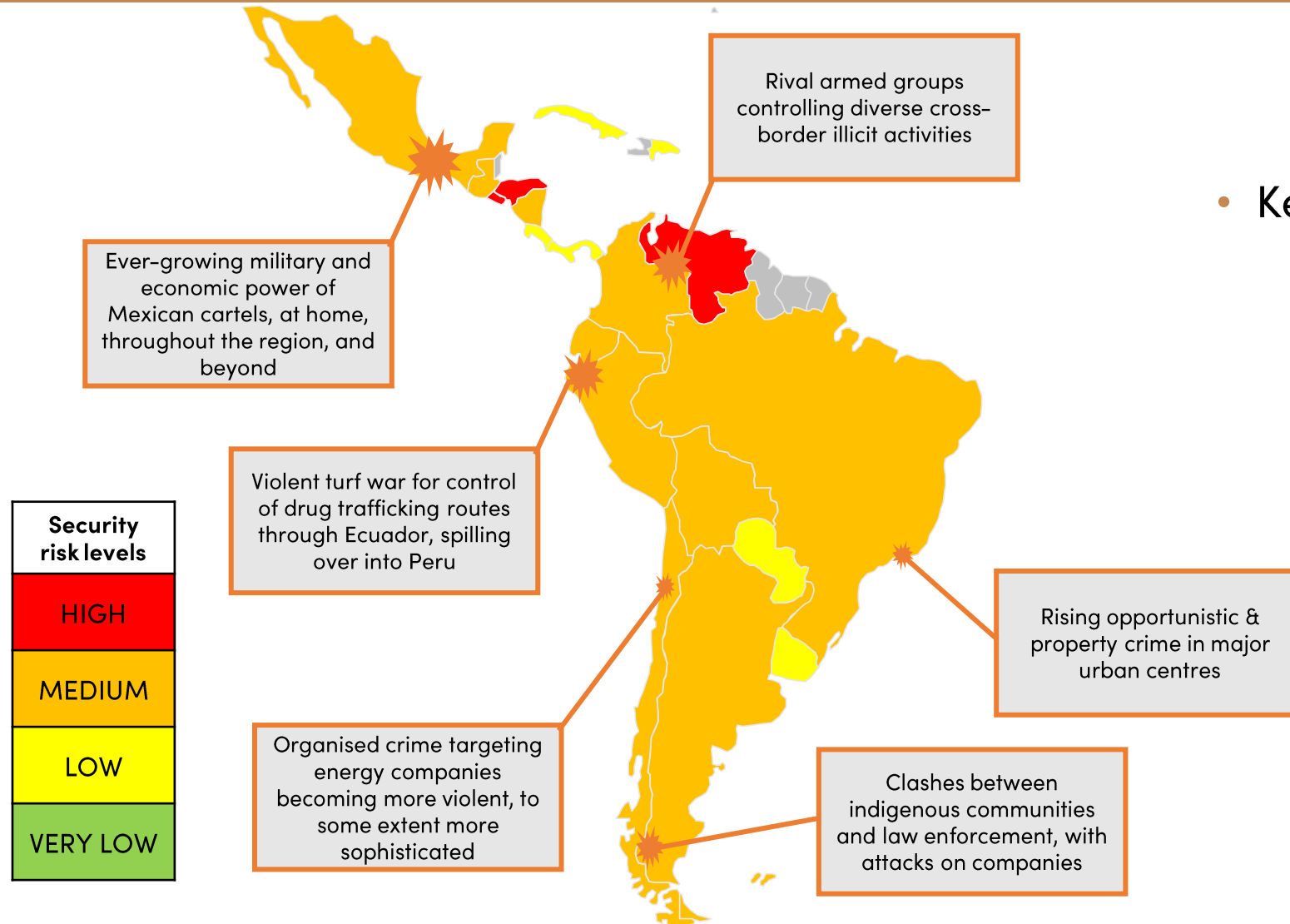
The Risk Outlook

Oliver Wack

Partner & General Manager, Andean Region

Control Risks

Physical security



- Key trends

- **Organised crime and transnational drug-trafficking**
 - Expanding geographic reach of the drug trade
 - Expanding scope of illicit activities
- **Petty property crime**
 - Economic downturn and ineffective policing
- **Social conflict driving security risks**

Extortive crime

Kidnaps in Latin America concentrated in major hotspots of Mexico, Haiti, Brazil and Colombia.

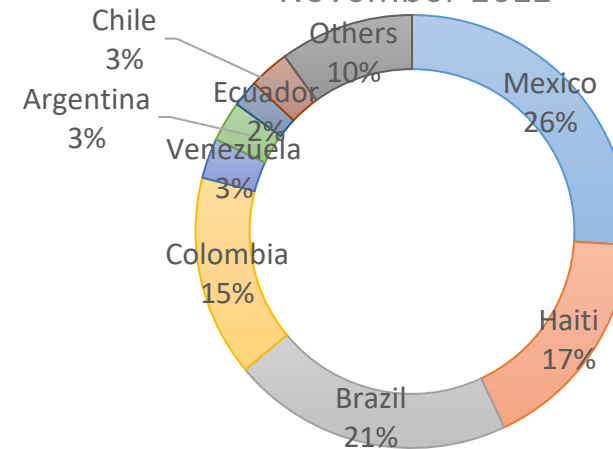
Haiti highest incidence per capita in the region: political and security crisis

Increase in Colombia and Brazil

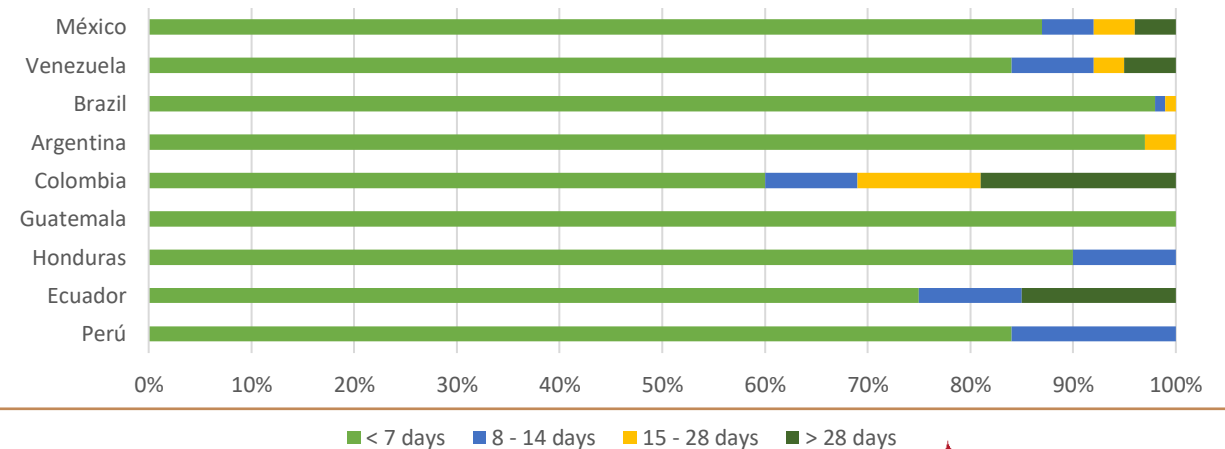
Rates stable but high in Mexico

Case durations generally short with exception of Colombia amid guerrillas

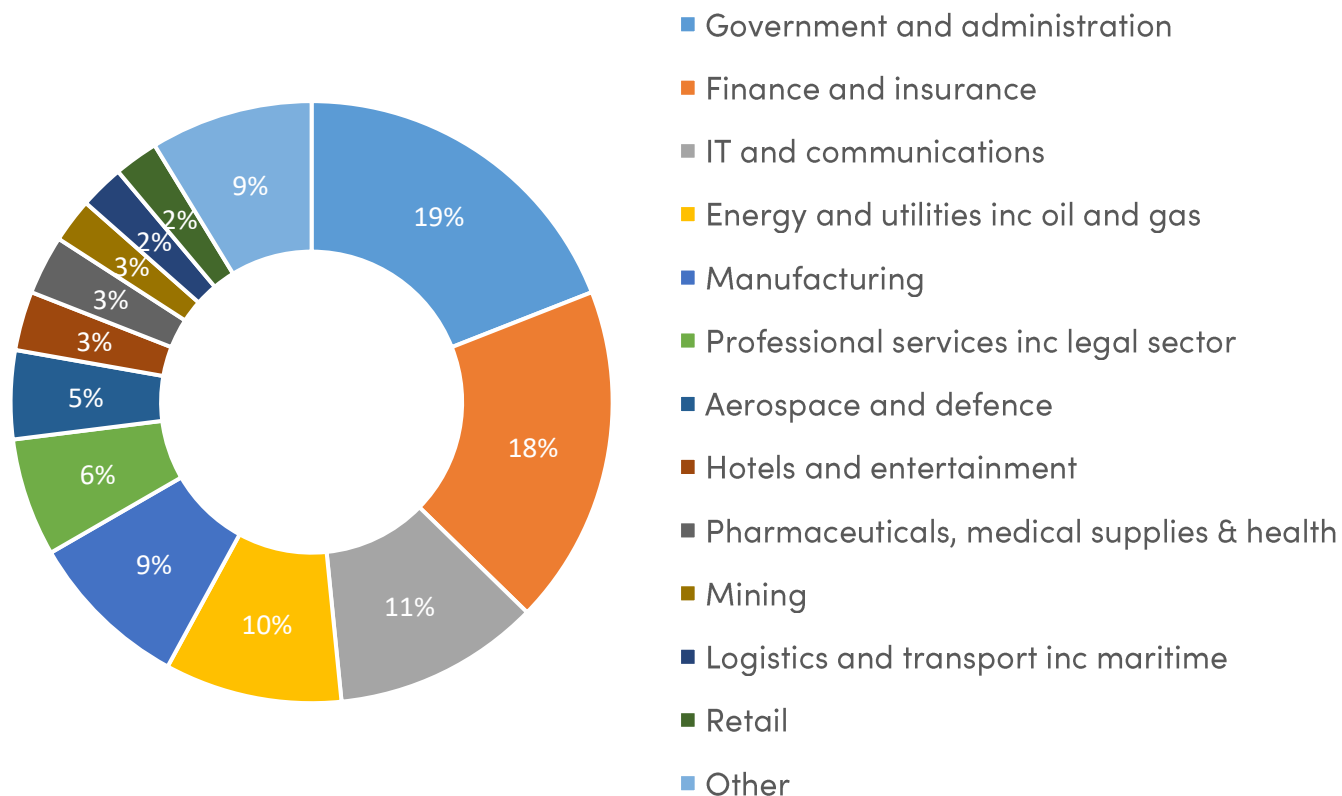
Kidnaps by country in Latin America, January–November 2022



Duration of cases, 2021– first half of 2022



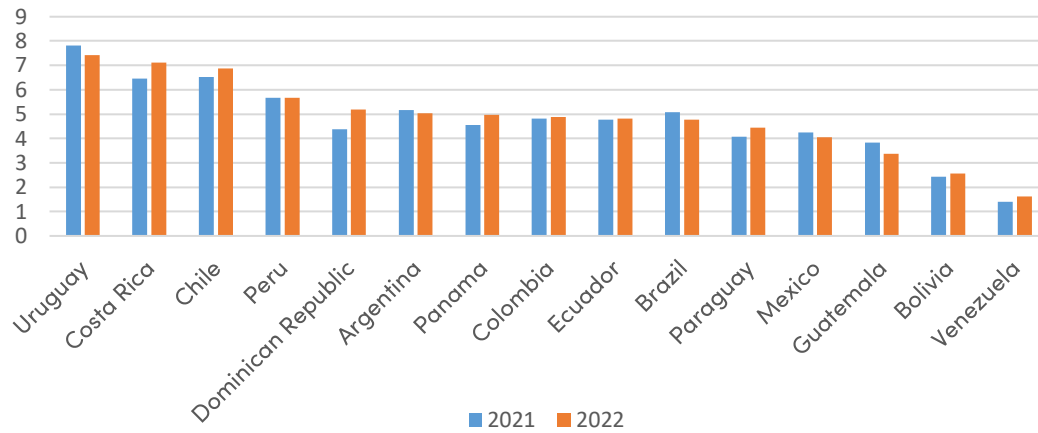
Targeting of Latin American organisations by sector, January 2020–December 2022



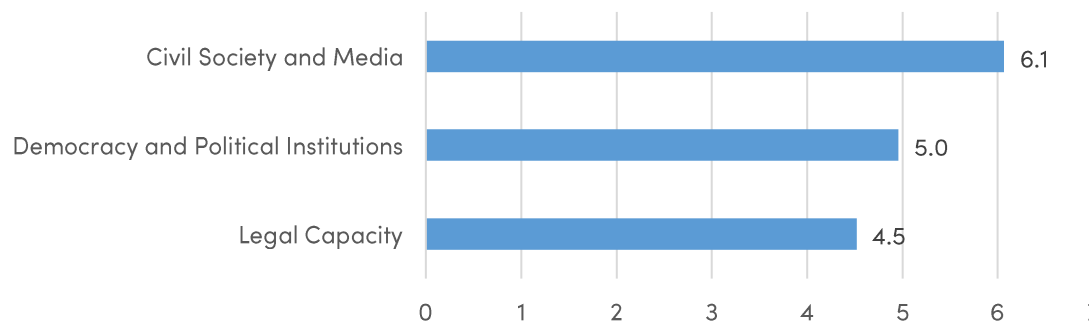
- Cybercriminal attacks form the majority of significant cyber incidents in the Latin American region
- Latin America is emerging as a new ransomware frontier due to quickly growing economies, relatively poor cyber security and moderately capable cybercriminal actors.
- Countries in LatAm are less of a priority target for highly capable nation-state actors such as Russia, China, Iran and North Korea.
- Latin American governments have comparatively lower cyber capabilities, but some countries in the region have leveraged commercial spyware and hacker-for-hire groups to supplement their domestic capabilities.
- LatAm has a highly active cyber activist community. Cyber activist campaigns often complement physical protests and are often related to issues such as perceived corruption, social or economic injustice and environmental issues.

Control Risks

Capacity to Combat Corruption Index (CCCI),
2021-2022



Regional average score by component, CCCI



- Key trends

- **Progress and setbacks in the fight against corruption across the region**
- **Momentum from post-Odebrecht reforms meets a populist backlash**
- **Judicial systems remain vulnerable to politicization, polarization, corruption**



The Social Outlook

Jean-Christophe Salles, CEO Ipsos Latin America

- This chapter uses **macro social data** from public institutions (World Bank, OECD, ECLAC...)
- **And citizen perceptions** gathered from Ipsos monthly surveys in 36 countries including Argentina, Brazil, Chile, Colombia, Mexico, Peru
- **To analyse and understand the current social condition of Latin America.**
- **Perceptions** could be different to *real facts*, but **may be more important owing to their socio-political impact**

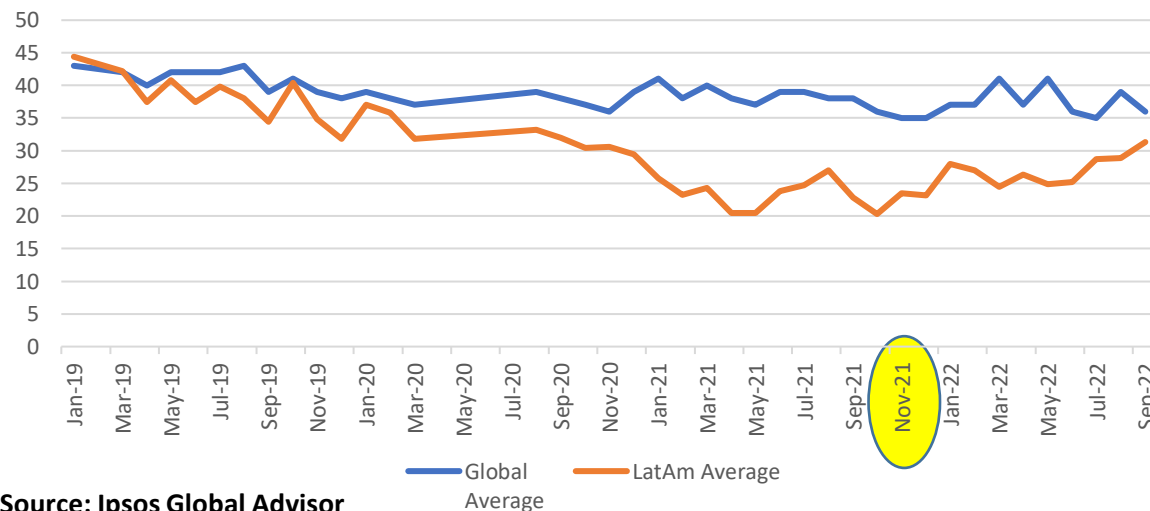


Social context: Improving but still not there!



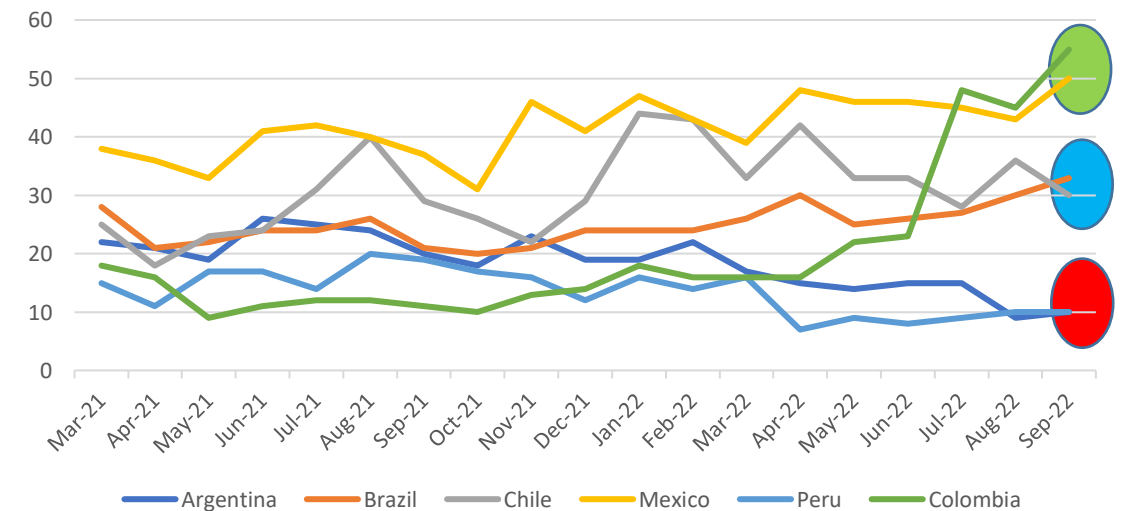
- **33%** of Latin Americans say that *things in my country are moving in the right direction*
- The gap with the global country average has been decreasing over the last year

% of citizens that believe their country is moving in the right direction
LatAm vs global average



- **Significant different trends by country**
- Improving in Colombia & Mexico (+/-50%)
- Relatively flat in Brazil & Chile (+/-30%)
- Low & declining in Peru & Argentina (+/-10%)

% of citizens that believe their country is moving in the right direction
LatAm country averages



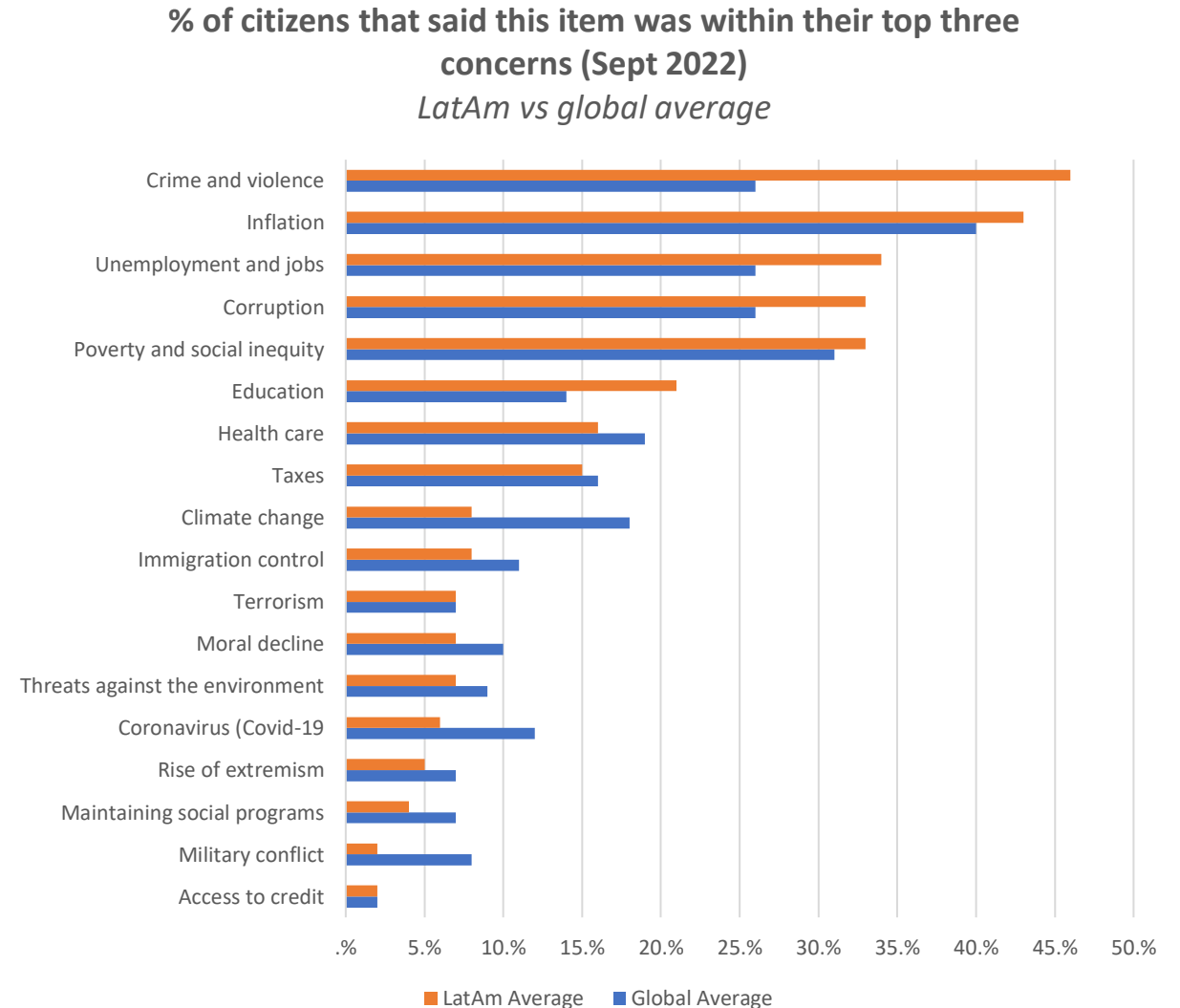


Main concerns to address?

Concerns focused on day-to-day life

- **Crime and Violence, Unemployment, Corruption and Education** concerns are much higher in LatAm vs global average.
- **Inflation as poverty and social inequality** are as important in LatAm as at global level
- The majority of **concerns tend to focus on short-term issues** that impact day-to-day life, **as opposed to more long-term issues** (climate change, morale decline, military conflict...).

Source: Ipsos Global Advisor

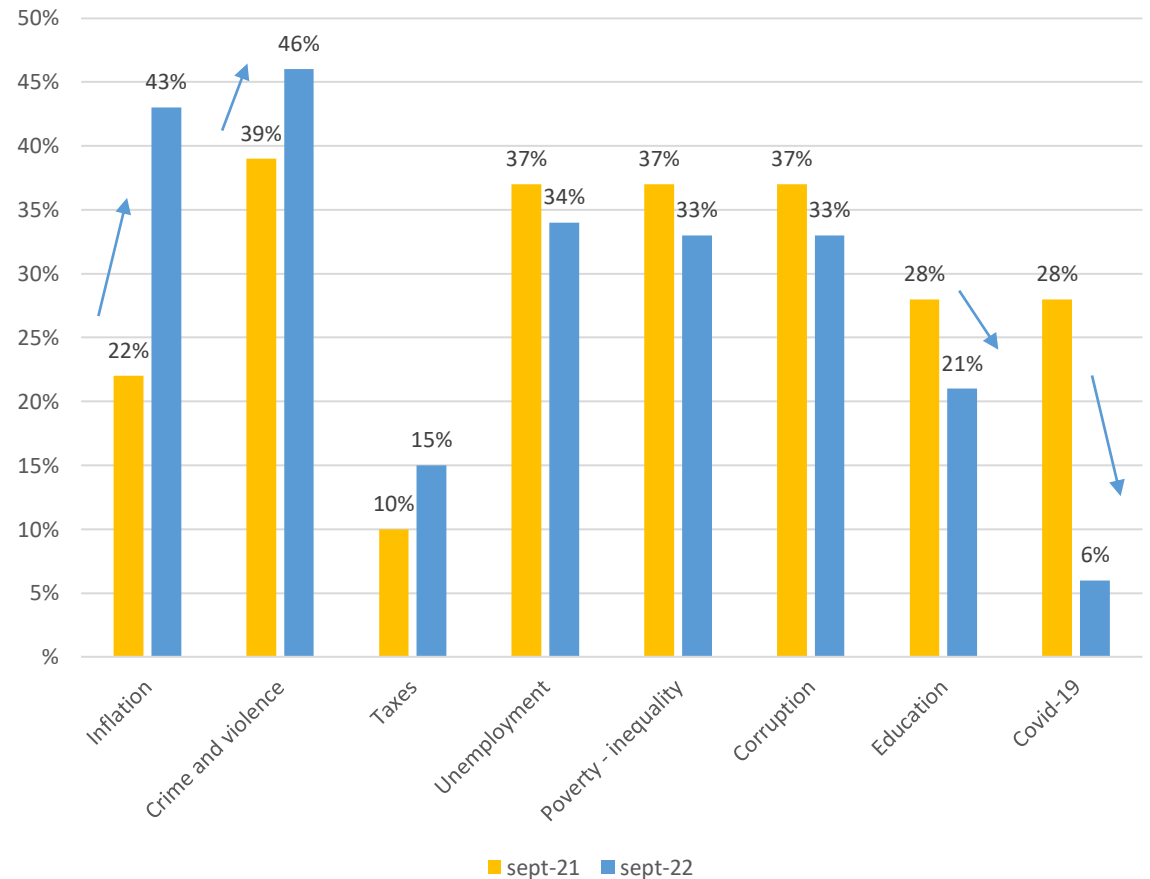


Most growing concerns: Inflation and Crime

- **Versus last year...**
- Significant increase of concern regarding **inflation** (vs Covid 19 decrease) as at global average
- **Crime and Violence** reaching highest level never seen over the last 5 years.
- Apprehensions around **taxes** also generally increased (particularly in Mexico and Colombia).
- Slight decline on **unemployment, poverty** and particularly **education** after Covid 19 lockdown ending

% of citizens that said this item was one of their top three concerns

Sept 2022 vs Sept 2021



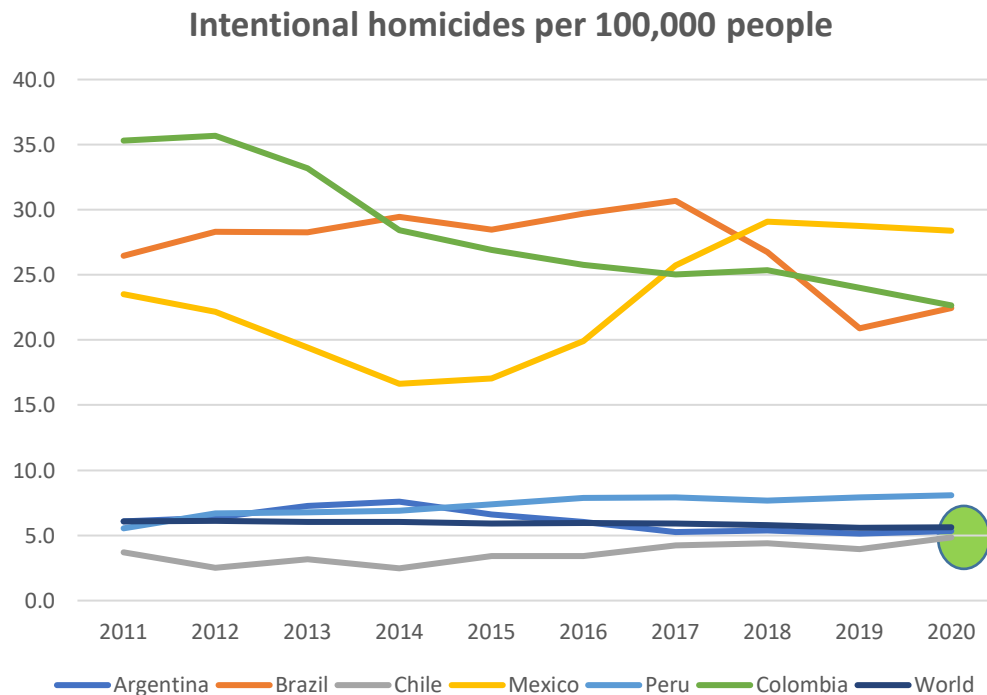
Source: Ipsos Global Advisor



Top 6 concerns: Facts vs. Perceptions?

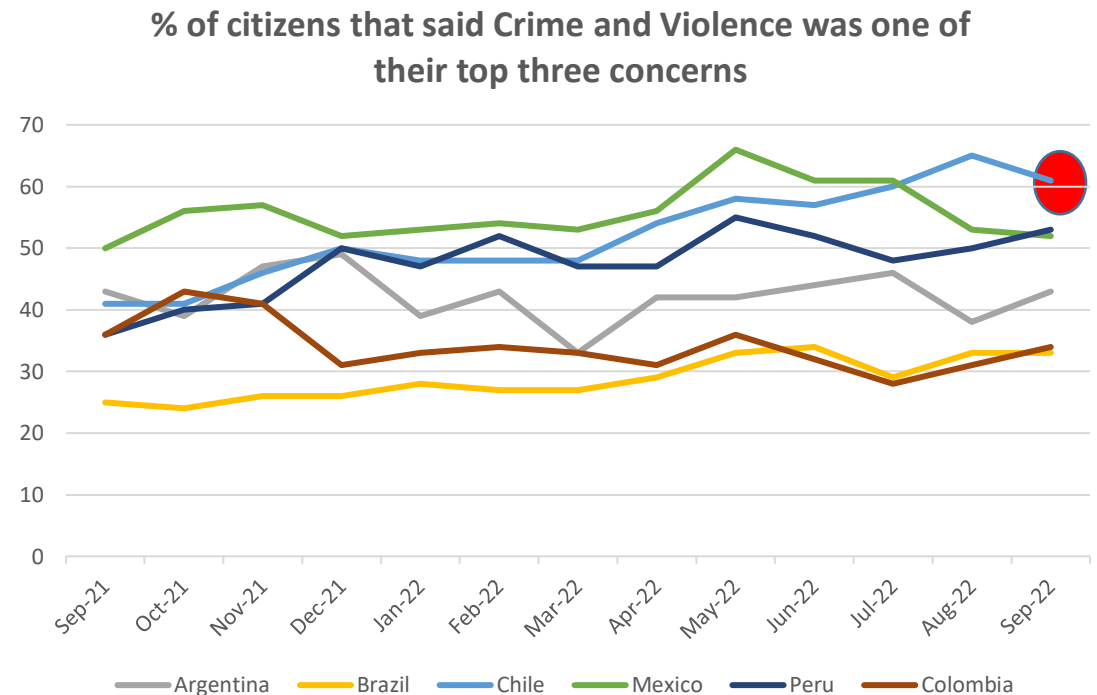
1. Crime and Violence: Chile the peril of perceptions

- The most pressing problems affecting Latin American society
- **Particularly in Mexico, Brazil and Colombia**



Source: United Nations Office on Drugs and Crime's Sept 2022

- **Concern growing over the last year** (end of lockdown)
- **Highest level in Chile** explained by a recent increase in homicides and possibly the high level of concern regarding immigration (28% in top 3 concerns)

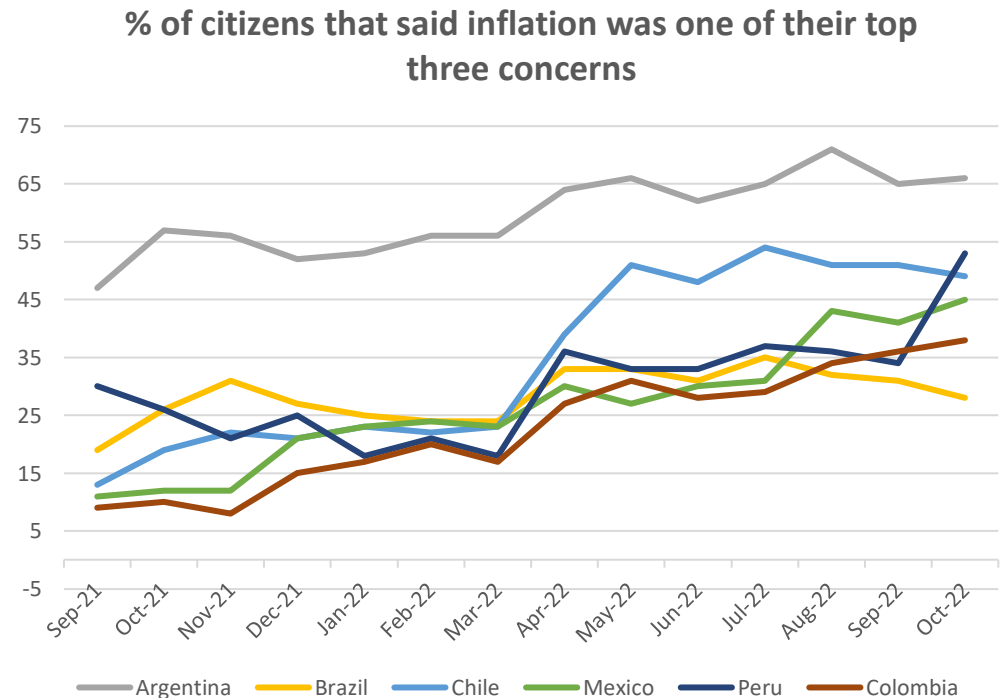


Source: Ipsos Global Advisor

2. Inflation: A significant impact on poverty

- **Food and energy** are the main contributors to inflation (66% in Brazil, 60% in Colombia...)
 - Food and energy represent a **significant share of the consumption basket** (>40% in Peru, Mexico, Brazil)
- Putting significant pressure on households' disposable incomes. Especially on the poorest and most vulnerable.
- *With current inflation rates poverty will increase **from 30% in 2018 to 34% in 2022** (CEPAL)*
 - *The rising prices we observe today might accentuate inequality, adding fuel to ongoing **social tensions** (World Bank)*

- Concerns about inflation very much mirror the current inflation rates in each country.
- i.e. The higher the level of inflation, the greater the concern.



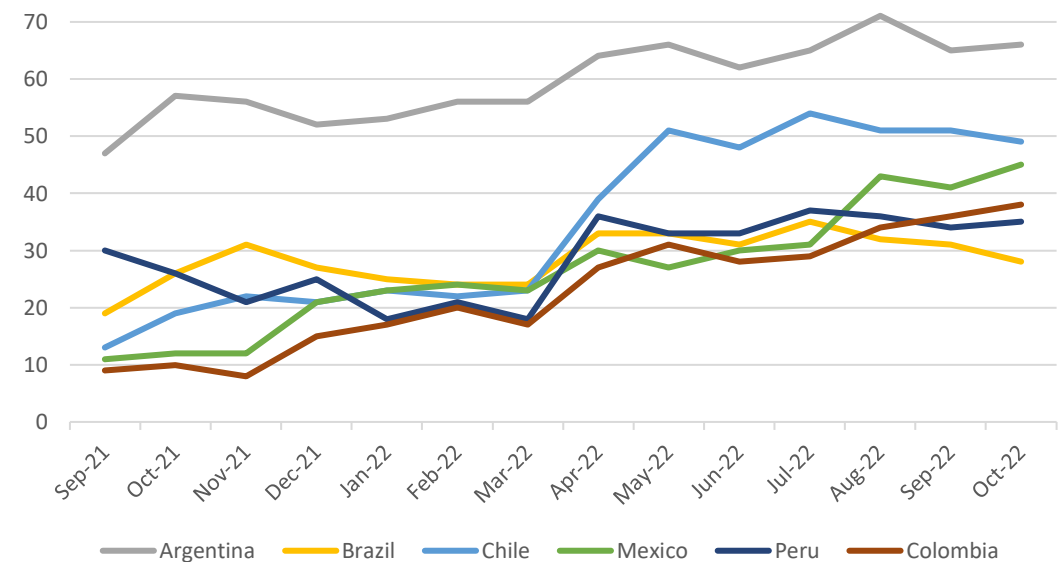
Source: Ipsos Global Advisor

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% of citizens that said inflation was one of their top three concerns



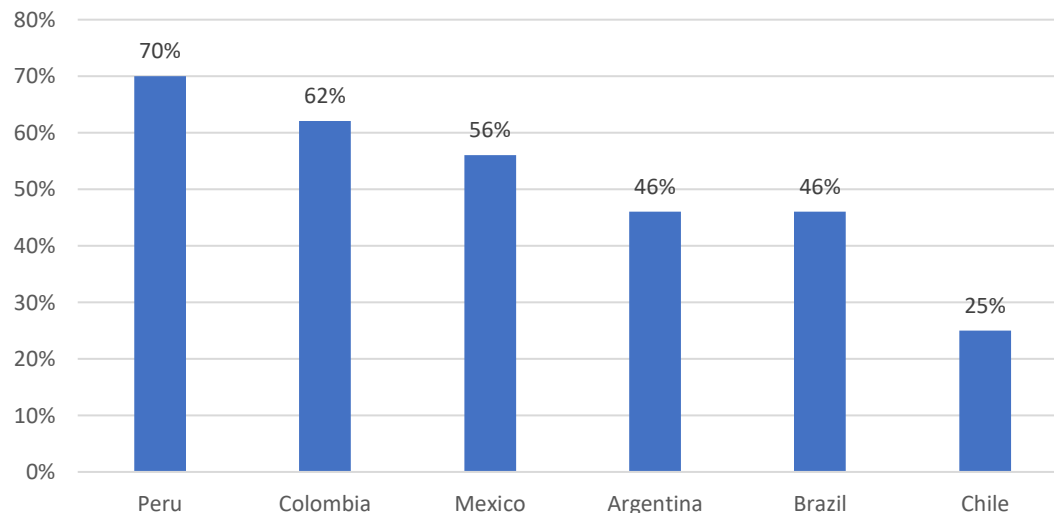
Source: Ipsos Global Advisor

3. Unemployment: Concern about “Informality”



- Unemployment is NOT so high in Latam
- Main issue remains informal employment reaching 70% in Peru or 62% in Colombia

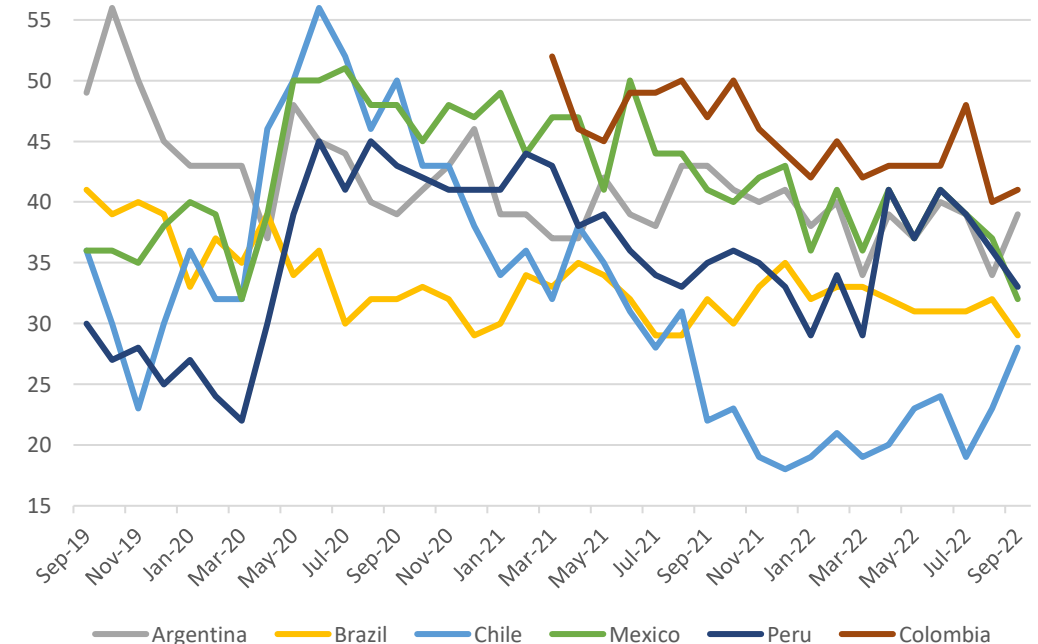
Informal employment as % of total employment in 2021



Source: Statista 2022

- Unemployment concern is now back to 2019 levels but remains high in Colombia, Peru, Mexico & Argentina.
- **The higher the level of informality, the higher the level of concern**

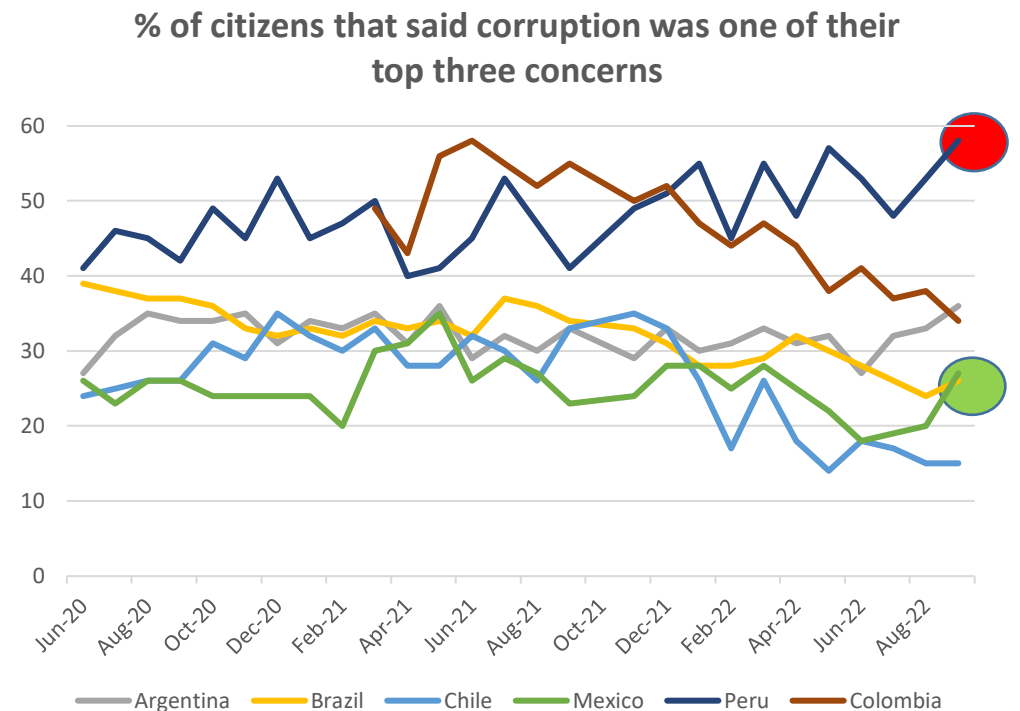
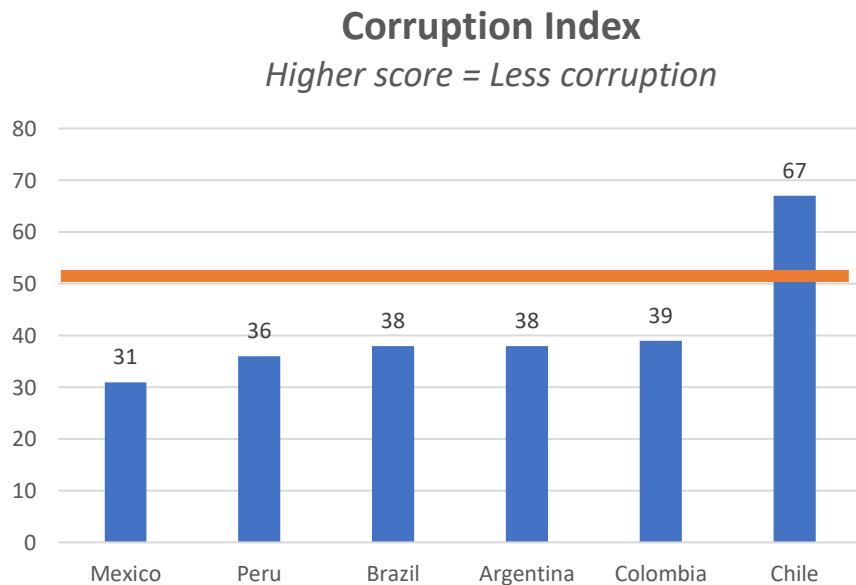
% of citizens that said unemployment was one of their top three concerns



4. Corruption: High concern in Peru (vs. Mexico)! Canning House

- **Corruption plays a significant role in perpetuating economic inequality across the region**
- Latin American countries scored poorly on Transparency International's latest [Corruption Perceptions Index](#) (CPI)

- From a citizen's perspective, corruption is a **critical issue in Peru**, while decreasing in Colombia over the past year and **relatively low in Mexico**.
- Chile remains the country where corruption is the lowest concern (in line with corruption index).

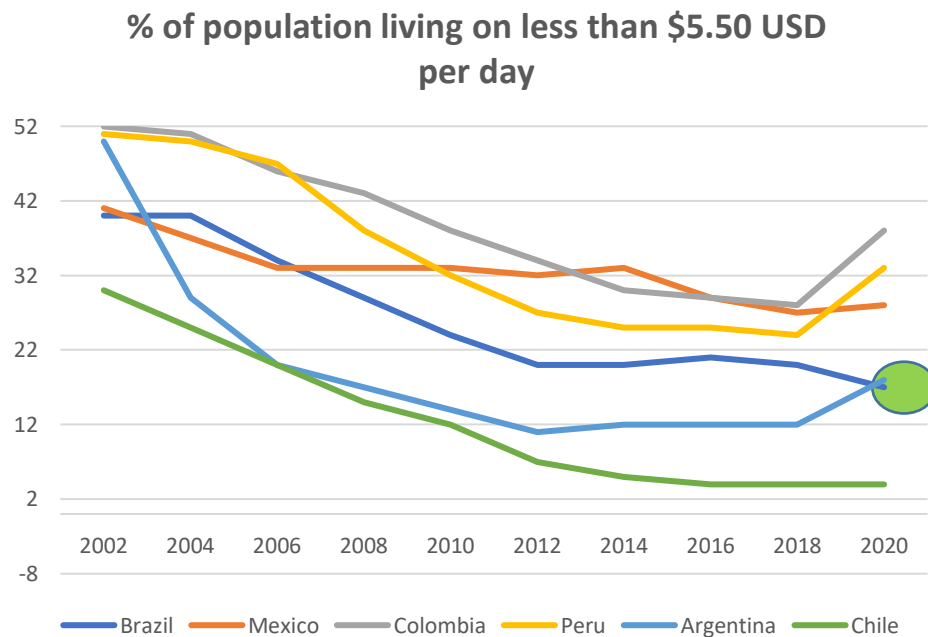


Source : Transparency international 2021: below 50 = flagrant corruption problems

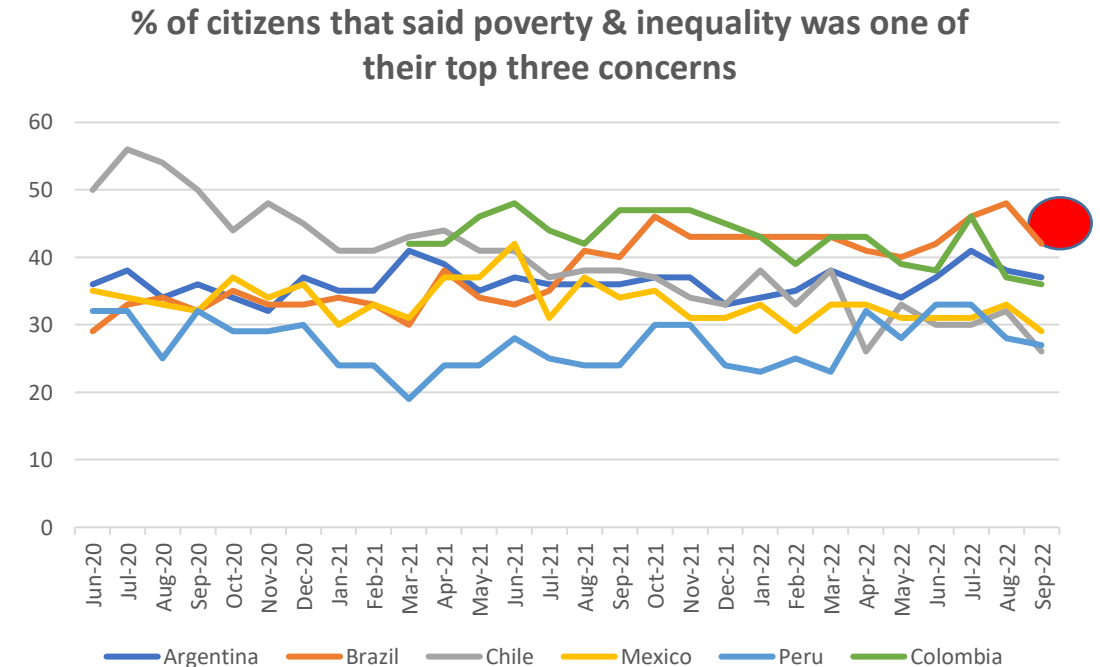
5. Poverty & social inequality: Still high in Brazil Canning House

- After good progress over the last 20 years...
- In 2021, the levels of poverty (32%) and extreme poverty (14%) remained higher than those of 2019, except in Brazil.
- Particularly high in Colombia, Peru and Mexico in which a third of the population is living on less than 5.5 USD per day

- Concern has been relatively flat over the last 2 years (incl. COVID-19 period) as per increase in public expenditure.
- But remains particularly **high in Brazil despite good progress on “real” trend**



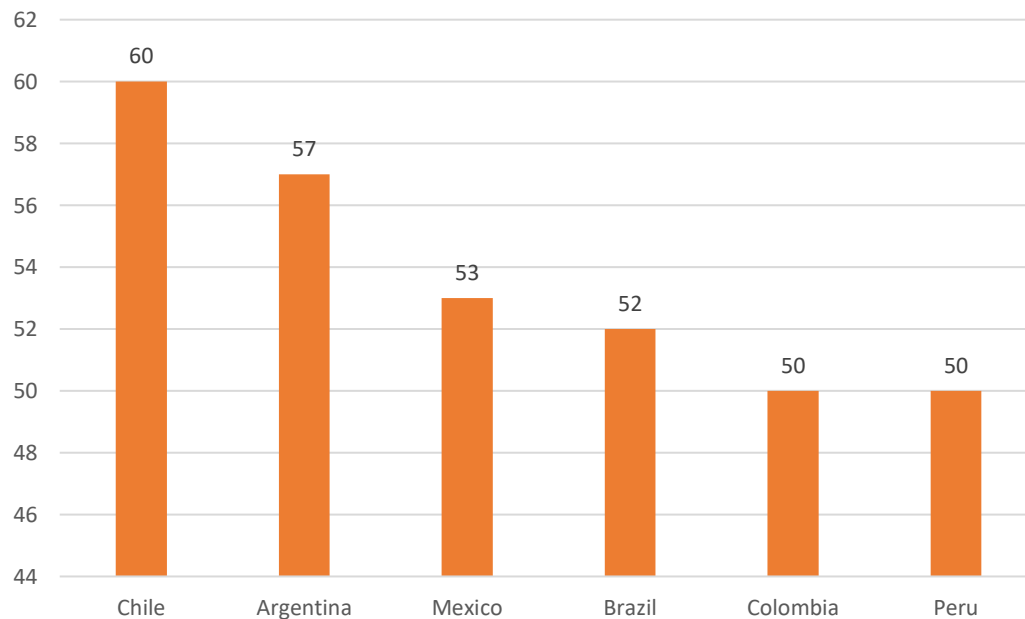
Source: World Bank



6. Education: less concern over time

- Over the last 20 years, Latin America has made remarkable progress increasing educational levels
- Social mobility has increased over the last two decades

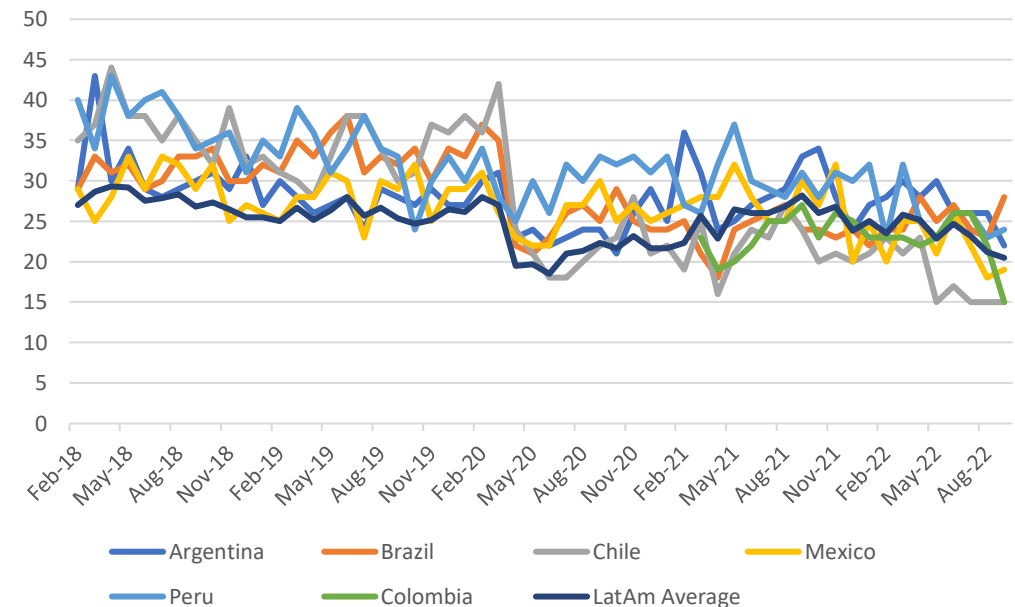
Global social mobility index score in 2020



Source: Journal of Development Economics, 2018

- Concern about education tends to decrease after the lockdown period linked to COVID-19

% of citizens that said education was one of their top three concerns

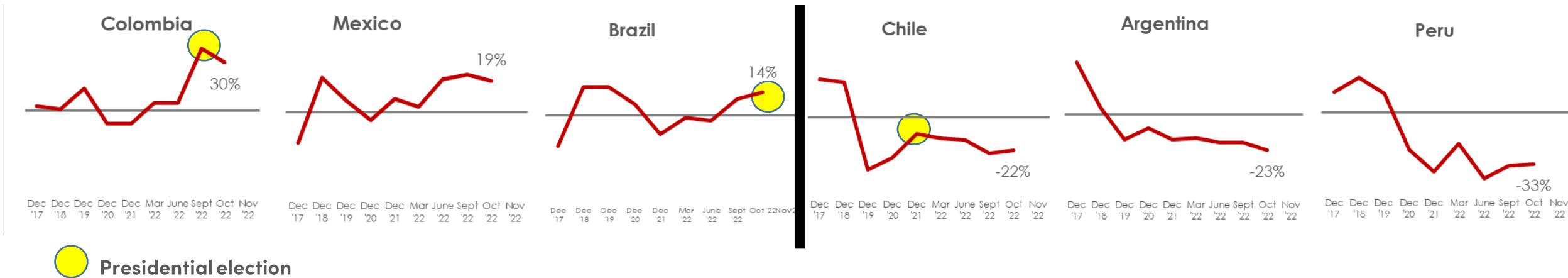




What's next?

A better social sentiment

- The social sentiment is overall better than it was pre-pandemic But varies widely between countries
- People in **Mexico, Colombia, and Brazil** are decidedly positive, whereas those in **Chile, Argentina, and Peru** are decidedly negative.
- Lower confidence means pressure on citizen behaviour - which ultimately increased socio-political disruption. Higher confidence means the opposite.

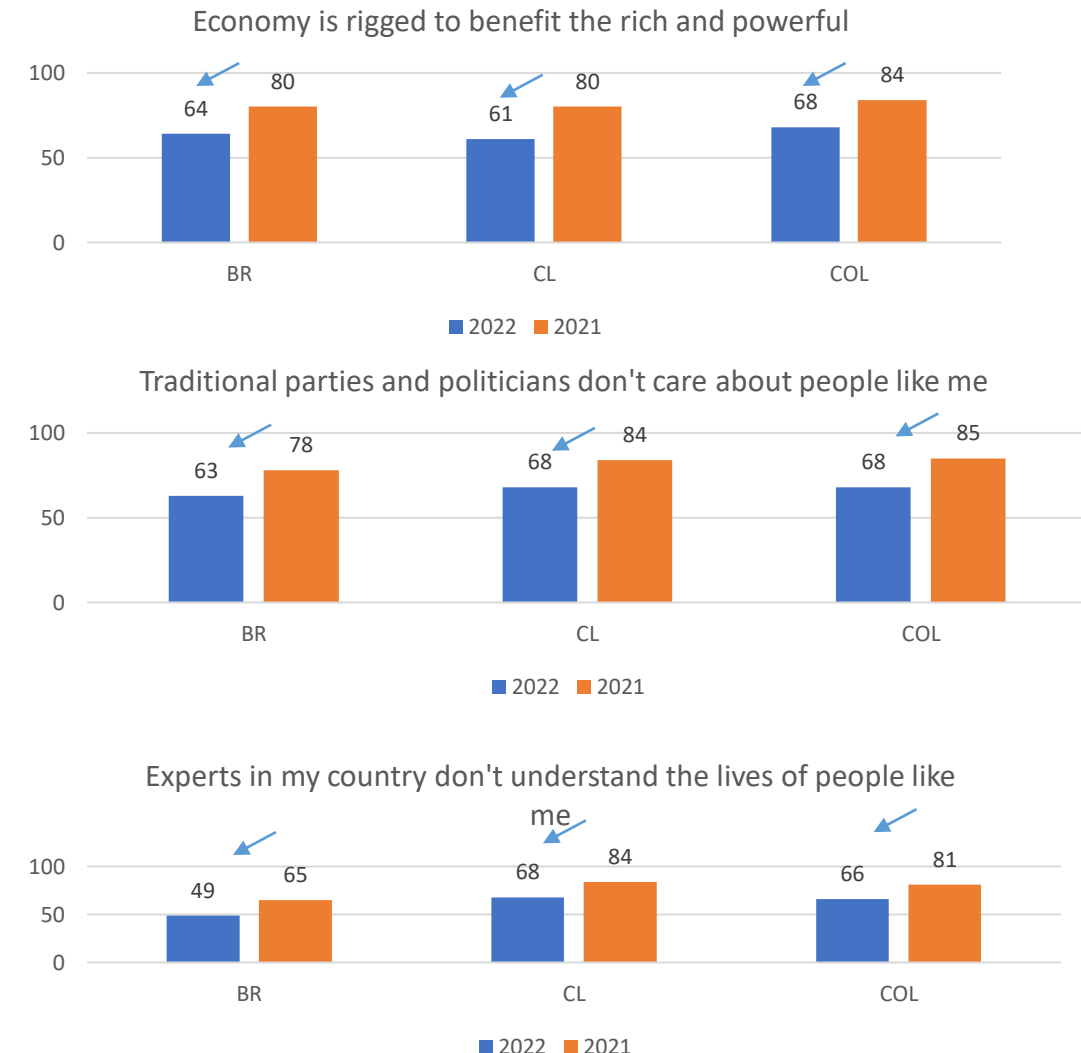


Consumer sentiment. Source: Ipsos Disruption Barometer. Note: The higher the score, the more positive the consumer sentiment.

A less “*broken system*” sentiment

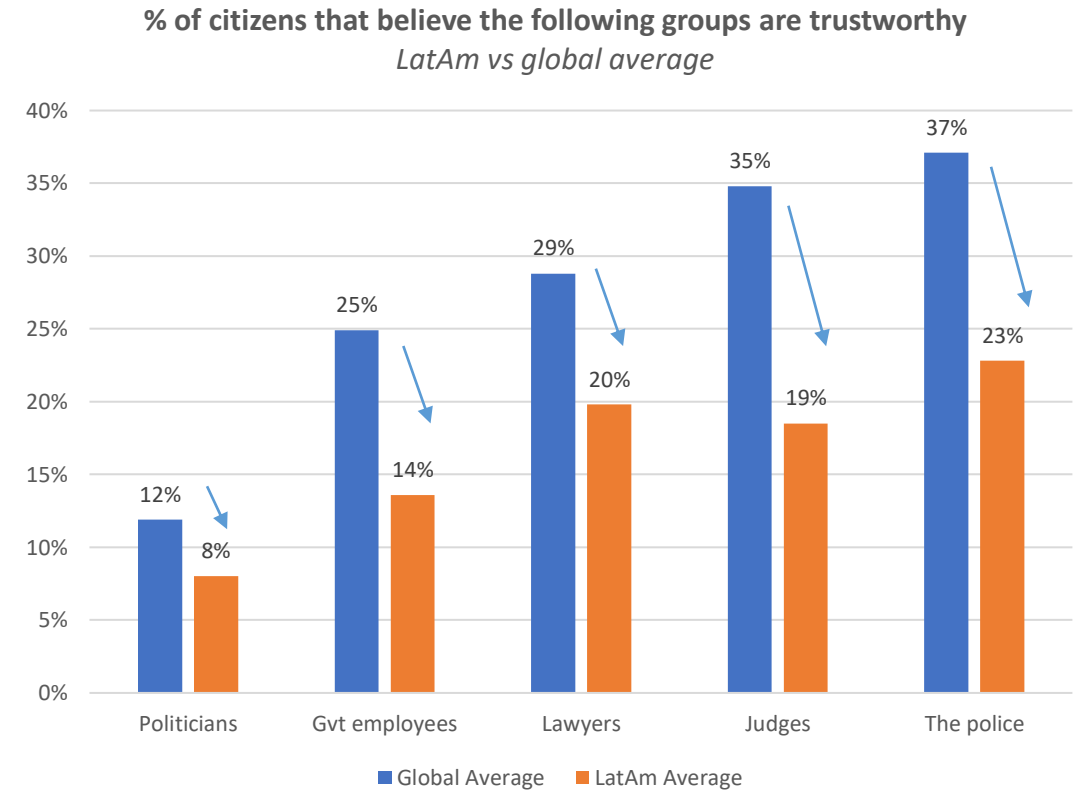
- In 2021 The top four highest-scoring countries in the *broken system sentiment* index were Latin American
- **In 2022 significant progress has been made driven by Chile, Colombia and Brazil.**
- All three had a major national election which brought in a new head of government hailing from a different party than their incumbent
- This suggests that **national elections may act as a pressure valve for anti-establishment sentiment and help restore trust**

Source: Ipsos broken system sentiment index, dec 2022



But still low social trust

- **Latin America is the region with the lowest trust levels in institutions globally.**
- As a snapshot of Latin American citizen's opinions:
 - Only 23% trust the **police**, compared to 37% globally
 - Only 19% trust **judges**, compared to 35% globally
 - Only 14% trust **government employees/civil servants**, compared to 25% globally
 - Only 8% trust **politicians**, compared to 12% globally



1. **A better social and a lower *broken system* sentiment** has been driven by recent elections in Chile, Colombia and Brazil
2. **But the main structural social concerns have not been resolved** (crime and violence, poverty and corruption)
3. **And the level of social trust remains low**
4. So the high expectation placed on new presidents and governments could rapidly generate social disappointment.
5. Latin America needs to achieve economic growth, increase formal employment rates and generate fiscal resources.
6. Fiscal resources must be used more efficiently (transparency, accountability, coherence over time) particularly in healthcare, education and security, in order to reinforce institutional credibility, sustain democracy and fight corruption.
7. Measuring citizen perceptions is key to following the progress of social investments
8. Citizen sentiments (and behaviour) could be more driven by perceptions rather than by real facts (ie. Insecurity in Chile, Poverty in Brazil, Corruption in Mexico...)



Thank you!