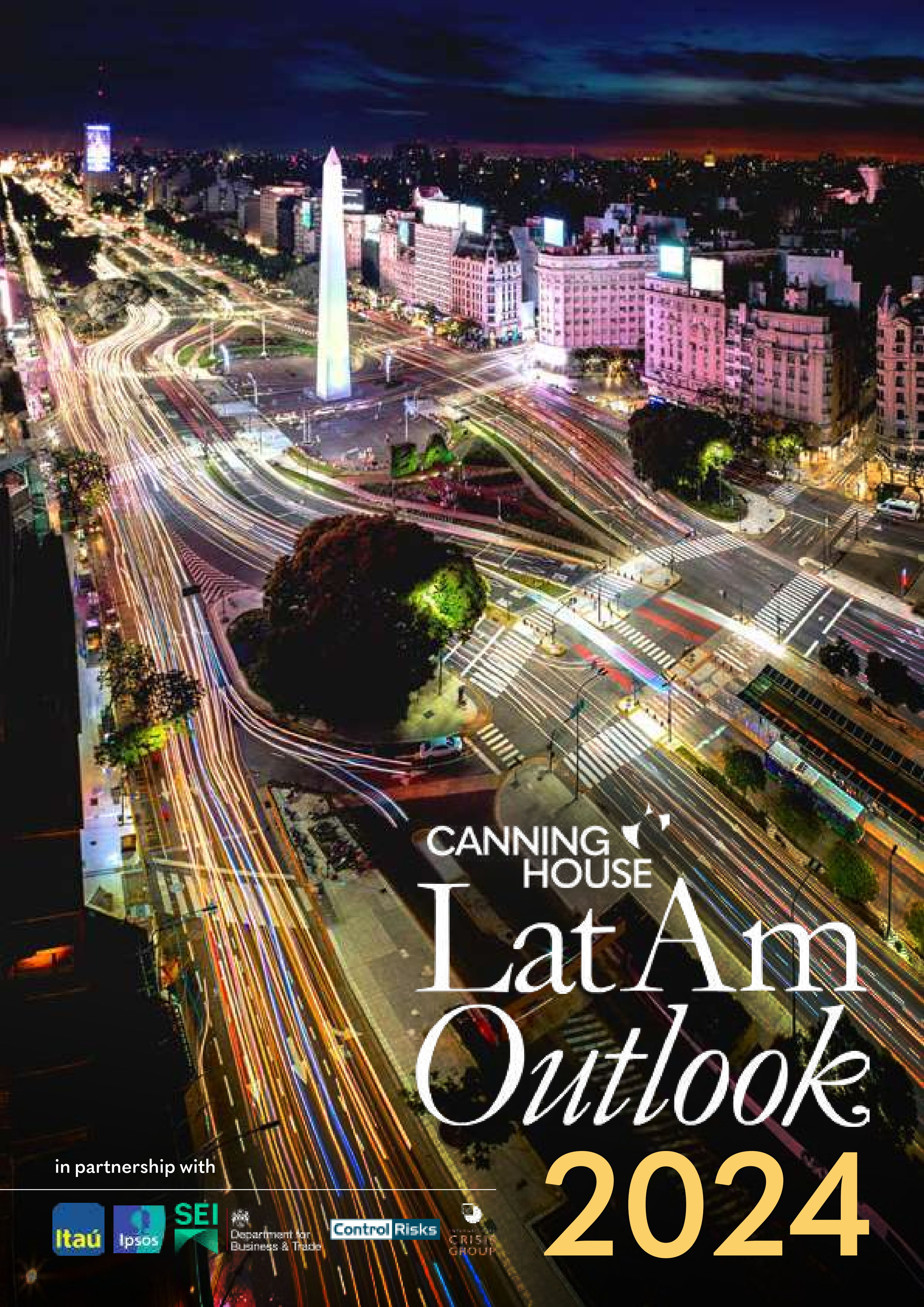

CANNING HOUSE

LatAm Outlook 2024

in partnership with

Itaú · Ipsos · SEI · Department for Business & Trade · Control Risks · Crisis Group

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Introduction

Jeremy Browne, CEO, Canning House

The world at the start of 2024 is not in a happy place. There are, of course, great causes for optimism and celebration, but these are significantly tempered by widespread experience of instability, apprehension, conflict, and fear.

Economic growth in developing nations over recent decades has had a transformative impact on alleviating poverty. It has been remarkable, but there remain billions of people who are anxious about their financial security. They live both in the low-growth, ageing societies of the advanced economies, and in more acutely abject circumstances in poorer counties.

Hundreds of millions of people, meanwhile, suffer in the shadow of even greater distress: a threat to their safety. War, potential invasion, terrorism, authoritarian suppression, dysfunctional states, and violent crime. None of these are new, but they are more prevalent than in the recent past, and exist in the context of a more fragmented and contested world order.

Britain, with its global disposition, has a daunting in-tray of foreign policy concerns. War in the Middle East; war in Eastern Europe; bellicosity in Pacific Asia towards Taiwan. Managing relations with big power blocks: a more assertive China; a friendly but politically fractured United States; an openly hostile Russia; and with our neighbours on our own continent, whose federation - for better or worse - we have chosen to leave. Staying close to our Commonwealth family - India, Australia, Canada, South Africa, New Zealand, and many more - and being vigilant about the nuclear and other malign ambitions of rogue and semi-rogue states. And using our knowledge and relative wealth to help those whose lives are blighted most desperately by preventable disease and insanitary living conditions.

It is a big audit of diplomatic and military challenges for 2024, featuring many threats and risks. It is also striking not just for what it contains, but what is absent. There is a lost continent. Where in this catalogue of objectives and woes is Latin America?

In many ways, Latin America's invisibility is a consequence of good circumstances. There is no realistic current anxiety about war between two nations in the region. There are no nuclear powers, declared or covert. There is certainly violence, but it is based primarily in criminality rather than ideology, and is not exported through terrorism. There is corruption and there are authoritarian leaders, but overwhelmingly Latin Americans live in genuine democracies, characterised by open, civic cultures. There is real poverty, but functional states and rising living standards provide a framework for its on-going alleviation.

The danger, as a consequence, is that Britain overlooks Latin America, not consciously, but because there are always bigger distractions elsewhere.

That is understandable, but it is also mistaken. As Canning House's *LatAm Outlook 2024* explores in detail, Latin America is an attractive partner for Britain, across the full spectrum of shared interests and mutual benefits.

In the great, era-defining, geo-political battle of ideas - between open democracies and closed autocracies - Latin America is, decisively, in the right column. The balance of the world would feel very different were it not. The commitment to democracy is now deeply imbedded in most of Latin America, and is healthily underpinned by liberal values. Some of the international associations and allegiances of Latin American nations may, however, give greater cause for concern for democrats, and reinforce the need for countries such as Britain not to be neglectful of natural friends and partners.

Alongside political liberalism is a broad attachment in Latin America towards economic liberalism. This is more patchy, with some countries overtly eschewing free market ideas, and others maintaining a reflex appetite for unproductive state intervention. Even so, Latin America embraces, in substantial part, enterprise, wealth creation and trade, with the energy to match. British businesses are successful across Latin America - and vice versa - but we must acknowledge that the scale of trade in both directions is underwhelming and the potential exists to do much more.

On what many regard as mankind's greatest existential threat - climate change - Latin America is an indispensable ally. It is the custodian of the Amazon. It is world-leading in its use of non-carbon sources of energy. And it is the source of much of the lithium and copper that will be needed to power the green energy transition.

Latin America offers Britain a different set of partnerships in its dealings with the wider world. A G7, North Atlantic-orientated version of foreign policy is still a component of Britain's external outlook, but it is too narrow without the embrace of greater connectivity. There is an appetite for collaboration between Britain and the 'Global South' - on conflict resolution, development, sustainability, scientific cooperation, human rights, and more - which offers the prospect of new alliances for Britain, with Latin America ideally placed to play a facilitating role. Our likely inability to agree on everything is not a barrier to finding agreement on more. This is a developing relationship.

The domestic situation in countries across Latin America both offers scope for encouragement and cause for concern. There is a growing middle-class, with opportunities and living standards improving for millions of people. But the quality of public services is varied, and their improvement remains a work in progress. Most of all, in some countries in Latin America, levels of violence and organised crime are a terrible blight, harming ordinary citizens and causing reputational damage. Britain can (and does) offer positive help - from sharing ideas for raising education standards to thwarting criminal activity - but ultimately these key societal indicators, explored in detail in this *LatAm Outlook 2024*, will improve as a result of domestic policy-making and resolve.

But there is a danger of sounding too bleak! The world of 2024 is imperfect and the international order is uncertain, but the world has never been perfect. And there is much to celebrate too, particularly in the people-to-people interactions between Britain and Latin America.

Football, carnivals, coffee, rum, whisky, wine, music, tourism, dance, education....... these are the essence of life, and they flow freely in both directions between our people.

This *LatAm Outlook 2024* seeks to paint a full and honest picture. Our ambition is to be fair and open-minded, but not pull punches. Not everyone will agree with every paragraph. But Canning House hopes that everyone will find the content stimulating, informative and thought-provoking. We hope too it will contribute to a greater understanding of the benefits of enhanced interaction between Britain and Latin America.

I am grateful to all of our seven guest contributors - Michael Stott, Oliver Wack, Cristina Irving Turner, David Purkey, Jean-Christophe Salles, Andrés Pérez, and Ivan Briscoe - for sharing their considerable expertise and perceptive insights, and to Canning House's Deputy CEO, Ian Perrin, for commissioning and editing this publication. Whether you read it selectively or in-full, we hope it provides food-for-thought, and whets your appetite for Canning House's core purpose of building more and stronger bridges between Britain and Latin America.

Executive Summary

Global Outlook

Latin America's place in the world

After a decade of relative economic stagnation and diplomatic neglect, there is a renewed sense in Washington, Brussels and London of the region's strategic importance. Rising great power competition and the scramble for scarce natural resources have fuelled a somewhat belated recognition among US and European policymakers that the region will matter more to the world over the coming decades than it has over the past one. But while the US and Europe have dithered, China has greatly expanded trade, investment and influence over the past twenty years. In 2000, Latin America's total trade with China was a relatively insignificant USD $12.5 billion; by 2021 it had grown to USD $450 billion.

As the world fragments into less predictable blocs, Latin America is presented with an opportunity to use its new-found geopolitical leverage to negotiate advantageous deals with the West, China and new actors such as India and the Gulf states. It is against this backdrop that the European Union launched Global Gateway, its much-vaunted answer to China's Belt and Road initiative, at the 2023 Brussels summit with Latin America; the United States has come up with an Americas Partnership for Economic Prosperity, an initiative designed to mobilise private sector investment in Latin America; and the UK is hoping that its forthcoming membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would open up commerce with fellow CPTPP members Chile, Mexico and Peru.

Latin American nations with a long history of non-intervention in the affairs of other nations find it hard to see the justification for the US-led military support for Ukraine, and the extensive sanctions on Russia have generated considerable criticism in Latin America. In such an environment, the attraction of emerging "middle powers" such as India, the Gulf states and Turkey as diplomatic allies and as possible commercial partners come into sharper view for Latin America.

The region's rich reserves of metals are crucial to the energy transition. The region is believed to possess more than half the world's lithium reserves, around 40% of its copper and silver and a quarter of its nickel. It is the globe's biggest net exporter of food, estimated to account for 18% of all global food exports by 2031; and is a source of significant additional oil and gas production.

The 2020s did not start well for Latin America, the region hardest hit by the combined human and economic impact of the pandemic. But the decade could yet be remembered as the one where the region recovered its weight in the world economy, returned to a track of faster growth and development and solidified trade and investment alliances around the world.

Political Outlook

The politics within Latin America

Most of the governments across the region will face challenges to their governability and ability to implement key reforms needed to reduce poverty, alleviate the economic burden on social and welfare systems, and promote growth and investment – all while generating a broad social consensus. Unable to satisfy demands from a variety of constituencies, social tension may rise and periodically manifest itself in the shape of occasional bouts of unrest across the region.

In **Argentina**, the election of self-proclaimed right-wing libertarian Javier Milei reflects the electorate's willingness to break government continuity. Although his disruptive proposals – which include cuts to government spending, privatisation of state-owned companies and dollarising the economy – resonate with a significant portion of the population, Milei's election is above all a symptom of disaffection with the political establishment, fuelled by 140% inflation, and 40% poverty. After taking office on 10 December 2023, he will face several challenges to governability and to the implementation of his agenda.

For **Brazil**, President Lula's election in 2022 was an unprecedented feat in Brazilian politics: a president elected for a third term since the military dictatorship ended in the 1980s. After an election season and government transition marked by elevated political and institutional risks, Lula has managed to assuage the main threats to democratic institutions. However, his administration is likely to struggle to balance diverging political and financial demands in the years ahead as it seeks to improve the social and business environments.

Four years after the unrest of October 2019, its legacy continues to mark **Chile's** political environment. The initial view that the movement's profound transformational goals would be feasible and beneficial for the country has lost momentum, paving the way for scepticism, disillusionment and polarisation. This sentiment and the emergence of concerns over concrete social issues such as public security have challenged President Gabriel Boric and the constitutional redrafting process in 2023. This reality will likely endure in 2024.

Despite fears of a radical leftward turn under President Petro, **Colombia** remains an attractive and stable destination for businesses. Its abundant natural resources, sound macroeconomic policies and democratic institutions will likely continue to spur foreign investment. However, several challenges - particularly in the provision of security and public order, social conflict, combatting organised crime and other illegal activities – will remain concerns in the years ahead.

Mexico will hold elections on 2 June 2024 to decide who will succeed President López Obrador. Violence will likely be a feature of the electoral landscape, particularly at the municipal level. There is a widespread notion that regardless of who wins the presidential election, the business environment will improve under the new administration, which has done relatively well in recent years (all things considered), benefiting from nearshoring owing to Mexico's proximity to the US. The main, immediate challenges for the next President will likely be related to strained public finances, institutional weaknesses, a volatile security landscape and growing social unrest. AMLO's popularity has been key to his ability to navigate these dynamics, but his successor may not be as popular, and could face increasingly complicated governance challenges.

Peru's political crisis is expected to continue into 2024. Former President Castillo's removal by Congress triggered massive civil unrest, mostly concentrated in southern Peru and in Lima. Law enforcement's response veered into excesses, leading to more than 60 fatalities between December 2022 and March 2023. Although the protests faded as his successor, former Vice President Dina Boluarte refused to resign and the push for new elections lost momentum in Congress, the situation in the country will remain tense in 2024. The government's low popularity and limited governability will likely trigger more unrest during Boluarte's term, which is scheduled to run until 2026.

Venezuela will likely face a tumultuous 2024 after the government of Nicolás Maduro agreed in October 2023 to hold presidential elections with the presence of international observers in the second half of the year. The Biden administration has prioritised re-engagement and negotiation with Venezuela over the past two years, amid mixed signals from the Maduro government. This approach will likely continue – at least while Biden remains president – given the administration's broader goals of extracting Caracas from the orbit of influence of Russia, China, and Iran and diversifying energy supplies.

The absence of the political will to improve democratic norms and the weak rule of law will persist across **Central America** in 2024. Trends such as opaque institutional frameworks in Guatemala, El Salvador and Honduras, persistent repression and human rights abuses in Nicaragua, and complicated executive-legislative relations in Costa Rica will endure.

In Guatemala, the political situation will remain volatile and uncertain in the aftermath of the 2023 electoral cycle, hindering a smooth presidential transition. President-elect Bernardo Arévalo is set to take office on 14 January 2024 amid heightened social discontent with current President Alejandro Giammattei's government, which has long driven unrest.

Electoral matters, a hardline security strategy and efforts to address fiscal challenges will dominate the political agenda in El Slavador in 2024. Despite the significant erosion of democratic norms and institutions, the country will continue to enjoy overall political stability. President Nayib Bukele's growing popularity and his ability to implement policies with minimal opposition will sustain the trend. Bukele will most likely win the upcoming general election scheduled for 4 February 2024, despite being constitutionally prohibited from seeking re-election.

In **Ecuador**, a 35-year-old political outsider - Daniel Noboa - has assumed the presidency for an interim period of 16 months amid a dire security crisis. He will likely enjoy a short phase of constructive relations with the National Assembly, which will seek to improve its very poor approval ratings through a more collaborative attitude towards the country's executive, and will also likely capitalise on his lack of political baggage. However, a fragmented legislature with no stable governing coalition will pose significant challenges to implementing his agenda, and his lack of political experience and capital will likely prevent him from addressing the burgeoning security crisis.

Commercial Outlook

The business landscape between the UK and Latin America

Despite the complicated political challenges, Latin America remains a region with huge commercial potential. Its growing middle class, 650 million population, the need for investment in large scale initiatives, and appreciation for international expertise, means that Latin America is open for business. Existing investors report that winning business in Latin America reaps long-term benefits.

UK accession to the CPTPP creates significant opportunities for businesses in Latin America and for the UK to boost its exports to some of the fastest growing markets on the globe. Trade data from the Office of National Statistics suggests that joining the CPTPP will bring the UK closer to the Pacific, with Chile, Mexico and Peru already importing a range of products from the UK, such as cars, beverages and pharmaceuticals. The UK joining CPTPP will bring benefits for these Latin American countries on top of existing bilateral agreements, supporting jobs and providing opportunities for growth. It will cut more tariffs and bring more legal certainty to investors, service providers and companies competing for government contracts. It will facilitate innovation and provide consumers with more choice. The provision for enhancing digital trade was a key priority for the CPTPP negotiations, and the updated UK-Mexico Free Trade Agreement will seek to be ambitious on tech and data.

Multilatinas are big business and sophisticated entities. They should be considered as an essential and notable part of the trading landscape in Latin America. For those that want to enter or grow in a Latin American market, whether in tech or an aligned sector, understanding the profile and advantages of a Multilatina can arguably enhance the possibilities for partnership.

Economic Outlook

The macroeconomic forecast in Latin America

In the context of the deceleration of economic activity throughout major economies, gradually declining inflation, and tight global financial conditions, Latin American economies have fared reasonably well over the past year. Credible policy frameworks and buffers have allowed for economies to navigate the worsening of the external backdrop - therefore avoiding a crisis - in stark contrast to the region's experience several decades ago.

With exceptions, activity has surpassed expectations, allowing for a smoother deceleration, even as several central banks led hiking cycles as early as mid-2021, taking policy rates well above contractionary levels. In some cases, however, such as in Argentina and Peru, specific shocks have weighed on activity. Towards 2024, growth is expected to gradually slow in Brazil and Mexico, while improvements are expected in Chile, Colombia, and Peru. The adjustment of the severe macro imbalances in Argentina, which exacerbated further in the months leading up to the first-round of the presidential election, should lead to another annual GDP contraction in 2024.

In this context, tight global financial conditions should lead to central banks only gradually easing monetary policy. The worsening external backdrop between July and October 2023 contributed to the strengthening of the dollar and currency depreciation in the region, and, after peaking in several economies in late 2022, inflation has fallen generally faster than expected.

Risk Outlook

Insecurity and threats in Latin America

Across Latin America, organised crime and a rise in violence have threatened residents' safety and left governments grappling for effective responses. Although overall homicide rates have plateaued in recent years - albeit at the highest levels in the world - and even fallen in notoriously violent countries such as Colombia and El Salvador, the outlook remains challenging for the year ahead. Over a third of all murders around the world occur in Latin America each year, with many or most of them attributed by national authorities to organised crime. Rates of gender-linked murders have increased in several countries, and the predatory behaviour of criminal groups has also triggered and aggravated existing humanitarian emergencies such as mass displacement. This is unlikely to change any time soon.

Geography is a major reason why Latin America emerged as a hotspot of global crime. Home to three of the largest cocaine-producing countries in the world – Colombia, Peru and Bolivia – as well as the main exit points for cocaine exports to Europe and the US, the region has played a key role in illicit drug markets for more than four decades. While Central America, Colombia and Mexico have long been plagued by violence, changes to the routes and networks underpinning the drug trade have brought flareups of violence in countries such as Ecuador and Costa Rica – which traditionally were considered secure and peaceful compared to some of their neighbours.

Many factors have contributed to real and perceived rises in public insecurity. Unprecedented rates of drug production and profitable new narcotic trafficking routes in countries such as Paraguay and Argentina play a role. Widespread economic hardship in Latin America, which became particularly acute during the pandemic, lured more individuals into organised crime. Meanwhile, the prevalence of corruption in the region has allowed an array of illicit markets to take root. These markets are not solely limited to drug trafficking either. Crime rings are engaging in human smuggling, fuel theft, illegal logging and mining, and extortion.

High-level intra-regional cooperation in responding to drug trafficking and organised crime is largely dormant. Meanwhile, US security cooperation continues to play an important role across Latin America, but its significance appears to be diminishing, as financial assistance for narcotics control and law enforcement in the region –

especially in Mexico, Central America and Colombia – has fallen slightly in recent years.

Social Outlook

The social condition of Latin America

Looking at the social trends across Latin America, over the past two years, the region has shown positive signs of recovery after the COVID-19 pandemic, leading to an increase in Latin American citizens feeling that their countries are moving in the right direction.

Whilst improvements on economic dimensions impacting the day-to-day lives of Latin Americans - such as a reduction in poverty and unemployment, and lower levels of inflation – have been seen since the end of the COVID-19 pandemic, there are still concerns regarding whether the socio-political "system" works for individuals. This is evidenced by a very low trust in institutions; a very high level of concern regarding crime, violence and corruption; and ultimately less faith in democracy.

The overall sentiment that one's country is moving in the right direction varies between countries in the region. This is particularly true of Mexico and Brazil, where optimism is much higher than both the regional and global average, with Brazil showing a significant increase in positive sentiment since the end of last year after the election of President Lula. Chile and Colombia remain more in line with the global average, whilst optimism amongst citizens in Argentina and Peru remains very low.

The main concerns for Latin American citizens concentrate around seven main areas: Crime and violence, Inflation, Poverty & Inequality, Unemployment, Corruption, Education, and Healthcare. Crime and violence are by far and away the main concerns for Latin Americans, being 20% higher compared with the global average, and are the top citizen concerns by far in Chile, Peru, and Mexico. These concerns have been growing over the last few years, and could be responsible for driving a 'democratic recession'. At the opposite end, compared with the global average, Latin Americans are much less concerned by climate change, immigration, the rise of extremism, and military conflict.

Despite good progress being made in recent years, the quality of education remains a significant worry for Latin Americans, and inadequate infrastructure and a lack of efficient public funding needed to drive the improvement in productivity that the region is looking for, is also a major concern. Healthcare is less of a worry in Latin America, even if the high level of out-of-pocket expenditures are an indication of weaker health systems and lower levels of health service coverage. The projected growth of the elderly population will present challenges related to pensions, health, and long-term care.

Environmental Outlook

Latin America's environment and climate change

When it comes to the environment, Latin America is not yet demonstrating global leadership in response to either the global biodiversity or the global climate challenge, but it has the potential to do so. While positive signs have emerged from some countries - such as Chile, which has articulated a clear net-zero vision; Colombia, which dramatically increased its climate ambition with its most resent NDC update; and Peru, which has developed a rigorous roadmap towards renewables - not one single country in the region has articulated the climate ambition deemed sufficient to keep global average temperatures below 1.5C by the end of the century.

Perhaps the biggest challenge facing the region is how land use practices serve as substantial sources of greenhouse gas emissions, particularly in the form of deforestation. Progress towards more substantial emissions reductions will be difficult without bringing down annual deforestation rates, perhaps even requiring the achievement of net reafforestation in the region. All of the newly elected left-wing presidents in Latin America have made public commitments to reduce deforestation in their respective countries. Whether these lofty ambitions translate to a real reduction in deforestation and eventual net afforestation, however, remains to be seen. Given that much deforestation in the region is driven by expanded production of globally traded commodities, any decline in deforestation will likely require more conscious consumption patterns in the Global North.

Efforts to promote the circular bioeconomy are well underway and offer a model for increasing the value addition associated with efficient management of natural and agricultural biodiversity. If more value can be sustainably added per unit of available biodiversity, the pressures to increase the harvest of this biodiversity can be reduced.

Regional collaboration around the responsible production of strategic minerals is increasingly under discussion. The idea is that should Latin America be able to define and apply standards for socially and environmentally responsible strategic mineral production, then the region may be able to secure some commercial advantage in emerging markets for these minerals, driven by the global energy transition. If these strategies continue to mature, Latin America may emerge as a global leader in the effort to respond to our common biodiversity and climate challenges.

Global Outlook

Latin America's place in the world

Michael Stott, Latin America Editor, Financial Times

EU-CELAC Summit 2023 - Credit: Palácio do Planalto, via Flickr

Introduction

Latin America is back on the radar of the West. After a decade of relative economic stagnation and diplomatic neglect, there is a renewed sense in Washington, Brussels and London of the region's strategic importance, despite the considerable competition provided by Ukraine and Gaza. Beijing and Moscow, it might be added, woke up to Latin America's importance years earlier.

Rising great power competition and the scramble for scarce natural resources have fuelled a somewhat belated recognition among US and European policymakers that the region will matter more to the world over the coming decades than it has over the past one. Latin America's rich reserves of metals crucial to the energy transition, as well as its status as the globe's biggest net exporter of food and a source of significant additional oil and gas production, are looming large in the thinking of policymakers in Western capitals.

This reassessment of Latin America's importance has led to a flurry of diplomacy. The EU held its first summit of European and Latin American leaders for eight years in July 2023 and James Cleverly made the first visit by a UK foreign secretary to South America since Boris Johnson in May 2018, stopping in Brazil, Colombia and Chile.

But if the US and Europe have somewhat neglected Latin America over the past two decades, the region itself has not stood still. China has greatly expanded trade, investment and influence over the past twenty years. In 2000, Latin America's total trade with China was a relatively insignificant USD $12.5 billion; by 2021 it had grown to USD $450 billion. Beijing's state-controlled firms have pushed into key sectors identified by the Chinese government as of strategic value for the future, such as lithium, copper, ports, transport infrastructure, power generation and transmission.

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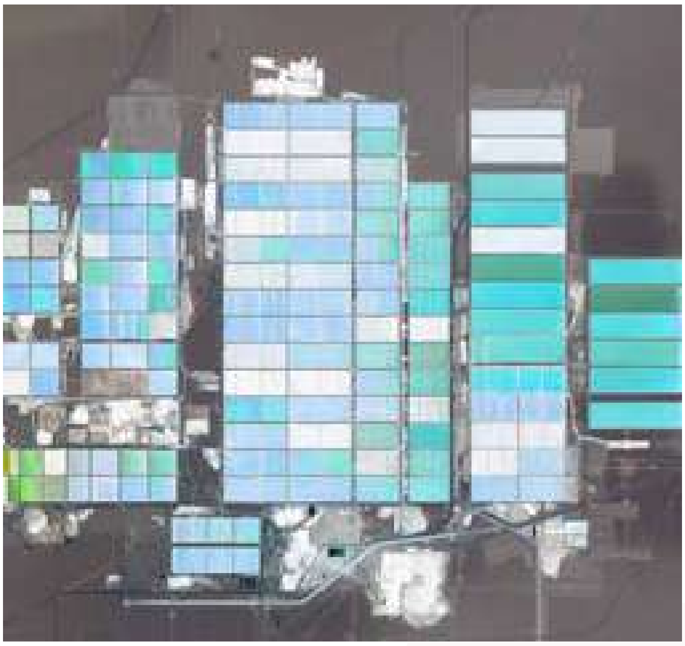
China now owns everything from a quarter share of the world's biggest lithium producer in Chile to electricity generation and supply assets in Peru to investments in around 40 ports across Latin America and the Caribbean. Chinese firms are leaders in building fresh infrastructure, working on projects as diverse as a new metro system for Bogotá or a port facility to service Antarctica in Argentine Patagonia.

In many cases, existing assets have been purchased on the open market from European or North American companies seeking to divest and the infrastructure contracts won in open tenders against bids from other nations.



Chilean lithium brines - Credit: Nuno Luciano, via Flickr

This highlights a strategic disconnect between the policy priorities of European and US governments and the actions of their private sectors, a problem which China with its state-directed industries does not have. Western companies are frequently driven by short-term financial considerations, such as the need to enhance margins or cut debt, and Western governments often fail to match the financial firepower of China when offering funding to back infrastructure bids.

As the world fragments into less predictable blocs, Latin America is presented with an opportunity to use its new-found geopolitical leverage to negotiate advantageous deals with the West, with China and with rising new actors such as India or the Gulf countries.

Other strategically placed nations, such as Turkey or Kazakhstan, have shown in this century an ability to navigate hazardous geopolitical straits with self-confidence and exploit maximum economic and political benefit from playing different alliances off against each other while remaining friendly with all.

The question which presents itself in such an environment is whether Latin America's political and business leadership will rise to the historic opportunity presented by a once-in-a-lifetime confluence of geostrategic and economic shifts and marshal the diplomatic heft and focus needed to achieve the goal many of its nations say they are pursuing, namely to balance the interests of competing global blocs and exploit successfully the commercial and diplomatic opportunities on offer, while avoiding confrontation.

This chapter seeks to examine the nature and dimensions of the opportunity presented to Latin America, the competing diplomatic, political and trade forces being exerted on it from the outside and the response of governments in the region.

Is this Latin America's moment?

Latin America's status as a commodity powerhouse is nothing new. In colonial times, Spanish conquistadors were drawn by its abundant wealth of silver and gold. Over time, colonial settlers developed other highly profitable commodity exports, particularly agricultural goods such as cocoa, rubber, tobacco and sugar.

In the 21st century, different commodities have come to the fore, as the world pivots towards an electric future. Copper and lithium have emerged as crucial metals for the energy transition, the former for use in wiring and the latter in batteries.

> *"It is Latin America's good fortune that it possesses both transition metals in abundance. The region is believed to possess more than half the world's lithium reserves, around 40% of its copper and silver and a quarter of its nickel."*

It is Latin America's good fortune that it possesses both transition metals in abundance. The region is believed to possess more than half the world's lithium reserves, around 40% of its copper and silver and a quarter of its nickel. Peru and Chile are the two leading copper-producing nations, while lithium is concentrated in a triangular area extending over the territory of Chile, Bolivia and Argentina.

At least as important is Latin America's status as a major food exporter. In a context of climate change which is playing havoc with crops globally and of heightened conflict, notably the Ukraine war, the region's ability to export additional food is becoming increasingly important. It already has 45% of global trade in agricultural products according to the EU.

Brazil and Argentina dominate Latin America's agricultural exports, thanks to vast reserves of productive land and sophisticated agro-industries. Mexico and the Andean countries have become important suppliers of fruit and vegetables to world markets. Mexico is the world's leading supplier of avocados, Peru the biggest blueberry and grape exporter and Chile the top vendor of cherries.

According to a recent report by the Organisation for Economic Cooperation and Development (OECD) and the UN Food and Agriculture Organization (FAO), by 2031 Latin America is expected to account for 18% of global food exports. Continued growth will mean that by 2031, the region will account for 61% of global exports of soybeans, 59% of sugar, 45% of fish meal, 43% of maize, 40% of beef, 32% of poultry and 25% of ethanol.

Less well publicised, but equally important for global markets, is Latin America's growing importance as an energy supplier.

> *"The strong solar intensity of locations such as the Atacama desert in Chile and the near-permanent strong winds of Patagonia mean that Latin America is well placed to exploit abundant low-cost solar and wind energy."*

The region's own energy matrix is an example of sustainability, thanks to large past investments in hydroelectric dams: 60% of its electricity is produced from non-fossil fuel sources, the highest proportion of any global region.

The strong solar intensity of locations such as the Atacama desert in Chile and the near-permanent strong winds of Patagonia mean that Latin America is well placed to exploit abundant low-cost solar and wind energy. If done cost effectively and at scale, this could in turn open the possibility of using that cheap green power to produce new commodities such as green hydrogen - hydrogen produced without use of fossil fuels - or possibly green steel.

Chile, Brazil and Colombia are among the countries in the region which have been talking up the opportunity presented by green hydrogen and seeking investment to develop a domestic industry. This remains a relatively high-risk and nascent opportunity, given the uncertainties about how future demand will develop and whether Latin America can compete in this sector with heavily subsidised US producers.

But arguably the biggest and most immediate energy opportunity open to the region is from exploiting its fossil fuel resources more quickly. Whatever view one takes about the speed of the energy transition or the desirability of continuing to drill for oil, it is unarguable that the world will need oil and gas over the coming two to three decades and many Latin American governments believe their countries are well placed to satisfy that demand at a competitive cost.

For Western governments, additional crude and natural gas supply from Latin America offers a welcome opportunity to diversify away from geopolitically more troubled areas, such as Russia or the Middle East.

Thanks to its "pre-salt" offshore oil deposits, Brazil is rapidly increasing production and the government is targeting output of 5.4 million barrels per day by 2030, a level which would make the South American giant the world's fourth largest oil producer and a bigger player in the market than Iran or Iraq.

On the Atlantic coast, Guyana is in the process of becoming a top 20 global oil exporter thanks to a major offshore development led by Exxon. Production is expected to hit 1.2 million barrels per day (bpd) by 2027, making the nation of just 800,000 people one of the latest entrants to the ranks of the global oil producers. Further east along the seaboard, Suriname has announced that Total is considering a USD $9 billion investment which would also make the country an oil exporter for the first time.

Petrobras oil rigs, Campos Basin - Credit: CaptainDarwin

Brazil plans to drill for oil off its north-eastern Atlantic coast, hoping to tap into the same oil-rich geology which has benefited Guyana and Suriname. The Equatorial Margin, as the area is called, could offer the country the prospect of remaining a top oil producer well beyond the next decade, even as the pre-salt fields deplete.

Further south, Argentina is finally building up oil and gas production from the Vaca Muerta shale deposit in Patagonia, the world's second biggest shale gas formation and its fourth biggest shale oil structure. The Argentine government is planning to significantly increase the country's oil and gas production over the next five years, turning the country into a net energy exporter. If suitable infrastructure is built, Argentina could become an important Liquefied Natural Gas exporter, though this will depend on the government achieving greater macroeconomic stability.

Finally, Venezuela, once the region's biggest oil exporter, is seeing the possibility of its fortunes turning after years of sharp decline, which reduced output from a peak earlier this century above 3 million bpd to barely a sixth of that. A US decision in October 2023 to relax oil sanctions for six months and an earlier decision to allow existing player Chevron to export oil from Venezuela are likely to boost output above 1 million bpd by mid-2024. If the sanctions relief is maintained, Venezuela could pump as much as 1.2 to 1.3 million bpd by the end of 2024, according to insiders – still a far cry from the peak levels above 3 million bpd reached early this century but nonetheless an important comeback.

The prospect of a significant increase in crude supply from a nearby country whose oil US Gulf refineries are well equipped to handle helps to explain why the United States was prepared to countenance a major shift of policy towards Caracas in October 2023.

Other factors playing a major role in the US decision to relax sanctions on Venezuela for a limited period, with the possibility of extensions if there is progress on political reform, were a desire to limit the flow of Venezuelan refugees heading for the US southern border as the US enters an election year and the wish to entice Venezuela out of the orbit of its close allies of recent years Russia, Iran and China, and move it closer to the West.

It remains to be seen whether the policy proves durable, particularly in the absence so far of significant concessions on reform from the Chavista government in Venezuela, for whom remaining in power is an overreaching imperative, particularly with presidential elections scheduled for the second half of 2024.

The Biden administration's dilemma over Venezuela is a good illustration of some of the broader geostrategic considerations now informing policy on Latin America in Western capitals.

A welter of reports and analysis from think-tanks over the past couple of years has highlighted repeatedly how the West has lost ground commercially, diplomatically and politically in Latin America to China and urged a rethink which gives due consideration to the region's strategic importance.

Hampering such a shift is the disconnect between the private sector and governments. Many US and European firms have reduced exposure to Latin America over the past decade, deterred by political risk, questions about the rule of law and the need to consolidate assets in core geographies and to reduce debt.

Such decisions may make sense when viewed through a prism of maximising shareholder value from the perspective of the companies concerned. For example, Italy's ENEL sold a clutch of Peruvian power assets to China Southern Power Grid in 2023 for USD $2.9 billion as part of a strategy of cutting debt and consolidating geographic presence around a smaller number of key markets. For the Chinese company, this purchase formed part of a plan to build its presence in Latin America.

"Many US and European companies have abandoned the market for building infrastructure in Latin America, finding it hard to compete on price with the Chinese and unable to match the government funding guarantees or soft loans offered by Beijing."

Many US and European companies have abandoned the market for building infrastructure in Latin America, finding it hard to compete on price with the Chinese and unable to match the government funding guarantees or soft loans offered by Beijing. When Panama tendered for a fourth bridge over the canal in 2017, for example, there were two Chinese bidders among the four who wanted the work, but no American firms.

Latin American telecoms executives complain that although the US government frequently presses them not to award contracts to build 5G mobile infrastructure to China's state-controlled Huawei on security grounds, it offers no alternatives, as there are no US 5G network infrastructure providers. The European and South Korean firms who compete with Huawei are often considerably more expensive.

President Lula and President Xi at the BRICS summit
Credit: Lula Official, via Flickr

It is worth noting, though, that the big state-to-state loans from China which characterised the first decade of this century have largely ceased. The reason is not hard to find: the biggest single recipient of the loans was Venezuela, and China experienced great difficulty in getting paid as Venezuela sank deeper into economic crisis. Ecuador, another large recipient of state loans, had to renegotiate its Chinese debt after running into payment problems. The biggest recent recipient of Chinese state loans has been Argentina, which negotiated the use of a larger proportion of an existing swap facility.

> *"Diplomatically, China has been highly active in Latin America. President Xi Jinping has visited the region at least eleven times since he took office in 2013, a far higher total than major European or US leaders."*

Regulatory decisions can also play an indirect role in facilitating Chinese expansion. For example, in 2018, Canadian regulators ordered fertiliser company Nutrien, formed by a merger, to sell its 24% stake in SQM, the world's lowest cost lithium producer, because SQM also had significant fertiliser production. The purchaser of what has to count as among the world's choicest lithium assets was China's Tianqui, which picked up the SQM stake for USD $4.1 billion, before the global lithium frenzy hit its peak.

It is against this backdrop that the European Union launched Global Gateway, its much-vaunted answer to China's Belt and Road initiative, at the 2023 Brussels summit with Latin America. Intended to help fund a just green energy transition and inclusive digital transformation, the programme touts a European commitment to invest up to 45 billion euros over the next four years.

The United States has come up with an Americas Partnership for Economic Prosperity, an initiative designed to mobilise private sector investment in Latin America and aid the region in gaining economic competitiveness. However, an inaugural summit of leaders in November 2023 did not announce significant new money to back the programme and none of the presidents of the region' three biggest economies, Brazil, Mexico or Argentina, attended.

Those US and European efforts compare to USD $12 billion in Chinese foreign direct investment in Latin America in 2022 alone – in addition to several billion more funnelled through third countries - and total state-backed loans from Beijing to Latin American governments of USD $137 billion from 2005-2020, often in exchange for oil.

Diplomatically, China has been very active in Latin America. President Xi Jinping has visited the region at least eleven times since he took office in 2013, a far higher total than major European or US leaders. President Biden has visited Latin America once in the first three years of his presidency, to attend a North American leaders' summit in Mexico. President Trump only visited Latin America once in his term, to attend a G20 summit in Argentina. No US president has visited Brazil in the last decade.

But China's biggest success in the region has been in trade. According to the Council on Foreign Relations, "in 2000, the Chinese market accounted for less than 2% of Latin America's exports, but China's rapid growth and resulting demand drove the region's subsequent commodities boom. Over the next eight years, trade grew at an average annual rate of 31%, reaching a value of USD $180 billion in 2010. By 2021, trade totalled a record USD $450 billion, a figure that remained largely unchanged in 2022, and some economists predict that it could exceed USD $700 billion by 2035."

China is now South America's top trading partner and the second largest for Latin America as a whole, after the United States. Only Mexico's very close trading relationship with the US via the US-Mexico-Canada free trade pact prevents China from completely dominating trade in Latin America. Twenty-one countries have signed up to Beijing's Belt and Road infrastructure-building initiative.

It is worth repeating that in almost all cases, China's rapid advances in the region have come as the result of committing to long-term projects and loans with the full backing of the state and taking a strategic view of the opportunities rather than letting short-term commercial considerations win the day. Latin American governments have not generally opted for closer economic links with China out of ideology. The primary driver is a desire to take advantage of commercially attractive offers from Beijing and its companies.

Domestic political considerations have stymied attempts in the United States and in Europe to seek what many pragmatic Latin American governments wish for: free trade agreements. President Biden came to office pledging no new trade pacts to please an increasingly protectionist domestic base, thereby robbing the US of one of its potentially strongest offerings in a competition with China. The launch of the Americas Partnership in November 2023 spoke of "building upon our existing trade links and economic cooperation", rather than aiming for new trade deals.

On the European side, an ambitious free trade agreement with the South American Mercosur bloc led by Brazil and Argentina has been 20 years in the making but was still not a reality as of November 2023. A pact was agreed in principle in 2019 but the European Commission has not put it forward for ratification because of demands from some EU farming nations for additional environmental safeguards. These requests have angered Brazil and Argentina, which already regard the agreement as excessively favourable towards Europe and have resisted making further concessions.

Talks were continuing at the end of 2023 but if a deadline set by Mercosur of December 2023 for concluding agreement is not met, it is possible that the deal may not be finalised for many more years, if at all – a potentially very damaging development for Europe's standing in the region and a sharp contrast with Beijing's more gung-ho approach.

Americas Partnership for Economic Prosperity launch
Credit: Presidencia de Colombia, via Flickr

Former Foreign Secretary James Cleverly and President Petro of Colombia - Credit: FCDO, via Flickr

> ***"The European Union's relative slowness in concluding free trade deals might give the United Kingdom more leverage post-Brexit in the region."***

The European Union's relative slowness in concluding free trade deals might give the United Kingdom more leverage post-Brexit in the region. However, in the immediate aftermath of the UK's exit from the EU, officials in London were more focused on countries considered a bigger strategic priority, such as the US, Australia and India.

There are signs that London's interest in the region is now increasing. Then Foreign Secretary James Cleverly described Latin America's appeal thus in a keynote speech setting out regional policy in Santiago during his May 2023 visit:

"Your demographic and economic weight gives you a pivotal role in determining whether the international order will endure...the shift in world power has been evident for some time. And it is my goal as the UK Foreign Secretary to ensure that our strategic thinking reflects this simple fact. That's why I've come to Latin America this week."

Cleverly explained that on trade, the UK was hoping that its forthcoming membership of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) would open up commerce with fellow CPTPP members Chile, Mexico and Peru. Were applications to join from Ecuador, Uruguay and Costa Rica to be successful, that list would grow. A separate UK-Mexico free trade agreement is also being negotiated.

Yet when the UK came to publish its updated defence and foreign policy review in March, the document mentioned Latin America only once in 63 pages. Cleverly noted that Latin America accounted for only 2% of UK imports and 2.5% of exports, a proportion which has not changed notably in more than a decade, despite government efforts.

Cleverly's visit to south America also skipped Argentina, where the dispute over sovereignty of the Falklands/ Malvinas islands continues to cloud relations. Broader support for the UK's position was thrown into question at the EU-Latin America summit, where the EU endorsed an Argentina-backed declaration referring to the islands by their Argentine name.

The UK's unquestioning support for Ukraine in its war with Russia and its determination to punish Russia for the invasion have also raised eyebrows in Latin America, where many nations have a more nuanced position. The war's severe impact on global food and fuel supplies, exacerbated by draconian Western sanctions on Russia, has cost it support in Latin America and the region's two major powers, Brazil and Mexico, have both repeatedly called for an immediate ceasefire followed by negotiations as the best option for ending hostilities.

Latin American nations with a long history of non-intervention in the affairs of other nations find it hard to see the justification for the US-led military support for Ukraine. The huge extent of Western military aid to Ukraine – the US alone had donated more than USD $135 billion by late 2023 with a request for more than USD $60 billion more in 2024, contrast sharply with the sums released by Washington for poorer nations in Latin America, such as the USD $4 billion made available to Central America under the four-year Biden initiative to address the root causes of migration

Latin American nations also find it hard to accept the Western justification that Putin's invasion of Ukraine constitutes a uniquely dangerous threat and should be treated differently to a normal regional conflict which would require prior UN resolutions to authorise intervention. They point to numerous instances over the past two decades of Western military moves in other nations, such as Afghanistan or Libya, where the some of the same principles invoked to justify punishing Russia were ignored by Washington or London.

"Latin American nations with a long history of non-intervention in the affairs of other nations find it hard to see the justification for the US-led military support for Ukraine."

In particular, the harsh and extensive US-led sanctions on Russia have generated considerable criticism in Latin America, which has a long and very negative experience of the effect of the US sanctions on Cuba and, more recently, Venezuela. The secondary effects of these sanctions, such as sharply increasing fertiliser prices and affecting supplies, have been very poorly perceived in the region.

In such an environment, the attraction of emerging "middle powers" such as India, the Gulf states and Turkey as diplomatic allies and as possible commercial partners come into sharper view for Latin America. The Gulf states in particular have become increasingly important investors. One example: billionaire entrepreneur Jaime Gilinski's audacious bid for Colombian food producer Nutresa, a major regional player, was co-funded by Abu Dhabi – financing which would have been hard to imagine even a decade ago.

According to the Milken Institute, the United Arab Emirates accounted for 77% of the Gulf Cooperation Council (GCC) investments in Latin American markets between 2016 and 2021, amounting to USD $4 billion.

India's longstanding commitment to a non-aligned foreign policy and its position at a distance from the US and Europe and from China makes it a natural partner for Latin America in global policy fora. New Delhi's thinking on issues such as the Ukraine war and the Israel-Gaza conflict tends to mirror that of major Latin American countries such as Brazil and Mexico and it shares with them a common interest in a more multipolar world and greater representation for developing nations in the governance of global institutions such as the UN or the International Monetary Fund.

It was therefore no surprise that when the BRICS grouping decided at its 2023 summit in South Africa to expand, one of the new members announced was Argentina - and if the current Mexican government were more internationally inclined rather than almost totally focused on domestic issues, Mexico might also have been a logical choice as a new member as well. Current member Brazil sees the forum as a useful counterweight to Western-dominated international groupings such as the G7 and the G20, an argument which also appeals to Buenos Aires.

Against this backdrop, Western efforts to use meetings such as the EU-Latin America summit to issue declarations of support for Ukraine risk being perceived in the region as irritating distractions and further confirmation that the region's own issues are not seen as the priority. In that respect, it is worth noting that the largest single amount of new money unveiled in the Americas Partnership for Economic Prosperity summit (USD $89 million) was to help Latin American nations fight illegal migration.

Given the historic nature of the geopolitical and economic opportunities open to Latin America at present, how well are the region's leaders doing at seizing these chances and fully exploiting them?

In Brazil, the Lula government has moved to assert the country's commitment to multilateralism and its historic stance of non-alignment in international affairs. These moves have been warmly welcomed around the world after the isolationism and ideological extremism of the Bolsonaro years, which prevented Brazil from playing its traditional role as the leading diplomatic power in Latin America.

Lula's commitment to international efforts to fight climate change has been particularly popular overseas, given Brazil's importance in this battle as the country with most of the Amazon rainforest in its borders. The Amazon Fund aimed at promoting forest conservation was re-established with donations from Europe after a hiatus during the Bolsonaro years. However, in other areas Lula's views have been less well received in Washington, London or Brussels.

On Ukraine, Lula has questioned the West's stance, suggesting that the conflict has been exacerbated by a focus on fighting Russia rather than seeking an immediate ceasefire. He has asserted that Russia and Ukraine bear equal responsibility for the conflict and that the US should stop incentivising war instead of promoting peace. The latter remark caused dismay in Washington and triggered a sharp public rebuke to Lula by the US National Security Council spokesman John Kirby to stop "parroting Russian and Chinese propaganda", an accusation taken in Brazilian diplomatic circles as further proof that Latin America's legitimate concerns were not being understood in Washington.

Lula has also moved quickly to re-establish relations with the revolutionary socialist government of Nicolás Maduro in Venezuela – broken off under Bolsonaro - and to bring Maduro back into the regional diplomatic fold without preconditions. He even went so far as to defend Maduro's "democratic legitimacy" despite Venezuela's last presidential election in 2018 having been considered fraudulent by the US and the EU.

Some of these stances have created tension with the United States. The Biden administration had hoped for a closer and more constructive relationship with Brazil under Lula after the difficulties it experienced with the Bolsonaro administration, whose strong alignment with former president Trump and far-right ideology made it an uncomfortable partner.

Lula, however, has been determined to mark his own path and has resisted American attempts to align Brazil more closely with the West on issues such as Ukraine, which he regards as one more regional conflict rather than the epoch-defining event it is often painted as in Europe.

Brazil, in common with other large developing world powers, is also keen to see major reform of international institutions such as the UN Security Council and the IMF/World Bank to reflect changes in relative economic and political standing of countries over the past 70 years.

This does not necessarily mean a closer relationship with China or Russia; it simply means keeping equidistant from the big powers and resisting attempts to corral Brazil into one camp or another. Brazil has no wish to see a US-dominated international order replaced by a China-dominated world or a Russia-dominated world.

Luiz Inácio Lula da Silva, President of Brazil

"Lula has also moved quickly to re-establish relations with the revolutionary socialist government of Nicolás Maduro in Venezuela – broken off under Bolsonaro - and to bring Maduro back into the regional diplomatic fold without preconditions."

There has been considerable frustration inside the Brazilian government at what it sees as Western inability to understand Lula's position, or to see the inconsistencies of Western foreign policy in past conflicts such as Iraq, Afghanistan or Libya, where not all military interventions were authorised by the UN, and where the long-term results were at best questionable.

Brazil's decision on 5G networks offers an illustration of its desire to maintain balance. After considerable US pressure to ban China's Huawei completely, Brasilia opted instead to allow Huawei to build the public 5G network, while constructing a government 5G network using US-backed alternatives – a clear attempt to try to avoid taking one side.

Ultimately, though, the Lula government's foreign policy ambitions are unlikely to be fully realised. Lula's declarations on Ukraine have made him an improbable mediator in the war. The same is true for his interventions on Israel's war with Hamas in Gaza, where his description of events in the Palestinian enclave as "genocide" is unlikely to burnish his credentials with Israel as a neutral go-between. Where Brazil is likely to be more successful is in efforts to build the clout of fora such as the BRICS or the Latin American bloc CELAC.

If Lula's foreign policy ambition and activism mark him out on the global stage, almost the opposite is true for Mexico, traditionally Latin America's second biggest diplomatic power. Left-wing president Andrés Manuel López Obrador took a decision at the outset of his presidency to focus on domestic issues to the almost total exclusion of foreign policy.

The only significant exception to this approach has been Mexico's relationship with the United States. Even for a man with such a marked aversion to foreign policy, links with the giant neighbour to the north are of such paramount importance that no Mexican president could afford to ignore them. Indeed, given the large Mexican presence in the US and the extensive trade ties, the United States relationship is arguably domestic policy in Mexico.

López Obrador has almost entirely avoided foreign travel during his presidency, again with the exception of visits to the United States and a trip to Colombia for a drug summit. He has consistently skipped multilateral fora such as the G20 and did not attend the historic EU-Latin America summit in Brussels in July or President Biden's Summit of the Americas last year in Los Angeles, which was described as Biden's highest priority gathering for the region.

However, despite his nationalist and populist political background, López Obrador has generally been careful to avoid open conflict with the United States, calculating that this would disrupt his domestic priorities. He has typically steered a pragmatic course, both with the Trump and Biden administrations, and has never seriously questioned the US-Mexico-Canada free trade agreement.

In return, the Biden administration has focused above all on securing Mexico's cooperation in stemming and managing the flow of migrants north towards the border, something López Obrador has been happy to assist with. The quid pro quo for his help on migration is that the Americans avoid criticising many of López Obrador's domestic initiatives, even when they threaten institutionality, as with his attempts to slash the budget of the independent electoral institute and curb its oversight, or his outspoken attacks on the supreme court.

Both sides have trodden carefully on a trio of trade disputes which have arisen between them, on genetically modified corn, on the rules for car parts and on Mexico's nationalist energy policies. The overriding aim has been to avoid escalating the dispute prior to the presidential elections which will occur on both sides of the border in 2024.

Tension has already been raised by Republican attacks on Mexico over the flow of illicit fentanyl to the United States, where it causes around 100,000 deaths per year. Republicans perceive the Mexican leader as soft on drug cartels and have used the issue as a political weapon already, with some presidential candidates threatening to send in commandos to attack the cartels in Mexico if elected.

US-Mexico border fence

"In practice, Mexico's close economic and trade alignment with the US limit the room for manoeuvre of any future president and mean that the relationship with Washington will always take priority over any other."

While such threats are impractical and unlikely to materialise, not least because of the strong counter-productive reaction they would engender in Mexico, it is to be expected that they will continue during the election year and have the potential to stoke nationalism and anti-American sentiment, something which would be likely to benefit López Obrador more than the conservative opposition.

In practice, Mexico's close economic and trade alignment with the US limit the room for manoeuvre of any future president and mean that the relationship with Washington will always take priority over any other. This also makes Mexico an exception to the clear trend in the rest of the region, where trade and investment relations with China have expanded enormously over the past two decades.

Almost 80% of Mexico's exports go to the United States, which is also responsible for more than half of the foreign investment in Mexico. The nearshoring trend, in which US firms or firms serving the US market move production closer to the US in order to reduce geopolitical risk, also militates in favour of this relationship being reinforced further.

However, although Mexico is turning in a respectable growth performance, with expansion of around 3% expected in 2023 and at least 2.5% next year, many experts argue that growth ought to be much higher, given the historic opportunity represented by nearshoring.

Persistent complaints include a shortage of suitable land in industrial parks in the north of the country near the border, a lack of renewable energy capacity to service new factories, poor security and a government prone to unpredictable moves against business, such as the cancellation in 2020 of Constellation Brands' partly built brewery in northern Mexico by the government because of water shortages.

Foreign investment figures produced by UN agencies show that Brazil received far more money from abroad in 2022 than Mexico, even accounting for the difference in their relative economic size, and that trend appears to be continuing in 2023. Mexico accounted for just 17% of total foreign investment in Latin America in 2022, according to the UN data, below its near-quarter share of the region's GDP. Brazil, by contrast, outperformed, even though it lacked the trade privileges with the US enjoyed by Mexico.

Despite its unorthodox macroeconomic policies in recent years, including tight foreign exchange controls, price controls and an elaborate web of fuel and tariff subsidies, Argentina has proved successful in attracting investment in lithium, thanks to pro-mining policies from its regional governments which hold the power to grant permits.

The country has also avoided many of the environmental protests which have complicated mining in the Andean nations and according to company estimates, could triple its lithium production by 2026 to become the world's third biggest producer of the white metal essential for car, computer and phone batteries.

Argentine lithium brines - Credit: Earthworks, Flickr

"Argentina's success in exploiting the global lithium market opportunity stands in sharp contrast to that of its neighbour Bolivia, whose left-wing government brought all its lithium reserves under state control in 2008 and assigned them to a state monopoly to exploit."

CANNING HOUSE

Argentina is also well placed to grow its shale oil and gas industry and its agribusiness sector, if the new government of Javier Milei from December 2023 can dismantle foreign exchange controls, free the repatriation of profits and reduce export taxes. With the right policy mix, the South American nation could be the growth star of the late 2020s.

Argentina's success in exploiting the global lithium market opportunity stands in sharp contrast to that of its neighbour Bolivia, whose left-wing government brought all its lithium reserves under state control in 2008 and assigned them to a state monopoly to exploit. A lack of funds and technical knowledge has meant that Bolivia have so far failed to export any commercially significant quantities of lithium, despite having the world's biggest reserves.

Bolivia has now brought in Chinese partners to try to develop its lithium, but it remains to be seen how successful they will be in a country with a history of blowing hot and cold on partnerships with foreign firms and constantly changing strategy.

In Chile, the world's biggest copper producer and its second biggest lithium producer, a government decision to bring lithium under state control has chilled fresh investment and a decision to ask ailing state copper company Codelco to set up a lithium arm risks running into some of the same problems on funding and technical expertise which beset Bolivia.

The left-wing government of President Gabriel Boric has given much greater weight to environmental concerns when considering mining projects and approvals have become much harder to secure, sparking concern about the future of an industry which contributes most of Chile's exports. Chile has attempted to nurture a green hydrogen industry but it remains to be seen how successful this initiative will be.

Gabriel Boric, President of Chile

In addition, Chile's attempts to rewrite its constitution have injected further uncertainty for long-term investors about what rights they might enjoy and what level of taxes they might pay. An attempt by an assembly dominated by the left to rewrite the charter failed after voters rejected the draft as too extreme; a second attempt made by a right-wing-dominated group was also in trouble at the time of writing.

Andean nations Colombia, Chile and Peru all elected left-wing governments in 2021-22, and capital flight from these three countries alone totalled around USD $58 billion, indicating the degree of political risk perceived by investors.

In Peru, the world's second biggest copper exporter, the interim government of Dina Boluarte (which succeeded Pedro Castillo after his impeachment in December 2022), has expressed a willingness to boost foreign investment and is attempting to unblock around USD $53 billion of big mining projects. These have been on the drawing board for years but stymied by difficulties in winning approvals and in convincing sceptical local communities to accept them.

Despite the government's good intentions, and the wish of mining companies to move forward with copper mining projects to meet strong global demand, the weakness and lack of political legitimacy of what is an unpopular transition administration are likely to complicate efforts to unblock the projects. As a result, consultancy Wood Mackenzie has warned that the Democratic Republic of Congo could overtake Peru as the world's number two producer in the coming years if the situation does not change.

The country's strong agribusiness sector and a drive to develop infrastructure and logistics around the new megaport of Chancay, due to open late 2024, and expanded Lima airport offer Peru some solid growth opportunities for the future.

In Colombia, former guerrilla Gustavo Petro's election to the presidency carried with it the prospect of reforms to improve public services, reduce inequality and pivot from a natural resource-led economy to a more sustainable one. Progress, however, has been fitful. An early success with tax reform was followed by deadlock, as Petro's preference in office for radical campaigning, rather than pragmatic government, broke apart his coalition in congress and heightened polarisation. Investment in oil and mining has also been hurt by Petro's opposition to new projects.

Even in Panama, historically a country open to foreign investment and with a strong pro-business bias, protests engulfed the giant copper mine in the rural Colón province operated by First Quantum Minerals during 2023. The future of FQM's tenure of the mine appeared uncertain as congress backtracked on an earlier decision to ratify a renegotiated contract in the face of public opposition.

Panama's difficulties with the FQM mine, however, were an exception to what has generally been a pro-investment climate in a country open to the world. They point to another recent trend in the region: that some of the smaller countries have followed more open, pro-business policies and have reaped faster growth rates as a result.

Dominican Republic, Paraguay and Uruguay are all examples of nations with relatively strong growth prospects as the result of policies pursuing openness for trade and investment and a generally stable business climate.

Panama has been the fastest-growing Latin American economy over the past 20 years and is now classified by the World Bank as a high-income country, one of only three in the region - the others being Uruguay and Chile.

Paraguay has achieved impressive growth rates in recent years on the back of the expansion of its agro-industry, and the new government of Santiago Peña, who took office in 2023, has made strong efforts to woo global investors, touting his country as a good destination for manufacturing for export because of its abundant supplies of green electricity from the giant Itaipú dam shared with Brazil.

These open economies share a desire to welcome investment regardless of its source – whether Chinese or Western – and have prospered to a large extent from their strategic locations: Dominican Republic's close proximity to the US and the CAFTA-DR trade agreement, Panama's position as a regional business and logistics hub, Uruguay's closeness to Argentina and Paraguay's location at the centre of south America, close to Brazil and Argentina.

Panama City, Panama

Conclusion

The constellation of geopolitics and economics today is the most favourable to Latin America in decades. The region stands before an unusually good opportunity to increase its share of global trade, open up new markets, cement its dominance in food and mining exports, diversify its industries, attract a substantial share of company investment as production is moved out of China and closer to the US and exploit its green energy potential.

Major global economic powers have all seen the opportunities. China has led the way in rapid investment over the past two decades but the European Union has made an ambitious bid to promote sustainable and inclusive growth via its Global Gateway project and the Mercosur trade deal, if those can be pulled off successfully. The United States, with its geopolitical focus elsewhere and its lack of appetite for new trade deals, has trailed some way behind in recent years, though it remains dominant in Mexico.

Another opportunity for Latin America is for its nations to trade more with each other. Economists frequently note that trade levels among Latin American nations are some of the lowest of any global region, hindered by membership of competing trade blocs - Mercosur, Pacific Alliance, USMCA, CAFTA-DR - poor transport links, unwieldy bureaucracy and a lack of political will.

If fully exploited by governments, all these opportunities could give Latin America its best chance in a generation to break out of years of economic under-performance, fund better infrastructure and public services and reduce poverty and inequality.

But that is not a given. Most of the areas of opportunity are in globally competitive sectors. In order to win investment and trade away from other regions, whether mining in Africa or manufacturing in South-East Asia, Latin American governments need to adopt policies which improve infrastructure and education, thereby boosting competitiveness, strengthen the rule of law, enhance independent regulatory bodies and build confidence among investors. Economists and policy experts have argued for such policies for years in vain.

Some of the smaller economies are showing that they understand the policies needed to exploit economic opportunities. Panama, Paraguay, Uruguay and the Dominican Republic have scored some successes in this regard. Yet among the larger economies whose performance dictates the region's destiny, questions remain over how the extent to which governments will come up with the right policies to make the most of the region's window of good fortune.

"If fully exploited by governments, these opportunities could give Latin America its best chance in a generation to break out of years of economic under-performance, fund better infrastructure and public services and reduce poverty and inequality."

Mexico typifies the challenge. Data published so far indicates that most of the trade and investment displaced from China since the imposition of tariffs in the Trump era has gone to neighbouring south-east Asian states, in particular Vietnam, rather than to Mexico. That is not to deny that Mexico has benefited. There has been additional investment and there are some signs that this is accelerating, but it has so far not been a boom of the size to match the opportunity.

This could change. The Mexican government has introduced incentives for nearshoring and is moving to tackle some of the concerns raised by business, such as a shortage of green energy for new factories. A new president will take office in 2024, perhaps heralding a fresh approach.

First China CELAC forum ministerial meeting - Credit: Cancillería del Ecuador


Monterrey, Mexico

In South America, Brazil has been building its case as an investment destination for green energy and looking for new models to promote sustainable agriculture and Amazon development. Its market size and power will make a degree of success probable; supportive government policies could yet turn that into a boom. The risk is an over-reliance on easy revenues from higher oil production.

Argentina, long an underperformer, could yet surprise everyone with its new government, if it finally grasps the nettle of economic reform and wins the foreign investment it needs to make the most of its agribusiness, shale oil and gas and lithium. In Chile, Colombia and Peru, internal political struggles are generating uncertainty and holding back progress. It remains to be seen for how long.

The 2020s did not start well for Latin America, the region hardest hit by the combined human and economic impact of the pandemic. But the decade could yet be remembered as the one where the region recovered its weight in the world economy, returned to a track of faster growth and development and solidified trade and investment alliances with both West and East. There is much to play for.

Political Outlook

The politics within Latin America

Oliver Wack, Partner and General Manager for Colombia and Andean Region, Control Risks

Argentina

On 19 November 2023 Argentine voters headed to polls to decide on who would lead the country for the next four years. With two drastically different presidential candidates, voters could choose between Economy Minister Sergio Massa, of the Peronist Unión por la Patria (UP) ruling coalition, and self-proclaimed libertarian challenger Javier Milei, of the right-wing La Libertad Avanza (LLA) party. Despite the uncertainty in the run-up to 19 November, with imprecise polling and surprise results in the primaries and first-round elections, the tension did not last long. Just over two hours after voting stations closed and before the official results had been announced, Massa conceded the election. Milei ultimately won 55.7% of votes over Massa's 44.3%.

Milei's victory reflects the electorate's willingness to break government continuity, fuelled by frustration with the current administration and disillusionment with the wider political establishment. With yearly inflation exceeding 140% and 40% of the population in poverty, Massa's ad-hoc economic interventions failed to stabilise the economy, and measures to alleviate voters' hardships were insufficient to overcome popular rejection. Against this backdrop, Milei managed to establish himself as the loudest voice of the opposition, a role historically held by traditional anti-Peronist parties, such as Propuesta Republicana (PRO) and Union Cívica Radical (UCR), which together form the Juntos por el Cambio (JxC) coalition. Although Milei's disruptive proposals – which include deep cuts to government spending, privatisation of state-owned companies and ditching the Argentine peso to dollarise the economy – resonate with a significant portion of the population, Milei's election is above all a symptom of disaffection with the political establishment. However, once he takes office on 10 December 2023, he will face several challenges to governability and to the implementation of his agenda.

Economic adjustments

Despite Milei's pledges to improve the economy, he will face an uphill battle in dealing with the crisis. According to local economists, Argentina's economy will likely keep deteriorating into 2024. Part of the peso's value was being propped up by the Argentine Central Bank in anticipation of the election and will decline in the coming months, worsening the country's solvency. Argentina will not only have to pay its dues to domestic creditors, but also rebuild its foreign currency reserves to service its international debt – particularly to the IMF, which will require tough negotiations in 2024. Sovereign risks will therefore remain elevated, with a default or renegotiation with the IMF likely.

His administration will pursue spending cuts to undo economic distortions and lower inflation. However, political pressure and negotiations over the impacts on affected sectors and segments of the population will push back against the economic agenda. Dollarisation or currency overhauls would entail a long-term implementation plan, during which the economy would remain debilitated. These, however, are unlikely due to insufficient foreign reserves to sustain – and the high political cost of pursuing – them.

Governability challenges

The rise in popularity of Milei and his party will likely result in the split of the anti-Peronist opposition. No single party coalition has a majority in Congress (legislature). At the provincial level, power is fragmented between the UP, JxC and local political forces. Due to the small size of the LLA, Milei would be highly reliant on the JxC bloc for passing policy. Additionally, labour unions and social movements, with support from left-leaning factions of the UP, will likely resist austerity measures. Milei will have to bargain case-by-case for bills, tempering more radical proposals. Congress will likely water down structural reforms, and risks of gridlock could increase.

> *"Due to the small size of the LLA, Milei would be highly reliant on the JxC bloc for passing policy."*

Growing unrest risks

Repeated bouts of unrest have occurred in response to the ongoing economic deterioration, and will likely persist into the administration as the economy keeps worsening. These will range from peaceful rallies organised by labour unions and social movements, as well as spontaneous street protests by dissatisfied citizens, which are more unpredictable. Polarisation will likely continue, with Milei and LLA offering an outlet for disaffected voters and seeking to signal opposition to the political establishment. Demonstrations for and against the government are likely to ensue, causing operational disruption and incidental security risks to businesses in 2024.

Institutional frictions

The need to pass structural economic reforms will face resistance from different political and interest groups, which is likely to lead to judicialisation. Frictions between the judiciary and executive branches will likely ensue, which will bog down the legal system and stall judicial and policy agendas. Legal battles will drive regulatory volatility and bureaucratic inefficiencies. Advancing anti-corruption measures will likely have a low priority and occasional threats to judicial independence may persist, driving increased integrity risks.

President Javier Milei – Credit: Ilan Berkenwald, via Flickr

Extreme weather events

Between 2020 and 2023 the La Niña weather phenomenon decreased rainfall in the Southern Cone, driving heatwaves and droughts. The drought that hit Argentina in 2023 severely affected agricultural production and increased energy consumption, costing an estimated USD $20m to the economy, according to the secretary of agriculture, livestock and fishing. La Niña ended in 2023 but will be followed by El Niño in 2024. Amplified by climate change, the new phenomenon will produce excessive rainfall, which will harm crops, cause landslides and flooding, damage infrastructure and pose localised threats to assets and personnel. Increasingly frequent and unpredictable extreme weather events will increase operational risks in the country and, given Argentina's reliance on agriculture, likely hinder economic recovery. Repeated crises will also drive political risks as citizens grow critical of the government's exacerbated incapacities and struggle to respond.

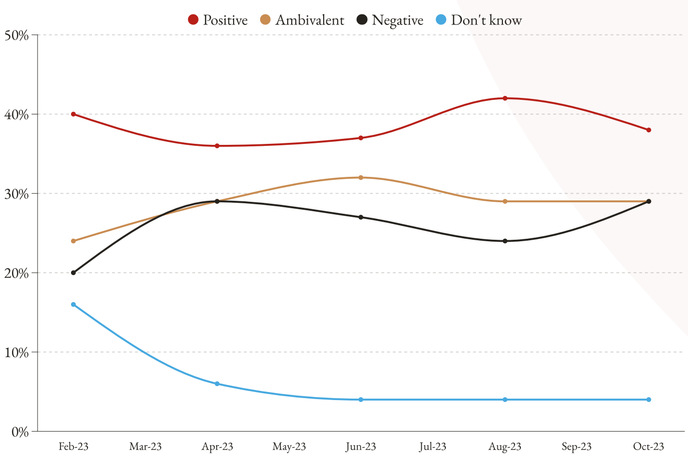
Brazil

President Luiz Inácio Lula da Silva's election in 2022 was an unprecedented feat in Brazilian politics: a president elected for a third term – albeit with the tightest margin - since the military dictatorship ended in the 1980s. After an election season and government transition marked by elevated political and institutional risks, Lula's first year in office offers a clearer picture of what to expect from his administration. The government has managed to assuage the main threats to democratic institutions. However, it is struggling to balance diverging political and financial demands as it seeks to improve the social and business environments.

Pressure from all sides

Barely a week into the new government, far-right demonstrators stormed government buildings in the capital Brasília to protest the election results and call for a military intervention. The incident reflected the persistence of social polarisation in the wake of former President Jair Bolsonaro's administration (2019-22). Radicalised segments of the electorate will pose limited security threats and prevent Lula from reaching the widespread approval ratings he enjoyed during his previous terms in 2003-2006, and 2007-2010. However, as investigations into the Bolsonaro administration's misconduct advance in the judiciary and Lula exchanges political appointments and funds for legislative support, the far-right threat to governability is likely to wane. The transactional nature of executive-legislative relations and sporadic friction resulting from judicial overreach will drive latent institutional risks, but after a slow start to policymaking, Lula has achieved the minimum conditions necessary to advance with his agenda in Congress.

President Lula's approval ratings



Source: Quaest

The government now has to deliver on often-conflicting social, political and financial commitments in order to remain viable. On one front, it aims to deliver tangible improvements to voters, such as reductions in inequality and job creation. On another, it must allocate funds to coalition members to ensure the political stability required to carry out its agenda. At the same time, market actors want the government to balance its budget so it can pay its debt and support economic growth, thereby keeping the business sector satisfied. The administration has already taken steps in all three directions by revamping its previous flagship welfare programmes, distributing more than BRL 3bn (USD $592m) to congresspeople through pork-barrel negotiations – i.e. the appropriation of government spending in exchange for political support in Congress - and drafting new fiscal restraint mechanisms and accompanying tax policies to achieve equilibrium between revenue collection and expenditure.

Balancing the budget

The fiscal situation remains a critical issue for Brazil. The government's economic team, led by Finance Minister Fernando Haddad, proposed a replacement for the 2017 constitutional spending cap, which was approved by Congress in August. The new fiscal framework imposes a gradually-increasing but flexible surplus goal tied to yearly GDP growth. This is meant to allow for social spending and public investment while curbing the debt trajectory. Now, the government needs to find revenue to comply with the rules it created – or risk triggering a mandatory budget contingency. As a result, Lula and Haddad have been, and will keep seeking to, increase taxes, especially on the wealthy, regulate economic activities, and attract foreign investment to make up the gap generated by increased spending on social and development programmes.

The administration has already levied taxes on fuels, oil exports, online shopping and sports betting to increase revenue. Dividends, offshore funds and other funds for high-net-worth individuals are also in the government's sights. Additionally, Haddad's planned tax reform will aim to bolster collection, and simplify the current regime by unifying taxes, eliminating tax breaks and making income brackets more progressive. Executives often say that the complexity of the Brazilian tax code creates challenges for businesses. Brazil's reliance on consumption taxes also deepens inequality by disproportionately affecting the lower-income population. These measures do not have widespread support. They will require intense negotiations with Congress and will spend significant political capital, but a watered-down version of the tax reform will likely be in place in 2024.

Investment-seeking and regulations

Given limitations on its public investment capacity, the government is seeking to attract foreign investments to grow the economy and foster development in strategic areas. The administration will pursue public-private partnerships and award concessions to boost opportunities in the sanitation, transport infrastructure, and energy sectors. Although the federal government will likely not carry out privatisations, states will hold public asset auctions, especially in the utilities sector. As fiscal constraints will persist, the government will likely continue to depend on private sector investment and continue to need to advance the concession agenda and maintain a business- and investor-friendly environment.

To this end, the government is looking to regulate sectors with favourable investment potential, including offshore wind energy, carbon credits and green hydrogen. With increasing multipolarity giving rise to geopolitical risks abroad, Brazil's now-diminished institutional and instability risks make it an attractive destination for international capital. Additionally, the extensive use of renewables in Brazil's energy matrix offers a clean "ecoshoring" manufacturing base to international partners. The administration knows Brazil can leverage its environmental credentials and middle power status in the international community to court US, EU, UK and Chinese investments for energy transition initiatives and green technologies, advancing the domestic industrialisation agenda.

International projection

Foreign relations have taken centre-stage in the Lula administration. Lula has visited more countries during his first 10 months in office than Bolsonaro did in his entire four-year mandate. Brazil currently holds a rotating-seat on the United Nations Security Council, will preside over the G20 throughout 2024 and will host the environmental Conference of Parties (COP) summit in 2025. Under Lula, the country has sought and will keep seeking to carve out spaces for increased international projection by holding bilateral talks, mediating international crises and actively engaging in multilateral dialogue.

> *"Foreign relations have taken centre-stage in the Lula administration. Lula has visited more countries during his first 10 months in office than Bolsonaro did in his entire four-year mandate."*

Combatting global climate change and social inequality and reforming international forums to promote increased representation of the Global South will remain among the president's priorities. This will entail deepened cooperation with China and the promotion of the BRICS. While the latter bloc was originally formed alongside Russia, India, China and South Africa, it is set to admit six new members in 2024: Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates. Occasional controversial statements will likely create friction with the international community but are unlikely to significantly undermine Brazil's position globally.

Chile

Four years after the unrest of October 2019, its legacy continues to mark Chile's political environment. The social perception of both the protests and their consequences for the country has gradually changed since then. The initial view that the movement's profound transformational goals would be feasible and beneficial for the country has lost momentum, paving the way for scepticism, disillusionment and polarisation.

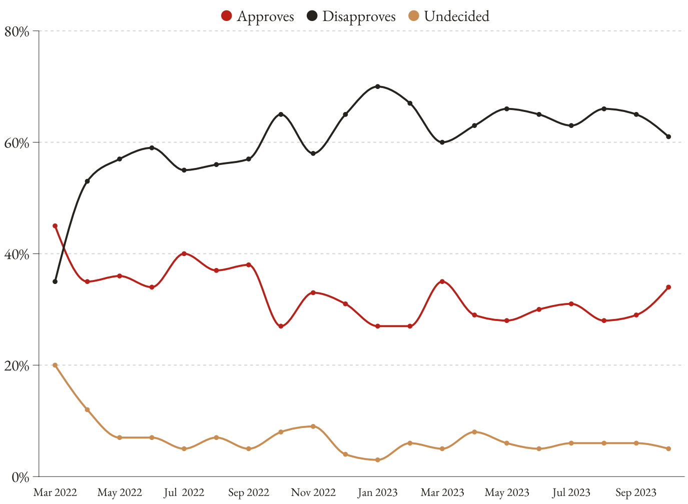
This sentiment and the emergence of concerns over concrete social issues such as public security have challenged President Gabriel Boric and the constitutional redrafting process in 2023. This reality will likely endure in 2024, when Chilean politics will be characterised by a lack of stability and certainty.

Governability challenges

Boric's administration has unsuccessfully tried to strengthen its position in 2023. Despite his focus on addressing the social demands that emerged from the unrest and the COVID-19 pandemic, the president is politically weak in comparison to his predecessors.

Boric's administration will likely maintain its socially-focused agenda through to 2026; however, low approval ratings and coordination issues within the ruling coalition will challenge the Boric administration. The president's approval rating started declining just a few weeks after his inauguration in May 2021. According to the pollster, Cadem, it decreased from 50% right after taking office to 35% five weeks later, and stands at 34% as of October 2023. Economic issues such as high inflation, and increasing public security concerns such as gun violence in the north and in the capital Santiago, as well as violent indigenous activism in the south, have eroded Boric's political strength and contributed to increased discontent.

President Boric's approval ratings



Source: Cadem

Boric's approval rating is unlikely to improve significantly in the coming year. There is no evidence that public security issues will ease meaningfully, and the perception of insecurity will remain in the short term. According to Interior Ministry data, crime rates in the first half of 2023 are higher than in 2021 and similar to those in 2022.

> *"Moreover, the challenging environment in Congress will undermine Boric's ability to pass the more ambitious elements of his political agenda."*

Moreover, the challenging environment in Congress will undermine Boric's ability to pass the more ambitious elements of his political agenda. Although Boric's ruling coalition comprises most of the country's left-leaning forces – including leftist and centre-left parties that have dominated Chilean politics since the country's re-democratisation in 1990 – it is insufficient to secure a majority. He also faces challenges stemming from the frequent disagreements and lack of coordination between the left and centre-left factions.

Economic reforms

Governability challenges will prevent major advances in the tax and pension reforms over the next few months. These are key components of Boric's agenda. If approved, they would represent the most robust and long-lasting legacies of his administration. The reform of the pension system, which aims to increase the role of the government in the sector by weakening private pension fund administrators, responds to a historical demand of left-leaning voters. Despite its importance, on 17 October, Boric decided to halt negotiations until at least December due to the lack of political agreement. The outlook for the tax reform, which is central to increasing tax revenues and paving the way for higher social spending, is not promising either, as the opposition has not responded to Finance Minister Mario Marcel's calls for a new tax framework.

Minister Marcel, alongside Interior Minister Carolina Tohá, has been a key leader and coordinator of the Boric administration's relations with legislators and investors. He is a centrist policymaker who was already well known in the business community. Both Marcel and Tohá illustrate the role that moderate, centre-left policymakers have in the administration. They are also the main brokers of political moderation in the administration.

Constitutional reform process

Divergent political factions and social groups' difficulties in reaching agreements are also affecting the constitutional reform process. The second attempted process formally started on 6 March and will finish on 17 December, when Chileans will vote in a referendum to approve or reject the proposed text of the new constitution. Although the draft will be more moderate than the proposal voters rejected in 2022, polls show a divided electorate. The general population has become increasingly fatigued with discussions about a new constitution and believes it will not significantly improve the quality of life. On 23 October, pollsters Cadem reported that 54% of those surveyed plan to vote to reject the proposal, 31% plan to approve it and 15% remain undecided.

Regardless of the result, the business environment will not be severely affected following the constitutional process. In the event it is rejected, the constitutional status quo will endure, meaning that companies will not experience significant changes. If approved, the new constitution will likewise not impact private companies due to its mostly pro-business and conservative nature.

This proposal does not include economically disruptive norms or anti-business elements. The business-friendly, right-leaning Republican Party was the strongest political force in the Constitutional Council and had enough votes to block that kind of content. The socioeconomic model of the current constitution, which prioritises the role of private players in the provision of essential services, will be preserved. Moreover, the proposal does not strengthen indigenous peoples' rights, nor create challenges for infrastructure projects.

Colombia

President Gustavo Petro's electoral win in 2022 marked a momentous change in Colombia's historically conservative politics. A former member of the M-19 guerilla group, Petro became the country's first left-wing president. Despite fears of a radical leftward turn under Petro, Colombia remains an attractive destination for businesses. Its abundant natural resources, privileged geographic location, sound macroeconomic policies and democratic institutions will likely continue to spur foreign investment.

However, several challenges will continue to affect the business environment in the country in the near future. Despite significant improvements over the past decade, the provision of security and public order remains difficult, especially in remote rural areas. Confrontations between non-state actors - including armed rebel groups, organised crime, and common criminal groups - are currently the primary driver of violence in areas where state presence is weak and illegal economies are highly lucrative, such as cocaine production and trafficking, illicit mining, and illegal logging. These clashes have significant negative impacts on civilians and lead to persistent incidental threats for businesses in rural areas.

Social conflict is still frequent due to persistently high levels of poverty, inequality and informal employment, as well as a poorly enforced land tenure system and substandard infrastructure in many regions. Finally, the country will continue to face high political polarisation and regulatory uncertainty due to Petro's intent to change the political and economic status quo to favour social equality and welfare, environmental justice and peace.

President Gustavo Petro – Credit: Presidencia de Colombia, via Flickr

Petro's governability will remain limited in 2024

Consistent with political dynamics over the last two decades, relations between the executive and Congress have deteriorated after a short-lived "honeymoon phase". During his first five months in office, Petro managed to build a large majority coalition in Congress that included centrist and even centre-right parties. This allowed the government to rapidly pass key legislative items, including a major tax reform and a record-high budget for 2023.

However, after one full year in office, Petro has discarded the conciliatory tone that secured his early successes and is highly unlikely to restore it in 2024. Throughout 2023, his administration has been plagued by chaotic and improvised management – including two major cabinet upheavals, constant contradictory public statements and backtracking by ministers.

Additionally, Petro's credibility as a champion of change for the most vulnerable – the core of his agenda – has been shaken by several accusations of abuse of power, illegal wiretapping and campaign irregularities. His approval rating dropped from 60% to 30% in 12 months and is very unlikely to recover in 2024. Due to these factors, his flagship social reforms – which entail major overhauls of the health and pension systems and a significant strengthening of labour protections – face highly uncertain prospects in Congress in 2024.

Anticipating roadblocks in Congress, Petro has deployed two strategies. First, he has regularly rallied his base to hold mass demonstrations to pressure the legislature to approve his reforms. This has not delivered the expected results, given Petro's diminished popularity. His approval rating based on a weighted polling average fell from 62% at the beginning of his term to 42% at the end of September 2023. Second, Petro will seek to implement at least part of his agenda through executive powers – including executive orders and to a lesser extent, states of emergency. His government has not yet systematically resorted to these measures, which nonetheless must be submitted for the review and approval of the Constitutional Court. This permanent check by high courts will thus prevent major executive overreach during the Petro administration.

Prospects for political stability

As the first left-wing administration in staunchly conservative Colombia, Petro's presidency has faced heightened levels of oversight by the other branches of government, media and civil society – particularly compared to previous more orthodox administrations. In reaction, Petro has labelled adverse judicial or legislative decisions as a "soft coup" attempting to sabotage his progressive agenda.

Beyond this polarising rhetoric, Petro's government has, nonetheless, largely played by the democratic rules and is highly unlikely to alter the constitution or systematically disregard other branches to hold on to power beyond his term, which ends in 2026. He will continue to push for his agenda within the rule of law, belying early fears of an authoritarian drift under his government. Thus, democratic backsliding, a cycle of institutional gridlock or crippling political instability are highly unlikely during and even beyond Petro's term.

However, constant conflict and occasional clashes between the executive, high courts and oversight entities (e.g. Contraloría, Procuraduría) will continue causing moderate levels of political instability and regulatory uncertainty in 2024, particularly in the extractive and energy sectors where the government hopes to accelerate the transition away from fossil fuels to renewables. Coupled with dimming presidential favourability and a volatile social and security environment, these factors will limit the government's capability to implement its highly ambitious agenda for change over the rest of its term.

A new social climate

Petro has put Colombia's long-standing social issues, such as inequality, poverty, and the informal economy at the centre of his agenda. His priority is to address the social demands and needs of historically marginalised populations such as indigenous nations, Afro-Colombians, women, victims of conflict and landless farmer communities.

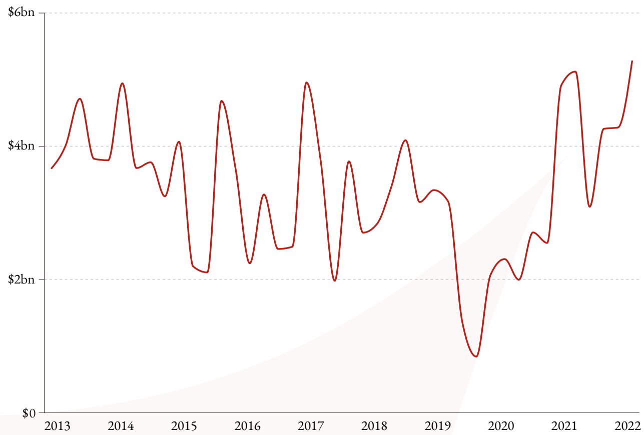
Consistent with this stance, his government will likely proactively support these groups' social and environmental activism. This represents a stark shift from the position of previous conservative governments over the last several decades, which tended to link rural and minority groups' activism to subversive movements. Under Petro, the government now views activism positively and even as a political asset to help drive the government's policy agenda in many areas.

This supportive political environment has empowered local communities and granted them new opportunities to directly influence policy and investment decisions. Communities will likely demand more – and more frequent – investment by companies in local development projects in exchange for a conditional, temporary social licence to operate in 2024.

Steady foreign investment flows and investor confidence

Broadly speaking, foreign investment has remained strong in the year since Petro took office, reflecting continued confidence in Colombia's institutional framework and business environment despite political change. Foreign Direct Investment (FDI) inflows reached a record high of USD $5.3bn in the second quarter of 2023, according to preliminary figures from Colombia's Bank of the Republic, putting total investment over the 12 months between July 2022 and June 2023 at USD $16.9bn, an increase of 10% over the previous 12-month period. Meanwhile, portfolio investment saw net inflows of USD $2.6bn in the first half of 2023, driven by equity and capital fund investments.

Foreign Direct Investment in Colombia per quarter (USD)



Source: Central Bank of Colombia

> ***"The Petro administration has generally honoured existing contracts with private companies, despite perceptions of elevated contract risks brought on by the president's public statements."***

The Petro administration has generally honoured existing contracts with private companies, despite perceptions of elevated contract risks brought on by the president's public statements. Contractual stability and the protection of foreign investors have been important elements of Colombia's strategy to attract and retain FDI over the past three decades, a state policy that is highly unlikely to change under Petro in 2024.

Petro's record in 2023 suggests that 2024 will see frequent attempts to unilaterally implement his agenda through executive actions, continued clashes with other branches and moderated levels of regulatory uncertainty in the extractive and energy sectors. However, risks of a deterioration in the rule of law will remain low, given Colombia's robust checks and balances. The security environment next year will remain challenging in rural regions of Antioquia, and parts of Cauca, Córdoba, Bolívar, Magdalena and Sucre departments on the Pacific and Atlantic coasts – albeit largely manageable in major cities. Armed and criminal groups will continue to exploit the government's Total Peace initiative to expand or reinforce their presence in several areas.

Mexico

The road to the general election

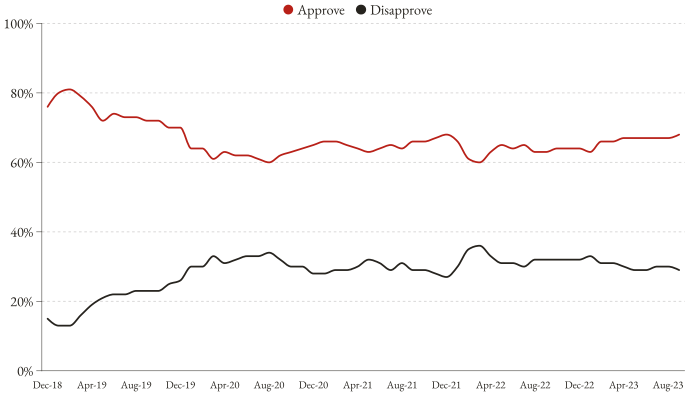
Mexico will hold elections on 2 June 2024. This will be the country's largest electoral process to date, with roughly 20,000 positions at the federal, state and municipal level. Politics – and inherent political risks – will therefore be at the forefront of the public agenda over the next year.

What's at stake?

1	President
128	Senate Seats
500	Lower Chamber Seats
9	Governorships
31	State Congresses
18,512	Municipal Seats

The main choice facing the country is between continuity with President Andrés Manuel López Obrador (AMLO)'s national project or allowing the opposition coalition (Frente Amplio por México) to govern the country for the next six years (2024-2030). The results of the presidential election will mainly depend on the strength of the AMLO administration, as well as on society's appetite for a change in the country's direction. In the current context of AMLO's high approval rating, the lack of significant economic challenges and the popularity of the current government's social agenda, the most likely scenario is a victory for the Juntos Hacemos Historia coalition led by AMLO's Morena party.

President López Obrador's approval ratings

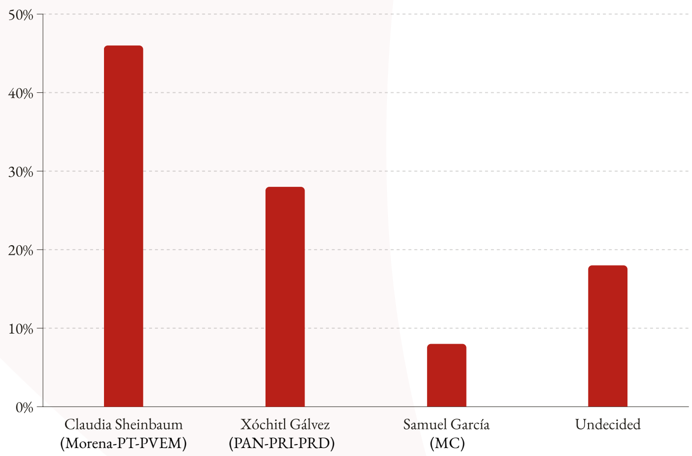


Source: Oraculus

The main presidential hopefuls are Claudia Sheinbaum and Xóchitl Gálvez, of the ruling and opposition coalitions, respectively. It is therefore all but certain that on 1 October 2024, Mexico will have its first woman president. Both candidates represent a new generation of politicians, as neither was active in politics before 2000. Sheinbaum's political platform is a continuation of AMLO's – although her track record as Mexico City governor proves that she has a pragmatic attitude towards the private sector – while Gálvez's is more openly pro-business. On 12 November, former Nuevo León governor Samuel García (2021-23) announced his presidential nomination for the Citizen Movement (MC) party.

It would require a series of missteps by the AMLO administration, economic headwinds and an outstanding performance by the opposition to derail Sheinbaum's presidential bid. Though some challenges may arise, including AMLO's response to the aftermath of Hurricane Otis, which hit Acapulco on 25 October and caused severe damage, Sheinbaum will remain favourite to win.

Voting Intention - Mexican general elections 2024



Source: El Financiero

CANNING HOUSE

Although the spotlight will be on the presidential race, the composition of Congress will be decisive for the functioning of the next administration. Additionally, nine gubernatorial elections will also take place, including in Mexico City, Jalisco and Veracruz (states which concentrate a high percentage of votes).

There is no other political figure in Mexico as popular as AMLO – not even Sheinbaum. Without his name on the ballot, it is unlikely that Morena's coalition will receive as many votes in 2024 as it did in 2018, when AMLO and his coalition secured a supermajority in the legislature's lower chamber, which lasted until 2021. The prospects of a divided Congress mean radical reforms will be unlikely in the first half of the next presidency and that the new administration will have less room for unchecked action.

President López Obrador – Credit: Gobierno de México

Prospects for political stability

AMLO will likely play a key role in campaigning for the Morena coalition, although his doing so will violate Mexican electoral law. This entails a radicalisation of his narrative to mobilise voters. AMLO has already announced that before leaving office, he will introduce bills to Congress to expand social programs, consolidate the role of the armed forces in public security and submit the appointment of Supreme Court justices to popular vote. He is encouraging Mexicans to vote for his movement to ensure such reforms are approved during the next legislature, which begins on 1 August 2024.

The success of AMLO's political platform rests on four basic pillars: constant campaigning (despite not running for office himself), clientelistic structures, symbolism, and polarisation. The latter requires an adversary, the face of which changes depending on the political climate. The Supreme Court (SCJN) is currently in the crosshairs of AMLO's government and will likely remain so in 2024. On 7 November, SCJN Justice Arturo Zaldívar Lelo de Larrea tendered his resignation to AMLO. Zaldívar will likely join Morena's presidential campaign. Meanwhile, on 8 November, AMLO announced that he intended to draw up a shortlist to fill the newly vacant position in the SCJN. It will consist exclusively of women in order to advance gender equality in the judiciary. Although this means that the president can appoint a minister who agrees with his agenda, this will not affect the court's decisions concerning the private sector. The Court will continue to have business-friendly ministers even if some follow the presidential line - which does not necessarily mean they are anti-business, but they align with AMLO's decisions - so it will remain balanced.

These political dynamics will harden the political discourse and raise concerns about the resilience of the SCJN and other democratic checks and balances in the run-up to the polls. Despite this narrative, key institutions – including electoral authorities – remain strong and well-placed to guarantee democratic elections, which in turn will contribute to political stability.

Corruption and political violence

As in previous election cycles in Mexico, violence will likely be a feature of the electoral landscape in 2024. The risk is particularly high, given the numerous local offices at stake and that most incidents of political violence are concentrated at the municipal level. Voter turnout and even candidates themselves will likely be influenced by these dynamics in hotspots of violence, which will entail security and governance problems at the local level after the elections and during transition periods.

There is also a high risk of corruption, as politicians at all levels of government seek campaign funding beyond that which is permitted under Mexican electoral law. Autonomous election bodies such as the National Electoral Institute (INE) and the Electoral Tribunal (TEPJF), are likely to maintain an oversight stance over illegal funding.

Moreover, the armed forces – which have become responsible for an ever-growing list of tasks under AMLO – have been allocated 20% of the total federal budget for 2024, representing an increase of 64% compared to the 2023 budget. The opacity that characterises the use of these funds by the armed forces will further exacerbate corruption risks.

Business environment

There is a widespread notion that regardless of who wins the presidential election, the business environment will improve under the new administration. Although both Sheinbaum and Gálvez have more positive stances towards the private sector than AMLO, there will be different repercussions for the country's various economic sectors stemming from the imminent change in federal leadership.

> *"There is a widespread notion that regardless of who wins the presidential election, the business environment will improve under the new administration."*

In any case, and unlike during AMLO's administration, clean energy will be encouraged by a more favourable narrative – albeit with new bureaucracy and regulations – that will likely mean slower licencing and permitting processes, contributing to operational delays. The extractive and manufacturing industries will be the most vulnerable to social conflicts and security challenges. Although the tech sector will likely receive a boost as it is a particular focus of Sheinbaum's political platform, businesses in the industry will likely face a heavier tax burden. Financial services will experience an environment similar to the current one, including particular challenges regarding cyber security.

The main, immediate challenges will likely be related to strained public finances, institutional weaknesses after significant budget and personnel cuts under AMLO, a volatile security landscape and growing social unrest. Additional impacts will become more evident in 2025, rather than during the new administration's first few months. AMLO's popularity has been key to his ability to navigate these dynamics, but his successor is unlikely to be as popular and may therefore face increasingly complicated governance challenges.

Peru

Political crisis to persist in 2024

Peru experienced major political and social turmoil over the past year. In December 2022, former President Pedro Castillo (2021-2022) attempted to illegally dissolve Congress and call new elections in response to Congress' third attempt to impeach him. Peruvian governing institutions denounced Castillo's actions, and Congress proceeded to remove him from office, leaving Vice President Dina Boluarte as president. Castillo's removal by Congress triggered massive civil unrest, mostly concentrated in southern Peru and in the national capital, Lima. Law enforcement's response veered into excesses, leading to more than 60 fatalities between December 2022 and March 2023. Although the protests faded as Boluarte refused to resign and the push for new elections lost momentum in Congress, the situation in the country will remain tense in 2024. The government's low popularity – and very limited governability – will likely trigger more unrest during Boluarte's term, which is scheduled to run until 2026.

Challenges to political stability

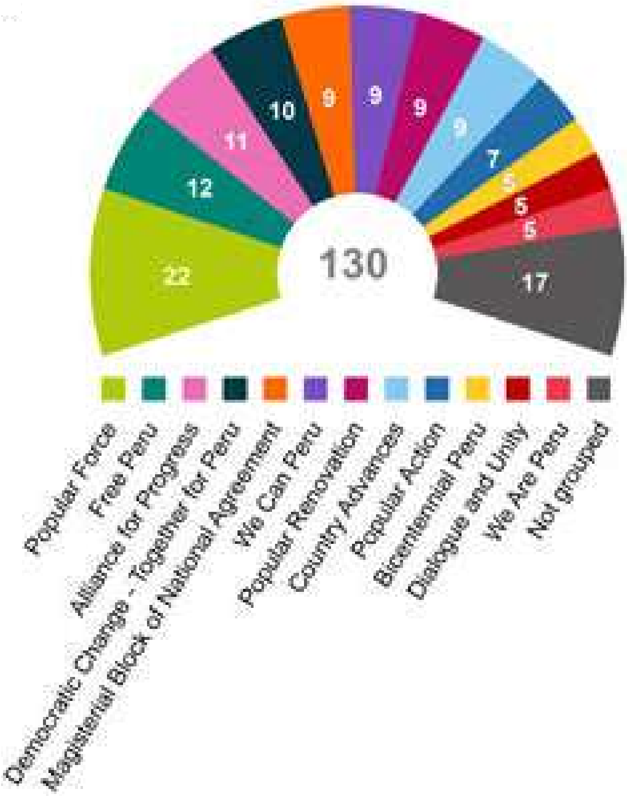
Despite the complex social situation and historically high disapproval ratings, Boluarte has solidified her position as president due to waning protests and congressional support from right-wing parties. According to the latest poll conducted by the Institute of Peruvian Studies (IEP) in October 2023, Boluarte has reached an 84% disapproval rating, while Congress has a 90% disapproval rating. Congress remains fragmented, with at least 12 different parties holding seats, complicating attempts at passing legislation. Recently, an implicit agreement between the largest parties in Congress, the right-wing Popular Force (FP), the party of three-time presidential candidate Keiko Fujimori, and the left-wing Free Peru (PL), which supported former president Castillo, has led to the parties' main priorities dominating the congressional agenda despite their clear ideological differences. The agenda has focused on increasing congressional jurisdiction over the other branches of government, especially the judiciary, which could reignite civil unrest in 2024 as an unpopular Congress attempts to subvert the separation of powers.

Corruption continues to affect Peru's institutions and confidence in public entities. President Boluarte is the subject of open corruption investigations into allegations of illegal campaign financing. Multiple members of Congress including the body's President, Alejandro Soto, are the subjects of open corruption investigations, with allegations ranging from embezzlement to improper use of public monies for campaign financing. Congressional immunity prevents advancing investigations into congressional members, with the only mechanism to remove it being a vote from Congress. Corruption investigations into members of Congress are likely to persist through 2024, with very few convictions – if any – being likely. Corruption will remain a key concern in Peru and a continued drag on the government's approval ratings.

Boluarte is likely to remain in power through 2024, as fatigue and a lack of financial resources hinder mass protests. However, she will have limited governability and the political agenda is likely to be set by the leading political parties in

Congress. Continued investigations into corruption and the death of protesters pose a limited threat to her; these investigations have been underway for nearly a year with no forthcoming results likely. Furthermore, Congress is highly unlikely to remove her from power as this would create the need for new elections, and with re-election to Congress being prohibited, this would end members' congressional immunity. However, high disapproval ratings will maintain the latent threat of civil unrest as the government struggles to deal with the significant effects of the El Niño climate phenomenon, including sustained rains in the south and droughts in higher-elevation areas, and continued governability challenges.

Congress of Peru, 2023



Extensive social conflict

In a change from the previous administration, the Boluarte government has taken a clear stance in support of private investment. The government is keen to increase investor interest, especially after the civil unrest at the beginning of the year. This is highlighted by the rejection of state participation, such as when Congress blocked a push by left-wing members of Boluarte's cabinet to strengthen Petroperú, the majority state-owned oil company, by granting it oil blocks instead of conducting a public tender process. The administration has looked to strengthen the mining sector by extending tax breaks to multinational companies and increasing security to prevent local community protests from spiralling out of control. Legislation that reduces environmental protections near national parks, which would increase exploitable land, has been proposed and will likely be debated in Congress throughout next year. The need to increase investment will define the government's economic agenda in 2024.

Despite the government's "best efforts" to curb them, protests by communities against private mining operators are highly likely to continue in 2024. These protests will continue to generate significant operational disruption, including roadblocks, and impede the smooth functioning of mining operations. Occasionally, they will turn also violent. Communities are likely to demand increased investment in social projects and the reduction of alleged negative impacts on nearby communities and ecosystems.

Resilient but lower economic growth

Peru's economic prospects have continued to diminish over the course of the year, as private investment has continued to fall, and the effects of El Niño threaten GDP growth. The Central Bank of Peru already reported a 12% drop in private investment during Q1 2023 and 8.3% drop in Q2, compared to 2022. Further decline is likely during the remainder of 2023, highlighting the continued effects on Peru's economy of the political crisis. GDP growth will likely stagnate in 2023 meaning that the Peruvian economy will experience minimal growth – or none at all – this year. The Central Banks began rate cuts in September 2023 as inflation eased, but the effects of El Niño will likely continue through the first quarter of 2024, hindering further rate cuts. Growth is expected to rebound in 2024, although further bouts of civil unrest, given the high disapproval ratings of the government, are likely complicate Peru's growth in 2024.

> *"Positively for Peru's economy, sustained orthodox macroeconomic policies, alongside abundant mineral resources and favourable investment policies, have maintained investor interest in Peru."*

Positively for Peru's economy, sustained orthodox macroeconomic policies, alongside abundant mineral resources and favourable investment policies, have maintained investor interest in Peru. Fiscal policies have remained conservative, even as government spending increased during the COVID-19 pandemic. Political fragmentation in Congress, alongside government support for private investment, signifies that the relatively pro-business framework in Peru is highly unlikely to change in 2024.

Other countries to watch

Venezuela

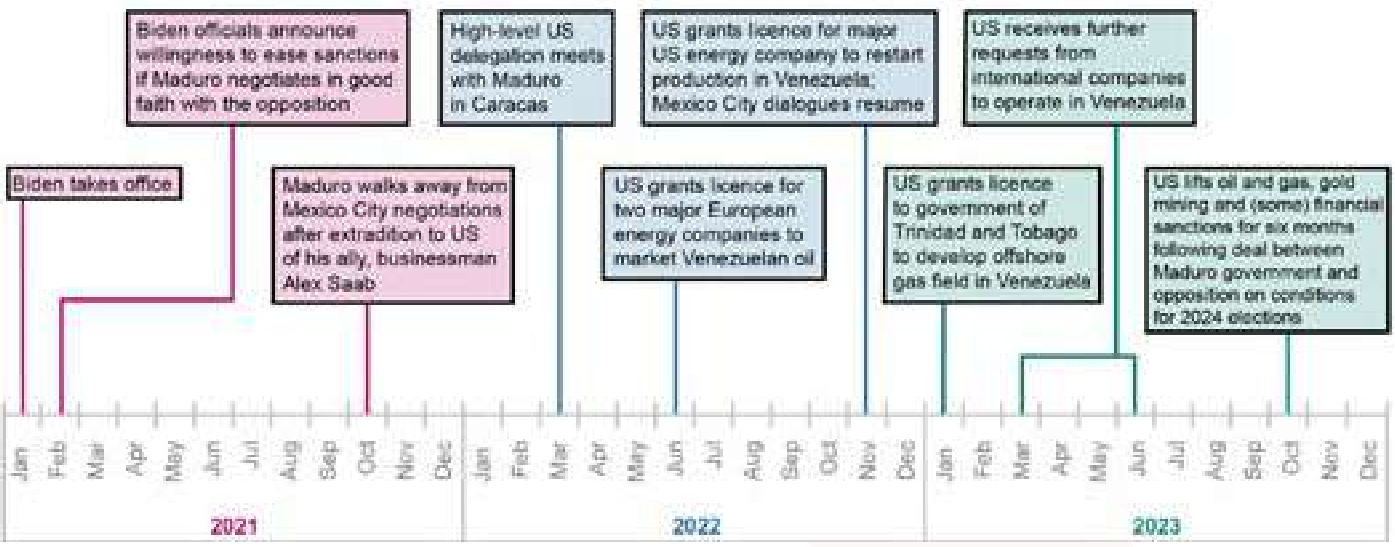
Venezuela faces a tumultuous 2024, after the government of Nicolás Maduro agreed in October to hold presidential elections with the presence of international observers in the second half of the year. The deal came after months of negotiations with the Unitary Platform - a grouping of main opposition parties - and it opened the door for the lifting of US sanctions against Venezuela's oil sector for six months. However, the Biden administration conditioned the extension of sanctions relief on further political concessions from Maduro, especially the lifting of bans on several main opposition leaders from holding public office. These include Maria Corina Machado, a hardline anti-chavista who won the 22 October opposition primary with a formidable 92% of the votes cast.

Maduro is unlikely to rescind the ban on Machado, whom chavista elites have long despised and, after her impressive primary victory, now fear. Underscoring this, the Supreme Court of Justice (TSJ), which is comprised mostly of Maduro loyalists, on 30 October issued a ruling "suspending" the results of the primary and affirming the ban on Machado holding public office. In addition to barring opposition candidates from office, the government has numerous options to ensure electoral conditions remain highly uneven ahead of the 2024 vote. These include control over the National Electoral Council (CNE) and courts, access to social programs, and media coverage. Therefore, despite the presence of international observers, the vote will be neither free nor fair.

A key variable is how the US will respond to developments in Venezuela. The Biden administration has prioritised re-engagement and negotiation over the past two years, even amid mixed signals from the Maduro government. This approach will likely continue – at least while Biden remains president – given the administration's broader goals of extracting Caracas from the orbit of influence of Russia, China, and Iran and diversifying energy supplies. While a full and permanent lifting of sanctions remains unlikely, the US will likely continue to award special licences to create niches of opportunity for international oil and gas companies in Venezuela.

President Lula and Nicolás Maduro - Credit: Palácio do Planalto, via Flickr

Timeline of Venezuela-US Relations (2021-2023)



Source: Control Risks

Central America - Guatemala, El Salvador and Panama

The absence of the political will to improve democratic norms and the weak rule of law will persist across Central America in 2024. Trends such as opaque institutional frameworks in Guatemala, El Salvador and Honduras, persistent repression and human rights abuses in Nicaragua, and complicated executive-legislative relations in Costa Rica will endure. Regionwide, dissatisfaction with mainstream politics will continue, though political stability will prevail in most countries, and the business environment is unlikely to face significant disruption. An exception will be Guatemala, where the political situation will remain volatile and uncertain in the aftermath of the 2023 electoral cycle, hindering a smooth presidential transition.

In Guatemala, President-elect Bernardo Arévalo is set to take office on 14 January 2024 amid heightened social discontent with current President Alejandro Giammattei's government, which has long driven unrest. After the electoral period ended on 31 October, the Seed Movement party was suspended, which will likely escalate protests to a higher level of intensity. Once Arévalo takes office, he will face governance challenges arising from political weaknesses. His party will hold only 39 of the 160 seats in the Guatemalan Congress. Additionally, Arévalo will likely be subjected to politically motivated attacks from key institutions – particularly the Prosecutor's Office, led by Attorney General Consuelo Porras. These attacks are likely to persist as a means for sections of the political elite to evade accountability for pervasive corruption, which is said to extend to the highest levels of government. This state of affairs will translate into policymaking delays, a complicated relationship with the judiciary and bouts of unrest resulting from unfulfilled campaign promises.

In El Salvador, electoral matters, a hardline security strategy and efforts to address fiscal challenges will dominate the political agenda in 2024. Despite the significant erosion of democratic norms and institutions, the country will continue to enjoy overall political stability. President Nayib Bukele's growing popularity – which results in limited anti-government activism – and his ability to implement policies with minimal opposition will sustain the trend. Bukele will most likely win the upcoming general election scheduled for 4 February 2024, despite being constitutionally prohibited from seeking re-election. Strong popular support will play in his favour, most likely resulting in a landslide victory. Throughout 2024, issues such as political interference from the executive will continue to be evident. Bukele's control over the unicameral Legislative Assembly, in which the ruling New Ideas (NI) party has an overwhelming majority 64 of 84 seats, and the country's judicial system will underscore the fragility of the rule of law and the overt concentration of power in the country's executive branch.

President Bukele visiting a confinement centre – Credit: Casa Presidencial, via Flickr.

In Panama, President Laurentino Cortizo's government has been facing major protests amid calls for the repeal of a copper mining contract between the government and a subsidiary of Canadian miner First Quantum. While the President announced he would hold a referendum, the Electoral Court has said there are currently no conditions. This situation is likely to persist and it could increase social and political instability ahead of the presidential elections.

Ecuador

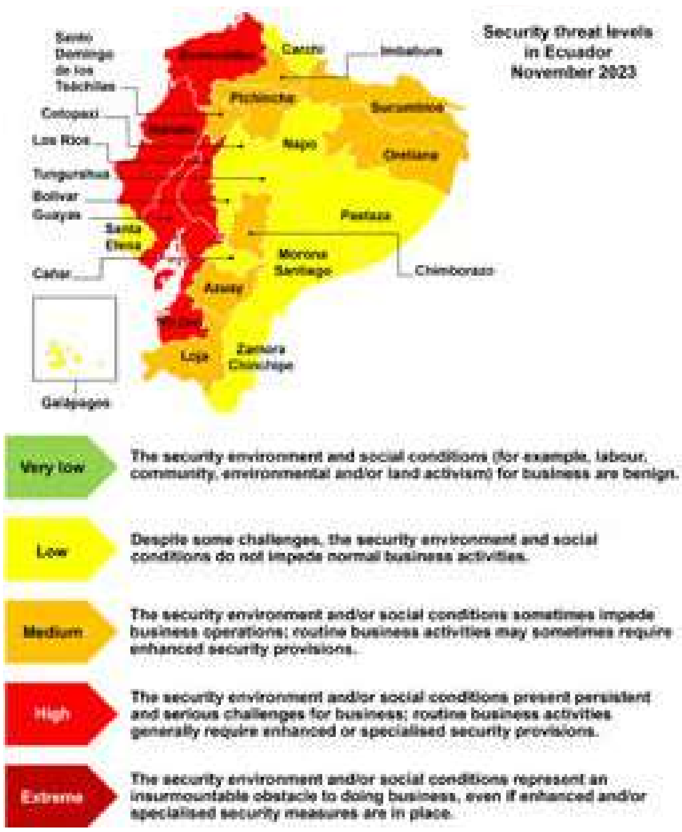
In Ecuador, a 35-year-old political outsider has assumed the presidency for an interim period of 16 months amid a dire security crisis. In May 2023, after two years of weak governability, dim approval ratings and highly confrontational executive-legislative relations, President Guillermo Lasso dissolved the National Assembly and called for early elections. The campaign played out amid an unprecedented security crisis that saw a record number of acts of political violence, including the assassination of presidential candidate Fernando Villavicencio on 9 August.

After a polarising race against left-wing candidate Luisa González, centrist business tycoon and political newcomer Daniel Noboa was elected president on 15 October to complete Lasso's term, which ends in May 2025. He will likely enjoy a short phase of constructive relations with the National Assembly, which will seek to improve its very poor approval ratings through a more collaborative attitude towards the country's executive. Noboa will also successfully capitalise on his lack of political baggage and citizens' call for a new way of doing politics to secure initially high favourability.

However, a fragmented legislature with no stable governing coalition will pose significant challenges to implementing President Noboa's agenda. As Ecuador's parties do not usually follow strict ideological but rather individualistic, highly transactional agendas, Noboa will be forced to pursue partial agreements with the most powerful lawmakers and blocs, whose support will be contingent on political and economic quid-pro-quos or securing greater political leverage ahead of the 2025 elections.

Consequently, President Noboa's popularity will likely begin to decrease gradually as his lack of political experience and political capital prevents him from designing and implementing a comprehensive government programme to address the country's security crisis within the constraints of an extraordinary 16-month term. Criminal organisations will likely remain largely unchecked and take advantage of the government transition to strengthen their position and shore up alliances to retain control of port cities. In particular, the port cities of Guayaquil, Duran and Esmeraldas will continue to see occasional but highly disruptive violent incidents due to score-settling between rival criminal organisations. Overall, security conditions and political instability will continue to drive risks for companies in 2024.

Security threat levels in Ecuador November 2023



Source: Control Risks

President Daniel Noboa, Presidencia de la República del Ecuador, via Flickr

Conclusion

On the one hand, the region's vast economic potential continues to be buoyed by the key role it is set to play in the context of a variety of dynamics including the energy transition, near-, friend- and eco-shoring, and the push to close the digital and physical infrastructure gap, among others. At the same time, it is unlikely that the region will make major leaps to brandish its image as a haven of stability and the preferred destination for investment in 2024.

Most of the governments across the region will face challenges to their governability and ability to implement key reforms needed to reduce poverty, alleviate the economic burden on social and welfare systems, and promote growth and investment – all while generating a broad social consensus. Unable to satisfy demands from a variety of constituencies, social tension may rise and periodically manifest itself in the shape of occasional bouts of unrest across the region.

Slow economic growth and challenging fiscal situations will lead governments, independent of their political leanings, to adopt a mixed bag of strategies, ranging from attempts to promote foreign investment and the private sector in countries like Brazil and Argentina, to plans to enhance state interventionism in countries like Colombia and Mexico. Despite a gradual steadying of the key forces driving inflation, including a stabilisation in commodity prices, interest rates are likely to remain elevated, and policy makers will remain under pressure to find the right balance between controlling prices and stimulating growth.

Not withstanding the region's undoubted potential, for current and potential investors and companies doing business in Latin America, 2024 will likely be a difficult year. Monitoring developments, planning for a range of scenarios, and ensuring the wide variety of political risks to business are appropriately identified, assessed and mitigated will continue to be the keys to success.

Commercial Outlook

The business landscape between the UK and Latin America

Cristina Irving Turner, Latin America and the Caribbean Business Specialist, Department for Business and Trade

Introduction

Latin America remains a region with huge commercial potential. Its growing middle class, 650 million population, the need for investment in large scale initiatives, and a sincere appreciation for international expertise, means that Latin America is open for business. According to a Mastercard report, commercial travel and related expenses in the region increased by 31% between January and March 2023, underscoring the preference for face-to-face business relationships and the openness to working internationally. Media headlines and negative preconceptions can initially deter organisations from exploring this dynamic region, and, as in other parts of the world with fast developing markets, companies that invest the time and effort can find rewarding business relationships. Existing investors report that winning business in Latin America reaps long-term benefits.

The trade chapter in last year's *Canning House LatAm Outlook 2023* shared the main sectors for UK companies and how the UK Government can support these. It presented the main prospects per sub-region and provided detail across sectors. The information previously shared continues to be relevant as projects are open to UK organisations across these areas. This year's chapter provides some updates from last year's inaugural article and some further considerations about the business landscape in Latin America.

CPTPP

A major shift in the trade dynamic between the UK and Latin America over the past 12 months has been securing the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership otherwise and more commonly known as CPTPP. This trade agreement between 11 countries across four continents, covers over 500 million people, and represented 11.5% of global Gross Domestic Product (GDP) in 2022, which increases to 14.4% with the UK included.

Latin American countries included in this agreement are Chile, Peru and Mexico, alongside Asian economies such as Malaysia and Brunei; two markets where the UK did not have a trade agreement already. The UK concluded negotiations to join CPTPP on 31 March 2023 and signed the landmark Protocol of Accession on 16 July 2023 in New Zealand. With other Latin American nations – Uruguay, Ecuador and Costa Rica - also keen to join, this has huge potential to be a real turning point in UK-Latin American trade relations.

Benefits of the UK joining CPTPP

The CPTPP creates significant opportunities for businesses in Latin America and the UK to boost their exports to some of the fastest growing markets on the globe. Trade data from the Office of National Statistics (ONS) suggests that joining the CPTPP will bring the UK closer to the Pacific, with Chile, Mexico and Peru already importing a range of products from the UK, such as cars, beverages and pharmaceuticals. The UK joining CPTPP will bring benefits for these Latin American countries on top of existing bilateral agreements, supporting jobs and providing opportunities for growth. It will cut more tariffs and bring more legal certainty to investors, service providers and companies competing for government contracts. It will facilitate innovation and provide consumers with more choice.

To highlight the breadth and significance of CPTPP economies, a UK Government report recently revealed that one in every 100 UK workers was employed by a business based in a CPTPP market in 2019, equating to over 400,000 jobs across the country, with Mexican-owned businesses in the UK alone employing more than 5,000 people in 2019.

Importantly, the agreement promises to be more forward thinking in the ever evolving and strategically important arenas of trade such as services and technology. A recent report from the UK Government highlighted a particular benefit for the UK of becoming a CPTPP member, stating that: "Data flows are vital for modern trade, enabling everything from more efficient manufacturing and supply chains to more reliable infrastructure. Joining CPTPP will help remove the barriers companies face like data localisation requirements, ensuring data can flow between the UK and CPTPP members."

> *"In 2022, the UK was the world's second largest services exporter and more timely data shows UK services exports were valued at £460.0 billion in current prices, in the 12 months ending August 2023, representing over half of total UK exports."*

In 2022, the UK was the world's second largest services exporter and more timely data shows UK services exports were valued at £460.0 billion in current prices, in the 12 months ending August 2023, representing over half of total UK exports. Through CPTPP, the UK's accession reduces red tape and UK businesses will be treated no less favourably than local firms, providing certainty and transparency in key UK sectors such as professional and business services. They will also benefit from modern provisions for digital trade, e-commerce, protection of intellectual property, as well as easier travel for business people.

Rt Hon Kemi Badenoch MP, Secretary of State for the Department for Business and Trade - Credit: UK Government

Regarding government procurement, joining the CPTPP opens government procurement markets of CPTPP countries, and the agreement will support UK businesses competing for procurement opportunities by ensuring they receive fair and non-discriminatory treatment. In 2021, the UK invested £1.7 billion into Peru, 127.8% or £941 million higher than in 2020 and has supported key infrastructure projects, such as the Pan American Games and the *Reconstrucción con Cambios* programme. Furthermore, in Chile, the UK Government's Department for Transport signed a landmark MoU with the Chilean state rail company (EFE). The MoU consists of a five-year framework for collaboration across several shared interests. EFE has an ambitious portfolio of projects to recover, expand and modernise Chile's rail network. In the 1800's the UK played a key role in establishing the Chilean railways and has an enduring reputation for training the country's transport engineers. This MoU aims to reinforce and update this relationship. The CPTPP will help the UK maximise innovative and sustainable investment opportunities, such as those already detailed, in key strategic sectors such as infrastructure and energy.

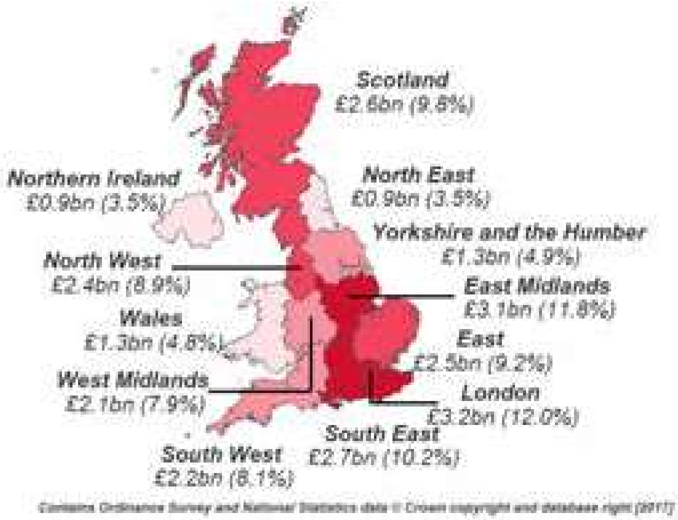
Modern 'rules of origin' could make British businesses more competitive by allowing them to trade more freely across the bloc. For example, UK car manufacturers could sell car engines tariff-free to a car maker in the bloc who could then sell those cars tariff-free to any member country, subject to meeting the rules of origin. This is currently not possible under the bilateral trade agreements the UK has in place with CPTPP members and will help exporters diversify their supply chains and create new export opportunities.

> *"Joining the CPTPP ensures that the UK is in a position to help shape global rules in areas of central importance for British exporters in the future, and demonstrates that the UK is a nation committed to leading the way on free trade."*

As a member of a bloc where most goods imports are eligible for zero tariffs, consumers and businesses could benefit from better choice, quality, and affordability. This could include cheaper import prices for high-quality consumer goods ranging from fruit juices from Chile and Peru to honey and chocolate from Mexico.

Furthermore, joining the CPTPP ensures that the UK is in a position to help shape global rules in areas of central importance for British exporters in the future, and demonstrates that the UK is a nation committed to leading the way on free trade.

Goods exports in 2022 to CPTPP countries



Source: HMRC

Of all UK exports to the CPTPP bloc in the four quarters to the end of Q2 2023, £31.4 billion (45.0%) were goods and £38.5 billion (55.0%) were services, in current prices. This preference for services is significant in how the trade deal can bring more nuanced advantages to the UK.

Whilst the focus on services is key in thinking about the future of trade, it is encouraging that UK firms specialising in exporting goods are trading with countries in the CPTPP bloc from across the country. UK firms from East Midlands and Scotland especially hold up, and the South-West and West Midlands are positioned not far behind. With goods we can see that UK companies from London, the South-East and East of England lead the way, yet the margin is not as marked as perhaps it would be for service industries. This supports the view that a tighter connection to the CPTPP can support business across all the UK and not be dominated by those based in London and the South-East.

Upon comparing the broader CPTPP and Latin American trade statistics, is it hard not to consider that the might and the pull of a large and recognised trade bloc may have an advantage for attracting exporters against a conceptual region like Latin America. For the same period, of all UK exports to Latin America and the Caribbean in the four quarters to the end of Q1 2023, £8.6 billion (38.6%) were goods and £13.7 billion (61.4%) were services.

What the CPTPP brings - alongside existing bilateral Free Trade Agreements - is greater confidence to exporters and investors, making it easier to do business in, and across, the three Latin American members, and hopefully more countries in the region as the CPTPP grows. The long-term aim is that the CPTPP can act as an entry point and encourage UK firms to expand and think more about Latin America.

UK-Latin America trade update

This next section aims to give some more timely updates and reinforces some of the larger opportunities between UK-LatAm trade, across sectors. Since last year's report, total trade in goods and services (exports plus imports) between the UK and Latin America totalled £28.9 billion in the four quarters to the end of Q2 2023, an increase of 24.4% or £5.7 billion in current prices from the four quarters to the end of Q2 2022.

Significantly, progress has been made regarding the UK-Brazil Double Taxation Agreement, one of the most important bilateral milestones in recent years. The Agreement has been ratified in the UK and needs Congressional approval in Brazil to enter into force. This agreement will impact all companies across all sectors operating in both countries, not only saving revenues, but also saving time on filing two tax returns, and could make the markets more mutually attractive due to an increased ease of doing business.

Looking in more detail at some of the larger opportunities for the UK and Latin American countries, infrastructure and energy initiatives are still significant areas for investment for Latin American governments. A recent Inter-American Development Bank report argues that:

"By 2030 Latin America and the Caribbean needs to invest USD $2,220,736 million [sic] in the water and sanitation, energy, transportation and telecommunications sectors to expand and maintain the infrastructure necessary to meet the SDGs [Sustainable Development Goals]. Of this total, 59% will need to be allocated to investments for new infrastructure and 41% to investments for maintenance and replacement of assets reaching the end of their useful life. In terms of investment effort relative to the size of the economy, Latin America and the Caribbean will need to invest at least 3.12% of its GDP in infrastructure each year until 2030."

"The main opportunities in the short- to medium-term in the wider infrastructure field comprise of the Pan American Games, in particular the 2027 Games to be held in Barranquilla, Colombia; and the 2026 FIFA World Cup that will host games in Mexico, as well as in the USA and Canada."

Access to clean water and sanitation is the UN Sustainable Development Goal Number Six and the estimation above indicates the size and scale of the need for investment. Countries like Brazil, the Dominican Republic and some

Estadio Akron, Mexico - Credit: Miguel Ramirez, Unsplash

Andean countries have programmes to address the gaps in drinking water provision and improve sanitation. The main opportunities in the short- to medium-term in the wider infrastructure field comprise of the Pan American Games, in particular the 2027 Games to be held in Barranquilla, Colombia; and the 2026 FIFA World Cup that will host games in Mexico, as well as in the USA and Canada. The UK Government is actively working towards infrastructure partnerships with Ecuador, the Dominican Republic, Paraguay, Chile and Colombia. These take on different guises depending on the needs of the project. For example, the government-to-government partnership (G2G programme) will continue with Peru, which is providing reconstruction for schools, hospitals and nature-based solutions to prevent flooding.

Since last year we have seen a deepening collaboration on rail related projects. Crossrail International and the UK's Rail Safety and Standards Board signed an MoU with the Colombian Government to support the development of a national rail regulatory framework for Colombia's railways and to help reactivate the rail sector. Paul Dyson, Crossrail International CEO said, "Our combined skills, knowledge and experience offers the Colombian government a unique opportunity to implement a regulatory framework that is informed by international good practice." It is this sharing of best practice and the approach to transparency that makes working with the UK an attractive proposition to Latin American partners in the public or private sector. As highlighted previously, agreements were also signed in Chile and additionally in Peru where both countries are seeking support to advance ambitious rail strategies.

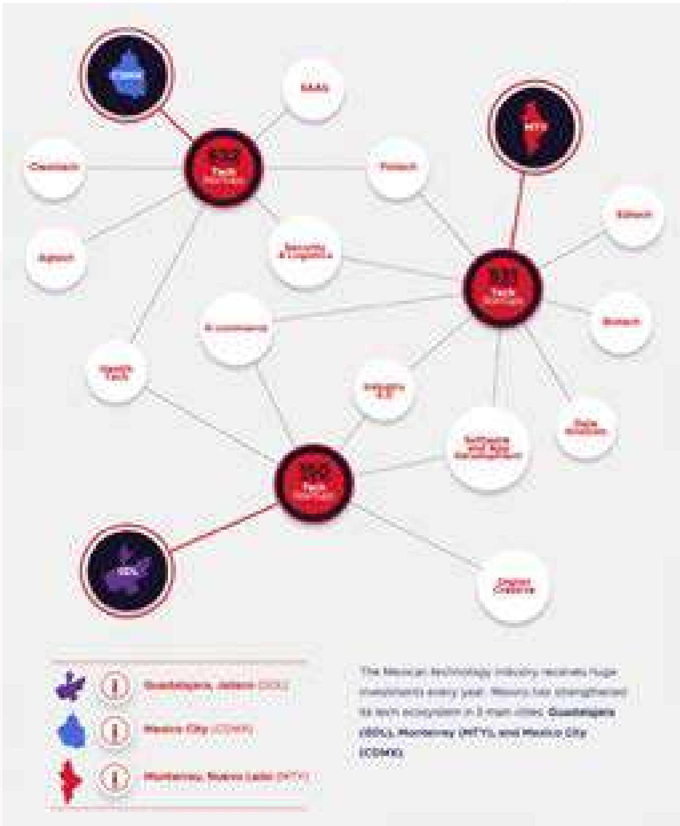
Similarly, in Central America investments in social infrastructure are important, with UK Export Finance playing a significant role. There is much potential across the region especially in the Dominican Republic, and by making more of the MoU signed in 2021 between UK Export Finance and the Central American Bank for Economic Integration (CABEI).

Opportunities for cleaner transport are evident in Mexico's electric vehicle market. Mexico is one of the world's largest car manufacturers and with the USA and Canada on its doorstep this is the time to ensure that UK goods and services are part of this supply chain and the nearshoring effort. Bloomberg reported that in September 2023, Mexico took over from China as the USA's principal trade partner. That supply chain includes lithium which is used in electric vehicle batteries. The "Lithium Triangle" comprising Argentina, Bolivia and Chile is home to over half of the mineral's global reserves. However, possibilities for UK participation in projects is more long-term. The UK is working with Bolivia on capacity building for lithium related initiatives and remains committed to exploring supply chain opportunities for UK business in Argentina and Chile. Deeper collaboration with Lithium Triangle countries is increasingly important as China continues to introduce export controls, impacting global supply chains, on other critical minerals that are vital for the electric vehicle revolution.

It is in the Renewable Energy sector that the triple force of Development Banks, private capital and UK Export Finance really comes together. The IDB, CABEI and the Corporación Andina de Fomento (CAF) are all providing funding for a green evolution, particularly in Central America where several projects are focused on a sustainable energy transition. December 2023 will see the first UK trade mission centred around hydrogen to Chile to explore the growing appetite in this open market. However, it is Paraguay that will most likely see the first hydrogen related UK collaboration to come to fruition. Set to launch in 2025 the objective is to establish a 420MW world-scale green hydrogen and ammonia project to supply Paraguay and the region's agricultural and fertiliser markets with sustainable alternatives. This would be phase one of an ambitious project, and one led by a UK firm. In the medium-term, it is expected to see more opportunities from hydrogen developments in Brazil. UK Export Finance is looking to see how it can fund solar and hydrogen projects in Brazil and beyond. Department for Business and Trade's (DBT) Latin American trade teams have noted an interest in solar in the Caribbean, Colombia and Bolivia. The UK has been instrumental in helping to establish the frameworks for Offshore Wind industries in Brazil and Colombia. Although - like lithium – they are in their infancy, it is important for the UK and other partners to be part of the conversation from the beginning.

In a very different sector, FinTech opportunities remain compelling: especially in Mexico which has a UK inspired sandbox model in place. This model helps run testing of new technologies and programmes in an isolated environment without affecting the systems or platforms on which they run. Mexico's "FinTech Law" was created five years ago and there has been much discussion about the need for updating the legislation. Furthermore, regulations regarding cybersecurity and Open Banking in Mexico are expected to be published in the mid-term. Mexico is more than a FinTech market and has three main tech clusters in Mexico City, Monterrey and Guadalajara. Each tech cluster has its own strengths, and like other tech clusters across Latin America, provides a helpful platform for UK companies to land and then scale up across the region.

The Mexican Tech Ecosystem



Source: Department for Business and Trade

In parallel, Open Finance and UK-influenced frameworks are in place in Colombia and Brazil, and across the region opportunities in professional services such as consultancy and cost management are numerous due to the positive image of doing business with British firms.

Tech in the UK and Latin America

The provision for enhancing digital trade was a key priority for the CPTPP negotiations, and the updated UK Mexico Free Trade Agreement will seek to ensure the modern agreement is ambitious on tech and data. According to the Global Cybersecurity Index, compiled by the UN's International Telecommunication Union, Latin America is the least prepared region in the world for cyberattacks, leading to the need for more investment in areas such as telecoms, satellite networks and data centres.

"The Integrated Review 2023 identified artificial intelligence (AI), quantum technologies, engineering, biology, semiconductors and future telecoms as priority areas of focus for UK Science and Technology, with data as a crucial enabler."

UK Government hosts AI Summit at Bletchley Park
Credit: UK Goverment

There is a fertile crossover between Latin American and UK markets with major opportunities for investment and delivery of new products and services, with more or less every sector having a significant interface with some technology, such as EduTech; FinTech; MedTech and Agri-Tech. All of which present substantial opportunities in Latin America for UK companies; the diagram on the previous page summaries quite cogently using Mexico as the example and were highlighted in last year's chapter. Again, these are all broad sectors in their own right and ones that offer real opportunity for UK companies. From a UK Government perspective, the UK's International Technology Strategy, published in March 2023 identified artificial intelligence (AI), quantum technologies, engineering, biology, semiconductors and future telecoms as priority areas of focus for UK Science and Technology, with data as a crucial enabler. Some of these sub-sectors are still in their infancy and will potentially come to define decades ahead. Yet tech advances at rapid rates and these will open up new areas for UK funding and innovation. Whilst these could provide new products or services for exporting to Latin America they could also provide for international collaboration with the region. Meanwhile, the growth of technology use in the region also creates opportunities for homegrown technology driven product and service providers, enhancing Latin American exports as it becomes a hub for the digital economy. A report from Google and Access Partnerships found that Argentina, Brazil, Chile, Colombia, Mexico and Uruguay are already experiencing a USD $34bn boost to their annual export values from the use of digital technologies, and this opportunity can potentially quadruple to reach USD $140bn by 2030.

In population terms, Latin America is currently a growing region, with a young population that characteristically will only be more open to tech solutions across their personal and professional lives. The consultancy group, The IDC Latin America, predicted that the growth of spending in Latin American and Caribbean countries in IT and Tech will outgrow GDP and it was expected that the GDP growth for 2023 will be 2.1% and the investment in IT and Tech from companies in the region will be 12%. Many of the sub-sectors the UK excels in such as cloud services, network and network operations, storage and professional services are all in demand in Latin America, often with local expertise in short supply. It's not just big business but national governments, smaller businesses and local municipalities that require tech solutions. Growth is expected in fields such as AI, Machine Learning, Automation and Robotics, aligning with the priorities from UK Government. According to data published by Statista; the IT market value in selected Latin American countries in 2021 was worth USD $102.6bn, the main countries being Brazil, Mexico, Colombia, Argentina and Peru. The main nine categories where companies in the region are looking for software solutions are video conferencing (52%), E-commerce (46%), Accounting (40%), HR (36%), CRM (34%), Marketing (34%), Business Intelligence and Analytics (30%), Sales (30%) and Customer Service (30%).

To give a human example of growth, June 2023 saw the largest delegation of Latin American investors come to the UK as part of London Tech Week. Many of the attendees wanted to explore how they can form partnerships with UK companies to bring new products and services to their home markets, as well as grow their businesses in Europe via the UK. The growth of the Latin American tech sector is fuelling this drive for international collaboration.

CANNING HOUSE

Multilatinas and why they are important

Multilatina is a well-recognised term describing a distinct type of a Latin American business organisation, and in some circles the term can carry pejorative connotations. Definitions vary yet, generally Multilatinas have multiple companies operating in different sectors, although controlled from one main holding group. They have a turnover of more than USD $100m and are often present in neighbouring countries to their headquarters that are culturally and linguistically similar to their home market. However, it is important to note that they do not necessarily have their headquarters in a country's capital city. In Colombia's case, many are Medellin based, such as ISA, Nutresa, Argos, Bancolombia, EPM, Celsia, and SURA. This can be a surprise to new market entrants that expect to have very centralised corporate landscapes.

Multilatinas are predominantly family owned with a solid cohort of trusted professionals at board level that know how to work with the family and are often characterised by having leading marketing campaigns with several nationally recognised brands as part of their portfolio. Global expansion may not always be a central objective, instead consolidating their regional strength and brand recognition are key tenets. These groups have significant potential to expand trade with Latin America having already driven inter-Latin American trade. Many have consolidated their positions and are now going global and expanding operations to North America and Europe. If these companies then have operating functions outside of Latin America, they can then often be referred to as Global Latinas.

> *"Multilatinas are big business and sophisticated entities which is why they should be considered as an essential and notable part of the trading landscape in Latin America."*

Multilatinas are big business and sophisticated entities which is why they should be considered as an essential and notable part of the trading landscape in Latin America. On a global stage, in terms of revenue and size they stand up in comparison to other non-Latin American based big business, and they deal with complex supply chains in a way many European multinationals arguably would envy. Their value is further enshrined in their higher shareholder return, a commitment to invest in R&D, and their strong contribution to job creation.

A Boston Consulting Group (BCG) study found that the profitability of Multilatinas from 2000 to 2018 was 685%, while - for comparison - the S&P 500 index recorded return on investments of 262%, and the MSCI Emerging Markets index of 375%. Some of the most noteworthy transformations are the increased market share from Multilatinas in FinTech, consumer goods and services as well as geographical diversification from Chile, Mexico, Brazil, Costa Rica, Panama, and Peru. Their distinct culture and model are important to bear in mind for any UK organisations wishing to partner with a Multilatina. Finding the right decision maker in the correct market is even more pertinent with this type of client. UK companies should be prepared to deliver several rounds of pitches and be committed to a longer-term investment of resources.

Medellín, Colombia

An important part of this growing demand for tech derives from Multilatinas that are doing business across Latin America. The reasons for this demand include adapting to modern ways of working, increasing tech bills, and evolving needs to become more sustainable - both economically and environmentally. According to BCG, Multilatinas adopt the most advanced tech and cutting-edge practices such as blockchains, 3D printing, digital channels, agile working models, e-commerce and big data. Three such Multilatina companies embracing tech are, Despegar.com, MercadoLibre.com and Globant. MercadoLibre alone capitalised on over USD $39.3bn in 2022. *PR Daily* asserts that Multilatina organisations have generated strong growth beyond borders with steady annual revenue growth of 5.2% and unmatched stability in what can otherwise be stereotyped as turbulent political and economic markets.

For those that want to enter or grow in a Latin American market, whether in tech or an aligned sector, understanding the profile and advantages of a Multilatina can arguably enhance the possibilities for partnership.

UK-Latin American investment flows

Foreign Direct Investment (FDI) is a fundamental part of the international trade environment and one where we can see the impact of Latin American trade. Global Latinas are just one profile of the potential investors thinking about setting up in the UK. With this chapter covering UK-LatAm trade, it is worthwhile to turn the telescope in the other direction, as Global Latinas are not exclusively the only type of Latin American business that can invest in the UK and internationally. There are plenty of opportunities for Latin American companies at different stages in their trajectory and it is important to dispel that preconception.

In 2021, the stock of inward FDI from Latin America to the UK was at least £19.6bn. In comparison, in 2021, the stock of outward FDI from the UK to Latin America was at least £36.9bn. Opportunities for investment in Latin America are spread across the region depending on local resources, market size and existing capacity for export and value addition. Inbound investment to the UK is similarly dispersed but often driven by merger and acquisition opportunities, availability of skills, property and logistics.

It is expected that more Latin American companies and brands will use the UK as their base for international expansion outside of the region, as well as using innovation networks to develop new products and services. While there remain caps on the amount of pension funds that can invest outside of domestic markets, notably Brazil and Mexico, there is appetite for more investment in UK equities. The London Stock Exchange (LSE) is home to Latin American companies and further interest is expected in AIM, the sub-market of the London Stock Exchange for small and medium growth companies. The LSE also has been a popular choice for raising bonds and green bonds, with Chile being the first country in Latin America to launch a green sovereign bond back in 2019. Since then, countries including Mexico, Brazil, and Uruguay have launched green and sustainability bonds - not all at the LSE, yet this is indicative of potential - and by March 2023 nearly USD $7bn worth of IDB Invest bonds had been listed on the LSE. Deeper financial collaboration is a key priority for Chile, that each year hosts Chile Day in London, and several other countries are actively keen to attract UK investment as evident through their investment roadshows; particularly Panama, Peru, Colombia and the Dominican Republic. There is more to be done to help publicise direct Latin American investment opportunities and reassure investors about economic stability, macro conditions and the rule of law, not least due to limited coverage in UK business media.

The DBT has seen that many Latin American companies are establishing their bases across the UK, with firms based in Scotland, Northern Ireland, and North-East England creating jobs and building skills throughout the country. These Latin American-owned companies are in a variety of sectors, from advanced manufacturing, retail, food and drink, cosmetics, digital services, and financial services.

Furthermore, the business environment makes the UK an attractive destination for investment. The UK wide Seed Enterprise Investment Scheme (SEIS), the Enterprise Investment Scheme (EIS), grants from Innovate UK, and access to the Catapult Network, all make the UK open for investment.

Alongside more geographically focussed support mechanisms such as the Northern Powerhouse Investment Fund, the Welsh Development Bank, and Skills Development Scotland, this can enable small and innovative Latin American companies to thrive as much as a Multi or Global Latinas. Whilst there are of course challenges and obstacles for establishing a base overseas and operating in a different culture, anecdotally, Latin American investors have commented on a willingness and transparency that encourages them to do more business in and with the UK.

Concluding remarks

The DBT's international mission essentially has three goals: to promote UK exports overseas; to attract investment into the UK; and to create more informed trade policy that grows the UK economy whilst supporting the rules of international trading systems. This chapter has given a snapshot of these three pillars through the lens of UK-Latin American trade. It has highlighted the opportunities that accession to the CPTPP presents; it has explored evolving sectors such as tech; discussed the imperative to not underestimate Latin American actors nor to undervalue the importance of Latin American investment into UK. There remains great potential for increased collaboration for bilateral and multilateral engagement at trade promotion and trade policy levels between the UK and Latin America, and the DBT is fortunate to work closely and collaboratively with partner governments and trade organisations. To explore more commercial opportunities in Latin America, to keep abreast of activities throughout the year or to find out how best to work with the UK Government's DBT team, contact: exportsupport.latac@fcdo.gov.uk

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Economic Outlook

The macroeconomic forecast in Latin America

Andrés Pérez, Chief Economist LatAm, Banco Itaú

Regional Trends

More moderate easing cycles

In the context of the deceleration of economic activity throughout major economies, gradually declining inflation, and tight global financial conditions, Latin American economies have fared reasonably well. Credible policy frameworks and buffers have allowed for economies to navigate the worsening of the external backdrop - therefore avoiding a crisis - in stark contrast to the region's experience several decades ago.

With exceptions, activity has surprised persistently to the upside, allowing for a smoother deceleration, even as several central banks led hiking cycles as early as mid-2021, taking policy rates well above contractionary levels. In some cases, however, such as in Argentina and Peru, specific shocks have weighed on activity. Towards 2024, growth is expected to gradually slow in Brazil and Mexico, while improvements are expected in Chile, Colombia, and Peru. The adjustment of the severe macro imbalances in Argentina, which exacerbated further in the months leading up to the first-round of the presidential election, should lead to another annual GDP contraction in 2024.

In this context, although they have eased recently, tight global financial conditions should lead to central banks only gradually easing monetary policy. The worsening external backdrop between July and October 2023 contributed to the strengthening of the dollar and currency depreciation in the region. The persistence of tight global financial conditions played a key factor in recent monetary policy decisions of several central banks in the region. Rates are expected to remain well above the central bank neutral estimates throughout the respective policy horizons. In

Brazil, a terminal rate of 9.5% is expected, with Mexico at 9.0%, Colombia at 8%, Chile at 5.75%, and Peru at 5%. Negative effects on growth over time from higher domestic policy rates, on average, may be mitigated by more resilient activity and prospects of higher growth in the main trading partners, such as China and the US.

The disinflation process continues in major inflation targeting regimes of the region. After peaking in several economies in late 2022, inflation has fallen generally faster than expected. At the margin, while upside inflationary risks to forecasts persist from the effects of the cumulative currency depreciation over the past few months and from higher oil prices, year-end inflation calls in Chile, Mexico, and Peru for 2024 have been maintained at 3.1%, 4.2%, and 2.8% respectively. In Colombia, the year-end 2024 call was revised up to 5% from 4.8%, based on El Niño risks and the effects of higher oil prices on fuel subsidies. Conversely, in Brazil, the inflation forecast has been revised down for 2023 and 2024 as core disinflation advances.

In Argentina, with the imbalances in the economy continuing to widen and policy-related uncertainties running high, the macro-financial forecasts assume a sharp depreciation of the currency by year-end, with an official exchange rate of ARS 670/USD by year-end, inflation of 200%, and a monetary policy rate of 145%.

El Obelisco, Buenos Aires, Argentina

Argentina

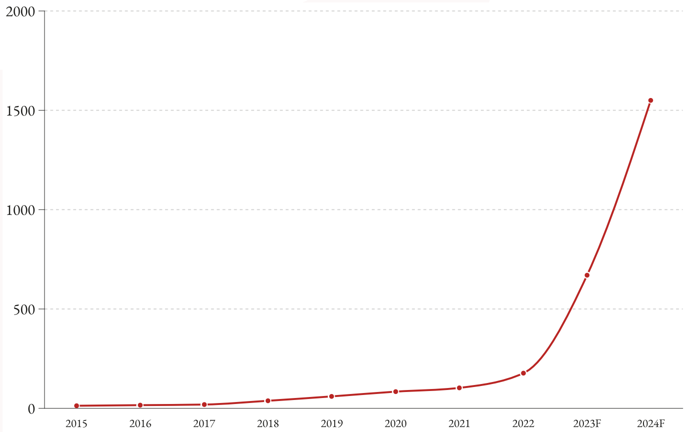
Adjustment countdown ticks

- In the aftermath of the runoff, the authorities resumed the crawling peg on the official exchange rate, amid rampant inflation and a wider gap between the official and blue-chip swap. In addition, a new special exchange rate for exporters was adjusted and extended in the hope of raising international reserves and reducing the spread between the official exchange rate and the blue-chip swap.

- With the imbalances in the economy continuing to widen and policy-related uncertainties running high, a sharp depreciation of the currency is expected. An official exchange rate of ARS 670/USD is expected by year-end, with inflation at 200%, and a monetary policy rate of 145%.

Days before the first round of elections on 22 October, the government ratified its commitment to maintain the official exchange rate at ARS 350/USD until mid-November, expecting it to be followed by a crawling peg policy of 3% per month.

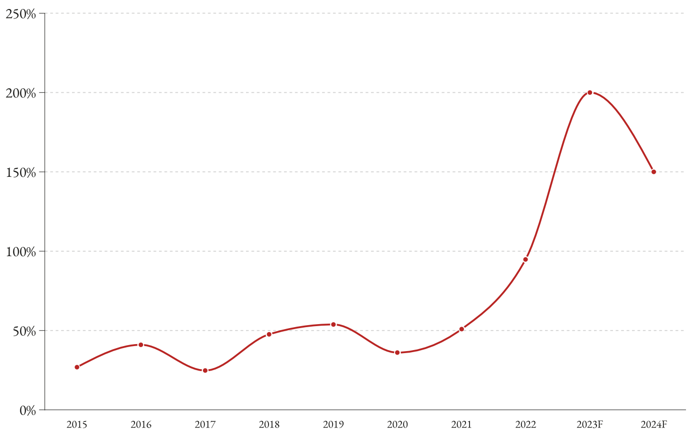
Exchange rate ARS / USD



Source: Banco Itau

In the aftermath of the election, the authorities extended the special exchange-rate regime for exporters, but at a weaker level than the previous week, now allowing for exporters to liquidate 50% of their exports at the official exchange rate and 50% at the blue-chip swap, which is equivalent to an exchange rate of roughly ARS 620/USD. The previous formula was a 70%-30% scheme, meaning a special exchange rate of around ARS 520/USD. Net international reserves fell to USD -$10.0 billion at the end of October, from USD -$5.0 billion in September, mostly due to payments to IMF and interventions in the exchange rate market during the month. While net international reserves are not expected to improve significantly in the coming months, access of up to USD $6.5 billion in a currency swap line with the People's Bank of China has been key in addressing debt payments and maintaining the exchange rate regime and import flow, despite tighter controls. In the meantime, the spread between the official exchange rate and the blue-chip swap averaged 160% in October, up from 112% in September. The exchange rate forecast remains at ARS 670/USD for YE23, equivalent to a 30% weakening of the currency in real terms compared with December 2022.

Inflation in Argentina (CPI %)



Source: Banco Itau

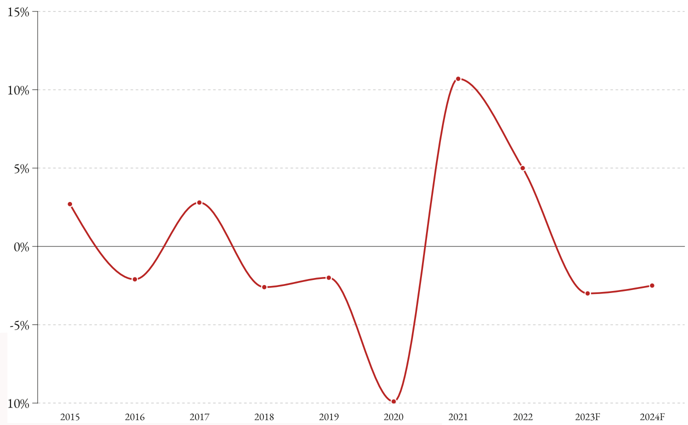
Consumer prices rose by 8.3% MoM in October, down from 12.7% in September and 12.4% in August, and below market expectations of 9.5%, according to the latest central bank survey. Annualised quarterly inflation accelerated to 255.2% in the quarter ended in October, from 229.7% in September. The 12-month inflation reading came in at 142.7%. The deceleration of month-over-month inflation is transitory, and an adjustment of the exchange rate is expected this year, leading to higher inflation ahead. The forecasts for 2023 remain unchanged with inflation of 200% YoY and a monetary policy rate of 145%.

According to the EMAE – the official monthly GDP proxy - activity remained flat sequentially in September, following a 1.2% MoM/SA expansion in August. Thus, the EMAE rebounded by 2.9% QoQ/SA in 3Q23, after falling 2.6% in the previous quarter, amid a severe drought. On a year-on-year basis, activity fell 0.7% in September - in line with the Bloomberg market estimate - and dropped 0.6% in 3Q23 (-4.9% YoY in 2Q23). Despite the sequential upside activity surprise, GDP is expected to contract by 3.0% in 2023, reflecting the harsh drought and fragile macro fundamentals.

Argentina's treasury ran a primary deficit of ARS 330.3 billion in October, substantially wider than the deficit of ARS 129.1 billion posted one year earlier. Itau estimates that the 12-month rolling primary deficit increased to 2.6% of GDP in the quarter ended in October from 2.4% of GDP in 3Q23.The fiscal package of around 1.3% of GDP implemented after the primary elections is expected to continue to worsen the fiscal accounts. The primary fiscal deficit projection therefore stands at 3.5% of GDP.

Buenos Aires, Argentina

Real GDP growth in Argentina %



Source: Banco Itau

The critical level of international reserves and a wide spread in the parallel exchange rate market, amid tighter capital and import controls, will likely lead to an adjustment of the exchange rate this year. The incoming administration will likely negotiate a new program with the IMF, given that all quantitative targets set for 2023 have been missed. The IMF will likely request a weaker exchange rate, considering the deterioration in the balance of payments, and the real exchange rate is roughly 10% stronger than the day before the devaluation after the primary election. The forecast of a nominal exchange rate of ARS 1,550/USD for December 2024 and inflation of 150% YoY remains, with a likely peak in the first half of 2024, reflecting the pass-through effect of the expected devaluation of the currency and the correction of energy, transport, and fuel tariffs, among others. Finally, a 2.5% contraction in GDP is expected in 2024, but with the caveat that the El Niño phenomenon poses an upside risk, assuming a normalisation of the agriculture sector after the severe drought this year.

Argentina Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Economic Activity										
Real GDP growth (Private Estimates) - %	2.7	-2.1	2.8	-2.6	-2.0	-9.9	10.7	5.0	-3.0	-2.5
Nominal GDP - USD bn	642.4	556.8	643.0	517.7	444.6	382.8	487.3	632.3	602.9	538.0
Population	43.1	43.6	44.0	44.5	44.9	45.4	45.8	46.2	46.6	47.1
Per Capita GDP - USD	14,894	12,506	14,458	11,665	10	9	11	13.7	13	11
Unemployment Rate - year avg	6.5	8.5	8.3	9.2	9.8	11.6	8.8	6.8	7.0	8.5
Inflation										
CPI % (*)	26.9	41.0	24.8	47.6	53.8	36.1	50.9	94.8	200.00	150.00
Interest Rate										
BADLAR rate - eop - %	27.25	19.88	23.25	49.50	39.40	34.30	34.10	69.00	140.00	105.00
Reference rate - eop - % (****)	-	24.75	28.75	59.25	55.00	38.00	38.00	75.00	145.00	110.00
Balance of Payments										
ARS / USD - eop	13.01	15.85	18.77	37.81	59.90	84.15	102.75	177.10	670.00	1550.00
Trade Balance - USD bn	-3.0	2.0	-8.5	-3.7	16.0	12.5	14.8	6.9	-5.5	20.0
Current Account - % GDP	-2.7	-2.7	-4.9	-5.2	-0.9	0.8	1.5	-0.6	-3.0	2.5
Foreign Direct Investment - % GDP	1.8	0.6	1.8	2.3	1.5	1.1	1.4	2.6	1.0	1.0
Gross International Reserves - USD bn	25.6	38.8	55.1	65.8	44.8	39.3	39.6	44.6	25.0	35.0
Net International Reserves - USD bn	-1.0	12.2	31.2	22.7	13.6	5.2	4.3	6.0	9.0	0.0
Public Finances										
Primary Balance - % GDP (**)	-4.0	-4.2	-3.8	-2.6	-0.4	-6.5	-3.0	-2.4	-3.5	-1.0
Nominal Balance - % GDP (**)	-3.9	-5.8	-5.9	-5.2	-3.8	-8.5	-4.5	-4.2	-5.3	-2.8
Gross Public Debt - % GDP	55.5	55.6	58.9	89.8	93.8	108.7	82.8	87.7	94.5	99.9
Net Public Debt - % GDP (****)	25.4	27.6	31.5	57.0	57.8	66.9	48.1	48.7	54.3	58.7

(*) National CPI for 2017 and 2018. (**) Excludes central bank transfer of profits from 2016. (***) Excludes central bank and social security holding.
(****) Lebac 35-day for 2016, 7-day Repo rate for 2017 and 7-day Leliq rate for 2018 and 2019
Sources: Central Bank, INDEC and Itaú

Brazil

Disinflation continues, as easing is set to continue

- Fiscal risks increased again amid discussions about an early change in next year's target for the primary budget result. If implemented, the change would damage the credibility of the government's fiscal-adjustment strategy.

- A strong dollar globally and a narrower interest-rate differential exert pressure on the BRL, but domestic mitigating factors come into play. Estimates for the exchange rate remain at 5.00 reais per dollar in 2023 and at 5.25 in 2024.

- The GDP growth forecast is 2.9% in 2023 and 1.8% in 2024. The slowdown in activity in 2H23, combined with a lower contribution from the agricultural sector, should result in a negative GDP reading in 3Q23. Unemployment is expected to remain at 8% in both 2023 and 2024.

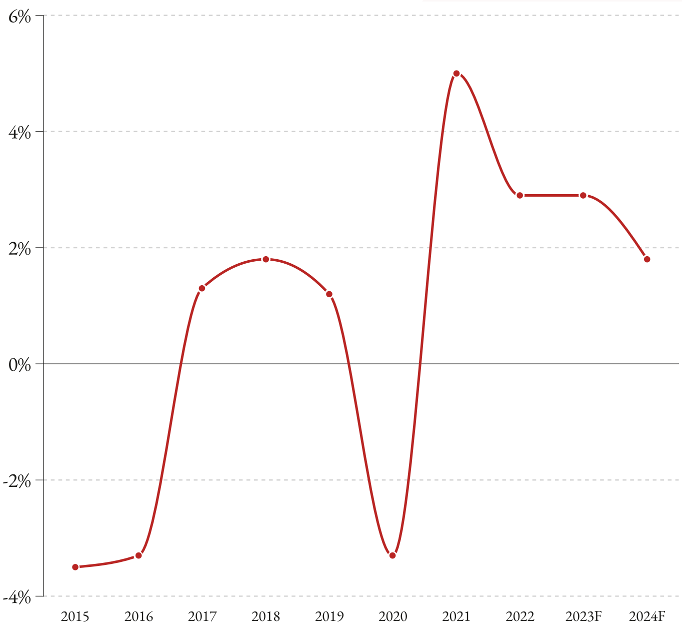
- The estimate for inflation in 2023 is 4.6%, incorporating short-term surprises and the cut in gasoline prices announced by Petrobras in October, and the forecast for 2024 is 4.0%.

- Based on recent communication by the Brazilian Central Bank's Monetary Policy Committee (Copom), on external challenges and on the increase of uncertainties surrounding fiscal consolidation, reductions of 11.75% pa are expected in the Selic benchmark rate by the end of 2023, and to 9.50% pa at the end of the cycle in 2024.

On the fiscal front, a primary budget deficit of 1.0% of GDP (BRL 110 billion) is expected in 2023. The policy discussion on revenues arising from the renegotiation of tax debts and the reversal of federal tax breaks has been disappointing at the margin albeit offset by a slightly milder expenditure with respect to the budget.

The forecast for 2024 considers a deficit of a similar size, of 1.2% of GDP (BRL 135 billion). This forecast takes place in the context of a discussion related to a possible early change in the primary budget target which would damage the credibility of the fiscal framework and the government's fiscal adjustment strategy. First and foremost, the change would reduce the chance of approval and implementation of revenue-recovery measures amounting to 1.0% of GDP that is currently contemplated, harming the regulation of ICMS subsidies based on the IRPJ and CSLL taxes, whose impact is estimated at 0.3% of GDP. Furthermore, the change would increase the risk of revenue waivers such as reducing the social security contribution rate for municipalities (0.1% of GDP). Finally, the fiscal framework law itself, aligned with the primary target regime, establishes contingency budget freezes as an appropriate practice in the event of revenue frustration. If confirmed, the change would imply that the adjustment would rely even more on increased revenues, in an economy that already has a heavy tax burden and has experienced a significant increase in spending in the past year after the approval of the so-called transition constitutional amendment (EC 126/22).

Real GDP growth in Brazil %

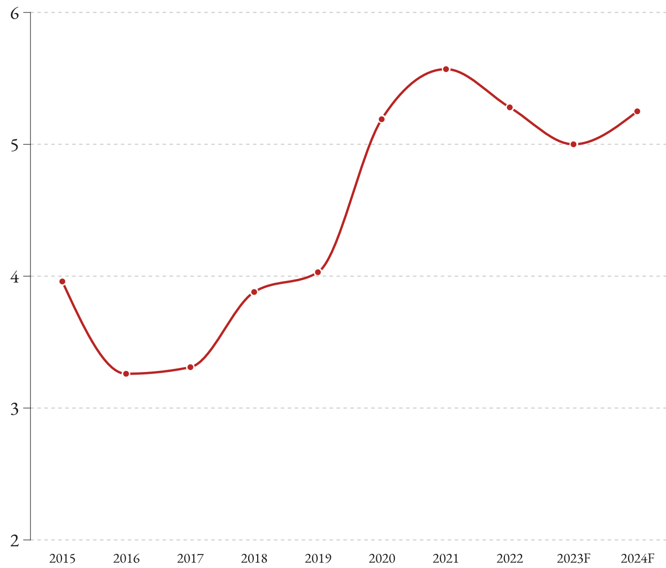


Source: Banco Itau

A change in the primary budget target could jeopardise the outlook of a gradual improvement in the primary result - excluding the settlement of court-ordered payments - and elevate the risks of a faster expansion in public debt going forward. Gross debt is expected to rise from 73% of GDP in 2022 to 75% of GDP in 2023, and then to 78% of GDP in 2024.

Estimates for the exchange rate remains at 5.00 reais per dollar in 2023 and 5.25 in 2024. A strong dollar globally and narrower interest-rate differential – with reductions in Brazil's Selic benchmark rate until the end of next year – should exert pressure on the local currency. Brazil's risk premium remains close to post-pandemic lows and dollar flows remain positive, boosted by a good trade balance performance due to stronger exports, as well as by foreign investments.

Exchange rate BRL / USD



Source: Banco Itau

Activity showed signs of deceleration in 3Q23, as monthly data for the services sector and particularly for retail suggested that the economy is losing momentum in the second half after a solid performance in the first half. GDP excluding the agriculture sector should slow to an increase of 0.2% QoQ/SA, compared with 1.0% in 2Q23. This situation, combined with the negative contribution of agricultural GDP, should lead to a sequential contraction in 3Q23. Nonetheless, overall GDP growth of 2.9% is expected in 2023, and is expected to expand by 1.8% in 2024.

The forecast for the unemployment rate remains at 8% for 2023 and 2024. Short-term data continues to show a resilient job market, with 90k net jobs created per month, and the unemployment rate at 7.7%.

Inflation forecasts have been revised down. The forecast for the consumer price index IPCA in 2023 is 4.6% but carries symmetrical risks. On the one hand, there is room for even lower gasoline prices. On the other hand, inflation in fresh food prices could be higher in the final months of the year if the El Niño weather pattern significantly affects rainfall volumes in the south of the country.

The benchmark interest rate was reduced by 50 bps on 1 November by Copom, as expected, and signalled that the pace of rate cuts will be maintained in upcoming meetings. In a meeting held in the context of heightened volatility in global financial markets, the communication conveyed that committee members see less room for rate cuts. In addition to highlighting the particularly uncertain international scenario, the authorities drew attention to the only-partial re-anchoring of inflation expectations, and emphasised that the total magnitude of the easing cycle will depend on improvement in the inflation outlook. Such messages, combined with a somewhat unexpected increase in the inflation forecast for 2025 from 3.1% to 3.2%, suggest discomfort with market expectations for the terminal interest rate.

The forecasts for the Selic rate stand at 11.75% pa at the end of 2023, and 9.50% at the end of the cycle in 2024.

Inflation in Brazil (IPCA %)

Source: Banco Itau

Brazil Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Economic Activity										
Real GDP growth - %	-3.5	-3.3	1.3	1.8	1.2	-3.3	5.0	2.9	2.9	1.8
Nominal GDP - BRL bn	5,996	6,269	6,585	7,004	7,389	7,610	8,899	9,915	10,680	11,419
Nominal GDP - USD bn	1,800	1,798	2,063	1,916	1,872	1,475	1,649	1,920	2,129	2,224
Population	203.5	205.2	206.8	208.5	210.1	211.8	213.3	214.8	216.3	217.7
Per Capita GDP - USD	8,847	8,764	9,977	9,189	8,910	6,964	7,731	8,936	9,843	10,215
Nation-wide Unemployment - year avg (*)	8.6	11.6	12.8	12.4	12.0	13.8	13.2	9.3	8.0	8.0
Nation-wide Unemployment - year end (*)	9.7	12.8	12.5	12.4	11.7	14.8	11.7	8.5	8.0	8.0
Inflation										
IPCA - %	10.7	6.3	2.9	3.7	4.3	4.5	10.1	5.8	4.6	4.0
IGP-M - %	10.5	7.2	-0.5	7.5	7.3	23.1	17.8	5.5	-3.9	3.7
Interest Rate										
Selic - eop - %	14.25	13.75	7.0	6.5	4.5	2.0	9.25	13.75	11.75	9.50
Balance of Payments										
BRL / USD - eop	3.96	3.26	3.31	3.88	4.03	5.19	5.57	5.28	5.0	5.25
Trade Balance - USD bn	14	40	56	47	35	50	61	62	90	60
Current Account - % GDP	-3.5	-1.7	-1.2	-2.9	-3.6	-1.9	-2.8	-2.8	25.0	35.0
Direct Investmen (Liabilities) - % GDP	3.6	4.1	3.3	4.1	3.7	3.0	2.8	4.8	3.3	3.1
International Reserves - USD bn	369	372	382	387	367	356	362	325	330	340
Public Finances										
NFSP Nominal Balance - % GDP	-1.9	-2.5	-1.7	-1.5	-0.8	-9.2	0.7	1.3	-1.0	-1.2
NFSP Debt - % GDP	-10.2	-9.0	-7.8	-7.0	-5.8	-13.3	-4.3	-4.6	-7.7	-7.8
NFSP Nominal Balance - % GDP	65.5	69.9	73.7	75.3	74.4	86.9	78.8	72.9	75.2	78.3
NFSP Debt - % GDP	36.0	46.2	51.4	52.8	54.7	61.4	56.2	57.1	61.3	64.6

(*) Nation-wide Unemployment Rate measured by PNADC - Source: IMF, Bloomberg, IBGE, BCB, Haver and Itaú

CANNING HOUSE

Chile

A more gradual easing cycle

- Although the domestic macro-scenario has not had material surprises, tighter global financial conditions and implicit concerns about the currency led the Central Bank of Chile (BCCh) to slow the pace of rate cuts again, remove its forward guidance, and suspend the reserve accumulation program.

- As a result, rates are expected to follow an even more gradual downward trajectory, ending the year at 8.5%, with the easing cycle reaching 5.75% by December 2024.

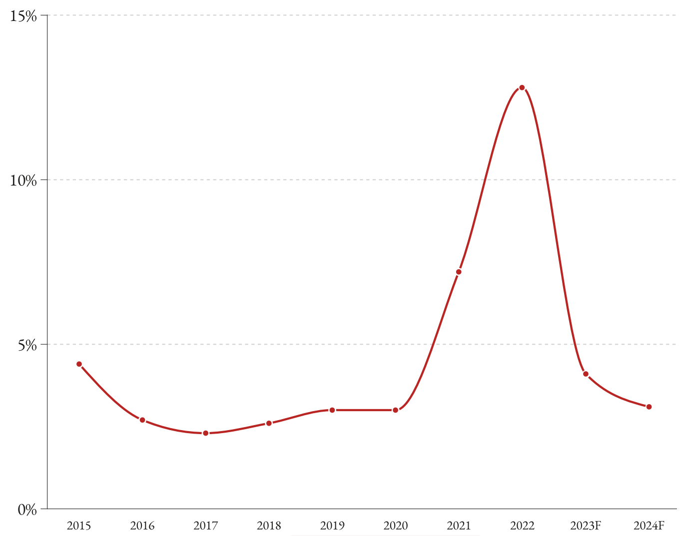
Activity grew a mild 0.3% in annual terms in September, mainly driven by strong mining growth, 7.3% YoY, whilst non-mining activity fell by 0.9% YoY. On a sequential basis, activity rose by 0.6% MoM/SA, reversing the 0.4% contraction of August, with mining posting a large 2.7% increase. Of note, non-mining activity also rose sequentially by 0.2% MoM/SA, with gains concentrated in rest of goods. The headline IMACEC rose sequentially in the quarter by 0.3% QoQ/SA, reversing the 0.3% drop in 2Q, leading the economy to avoid a technical recession. Importantly, the monthly print led to an annual increase of 0.6% YoY in 3Q23, 40bps above the BCCh's September IPoM forecast.

The unemployment rate fell to 8.9% in the quarter ending in September. On a seasonally adjusted basis, the unemployment rate remained unchanged from the previous month, at 8.8%. Total employment grew by 2% YoY and was driven by formal job posts, up 2.6% YoY. Even though the September data was better than expected, the improvement is likely to be transitory, presumably related to one-offs such as the hiring of staff for the Pan-American Games. In fact, complementary data points to persistent labour market weakness. The gradual deterioration of the labour market is expected to continue, leading to even greater slack.

Valparaíso, Chile

Inflation fell in October, but less swiftly, due to non-core price dynamics, while the weakness in domestic demand was reflected in limited core inflationary pressures. The inflation rate was 0.44% from September to October 2023, compared with 0.5% in October last year, somewhat below market expectations. As a result, the annual CPI print fell by 0.1 pp, to 5.0%, the lowest rate since August 2021. Core inflation was stable sequentially, leading to a 10 bps decline in the annual measure to 6.5%. Inflation has been surprising to the downside, as the 3Q23 inflation came in somewhat below the central bank's estimate of 5.8% (5.6% actual), and 7.8% for core inflation (7.5% actual).

Inflation in Chile (CPI %)



Source: Banco Itau

The BCCh slowed the pace of rate cuts for the second consecutive meeting in October, motivated by concern about tighter global financial conditions. In a unanimous decision, the central bank's board surprised the market by cutting the policy rate by 50 bps, to 9%, below the market consensus forecast, and it also removed its forward guidance. The one-year ex-ante real rate is now estimated at 5.6%, below the cycle peak of 7.75% reached in July, prior to the beginning of the easing cycle, yet still well above the BCCh's neutral range estimate of 0.5%-1%.

Tight global financial conditions also prompted the BCCh, at its monetary policy board meeting, to suspend its reserve accumulation program and stop unwinding its stock of non-deliverable forwards (NDFs). The BCCh had purchased a total of USD $3.68 billion in the spot market since June 13, well short of the program's objective of USD $10 billion. The outstanding stock of NDFs remaining to be unwound stands at approximately USD $2.7 billion, down from USD $9.1 billion in April 2023. The BCCh's international reserves are still arguable quite low (USD $41 billion as of the end of September, roughly 13.5% of GDP), well below the 18%-of-GDP target they have mentioned in the past. As a result, the BCCh will eventually resume its reserve accumulation program and unwinding its stock of NDFs.

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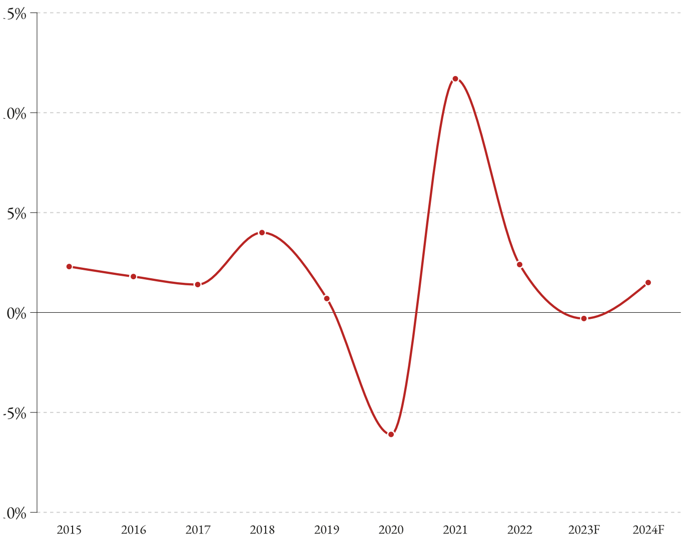
Real GDP growth in Chile %



Source: Banco Itau

GDP will continue to see a decline of 0.3% for 2023, with a gradual sequential improvement toward year-end, whilst the economy is expected to recover slightly to 1.5% growth in 2024. Recently published national accounts data suggests the growth forecast for this year could be revised towards a smaller contraction.

Tighter global financial conditions, the elevated sensitivity of the currency to narrowing interest rate differentials, and the latter's implications for the disinflation path are likely to lead the BCCh to adopt a more gradual easing cycle. The BCCh is expected to cut the policy rate by 50 bps in December, for a year-end rate of 8.5% (8% previously), and a more gradual downward path is projected in 2024, with the rate reaching 5.75% by December 2024, 75 bps above the previous estimate. As mentioned earlier, a loosening of global financial conditions could lead to somewhat faster easing. This projected easing cycle would keep rates well above neutral levels, estimated by the BCCh to have a nominal ceiling of 4%.

Port of Valparaiso, Chile

Santiago, Chile

Amid elevated volatility, the Chilean peso appreciated swiftly since the BCCh's announcements, reflecting the suspension of the reserve accumulation program, its decision to stop unwinding its stock of NDFs, and the higher expected rate path. Current estimates put the exchange rate at 880 CLP/USD for year-end 2023, and 850 CLP/USD by year-end 2024.

Exchange rate CLP / USD

Source: Banco Itau

Year-end inflation forecasts for 2023 and 2024 remain at 4.1% and 3.1%, respectively. However, the effects of the cumulative depreciation of the CLP over recent months, high oil prices, and rising producer prices all pose threats to the disinflation path going forward.

Chile Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Economic Activity										
Real GDP growth - %	2.3	1.8	1.4	4.0	0.7	-6.1	11.7	2.4	-0.3	1.5
Nominal GDP - USD bn	239	253	278	295	274	255	312	302	332	341
Population	18.0	18.2	18.4	18.8	19.1	19.5	19.7	19.8	20.0	20.1
Per Capita GDP - USD	13,283	13,954	15,105	15,736	14,329	13,080	15,864	15,222	16,613	16,982
Unemployment - year avg	6.3	6.7	7.0	7.4	7.2	10.8	8.9	7.9	8.8	8.8
Inflation										
CPI - %	4.4	2.7	2.3	2.6	3.0	3.0	7.2	12.8	4.1	3.1
Interest Rate										
Monetary Policy Rate - eop - %	3.50	3.50	2.50	2.75	1.75	0.50	4.00	11.25	8.50	5.75
Balance of Payments										
CLP / USD - eop	709	670	615	694	753	711	851	851	880	850
Trade Balance - USD bn	3.4	5.0	7.5	4.4	3.0	19.0	10.5	3.8	16.0	8.00
Current Account - % GDP	-2.4	-2.6	-2.7	-4.5	-5.3	-1.9	-7.4	-9.0	-3.6	-3.8
Foreign Direct Investment - % GDP	8.7	4.5	1.9	2.7	5.0	4.5	5.1	6.9	5.4	4.4
International Reserves - USD bn	38.6	40.5	39.0	39.9	40.7	39.2	51.3	39.1	42.0	42.0
Public Finances										
Nominal Balance - % GDP	-2.2	-2.7	-2.8	-1.7	-2.9	-7.3	-7.6	1.1	-2.5	-2.4
Net Public Debt - % GDP	-3.4	0.9	4.4	5.7	7.9	13.4	20.1	20.5	22.2	24.0

Source: IMF, Bloomberg, INE, BCCh, Haver and Itaú

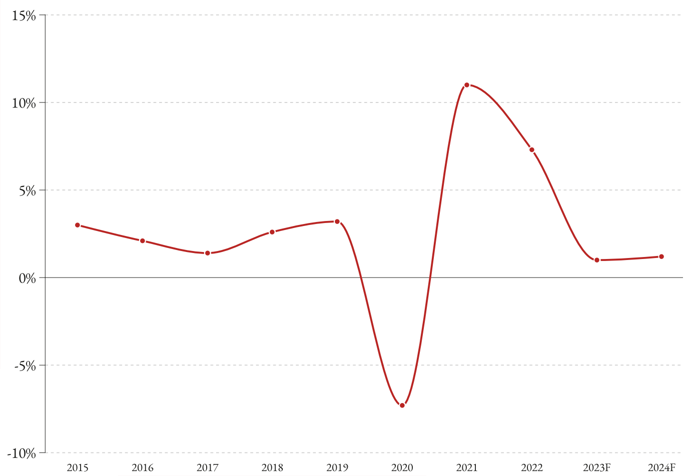
Colombia

Shift in monetary stance to begin soon

- Monetary policy is expected to maintain a contractionary stance for longer, given that the disinflation path has been slow, inflation expectations remain above target, and global financial conditions have tightened.
- Rates expected at 13.25% for YE23, up 50 bps, and 8.0% for YE24.

Colombia's GDP growth came in below expectations in 3Q23, dragged down by weak investment dynamics. The economy contracted 0.3% YoY in 3Q23 (+0.4% in 2Q23), the first negative print since 4Q20. Annual growth in the quarter was below the Bloomberg market consensus of +0.5%, the BanRep technical staff's forecast of +0.4%, and Itau's +0.1% call. In annual terms, the slight contraction in annual GDP was pulled down by a double-digit gross fixed investment decline, while the upside pull from private consumption continued to moderate. Falling imports amid still growing exports helped continue the GDP contraction in the quarter. Sequentially, the economy grew 0.2% QoQ/SA from 2Q23 to 3Q23, only partially offsetting the prior 1.0% fall. In the wake of the deceleration in economic activity, employment showed a second consecutive month of sequential contraction, suggesting that the recent outperformance of the labour market may be turning the corner, driven by the lagged and cumulative effects of contractionary monetary policy, weak business confidence, and tighter global financial conditions.

Real GDP growth in Colombia %



Source: Banco Itau

CANNING HOUSE

The Central Bank board kept rates at 13.25% in October, in a 5-2 split decision, with two of the seven members voting in favour of a 25 bps cut for the second consecutive meeting. Central Bank Governor Leonardo Villar and Finance Minister Ricardo Bonilla expressed different points of view at the press conference following the meeting. The former noted that inflation is still too high, given the increased uncertainties surrounding the external financial conditions. Villar also noted that most of the board believes that starting an easing cycle is not yet prudent, not until the disinflation process has consolidated. In contrast, the Minister of Finance, and a voting member of BanRep's board, voted to begin the easing cycle (as they did at the September meeting), stressing that the decision was not unanimous and noting that high interest rates are an obstacle for economic recovery. According to Minister Bonilla, the Colombian economy should not be compared with peers which did not freeze fuel prices.

Inflation in Colombia (CPI %)

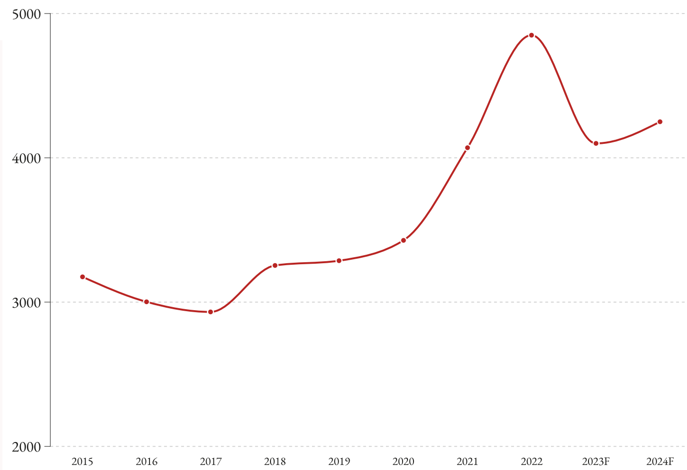
Source: Banco Itau

Bogota, Colombia

Bogota, Colombia

The current account deficit is expected to narrow to 3.5% of GDP this year, down from 6.2% in 2022. The exchange rate is expected to end the year at COP 4,100/USD, and a slightly higher rate path has led to the revision of the forecast for YE24 to a smaller depreciation of COP 4,250/USD, from a previous estimate of COP 4,300/USD.

Exchange rate COP / USD



Source: Banco Itau

There will be a slightly more gradual disinflation path in 2024. Inflation is expected to be 9.5% for YE23, and 5.0% for YE24, up on previous estimates due to risks stemming from El Niño and rising fuel prices.

High inflation, above-target inflation expectations, and tight global financial conditions mean that the beginning of the easing cycle is likely to be pushed back. Rates are likely to remain unchanged at 13.25% for the remainder of the year, and at 8.0% for YE24.

Colombia Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Economic Activity										
Real GDP growth - %	3.0	2.1	1.4	2.6	3.2	-7.3	11.0	7.3	1.0	1.2
Nominal GDP - USD bn	294	282	311	334	323	270	322	344	378	429
Population	48.2	48.7	49.3	49.8	50.4	50.9	51.4	51.8	52.2	52.7
Per Capita GDP - USD	6,098	5,791	6,308	6,704	6,411	5,308	6,271	6,626	7,239	8,144
Unemployment - year avg	8.9	9.2	9.4	10.0	10.9	16.7	13.8	11.2	10.3	10.5
Inflation										
CPI - %	6.8	5.8	4.1	3.2	3.8	1.6	5.6	13.1	9.5	5.0
Interest Rate										
Monetary Policy Rate - eop - %	5.75	7.50	4.75	4.25	4.25	1.75	3.00	12.00	13.25	8.00
Balance of Payments										
COP / USD - eop	3175	3002	2932	3254	3287	3428	4070	4850	4100	4250
Trade Balance - USD bn	-15.6	-11.1	-6.0	-7.0	-10.8	-10.1	-15.3	-14.3	-8.5	-6.0
Current Account - % GDP	-6.6	-4.5	-3.5	-4.2	-4.6	-3.4	-5.6	-6.2	-3.5	-3.2
Foreign Direct Investment - % GDP	4.0	4.9	4.4	3.4	4.3	2.8	3.0	5.1	3.6	3.0
International Reserves - USD bn	46.7	46.7	47.6	48.4	53.2	59.0	58.0	56.7	56.0	58.0
Public Finances										
Nominal Central Govt Balance - % GDP	-3.0	-4.0	-3.6	-3.1	-2.5	-7.8	-7.0	-5.3	-4.3	-4.5
Central Govt Gross Public Debt - % GDP	44.6	45.6	46.4	49.3	50.3	65.1	63.0	60.9	56.9	59.4

Source: IMF, Bloomberg, Dane, Banrep, Haver and Itaú

Mexico

Monetary stance to remain restrictive

- Solid activity in 3Q23 has led to an increase in the 2023 GDP growth forecast to 3.4%, and a deceleration to 2% for 2024.
- An expansionary fiscal stance, a more gradual deceleration in the US, and larger statistical carryover have prompted a rise in the 2024 GDP growth forecast to 2.0%, from 1.3% previously.
- Stronger than anticipated activity was seen this year - and is expected to continue supported by an expansionary fiscal stance next year - occurring in the context of slow services disinflation and tight external conditions, should lead the central bank to keep a restrictive stance for longer.
- The 2023 year-end policy-rate forecast is seen at 11.25%, and falling to 9.0% by year-end 2024.

Leading indicators suggest that GDP remained strong in 3Q23. The flash GDP estimate for 3Q23 published by Mexico's statistics institute put seasonally adjusted sequential growth at 0.9%, driven mainly by the services and industrial sectors. While the breakdown of industrial production for the whole quarter is not yet available, based on the monthly GDP figures from August, it is known that the main driver for this sector has been construction (QoQ/SAAR of 50.3%), associated in part with the culmination of AMLO's large infrastructure projects. On the other hand, manufacturing production momentum remained soft in August (QoQ/SAAR of 0.6%). Vehicle manufacturing exports expanded by 0.5% MoM/SA September, suggesting that the sector has not been affected by the strikes in the US auto sector. Finally, labour market conditions remain strong. The seasonally adjusted unemployment rate stood at a low 2.7% in September, compared with the 10-year average of 3.9%.

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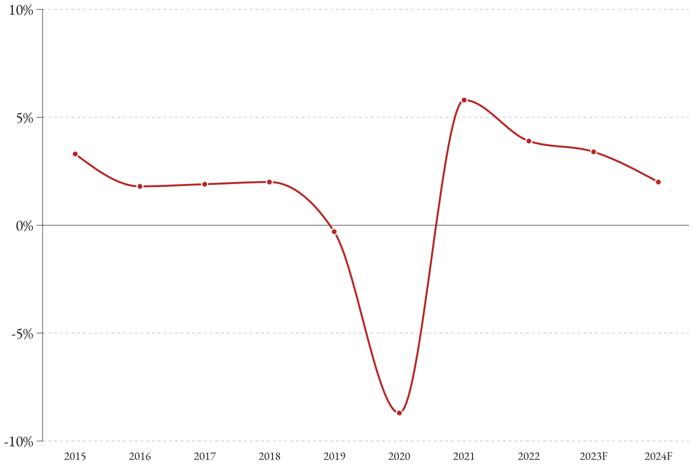
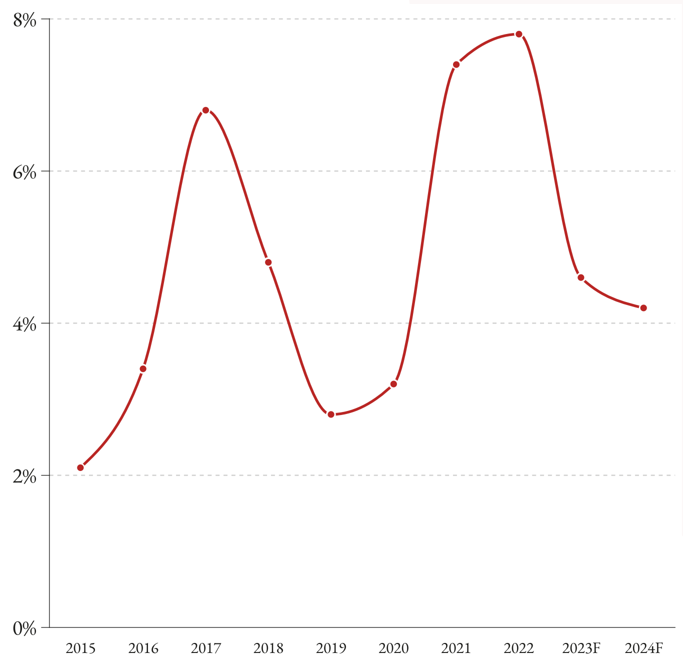
Real GDP growth in Mexico %



Source: Banco Itau

Headline CPI increased 0.38% MoM in October, in line with forecasts and broadly in line with market expectations of 0.39%. Core monthly inflation reached 0.39% MoM, also essentially in line with market expectations (0.38%) and Itau's forecast of 0.41%. Core goods (0.34% vs 0.87% a year ago and 10-year median of 0.27%) continued easing but services inflation remained persistent (0.44% vs 0.33% a year ago and 10-year median of 0.25%). Annual headline and core inflation fell further to 4.26% in October from 4.45% in September, and 5.50% from 5.76%, respectively. However, services annual inflation increased to 5.34% in October from 5.23% in September. At the margin, the seasonally adjusted three-month annualised headline inflation stood at 5.64% in October from 5.78% in September, while core inflation increased to 4.60% from 4.27%.

Inflation in Mexico (CPI %)



Source: Banco Itau

In November, the central bank of Mexico (Banxico) unanimously maintained the policy rate at 11.25%, in line market expectations. The monetary forward guidance was changed slightly with a dovish bias: the reference rate must be maintained at its current level "for some time" instead for an "extended period". The central bank recognised that while the inflation outlook remains complex, progress on disinflation has been made. Still, the balance of risks for inflation remained tilted to the upside. Upside risks to inflation include, persistence of core inflation, currency depreciation, greater cost related pressures, a greater than expected resilience of the economy and pressures on energy or agricultural prices. On the other hand, downside risks for inflation include greater than anticipated slowdown of the global economy, lower pass-through from cost related factors, and the appreciation of the currency.

Avenida Paseo de la Reforma, Mexico City

The headline inflation forecast path was marginally increased in the short term, relative to the September's monetary policy decision, while core inflation remained unchanged. Headline inflation for the 4Q23 is now at 4.4%, down from 4.7% previously, likely recognising softer rebound from non-core food prices. Headline inflation forecast for 4Q24 stood unchanged at 3.4%. Core inflation for 4Q23 and 4Q24 stood also unchanged at 5.3% and 3.3%, respectively.

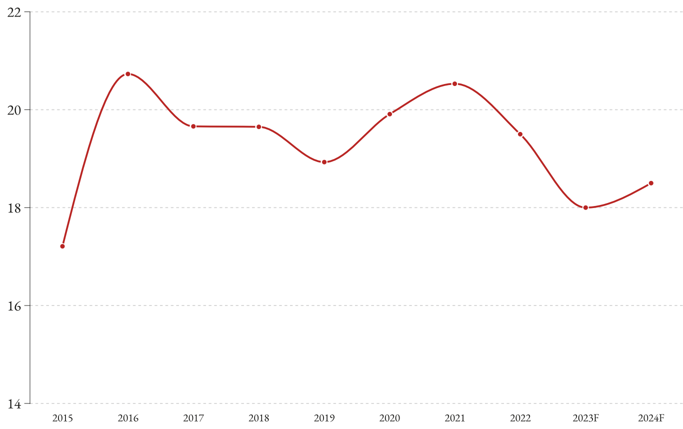
The 2023 GDP growth forecast has been raised to 3.4% on the back of better-than-expected activity. For 2024, the GDP growth forecast stands at 2.0%, up from 1.3% previously, reflecting a larger statistical carryover from 2023, expansionary fiscal stance, and the view of a more gradual deceleration in economic activity in the US.

The end-of-year inflation forecast stands at 4.6%, which implies a rebound from the 4.3% inflation rate posted for the first half of October. The rebound in headline inflation will likely be driven by a return of volatile agricultural prices to historical average levels amid persistent services inflation.

In this context, it is expected that Banxico will begin a gradual easing cycle next year, and that still persistent services inflation, resilient activity - which will likely continue next year amid an expansionary fiscal stance - and tight external conditions, will lead the central bank to keep a restrictive stance for longer. The policy rate forecasts for the end of 2023 and 2024 are 11.25% and 9.00%, respectively.

Current estimates put the exchange rate at 18 MXN/USD for year-end 2023, and 18.5 MXN/USD by year-end 2024.

Exchange rate MXN / USD



Source: Banco Itau

Mexico Economic Table

	2015	2016	2017	2018	2019	2020	2021	2020	2023F	2024F
Economic Activity										
Real GDP growth - %	3.3	1.8	1.9	2.0	-0.3	-8.7	5.8	3.9	3.4	2.0
Nominal GDP - USD bn	1,171	1,112	1,187	1,257	1,310	1,129	1,310	1,471	1,849	1,929
Population	121.5	122.7	124.0	125.2	125.6	127.7	129.0	130.1	131.2	132.3
Per Capita GDP - USD	9,636	9,058	9,573	10,038	10,431	8,845	10,159	11,306	14,086	14,576
Unemployment - year avg	4.4	3.9	3.4	3.3	3.5	4.4	4.1	3.3	2.8	2.9
Inflation										
CPI - %	2.1	3.4	6.8	4.8	2.8	3.2	7.4	7.8	4.6	4.2
Interest Rate										
Monetary Policy Rate - eop - %	3.25	5.75	7.25	8.25	7.25	4.25	5.50	10.50	11.25	9.00
Balance of Payments										
MXN / USD - eop	17.21	20.73	19.66	19.65	18.93	19.91	20.53	19.50	18.00	18.50
Trade Balance - USD bn	-14.7	-13.1	-11.0	-13.6	5.4	34.2	-10.8	-26.9	-14.0	-17.0
Current Account - % GDP	-2.7	-2.3	-1.9	-2.1	-0.4	-2.0	-0.6	-1.2	-0.6	-0.7
Foreign Direct Investment - % GDP	3.1	3.5	2.8	3.0	2.3	2.8	2.6	2.7	3.1	3.0
International Reserves - USD bn	176.4	176.5	172.8	175.0	180.8	195.7	202.3	199.2	203.0	205.0
Public Finances										
Nominal Balance - % GDP	-3.4	-2.4	-1.1	-2.0	-1.6	-2.8	-2.8	-3.2	-3.3	-4.9
Net Public Debt - % GDP	43.9	46.7	44.8	44.8	43.8	50.0	49.0	47.5	47.1	49.7

Source: IMF, Bloomberg, Banxico, INEGI, Haver and Itaú

Peru

Soft activity rebound

- The economy is expected to slow to 0.2% in 2023, pulled down by idiosyncratic shocks, and bounce back to 3% in 2024.

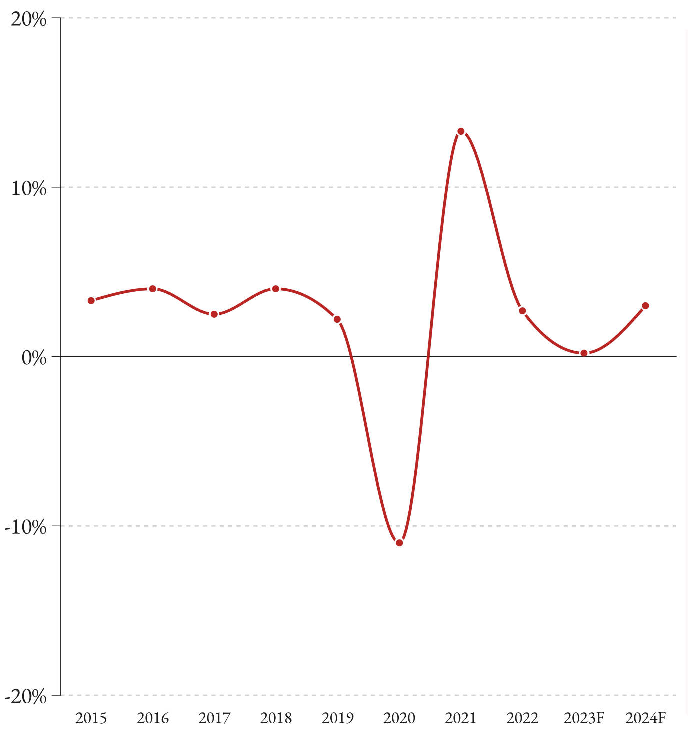
- The central bank is expected to take the policy rate down to 6.75% by the end of 2023, amid lower inflation, expected to be 3.8% for YE23, and soft activity. The policy rate is expected to fall to 5.00% by YE24.

The monthly GDP proxy fell by 1.3% YoY in September from -0.6% in August, below the forecast of +0.1% and market expectations of -0.6%, marking the third consecutive negative surprise. The statistics institute statement noted that effects related to the El Niño phenomenon disrupted agriculture (-8.8% YoY in September), construction (-9.4%) and manufacturing (-9.3%) sectors. While services grew at a soft pace of 0.3% YoY in September, mining output was strong, rising by 8.8% YoY, while fishing output grew 16.9%. The 3Q23 annual rate of monthly GDP fell by 1.1% from -0.5% in 2Q23, with primary and non-primary activity at 3.4% down from 1.4%, and –2.0% down from -1.1%, respectively.

CPI fell by 0.32% MoM in October, from 0.35% a year ago, below the 0.00% forecast and market consensus of 0.19%, as per Bloomberg. Downside pressure came mainly from food and non-alcoholic beverages index – a contribution of -50 bps. Core inflation, excluding energy and food items, also performed, growing 0.22% MoM, from 0.50% a year ago. On an annual basis, headline inflation fell to 4.34% in October, from 5.04% in September, while core inflation stood at a low 3.32%.

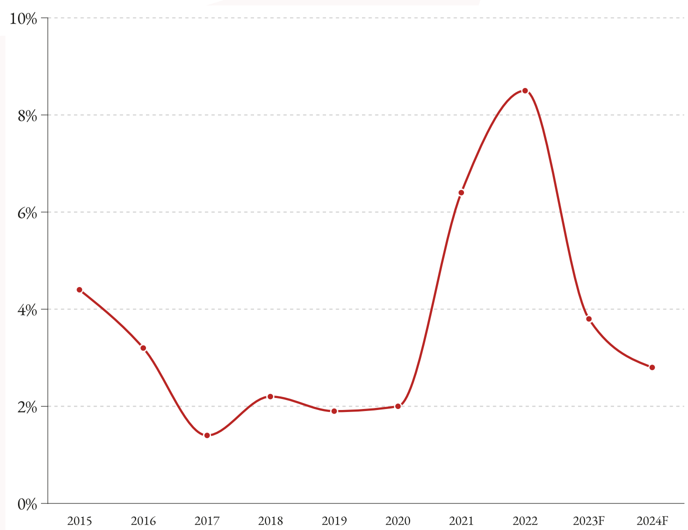
In its November meeting, the Central Bank of Peru (BCRP) cut its policy rate by 25 bps to 7.00%, in line with forecasts and market expectations. As in previous statements, the BCRP noted the decision does not necessarily imply further consecutive rate cuts. Future rate adjustments will be dependent on inflation evolution and its determinants. While the central bank expects annual inflation to reach the ceiling of the 1-3% inflation target at the beginning of next year, the central bank noted upside risks associated to harsh weather conditions - referring to the El Niño phenomenon. Analysts surveyed by the BCRP in October expected one-year ahead inflation at 3.3% (from 3.4% in September), taking the real ex-ante policy rate to 3.7%, still above the neutral real rate of 2.0%. The statement highlighted a deterioration in October's activity leading indicators, also acknowledging a larger than expected impact on internal demand from social conflicts and the El Niño weather phenomenon.

Real GDP growth Peru %



Source: Banco Itau

Inflation in Peru (CPI %)



Source: Banco Itau

The GDP growth forecast has been lowered for 2023, to 0.2%, from the previous estimate of 0.5%, reflecting a softer-than-expected rebound in activity in 3Q23. Activity will likely continue to recover for the rest of the year, although curbed by a restrictive monetary policy stance. Next year, a likely moderate El Niño scenario for 1Q24 will also limit the rebound in economic activity, likely resulting in a 3.0% growth rate for FY24.

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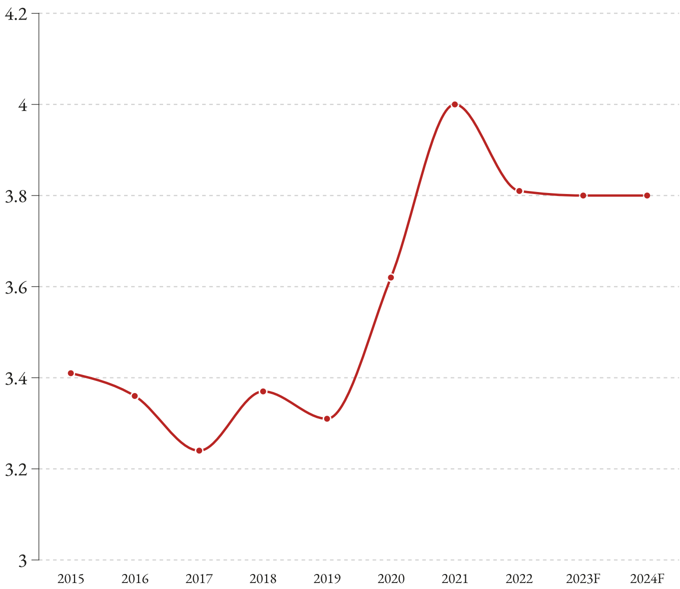
Current estimates put the exchange rate at 3.8 PEN/USD for year-end 2023, and also remaining unchanged at 3.8 PEN/USD by year-end 2024.

Exchange rate PEN / USD



Source: Banco Itau

The central bank is expected to maintain its easing cycle at a 25 bps pace at the last meeting of the year, reaching 6.75%, amid lower inflation, expected to be at 3.8% for YE23, and soft activity. However, tight external conditions led to the revision of the policy rate call for YE24 up to 5.00%, from the previous estimate of 4.00%.

Peru Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Economic Activity										
Real GDP growth - %	3.3	4.0	2.5	4.0	2.2	-11.0	13.3	2.7	0.2	3.0
Nominal GDP - USD bn	191	196	216	227	232	206	226	245	269	282
Population	30.0	30.4	31.0	31.6	33.2	33.5	33.8	34.2	34.5	34.9
Per Capita GDP - USD	6,385	6,440	6,972	7,190	7,012	6,143	6,675	6,679	7,786	8,104
Unemployment - year avg	6.5	6.7	6.9	6.6	6.6	13.6	10.9	7.7	7.0	6.8
Inflation										
CPI - %	4.4	3.2	1.4	2.2	1.9	2.0	6.4	8.5	3.8	2.8
Interest Rate										
Monetary Policy Rate - eop - %	3.75	4.25	3.25	2.75	2.25	0.25	2.50	7.50	6.75	5.00
Balance of Payments										
PEN / USD - eop	3.41	3.36	3.24	3.37	3.31	3.62	4.00	3.81	3.80	3.80
Trade Balance - USD bn	-2.9	2.0	6.7	7.2	6.9	8.1	15.0	10.3	13.0	15.0
Current Account - % GDP	-5.0	-2.2	-0.8	-1.2	-0.6	1.1	-2.2	-4.0	-1.1	-0.8
Foreign Direct Investment - % GDP	4.3	3.5	3.4	2.6	2.0	0.4	3.3	4.4	3.5	3.5
International Reserves - USD bn	61.5	61.7	63.7	60.3	68.4	74.9	78.5	72.2	75.0	76.0
Public Finances										
NFSP Nominal Balance - % GDP	-1.9	-2.4	-3.0	-2.3	-1.6	-8.9	-2.5	-1.7	-2.4	-2.0
NFSP Debt - % GDP	23.4	23.7	24.7	25.6	26.6	34.6	35.9	33.8	33.9	33.7

Source: IMF, Bloomberg, BCRP, INEI, Haver and Itaú

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Risk Outlook

Insecurity and threats in Latin America

Ivan Briscoe, Program Director, Latin America and Caribbean, International Crisis Group

Introduction

Across Latin America, organised crime and a concomitant rise in violence have threatened residents' safety and left governments grappling for effective responses. Although overall homicide rates have plateaued in recent years (albeit at the highest levels in the world), and even fallen in notoriously violent countries such as Colombia and El Salvador, the outlook remains challenging. Over a third of all murders around the world occur in Latin America each year, with many or most of them attributed by national authorities to organised crime. Rates of gender-linked murders have increased in several countries. The predatory behaviour of criminal groups has also triggered and aggravated existing humanitarian emergencies such as mass displacement.

Geography is a major reason why Latin America emerged as a hotspot of global crime. Home to three of the largest cocaine-producing countries in the world – Colombia, Peru and Bolivia – as well as the main exit points for cocaine exports to Europe and the US, the region has played a key role in illicit drug markets for more than four decades. While Central America, Colombia and Mexico have long been plagued by violence, changes to the routes and networks underpinning the drug trade have brought flareups of violence in countries such as Ecuador and Costa Rica – which traditionally were considered secure and peaceful compared to some of their neighbours.

> *“Widespread economic hardship in Latin America, which became particularly acute during the pandemic, lured more individuals into organised crime.”*

Many factors have contributed to real and perceived rises in public insecurity. Unprecedented rates of drug production and profitable new narcotic trafficking routes in countries such as Paraguay and Argentina play a role. Widespread economic hardship in Latin America, which became particularly acute during the pandemic, lured more individuals into organised crime. Meanwhile, the prevalence of corruption in the region has allowed an array of illicit markets to take root. These markets are not solely limited to drug trafficking: crime rings are engaging in human smuggling, fuel theft, illegal logging and mining, and extortion. Some outfits are attempting to deepen their influence over legal businesses and consolidate their control of communities as a means of acquiring new recruits and sympathisers and expanding their geographical base.

Latin America’s new criminal landscape has repercussions beyond its borders. European countries are struggling with a surge in cocaine trafficking to its shores as the continent becomes a preferred export destination for the drug. High-level intra-regional cooperation in responding to drug trafficking and organised crime is largely dormant. Meanwhile, US security cooperation continues to play an important role across Latin America, but its significance appears to be diminishing, as financial assistance for narcotics control and law enforcement in the region – especially in Mexico, Central America and Colombia – has fallen slightly in recent years.

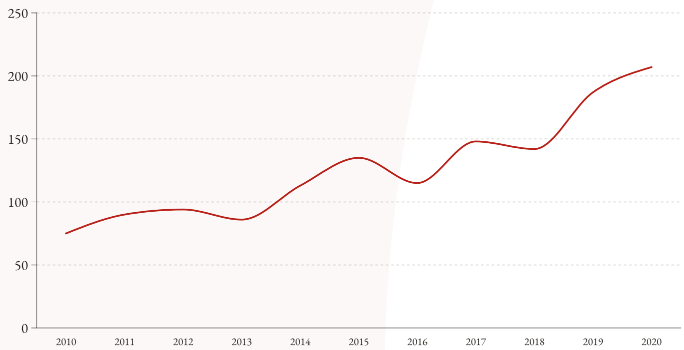
Armed gang member, Mexico - Credit: Crisis Group and Falko Ernst

New trends and old crimes

Weak democratic institutions, high levels of corruption and extreme inequality have made Latin America fertile ground for organised crime. Major insecurity and instability linked to organised crime first took root in the 1980s. While elements of traditional organised criminal activity endure – notably, the use of selective violence and complicity with political forces and legitimate businesses – the landscape of illegal profit-making today bears little resemblance to its original incarnation.

In particular, archetypal drug cartels – such as Medellín or Cali in Colombia, or the Gulf or Guadalajara in Mexico – have given way to enterprising, smaller criminal groups intent on seeking out new illicit opportunities rather than relying on stable markets. This change did not occur in a vacuum: state crackdowns, often carried out with strong support from the US, broke up the traditional hierarchical organisations that operated under a central command and participated in multiple illicit markets, for instance producing and trading drugs as well as carrying out killings and kidnappings. Colombia now hosts an array of purely criminal groups alongside other armed outfits that combine ostensibly revolutionary goals with the extraction of illicit revenue. An estimated 24,000 combatants are enrolled in both armed groups and organised crime, in urban and rural areas. The number of criminal groups in Mexico doubled between 2010 and 2020, reaching over 200.

Number of armed groups in Mexico 2010-2020



Source: Crisis Group

Smaller criminal enterprises are not always assured of survival, of course. In Guerrero and Michoacán in Mexico, or Cauca and Nariño in Colombia, illegal groups regularly engage in turf wars. Criminal bosses tend to have short careers: death, arrest and extradition are common denouements. But broader criminal economies have become more resilient, in part because these groups’ revenue streams – which help buy them political protection and judicial impunity – have become less vulnerable to sudden fluctuations.

> *"In Colombia, groups such as the Gulf Clan – now the most important criminal organisation in the country – offer benefits such as new school buildings and even give out toys to win over supporters in the territories they expand into."*

A large part of criminal groups' power can now be traced to the increasing influence they wield over the communities in which they operate. In Colombia, groups such as the Gaitanista Self-Defence Forces (also known as the Gulf Clan) – the most influential criminal organisation in the country – offer benefits such as new school buildings and even give out toys to win over supporters in the territories they expand into. These groups do not rely on perks alone to establish dominance, however: the use of forced confinement – by which the groups require that residents remain in their homes and refrain from going to work or school – has become widespread. More than 100,000 people were victims of confinement in 2022, many of them members of indigenous and Afro-Colombian communities along the Pacific coast. Criminal and other armed groups are particularly keen to take over these communities from rivals because they tend to be clustered near export points to international markets or crucial territories for illicit businesses.

In some cases, local criminal groups rent territories to entrepreneurs seeking to produce or transport drugs, which are then dispatched to global markets. This franchising and partnership model has enabled illicit drug markets to grow and diversify. Although the production and transportation of plant-based drugs remains an important criminal activity in Mexico, the country has also become a major player in the production and trafficking of methamphetamine and synthetic opiates to the US Fentanyl seizures in Mexico have increased by more than 1000% since 2018. Huge profits from the synthetic drug trade fund turf wars between the Jalisco and Sinaloa Cartels, driving much of the lethal violence in the country. In Colombia, the Gaitanistas reportedly charge taxes on third-party drug traffickers that pass through its territory, according to the plea bargain offered to US courts by its extradited former leader Dairo Antonio Úsuga, aka Otoniel. At the same time, the Clan runs migrant smuggling routes through the Darién Gap between Colombia and Panama. It also operates extortion rackets and enjoys numerous connections to legitimate private businesses across the north of the country.

Elsewhere in Latin America, new crime hubs have emerged in areas that offer strategic benefits to drug traffickers and enable novel connections among transnational outfits, local gangs and corrupt officials in courts, prisons and police forces. Extraordinary upsurges in violence have plagued the port cities of Guayaquil and Rosario, in Ecuador and Argentina respectively, as well as Costa Rica, Panama and Paraguay. Criminal groups in Ecuador have intimidated local communities by engaging in violent tactics such as hanging bodies from pedestrian bridges, bombing shops and residential areas, and beheading rival group members. The country now has one of the fastest-rising homicide rates in the region, with 2023 set to be its deadliest year since statistics were first recorded. The expansion of Brazil's First Capital Command (Primeiro Comando da Capital) – the country's largest criminal force and one of the most powerful in Latin America – accounts for much of the recent spike in lethal violence in eastern Paraguay, just across the Brazilian border.

The spread and diversification of criminal groups across Latin America has brought with it a surge of extortion and environmental crime. These illicit activities are less profitable than drug trafficking, but they have become increasingly attractive because they generate relatively stable incomes at lower risk and provide the opportunity to reinforce control over communities. In the countries of northern Central America – El Salvador, Guatemala and Honduras – extortion rackets have been calculated to be worth up to USD $1.1bn annually. In Colombia, meanwhile, reported cases of extortion rose 40% in the first three months of 2023 compared with the same period the previous year, according to military sources.

Home to approximately half of the world's tropical forests, Latin America – in particular the Amazon rainforest – is also a hotspot for environmental crime. In many cases, this illicit trade intersects with other criminal economies, such as drug trafficking: hollowed-out tree trunks, for example, are used to conceal shipments of cocaine. Traffickers have also used cattle ranching to launder money, which has the additional effect of contributing to deforestation in Brazil, Colombia and Bolivia. Journalists and environmental defenders – including indigenous leaders – are prominent among the victims of criminal groups operating in the jungle.

> *"Gender-based violence has also increased in some areas, exacerbated by the general climate of impunity and brutal violence fostered by criminal groups."*

Gender-based violence has also increased in some areas, exacerbated by the general climate of impunity and brutal violence fostered by criminal groups. Zacatecas, whose location in northern Mexico has made it a coveted site for gangs operating trafficking routes, has the fourth highest murder rate of the country's 32 states. Rates of disappearance of women in Zacatecas state rose by 50% in 2022, with most of the victims between ten and nineteen years old. Other types of gender-based violence have also become more widespread as criminal operations have expanded.

These shifts in the structures and workings of organised crime have coincided with changes in the relations between organised crime groups and the political system. Rather than seeking to appropriate state institutions or confronting security forces in defence of their rackets, criminal groups have tended to weave networks of influence with local authorities and communities. They combine violent intimidation with sophisticated techniques of co-option, including financing electoral campaigns for their preferred local candidate or preventing specific candidates from campaigning in certain areas. In so doing, they make it more likely that the authorities will turn a blind eye or even collude with these groups' activities. At the same time, recent events in Mexico and Ecuador show that criminal groups remain able to strike high-level political figures and state forces when they feel it is essential to their interests.

Recent crime patterns in there countries: Mexico, Colombia, and Ecuador

Mexico

While the disturbing rise in violent crime throughout Mexico that accompanied the "war on drugs" has slowed somewhat in recent years, a number of places have seen no respite. According to the Secretariat of Public Security the total number of recorded homicides in Mexico fell from 34,563 in 2020 to 30,968 in 2022, and several other types of crime have followed a downward trend since 2017. But murder rates remain high by any standard: femicides are still at all-time highs and mainstays of organised crime, such as extortion and drug-related offences, have not ebbed. At the same time, parts of Mexico have enjoyed no decline at all in lethal violence, which has become ever more concentrated in around 30% of the country's municipalities.

Traditionally, organised crime groups clustered in sites of strategic value to the transnational drug trade. Affected municipalities tended to be urban, with populations ranging between 300,000 and 1.5 million. They generally lay along major highways that are either entry points to the US or close to seaports used to ship drugs. But today, criminal groups have expanded their geographical footprint, moving into several smaller municipalities and infiltrating local governments. While these cities are often poorer, they still have financial resources to extract and businesses to shake down. Mexico has 2,469 municipalities, of which 361 suffer middle to high levels of homicide, while 80 endure extremely high annual homicide rates of at least 40 per 100,000 inhabitants.

Number of High-, Medium- and Low-Violence Municipalities in Mexico. Categories determined by homicide rates and their growth from 2020-2022.

Source: Crisis Group

While law enforcement has tended to focus its efforts on combating large drug trafficking operations, a growing number of criminal outfits have sought to diversify into new rackets, extracting profits from licit commodity production and distribution as well as fuel theft. In the state of Michoacán, for example, criminal outfits have relied heavily on rents milked from four cash cows: avocados, lime, iron ore, and control of exports and imports from the port of Lázaro Cárdenas. In Guanajuato—presently Mexico's most violent state—a turf war between the Santa Rosa de Lima Cartel, an organisation specialised in oil theft that has broadened its portfolio to include drug trafficking, and the Jalisco New Generation Cartel has been the main driver of killings.

> *"Lethal violence is far from the only sort of crime affecting the country. Smaller, local criminal groups are largely responsible for common crimes such as robbery, theft and assault as well as extortion, kidnapping and street-level drug dealing."*

Lethal violence is far from the only sort of crime affecting the country. Smaller, local criminal groups are largely responsible for common crimes such as robbery, theft and assault as well as extortion, kidnapping and street-level drug dealing. Certain municipalities, for instance in the states of Yucatán, Campeche and Quintana Roo, have seen sharp increases in such common crime even though these same areas suffer low levels of lethal violence. In other cases, these smaller rackets overlap with those of more powerful criminal organisations, with gangs often playing a front-line role in driving spikes of homicidal violence.

Guanajuato, Mexico - Credit: Carlos ZGZ

Since the intensification of the counter-narcotic campaign in 2006, Mexican governments have progressively handed over more law enforcement duties to the military in order to supplement (and sometimes to take the place of) a system of civilian policing that is labyrinthine and vulnerable to graft. US support for Mexico's security forces has also reinforced the military's role, especially since the launch of the Mérida Initiative in 2008, which boosted efforts to kill or capture criminal kingpins and seize illicit drugs through financial assistance for military equipment purchases and training programs.

Despite numerous successes in taking down criminal leaders, as a whole military involvement in law enforcement has not gone well. Military personnel have generally lacked the training they need to work closely with community members or to grasp the nuances of civilian law enforcement. Contrary to successive governments' expectations, widespread troop deployment has neither curbed crime nor impunity but has instead contributed to a marked escalation of violence. The kingpin strategy splintered criminal groups. Subsequent infighting among rival claimants to leadership of these outfits led to greater bloodshed. Successor groups fought over territory and control of illicit businesses, often moving to new areas offering previously untapped opportunities for profiteering. Criminal outfits also increased their firepower to higher calibre weapons as well as explosives-equipped drones and Improvised Explosive Devices.

President López Obrador promised during his 2018 election campaign to pivot away from troop deployments and strengthen regional and municipal police forces. At the time, he argued that public security was a local matter, vowing that he would "not use force to resolve social problems". But, once in office, López Obrador declared that he had changed his mind upon being apprised of the scale of police corruption. He moved instead to deepen military influence over the federal security apparatus. In 2019, he established the National Guard, a hybrid force predominantly composed of members from the army and navy, to address public security, crime and violence throughout the country. On 10 September 2022, he signed an executive decree placing the National Guard under the Secretariat of Defence (SEDENA), which has since been quashed by the Supreme Court, and weeks later backed a bill that extended military presence in the streets until 2028 – outlasting his mandate, which ends in 2024. The latter reform was approved in November 2022.

In the run-up to the 2024 presidential and legislative elections, the stakes are high for criminal groups as they seek to renew or boost their access to state institutions. The increasing use of Improvised Explosive Devices in, among other states, Jalisco, Michoacán, and Guanajuato, and the kidnapping of state officials in both Guerrero and Chiapas, highlight criminal groups' increasingly aggressive and dangerous tactics. At least in certain areas of Mexico, power continues to leak away from the state. Effective bulwarks to prevent criminal interference in elections and capture of parts of state institutions have not been introduced, meaning high levels of violence against candidates and other state officials appear likely.

Map of Violence in Mexico's Municipalities. Classifications determined by homicide rates and their growth from 2020-2022.

Source: Crisis Group

Colombia

Colombia has entered a new phase in its push to unravel years of internal conflict. Facing deteriorating security conditions, the government of President Gustavo Petro came into office promising dialogue with all remaining armed and criminal groups. This strategy, dubbed "total peace", has advanced in fits and starts, and has contributed to reshaping the configuration and characteristics of violence, as armed organisations increasingly focus their actions on achieving control over civilian populations. The coming months will be crucial in determining where the conflict is headed.

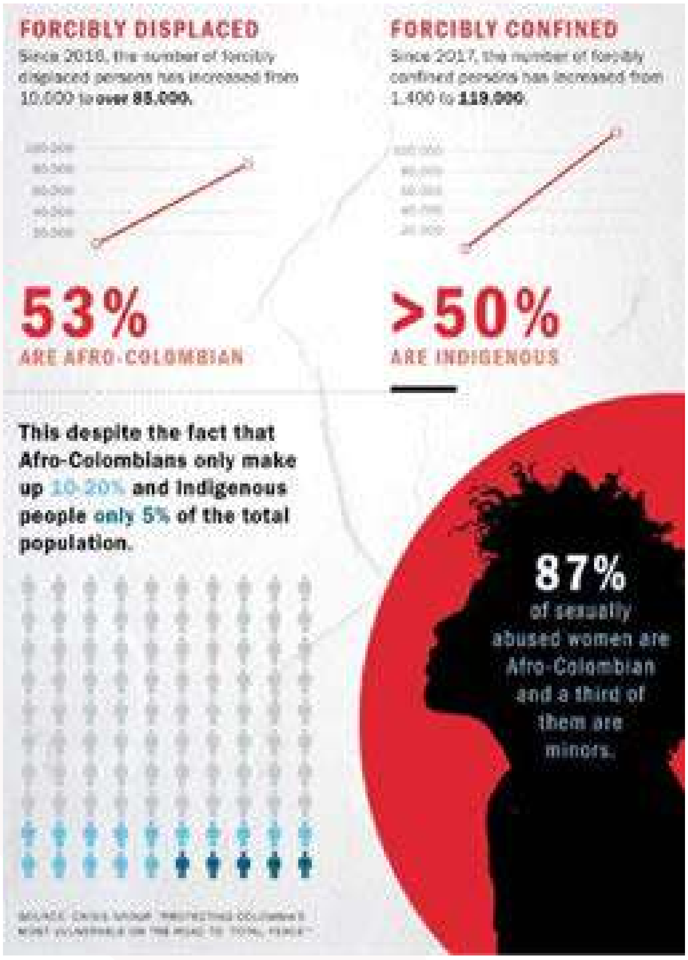
Petro was elected in 2022 amid a surge in displacements, killings, and other conflict-related violence. The landmark 2016 peace agreement between Colombia and the Revolutionary Armed Forces of Colombia (FARC) had yielded a dramatic drop in all of these indicators, to their lowest points in recent history. In the years since, however, new and existing armed groups moved to fill the territory – and take over the lucrative illicit markets - the FARC left behind. These have included the National Liberation Front (ELN), but also myriad smaller dissident groups of the former FARC, as well as Colombia's largest organised criminal group the Gaitanista Self Defence Forces, and many smaller competitors. Counting rural and urban crime, officials estimate some 24,000 combatants are illegally in arms.

> *"Profit - rather than ideology - is what determines the shape of today's conflict. Armed rebels and criminal groups have shifted the focus of their operations. Rather than confronting the state and its military forces, they prefer to control territory and the populations who live there."*

Profit - rather than ideology - is what determines the shape of today's conflict. Armed rebels and criminal groups have shifted the focus of their operations. Rather than confronting the state and its military forces, they prefer to control territory and the populations who live there. These groups use an elaborate repertoire of co-optation and coercion to ensure that residents do not question their control. Yet for anyone who speaks ill of the group or dares act outside the parameters of its rule, there are stiff penalties: forced displacement, threats, and assassinations.

In localised conflicts over illicit resources, armed and criminal groups' primary adversaries are other rival groups. Clashes between armed organisations have increased, with dramatic repercussions for civilians. Forced confinement is one example. During territorial disputes, one armed group might prohibit the local population from leaving their homes, or from transiting during certain hours, such that they can assume anyone breaking that order is an adversary or infiltrator. In other cases, residents remain inside to avoid being caught in the crossfire.

Minority ethnic groups, as well as women and youth, tend to bear the brunt of abuse in areas under armed group control. Indigenous and Afro-Colombian populations have a right to collective land ownership and hold roughly one-third of the country's territory, including many areas that are environmentally rich but disconnected from services and infrastructure. Criminals prey upon winding river corridors and natural forests to traffic and evade detection. Women also face specific challenges in trying to hold their families and communities together under conditions of extreme duress. Young people are also drawn into the fray. Armed groups say that their prime recruitment population is aged 16 to 24. The youths who join up often lack other opportunities and face reprisals if they refuse to take up arms.

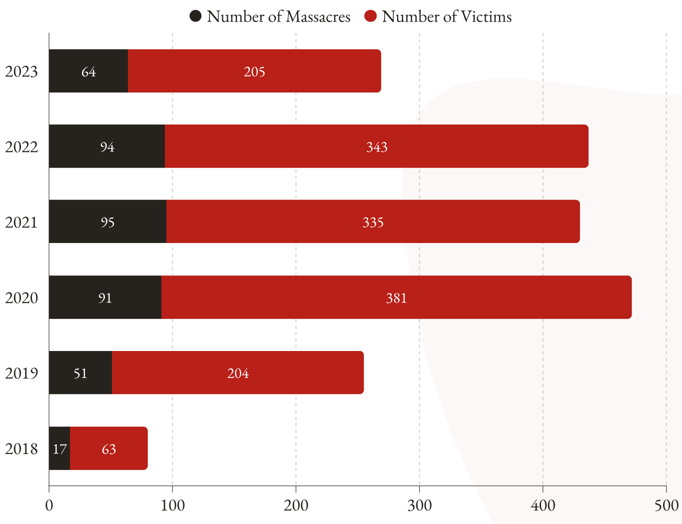


Source: Crisis Group

In its initial outreach to armed and criminal groups as part of "total peace", the government sought goodwill gestures to reduce or end killing, torture and disappearances. Some areas did see a temporary drop in violence, particularly the port city of Buenaventura and the rural border region Catatumbo. However, armed and criminal groups have also felt the need to display their clout, and in some cases have traded more visible violence for greater levels of population control, including through confinement, recruitment, and gender-based violence. Lower homicide rates in these areas conceal a more sinister reality: that is, armed groups have attained such a stifling hold on daily life that they no longer need to use violence to dispense with rivals or silence critics.

Other missteps in rolling out the "total peace" strategy added to concerns about spiralling violence in certain regions. On 31 December 2022, the government announced six-month ceasefires that, while intended to create space for talks, amounted to tactical gifts to armed and criminal groups. These ceasefires lacked protocols and no one monitored compliance. As a result, armed organisations exploited them to grow and consolidate their grip during the respite from military operations. State security forces admit they have only recently started to recover their ability to apply pressure on armed groups after the hiatus.

Massacres committed in Colombia



Source: Indepaz

The Petro administration has learned from these initial mistakes, and officials are now engaged in negotiations with the ELN and dissidents of the FARC known as the Armed Central Command (EMC). Ceasefires with both organisations were forged in negotiations and include stipulations to protect civilians. While it is too early to assess their impact, these agreements may bring some relief to conflict-affected areas. Even so, important components of a viable peace strategy are still missing. The government has yet to find a legal pathway to open talks with the largest criminal group, the Gaitanistas. Officials quashed a precarious ceasefire with the group after it allegedly incited violence in a mining strike. Without a law to govern talks with criminal groups, the future of dialogue with urban gangs is also in limbo.

The challenges in the coming months are likely to intensify. With just two and a half years left in his term, Petro will need to consider how best to prioritise talks with armed groups to achieve reductions in violence and give his successor an incentive to continue along the path of dialogue. Even if negotiations with the government advance, clashes between armed groups remain a serious concern. The Gaitanistas could pressure the ELN or EMC militarily, destabilising their talks. Likewise, the ELN and EMC are engaged in fierce fighting in numerous regions, while sluggish economic growth may push young people in both rural and urban areas to look to the illicit economy for sustenance. Coordinating the progress of talks with security policy and ongoing judicial investigations will be vital to containing criminal and armed threats, and moving Colombia closer toward peace.

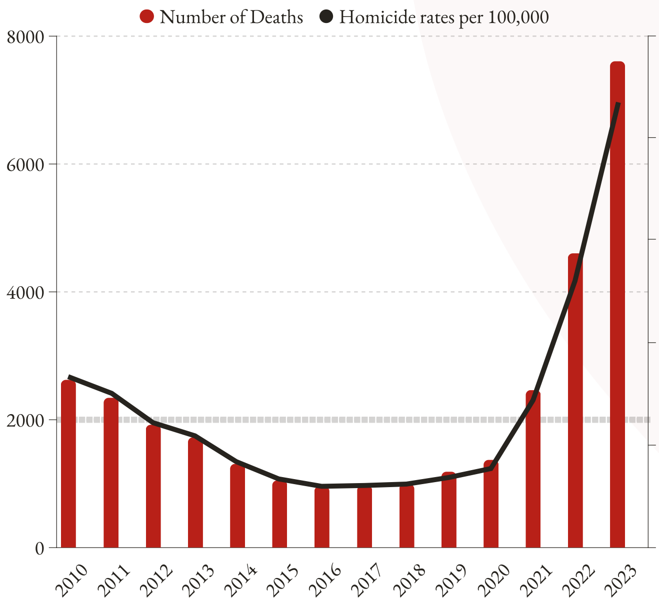
Medellín Colombia

Ecuador

Only a few years ago, Ecuador's government declared something close to victory in its fight to curb violent crime. The president at the time, left-leaning populist Rafael Correa, as well as officials from his government, claimed credit for a drop in violence. He attributed the decline to a number of reforms: the creation of a Ministry of Justice, the expansion of community policing, the reintegration of gang members into society, and the doubling of the budget for public security and crime prevention. The homicide rate dropped from around fifteen killings per 100,000 people in 2011 – close to Brazil's rate – to about five in 2017. Now, Ecuador is on a path to becoming Latin America's most violent country.

Homicides have risen at a startling rate. Every year since 2020, the number of violent deaths has nearly doubled, reaching a total of 6,044 this year through mid-October – already the highest tally ever recorded in the country. Police attribute 80% of these murders to clashes among criminal groups vying to control the distribution and export of drugs, primarily cocaine. As gang warfare has worsened, headline-grabbing acts of brutality have littered the news. The plight of the country rose to global attention in August when presidential candidate Fernando Villavicencio, who placed the fight against corruption and organised crime at the heart of his campaign, was assassinated, seemingly by a group of Colombian hitmen. Six of them were arrested, and later found hanged in jail.

Total number of homicides and homicide rates per 100,000 in Ecuador 2010 - October 2023



Source: Primicias

More than half of all murders in Ecuador take place in the coastal provinces of Guayas, Esmeraldas, El Oro, and Manabí. The country's Pacific Ocean ports—especially that of Guayaquil, the country's most populous city—have become a primary route for exporting Latin American cocaine to Europe and the United States. For drug-trafficking groups, sending contraband within shipping containers is efficient, requires few intermediaries, and often evades detection. Large quantities of drugs still get confiscated. In 2022, 110 tons of cocaine, with an estimated street value of at least USD $5.3bn, was seized in Antwerp, one of Europe's largest ports. But much more continues to slip through all the same.

If drug trafficking has upended the lives of people in places like Guayaquil, jails have become the sites where organised crime plots its battles for control of the drug trade in Ecuador. Over 450 inmates have been murdered since 2021. In August, the government announced that police and armed forces had seized 96 firearms, over 26,000 rounds of ammunition and eight grenades from the Guayas Penitentiary Complex, Ecuador's most dangerous. Hostage taking of prison guards and police has also become alarmingly frequent.

Drug Trafficking Routes, Ecuador

Source: Primicias (data from the Ecuadorian national police)

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The emergence of Ecuador as the latest country to experience a huge spike in lethal violence is inseparably linked to the migration of cocaine trafficking routes and money laundering opportunities from Colombia to its southern neighbour. Colombia is the world's largest producer of raw coca leaf. In 2016, when the government struck a peace deal with the guerrilla FARC, Colombian drug traffickers saw no reason to stop their trade. Almost all the coca crops in the country had already moved to border provinces, above all Nariño and Putumayo (next to Ecuador) and Norte de Santander (on the frontier with Venezuela). As the end of peace talks approached, government promises of payments to uproot coca crops drove soaring production in these areas as rural farmers sought to cash in before the measures took effect. Meanwhile, rival armed groups competed to take over former FARC-held territories.

At the time, Ecuador was enjoying a sustained fall in violence under the government of President Correa. But the gains were transitory. Ecuador's borders remained porous, and its economy, which had been dollarised in 2000 to prevent economic freefall, became an inviting place for criminal groups to park dirty cash.

Guayaquil, Ecuador

"The year 2024 will be crucial for Ecuador. If the current trend of violent deaths continues, the country is likely to become the most violent in Latin America, itself the most violent region in the world."

Armed police, Ecuador - Credit: Presidencia de la República, via Flickr

The government's security strategy has since proved woefully ineffective. President Lenin Moreno, who succeeded Correa, serving from 2017 to 2021, slashed state spending on security as part of an agreement with the International Monetary Fund. In turn, Moreno's successor, the conservative Guillermo Lasso, declared over ten states of emergency, which allowed for military patrols on the street and the imposition of nightly curfews. He permitted citizens to use guns in self-defence, and cycled through six prison directors and four interior ministers. Little, however, has been done to halt corruption in jails, the police, and the customs service. In short, not only has the government failed to articulate an effective anti-crime policy but many officials also appear less than committed to the cause.

The year 2024 will be crucial for Ecuador. If the current trend of violent deaths continues, the country is likely to become the most violent in Latin America, itself the most violent region in the world. The newly-elected president Daniel Noboa, a businessman and former congressional deputy, plans to tackle rampant criminal violence by militarising ports and borders, implementing root-and-branch prison reforms and investing in technology. But the effects of his new security strategy may be limited, given that he will also have to deal with a fragmented National Assembly while racing against time. Ecuador is scheduled to face fresh presidential elections, and a possible further political change, in 2025.

CANNING HOUSE

The quest for an effective approach

When policies aimed at curbing organised crime in Latin America have had positive effects, the impact tends to dissipate quickly. Latin American governments desperate to placate fearful citizens have gravitated to "iron fist" (mano dura) approaches, which combine coercive law enforcement, deployment of military forces in domestic policing, mass detentions and increasingly severe punishments. Over the medium and long term, however, these approaches have not eradicated organised crime but rather caused it to shift to new configurations that allow it to avoid or weather state crackdowns, sometimes through complicity with public officials. For example, tough law enforcement policies in northern Central America turned prisons into hubs where gangs became more organised, consolidated their identity and expanded extortion rackets. The mano dura approach has also spurred rises in extra-judicial killings, often by para-police forces.

A radically different approach – namely, engaging in dialogue with criminal groups in order to demobilise them – also has a disappointing track record over the long term. Most criminal demobilisation initiatives have been undermined by high rates of reoffending among former rank-and-file members. Consider what happened after Colombia's paramilitaries laid down their weapons between 2003 and 2006: of an estimated 55,000 demobilised combatants, 20% of them committed crimes between 2003 and 2012.

> *"President Nayib Bukele in El Salvador has attracted both regional renown and international criticism for bringing murder rates in his country down to historic lows over the past year through use of a "state of exception" that has seen the arrest and imprisonment of 70,000 suspected gang members, of whom 15% are women."*

Against this backdrop, Latin American governments have adopted a range of strategies for addressing criminal violence. President Nayib Bukele in El Salvador has attracted both regional renown and international criticism for bringing murder rates in his country down to historic lows over the past year through use of a "state of exception" that has seen the arrest and imprisonment of 70,000 suspected gang members, of whom 15% are women. El Salvador now has the largest per capita jail population in the world, with some 2% of its adult population behind bars. Human rights advocates have raised legitimate concerns about Bukele's mass incarceration policies, arguing that they have been carried out with excessive force, led to the erosion of suspects' legal rights and chipped away at the country's democratic institutions. Crisis Group and others have also voiced concern as to how long the improved security may last. The tangible effects on public safety, however, have brought Bukele extraordinary popularity. Despite a constitutional prohibition on his running for another term, he is likely to be re-elected in 2024.

Politicians elsewhere in the region are seeking to replicate the El Salvador security model. Various candidates in the recent Colombian regional and local elections held up Bukele as an example to follow, as did a number of candidates in Ecuador's and Guatemala's elections, although none of them proved successful. Honduras' left-leaning president has also taken emergency security measures to battle extortion.

CECOT confinement centre, El Salvador – Credit: Casa Presidencial, via Flickr

By contrast, Colombian President Gustavo Petro has taken a very different route to address his country's security dilemmas, as detailed above. There are, of course, many complications in engaging in dialogue with so many distinct armed organisations. Colombian law prohibits holding political dialogue with organised criminal groups, meaning the purpose of any talks must be to seek the demobilisation and prosecution of members through the regular justice system. Washington, meanwhile, remains sceptical about conversations with criminal groups, particularly when a number of these groups' leaders face charges in the US.

Still, the policy remains Petro's hallmark initiative. Part of his approach is motivated by an understanding that the causes of the resilience and sway of armed groups derive from the lack of other economic opportunities for rural residents, as well as the failings of the global drug prohibition regime. In his government's opinion, the counter-narcotic strategies applied by Latin American governments since the 1980s and backed by Washington have created huge economic incentives for illicit activity while punishing the weakest and most vulnerable participants in the drug supply chain, creating the conditions for illegal armed groups to gather recruits and resources. With his total peace effort, Petro is seeking to break this cycle.

Charting a way forward

Reducing the impact organised crime has on human security in the region, as well as the challenges it poses for respect for the rule of law and peaceful, democratic politics, will be a critical issue in the coming years. In particular, Latin American states need to develop credible alternatives to heavy-handed approaches, which can too easily gain political support when communities live in fear even though they tend to be counter-productive over the longer term. Initiatives that combine building the capacity for humane and effective law enforcement with economic and social programs are the best way forward, including ones that aim to provide licit livelihoods for impoverished communities.

> *"Reducing the impact organised crime has on human security in the region, as well as the challenges it poses for respect for the rule of law and peaceful, democratic politics, is critical."*

Police units, Ecuador – Credit: Presidencia de la República, via Flickr

Dialogue with criminal groups could form part of the efforts to reduce extreme levels of violence against civilians, especially when these outfits can claim effective control over territory. That said, the efficacy of this approach largely depends on a fairly narrow range of enabling conditions, such as the criminal group's ability to ensure compliance internally and readiness to scale down the humanitarian costs of its actions. Policy makers should acknowledge the risk that short-term reductions in bloodshed are unlikely to last. Indeed, without efforts to reform and strengthen security and judicial systems, curb illicit flows of goods and finance, and provide viable alternatives so that former criminals can earn a lawful livelihood, any drops in violence are likely to be fleeting.

President Petro, Colombia – Credit: Presidencia de Colombia, via Flickr

Reforms to the security and judicial systems should feature robust anti-bribery and anti-corruption policies, including both internal monitoring as well as the establishment of stronger financial controls and independent audit agencies to oversee public finances. Stronger intelligence-led policing is vital for all types of criminal investigation, but is particularly important for anti-corruption efforts. Systematic information exchange between Latin American governments and their counterparts from outside the region can also bolster law enforcement's effectiveness. The formal establishment of the regional police institution Ameripol in November 2023 could represent an important step in this direction, though much more work needs to be done to build trust between national security forces. Prison reform initiatives, meanwhile, should aim both to curb criminal groups' use of jails as operation centres and provide inmates with more training and education opportunities ahead of their release.

Governments in the region should also strive to reduce impunity for violent crimes and enhance the security and safety of victims. Efforts should be made to improve prosecution services' investigative capacities; establish new channels for victims and witnesses to share information about crimes; and create safe houses for vulnerable individuals who have reported violent crimes, including women. They should also focus on community-based initiatives that seek to reduce violence—for example, employment and social programs for youth in vulnerable settings. At the same time, it is vital to reframe international counter-narcotics efforts so the focus moves away from low-ranking individuals in trafficking schemes, who often include highly vulnerable subsistence farmers, and instead targets higher-value segments of the supply chains, including by seeking to interrupt financial flows more effectively.

Social Outlook

The social condition of Latin America

Jean-Christophe Salles, CEO Latin America, Ipsos

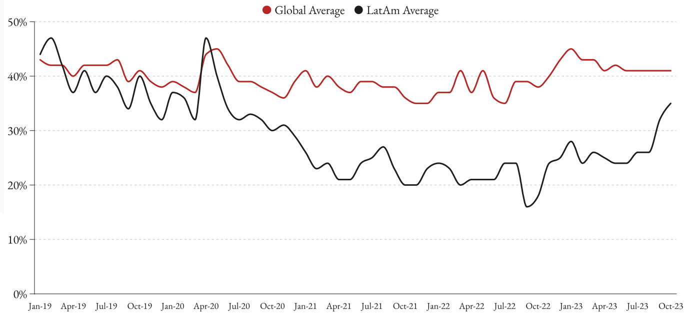
Overview

Latin America was disproportionately affected by the COVID-19 pandemic in 2020 and 2021. However, over the past two years, the region has shown positive signs of recovery, leading to an increase in Latin American citizens feeling that their country is moving in the right direction.

Whilst improvements on economic dimensions impacting the day-to-day lives of Latin Americans - such as a reduction in poverty and unemployment, and lower levels of inflation – have been seen since the end of the COVID-19 pandemic, there are still concerns regarding whether the socio-political "system" works for individuals. This is evidenced by a very low trust in institutions; a very high level of concern regarding crime, violence and corruption; and ultimately less faith in democracy.

Using data gathered from Ipsos, the World Bank, the Organisation for Economic Cooperation and Development (OECD), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), this chapter uses macro social data and citizen perceptions gathered from extensive surveys to analyse and understand the current social condition of Latin America.

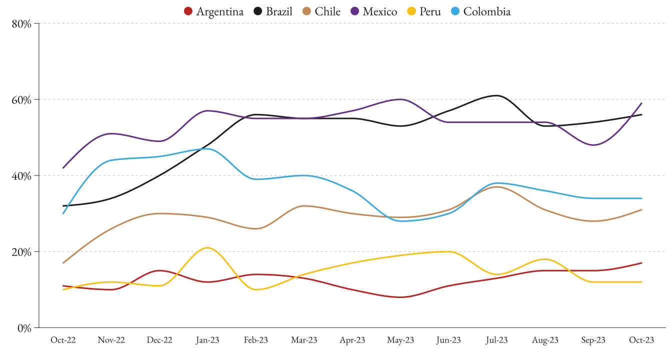
% of citizens that believe their country is moving in the right direction
LatAm vs global average



Source: Ipsos Global Advisor

The overall sentiment that one's country is moving in the right direction varies between countries in the region. This is particularly true of Mexico and Brazil, where optimism is much higher than both the regional and global average, with Brazil showing a significant increase in positive sentiment since the end of last year after the election of President Lula. Chile and Colombia remain more in line with the global average, whilst optimism amongst citizens in Argentina and Peru remains very low, with 90% of Peruvians feeling their country is moving in the wrong direction.

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

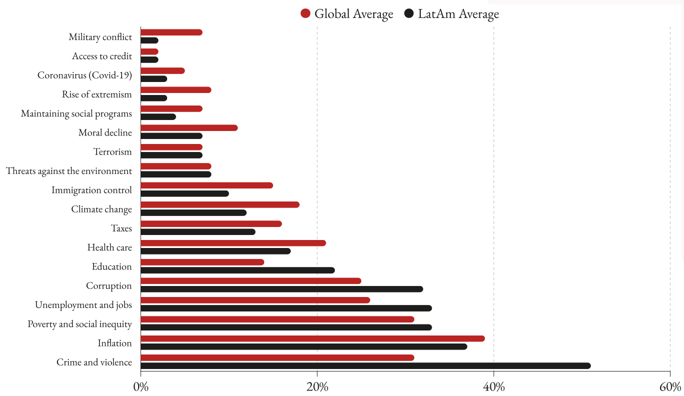


Source: Ipsos Global Advisor

The main concerns for Latin American citizens concentrate around seven main areas: Crime and violence, Inflation, Poverty & Inequality, Unemployment, Corruption, Education, and Healthcare.

Crime and violence are by far and away the main concerns for Latin Americans, being 20% higher compared with the global average, and are the top citizen concerns by far in Chile, Peru, and Mexico. At the opposite end, compared with the global average, Latin Americans are much less concerned by climate change, immigration, the rise of extremism, and military conflict.

% of citizens that said this item was within their top three concerns
LatAm vs global average - October 2023



Source: Ipsos Global Advisor Oct 2023

These main concerns can be grouped into 3 clusters:

- Concerns linked to societal factors, impacting the day-to-day lives of citizens, but not linked to their own, personal conditions: i.e. crime & violence, and corruption. For Latin Americans, these concerns are the most important, much more important than at the global level, and have been growing over time. They could represent the most pressing issues and could be responsible for driving a 'democratic recession'.

- Concerns linked to socio-economic factors, impacting the day-to-day lives of citizens, and linked to their personal situation: i.e. poverty & inequality, inflation, and unemployment. For Latin Americans, these concerns are in line with the global average and are flat over time.

- Concerns linked to socio-political factors, only partially impacting the day-to-day lives of citizens, and linked to a broader context: i.e. education, and healthcare. For Latin Americans, these concerns, as more structural, are also in line with the global average, and are relatively flat over time.

Each of these clusters are reviewed in the following section one by one, analysing the trends in recent years and assessing the macro-social data for each of them, and for each of the six main Latin American countries.

1. Societal concerns

Crime and Violence

Crime and violence are some of the most pressing problems affecting Latin American societies.

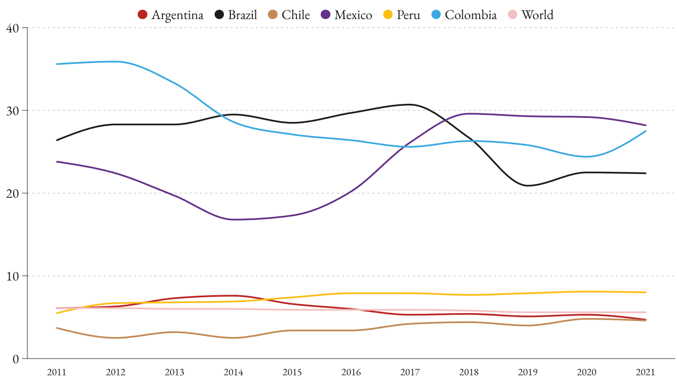
As indicated by the World Bank in 2021, 8 out of 10 of the world's most violent countries and 42 of the world's 50 most violent cities are situated in Latin America. Despite the Latin American region being the home to only 9% of the global population, the region has registered over a third of the world's murders.

> *"Despite the Latin American region being the home to only 9% of the global population, the region has registered over a third of the world's murders."*

However, not all countries are affected by the same issues, nor to the same degree. In 2021, the highest homicide rate surveyed was in Mexico, with around 28 murders committed per 100,000 inhabitants, having increased progressively over time. Homicide levels in Brazil and Colombia although still high, have been decreasing steadily in recent years, whilst other countries such as Chile, Peru and Argentina remain at a low level and in line with the global average. It is also interesting to note that Colombia remains in the top three nations considered "dangerous", just behind Russia and Ukraine, in The Anholt-Ipsos Nation Brands Index.

Outside of the six main countries covered in this report, it is relevant to note that Ecuador has seen one of the largest increases in its murder rate over the past year, due to a wave of organised crime competing for cocaine shipment routes. By contrast, El Salvador's murder rate has dropped sharply, due to the 'state of emergency' imposed by President Nayib Bukele, detaining and incarcerating many suspected criminals without fair trial according to many international human rights organisations, such as the United Nations Office of the High Commissioner for Human Rights.

Intentional homicides per 100 000 people



Source: United Nations Office on Drugs and Crime 2023

Beyond murders, organised crime and gangs that exploit drugs and migration routes, have been driving a more general increase in violence across Latin America. Even in countries where the homicide rates are relatively low, such as Chile and Peru, there is still an extremely high level of concern regarding crime and violence, with levels of concern increasing significantly after mid-2021 and the end of lockdown for the COVID-19 pandemic.

Crime and violence appear to be the main citizen concerns in Chile, Peru and Mexico, growing over the last two years in Chile from 41% to 63%, growing in Peru from 40% to 62%, whilst remaining high but relatively flat at 54% in Mexico. Crime and violence are also the second major concerns in Argentina, just below inflation; Brazil, just after poverty and inequality; and in Colombia, behind corruption and unemployment.

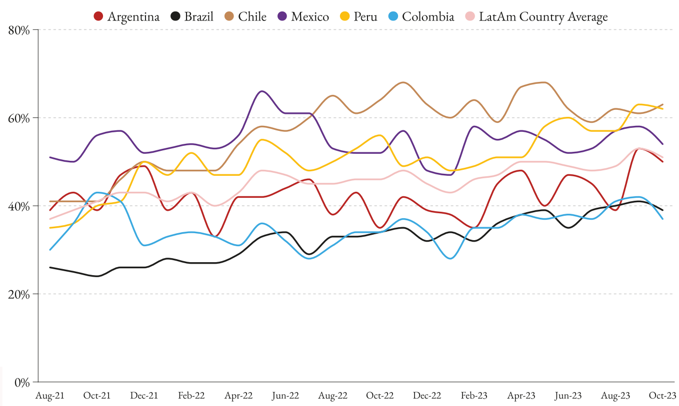
Which three of the following topics do you find the most worrying in your country?

% of respondents per item

	Global Average	Argentina	Brazil	Chile	Mexico	Peru	Colombia
Crime and violence	30%	50%	39%	63%	54%	62%	37%
Inflation	39%	69%	22%	38%	27%	31%	35%
Poverty Inequality	30%	37%	43%	27%	29%	31%	34%
Unemployement	26%	33%	23%	32%	36%	37%	39%
Corruption	23%	30%	24%	28%	25%	45%	39%
Education	14%	23%	25%	17%	27%	22%	16%
Healthcare	22%	10%	34%	14%	16%	14%	17%

Source: Ipsos Global Advisor (October 2023)

% of citizens that said 'Crime & Violence' was one of their top three concerns

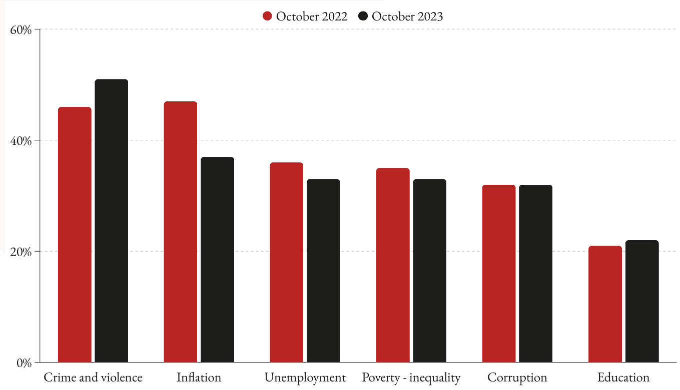


Source: Ipsos Global Advisor

Crime and violence are also the concerns that increased most among Latin Americans over 2023, from 46% to 61% . During the same period, concerns about inflation decreased from 47% to 37%, with most of the other concerns remaining relatively flat.

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

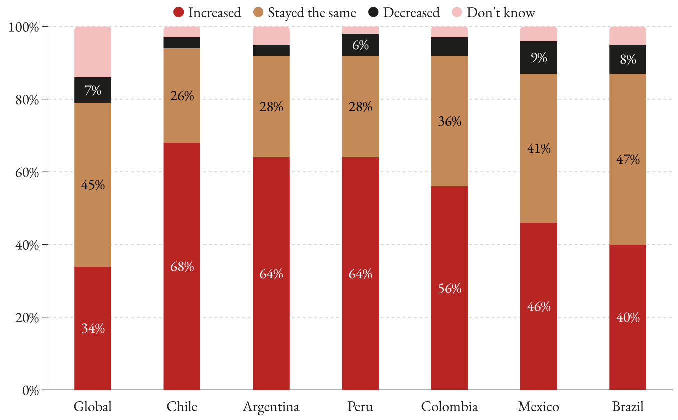
LatAm average Oct 2023 vs Oct 2022



Source: Ipsos Global Advisor

Over half of all Latin Americans believed that the amount of crime and violence in their neighbourhood had increased over the past year. This is particularly true in Chile, Argentina and Peru, where close to two-thirds of respondents said crime and violence had increased, much higher than the global average of one third. The high level of concern in Chile and Peru could possibly be explained by a recent sharp increase in crime and violence in those countries, despite the overall numbers remaining at a lower level compared to other countries like Brazil, where citizens might potentially be more accustomed to high levels of insecurity on a daily basis.

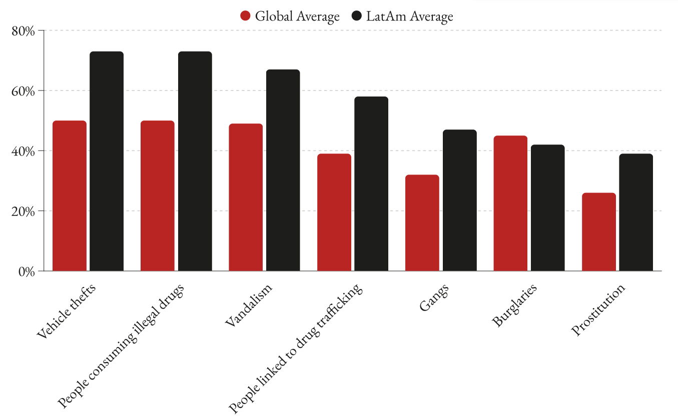
% said crime and violence in their neighbourhood had...



Source: Ipsos Views on Crime and Law Enforcement (2023)

Looking further into the figures, vehicle theft and illicit drug consumption appear to be a major concern across Latin America, with three-quarters of Latin Americans declared having seen or heard about people consuming illicit drugs over the past 12 months, with over half also having seen or heard about people trafficking drugs in their neighbourhoods.

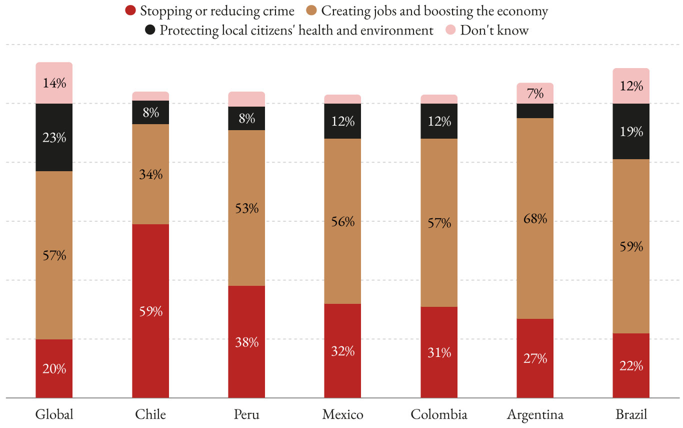
% reported seeing or hearing about the following happening in their neighbourhood in the past 12 months



Source: Ipsos Views on Crime and Law Enforcement (2023)

Crime and security appear to be major concerns for Latin Americans, with 35% of citizens believing that their government's main priority should be to stop or reduce crime in their neighbourhood. This figure is much greater than the global average of 20%, with particularly strong sentiment in Chile, where 59% of citizens believed it should be a priority.

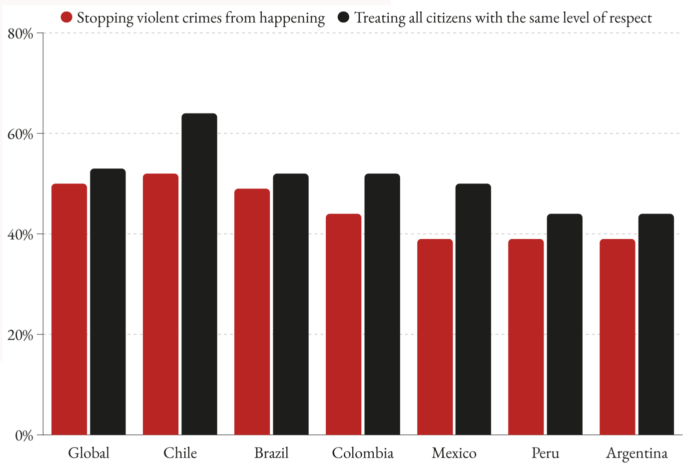
% said the following should be a priority for their government



Source: Ipsos Views on Crime and Law Enforcement (2023)

Only half of Latin Americans believe that law enforcement can stop violence, whilst at the same time treat all citizens with the same level of respect. Confidence in law enforcement agencies is particularly low in Mexico, Peru and Argentina, where only 39% of citizens believe that authorities can stop violent crimes from happening. However, trust in law enforcement agencies is slightly better in Colombia, Brazil, and Chile, where 44%, 49%, and 52% respectively, believe their agencies can prevent violent crimes from occurring, compared to the global average of 50%.

Confidence in law enforcement among Latin Americans to stop crime and treat all citizens with respect



Source: Ipsos Views on Crime and Law Enforcement (2023)

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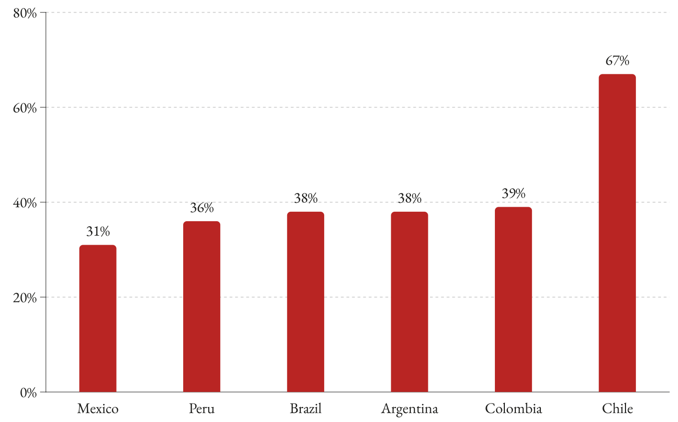
"Crime and security appear to be major concerns for Latin Americans, with 35% of citizens believing that their government's main priority should be to stop or reduce crime in their neighbourhood. "

Corruption

Corruption remains a significant concern for Latin Americans, much greater than the global average. Latin American countries scored poorly on Transparency International's latest Corruption Perceptions Index (CPI). Using assessments from country experts, business analysts, and international organisations, the CPI rates countries on a scale from zero (highly corrupt) to 100 (very clean). Scores below 50 indicate flagrant corruption problems. Most Latin American countries scored below 50, with the sole exception of Chile, which scored 67, and is tied with the United States in 26th place.

Corruption Perception Index

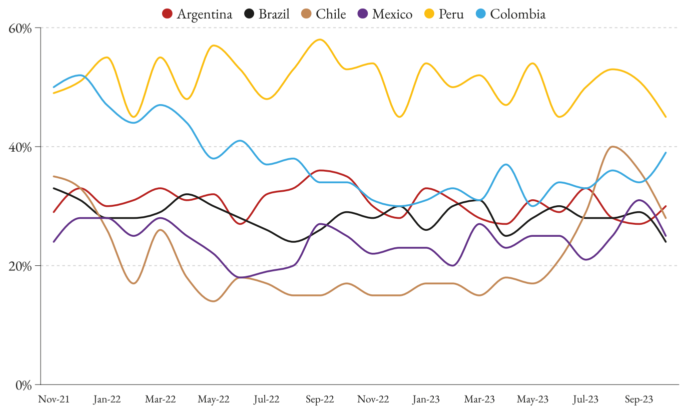
Higher score = Less corruption



Source: Transparency International 2022 report

Concern over corruption has for a long time been a critical issue for Peruvians, and over the past year it has increased in Colombia, most likely as a result of President Petro's son being arrested in money-laundering inquiry. Concern over corruption also increased dramatically in Chile in the mid-part of 2023, probably as a consequence of Convenios' case – where regional government entities were found to be funding NGOs politically connected to them - weakening the government politically, though concern has since dropped more recently.

% of citizens that said 'Corruption, financial or polical scandals' was one of their top three concerns

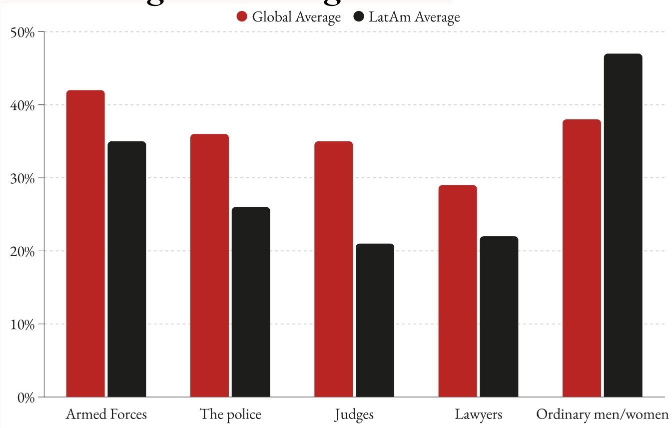


Source: Transparency International 2022 report

Linked to corruption, as in previous years, trust in institutions among Latin Americans continues to be low, with citizens having the lowest trust levels in institutions compared to the global average. As a snapshot of Latin American citizen's opinions: 35% trust members of the armed forces, compared to 42% globally; 26% trust the police, compared to 36% globally; 22% trust in lawyers, compared to 29% globally, and 21% trust judges, compared to 35% globally.

% of citizens that believe the following groups are trustworthy

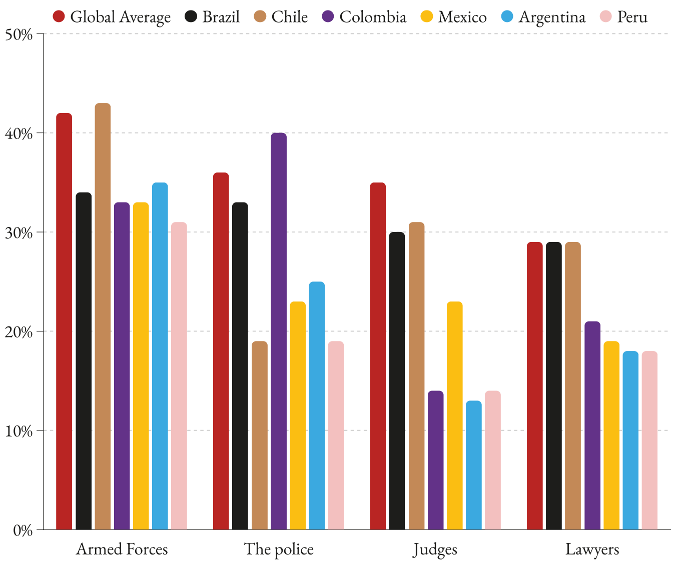
LatAm vs global average



Source: Ipsos Views on Crime and Law Enforcement (2023)

Out of the six main Latin American countries, levels of trust in the four institutions – armed forces, police, lawyers, and judges - is particularly low in Argentina and Peru, with only 13% of Argentinians and 14% Peruvians trusting their judges, while only 19% of Mexicans trust their police. This low level of confidence and distrust of institutions and governments could continue to lead to significant tension, conflict and instability, particularly in those countries where levels of distrust remain high.

% of citizens that believe the following groups are trustworthy



Source: Ipsos Trustworthiness Index - Oct 2023

Looking further into the concerns of citizens across Latin America, data gathered from the Ipsos global trends 2023 survey, and the Ipsos broken system 2022 survey, indicate that 75% of Latin American citizens are worried that government and public services won't look after them in the future; 61% wish for a strong leader to make their country rich and powerful; 67% feel traditional political parties and politicians don't care about people like them; 85% believe there is increasing conflict between people who don't share the same values as them in their countries; 60% said they would like their country to be the way it used to be; and 80% would like to slow down the pace of their life.

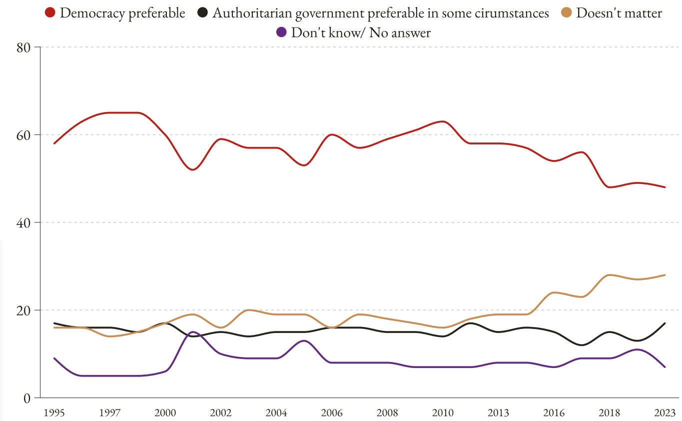
The 2023 Latino Barometer report highlights what it calls Latin America's 'democratic recession'. This recession is expressed by the low support for democracy amongst citizens, the increase in indifference to the type of regime, the preference and attitudes in favour of authoritarianism, the collapse of the performance of governments, and the damage to the image of political parties.

The report highlights the weakness of the elites symbolised by the presidents of each respective republic. In total, 21 presidents across the region have been convicted of corruption, 20 presidents did not finish their term in office, and some presidents have forced their stay in power by breaking the rules of re-election. A third of the presidents elected since the beginning of the transition back to democracy in the 1980s have transgressed the rules of democracy, and personalisms, which end up overshadowing political parties, tend to be of greater importance. This weakness could lead to the atomisation of the political party system and contribute to the decline in its image and legitimacy.

> ***"The recession of democracy in so many countries in Latin America leaves the region vulnerable and potentially open to more populism and non-democratic regimes."***

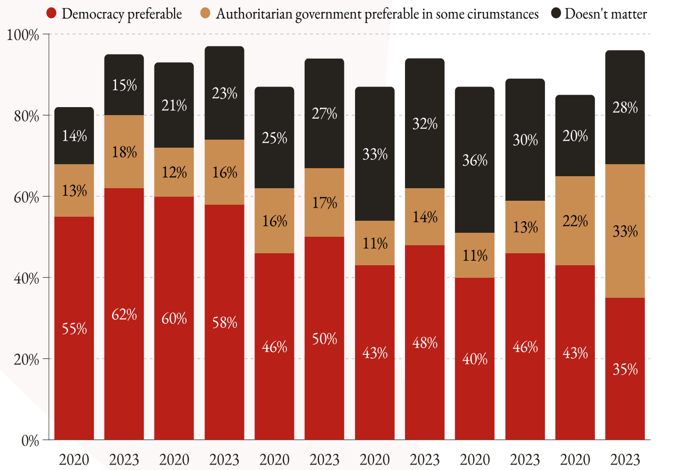
The recession of democracy in so many countries in Latin America leaves the region vulnerable and potentially open to more populism and non-democratic regimes. In 2023, only 48% of Latin Americans supported democracy, a huge decrease of 15% from 63% in 2010. Authoritarianism has been validated little by little, to the extent that it is not condemned, nor is it well known what the threshold is where a country ceases to be democratic. Moreover, the increase in the number of people who claim they do not care about the type of regime that governs their country, implies that populism and authoritarianism are indifferent to them.

Support for democracy accross Latin America 1995-2023



Source: Latino Barometro 2023

Support for democracy by country 2020 & 2023



Source: Latino Barometro 2023

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Looking at the 2023 Latino Barometer report in greater detail, it would appear that just over a third of Mexicans support democracy (35%), about another third are indifferent to the type of regime that governs them (28%), and the other third would support an authoritarian option (33%). Furthermore, according to the negative evolution of these indicators, evidence suggests that Mexico has suffered a loss of support for democracy between 2020 and 2023 from 43% to 35%, with fertile ground for authoritarianism and populism.

The same report shows that support for democracy in Brazil is up 6% from 2020 to 40%. Indifference to the type of regime has decreased by 6%, from 36% to 30% between 2020 and 2023, and support for authoritarianism has risen by 2% from 11% to 13% in the same period. Whilst Brazil's support for democracy is improving, it still has less than 50% support throughout the country.

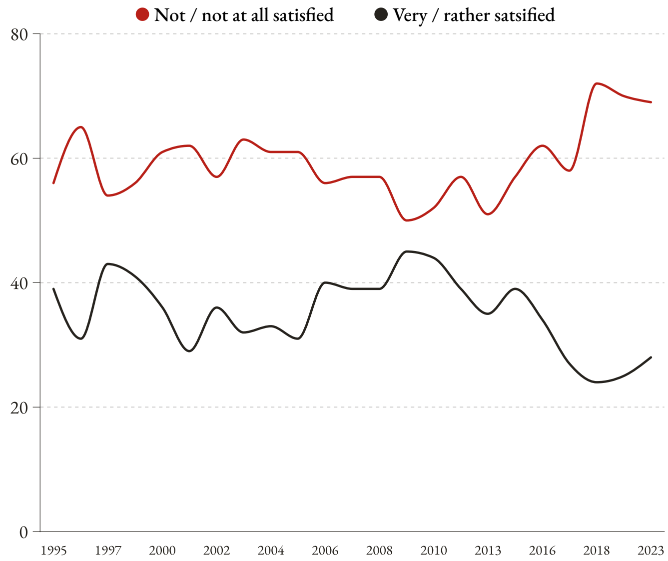
In Colombia support for democracy has increased by 5% in 2020 from 43% to 48% in 2023. Indifference to regime type decreased by 1%, from 33% to 32% between 2020 and 2023, and support for an authoritarian alternative rose by 3%, from 11% to 14% in the same period.

Support for democracy is strong in Argentina compared to other countries studied in the report, with an increase of 7% from 55% in 2020, to 62% in 2023. 15% of respondents said they were indifferent to the type of regime that governs them – the lowest in the region and unchanged since 2020 - while those who said they would support an authoritarian alternative totalled 18%, an increase of 5% from 2020.

Peru is another country that is really in a category of its own. Support for democracy in Peru reached 50% in 2023, up from 46% in 2020, while indifference to the type of regime that governs in the same period grew by 2% from 25% to 27%, and preference for an authoritarian alternative rose marginally by 1% to 17% during the same period. However, 91% of Peru's population said it was dissatisfied with its democracy, which constitutes a negative political capital against those in power. It could therefore be inferred that this leaves Peru's democracy vulnerable.

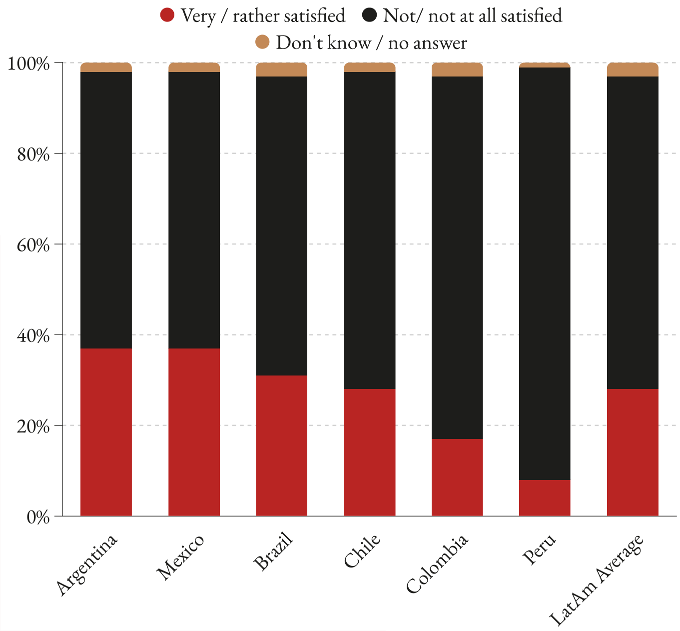
In Chile, support for democracy is strong, even if the number of respondents that said an authoritarian government is 'acceptable in some circumstances' grew four points in 2023 compared with 2020; and close to a quarter of Chileans, 23%, declare not to care about whether they live in a democratic or a non-democratic state. Furthermore, 70% said they were not satisfied with the functioning of democracy in their country. So overall, there appears to be a strong support for democracy in Chile, but a low satisfaction with the current status.

Latin America satisfaction with democracy



Source: Latino Barometro 2023

Satisfaction with democracy by country 2023



Source: Latino Barometro 2023

However, it is important to note that this democratic recession is not something that is exclusive to Latin America. A recent global report from the International Institute for Democracy and Electoral Assistance looking at the Global State of Democracy in 2023, shows that almost half the countries in the world have suffered a notable decline in at least one factor of democratic performance over the last five years, and this is the sixth consecutive year in which countries with net declines outnumbers those with net advances, the longest such pattern in their dataset.

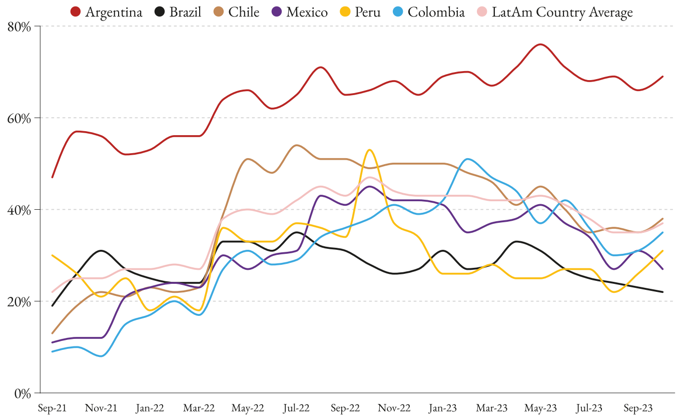
2. Socio-economic concerns

Inflation

Like many countries around the world, inflation has continued to increase in Latin America since the end of 2021, mainly driven by higher food and energy prices. After reaching 7.8% in 2022, headline inflation in the region, excluding Argentina and Venezuela, is expected to have declined to 5% in 2023 and to 3.6% in 2024, driven mainly by weakened external and domestic demand, the easing of global supply constraints, and the lagged effects of currency appreciation in some countries.

Inflation appears to be less of a concern for Latin American citizens. After a peak at the end of 2022, concern regarding inflation has been going down throughout 2023, particularly after April. Since the end of October, inflation is less of a concern in Latin America than at global level.

% of citizens that said 'Inflation' within their top three concerns



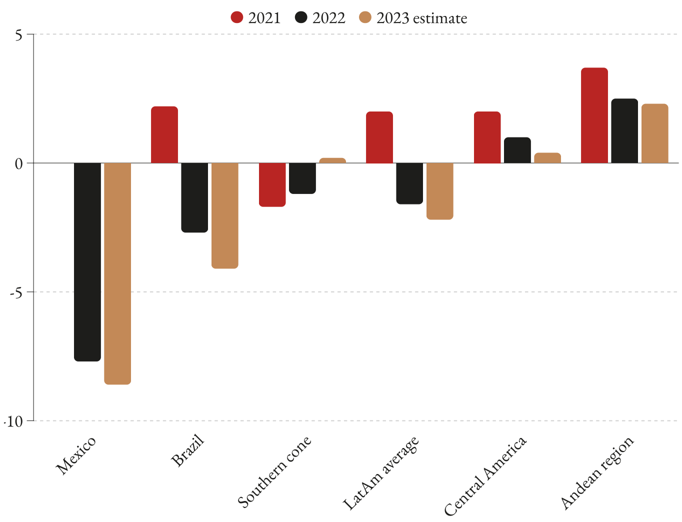
Source: Ipsos Global Advisor

Poverty and social inequality

Three years after the COVID-19 pandemic outbreak, the region has by and large managed to recover. Recent household survey data collected for 2022 indicates that the region has returned to the pre-pandemic poverty levels of 27%. In fact, the recovery has been faster than many had initially predicted. To a large extent, this can be explained by the strong pace at which the poverty rate fell in Mexico and Brazil between 2020 and 2022, and because of their size, they have a notable influence on the region's aggregate figures. In Mexico, poverty decreased 16% between 2020 and 2022, and Brazil also recorded better-than-expected performances during the same period, with poverty down 7%. Furthermore, World Bank projections indicate that the poverty rate will continue to fall in Mexico and Brazil throughout 2023 .

The region as a whole has registered important progress in the fight against poverty in recent years. Between 2000 and 2022, poverty measured with the upper-middle income country (UMIC) poverty line of USD $6.85 per day, reduced by more than 20%, with some countries, such as Peru and Colombia, having truly exceptional performances, even if still not back to the pre-pandemic levels.

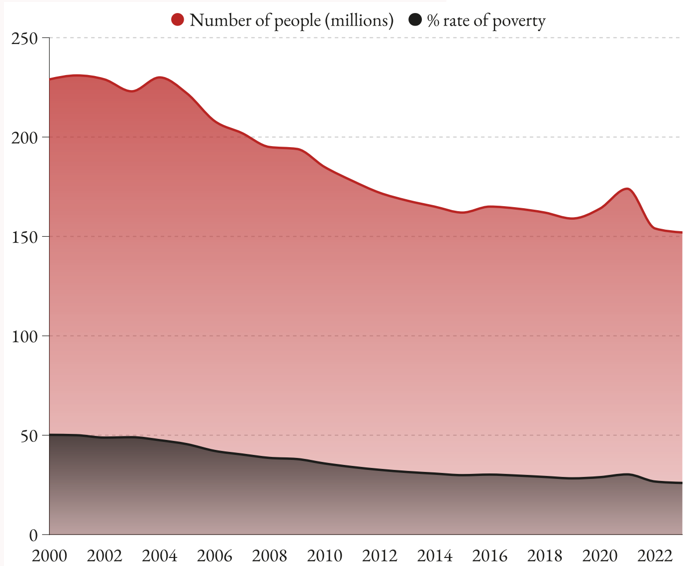
Poverty change in Latin America since 2019



Source: World Bank Oct 2023

Poverty trends in Latin America 2000 - 2023

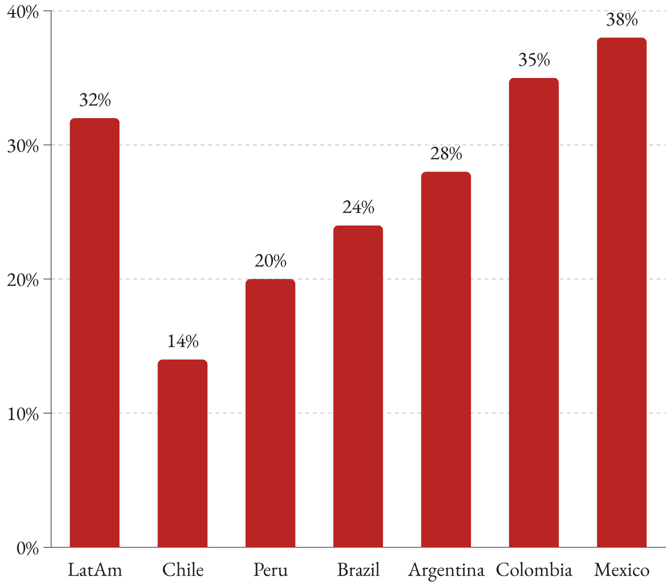
Those living under USD $6.85 per day



Source: World Bank Oct 2023

Out of all the countries studied in Latin America, Chile had the lowest poverty rates in 2022, with less than 14% of population living in poverty, followed by Peru at 20%, Brazil 24%, Argentina 28%, Colombia at 35% and Mexico at 38%.

Poverty levels in Latin America - 2021

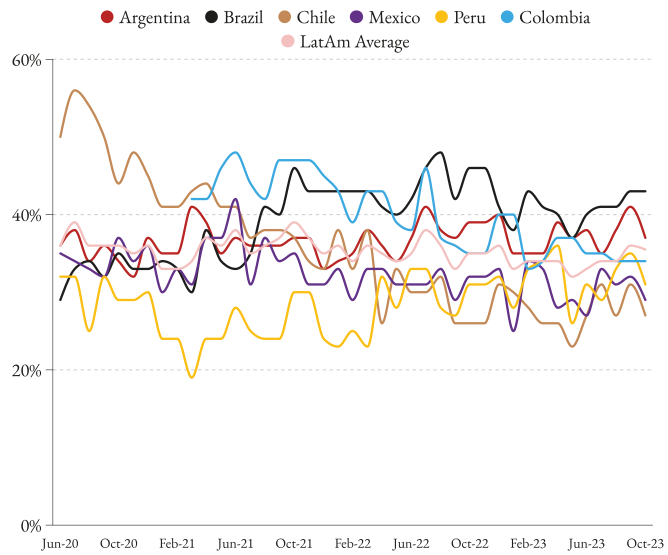


Source: ECLAC databank 2022

Looking further at inequality, according to the Gini index, Latin America is one of the most unequal regions in the world. However, in 2021, income inequality - as measured by the Gini index - declined slightly compared with 2020 across the region, returning to 2019 levels, and some continuous improvement is also expected in 2022 and 2023.

Looking at poverty and social inequality as citizen concerns, they have remained relatively stable in recent years, and very much in line with the global average. However, they still remain the first concern for citizens in Brazil, and the third concern for citizens in both Argentina and Mexico as well.

% of citizens that said 'Poverty and social inequality' was one of their top three concerns

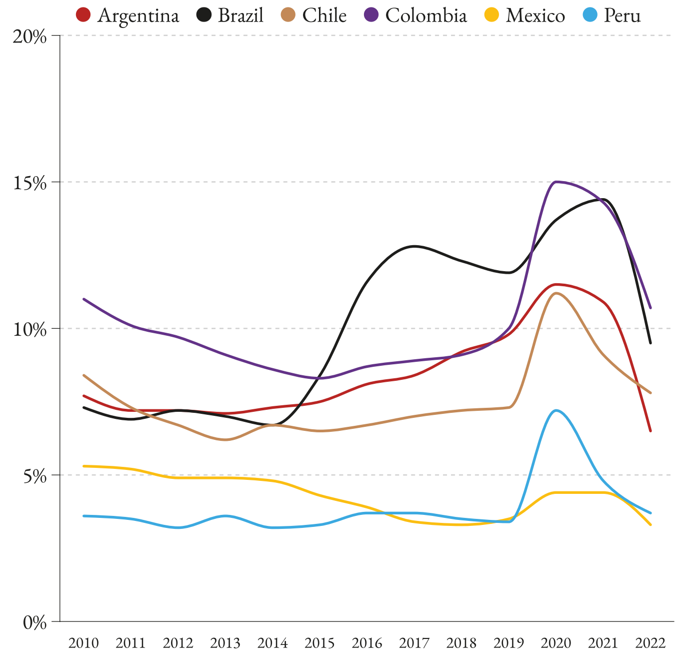


Source: Ipsos Global Advisor

Unemployment

In July 2023, The Economic Commission for Latin America and the Caribbean (ECLAC) and the International Labour Organization (ILO) released their joint report on the employment situation in Latin America. Three years after the COVID-19 crisis, the report indicates that the main labour indicators have returned to the values that prevailed in 2019. This improvement in variables such as the labour participation rate, the unemployment rate, and the number of employed persons, started to increase in 2021 and continued in 2022. Overall, the workforce recovery has tended to be stronger among women than men - even if significant gender gaps remain in participation and unemployment rates - and among young people compared with adults.

Unemployment in Latin America as a % of total labour force



Source: ECLAC and ILO Sept 2022

Beyond unemployment rates, it is also relevant to consider formal vs informal employment, and, in particular, informal employment rates as a percentage of total employment. In mid-2022, the regional informality rate approached 50%, close to the 2019 level, meaning that nearly one in two workers in the region is employed in the informal sector. Among women this level of informality is even higher, reaching 60%. In the big six economies looked at in this report, Peru has the highest share of employment informality, amounting to almost 70% of the total employed population in 2022. Chile was one of the countries with the lowest share of informal employment in the region, with around only 25% of the employed population being informally employed.

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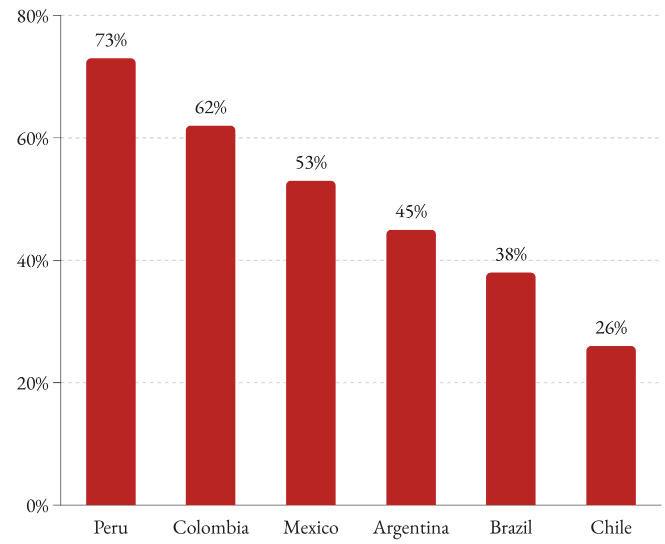
However, it is also worthy to note that over the past two years, the percentage of informal jobs has been declining across the region, as some countries, like Chile, have started to implement strategies to sustain the formal wage relationship and encourage the creation of new formal jobs.

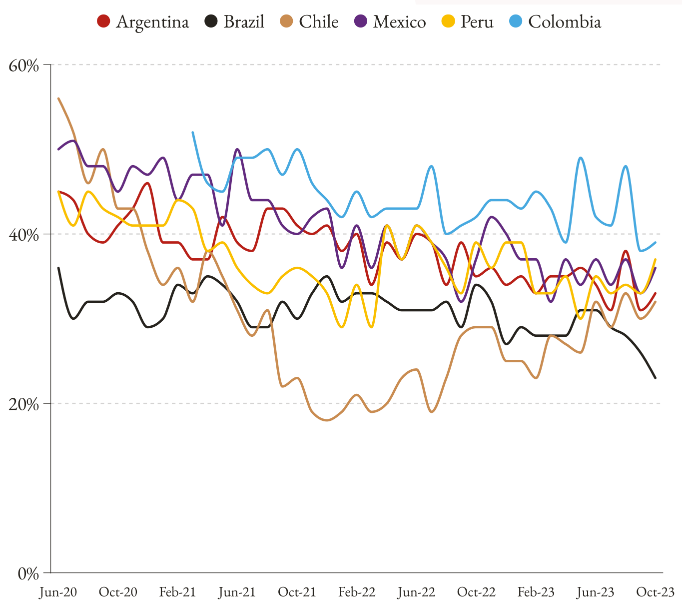
Informal employment as % of total employment in 2022



Source: ILO Q3 2022

Among citizens, concerns regarding unemployment have in general been decreasing across Latin America since the end of the pandemic, though remaining particularly high in Colombia, where it is the primary concern of citizens, and particularly low in Brazil.

% of citizens that said 'Unemployement' was one of their top three concerns



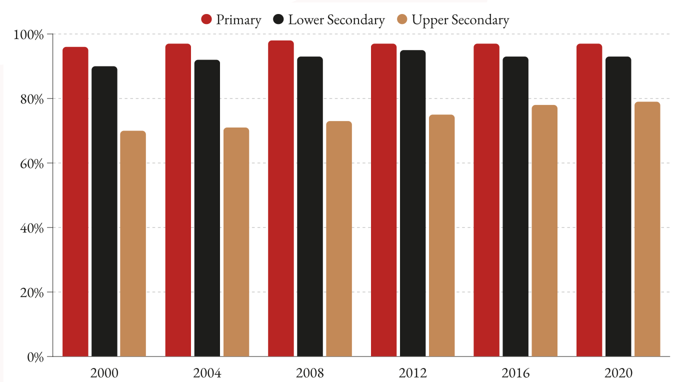
Source: Ipsos Global Advisor

3. Socio-political concerns

Education

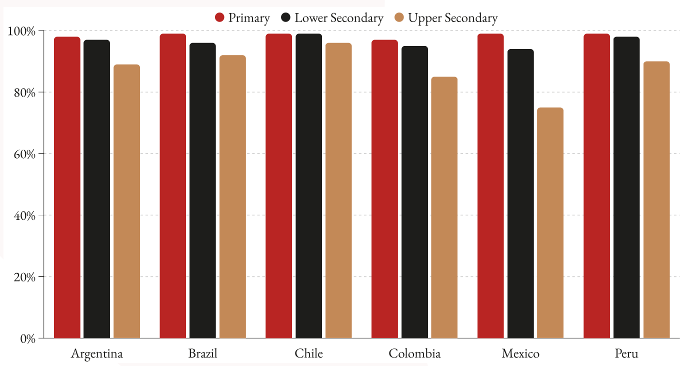
According to the 2022 report 'Two Years After: Saving a Generation', looking at the educational impacts of the COVID-19 pandemic by OECD, UNESCO, UNICEF, and the World Bank, children in Latin America and the Caribbean experienced some of the longest and uninterrupted COVID-19 school closures in the world. On average, students in the region lost, fully or partially, two-thirds of all in-person school days in 2020 and 2021. However, data from the OECD's Programme for International Student Assessment (PISA), suggests that the learning losses in the region might not be as catastrophic as some had initially predicted, with results suggesting that the differences in scores between the PISA 2018 and the PISA 2022 in Latin America, may not be as wide, especially in mathematics. Overall, education attendance in Latin America is high and continues to improve in terms of access to pre-primary education, especially in rural areas and in the lowest income quintile of the population. Completion of secondary education has also improved, especially among the most vulnerable groups.

School attendance per level over time in Latin America



Source: UNESCO, ECLAC 2022

% of children attending school

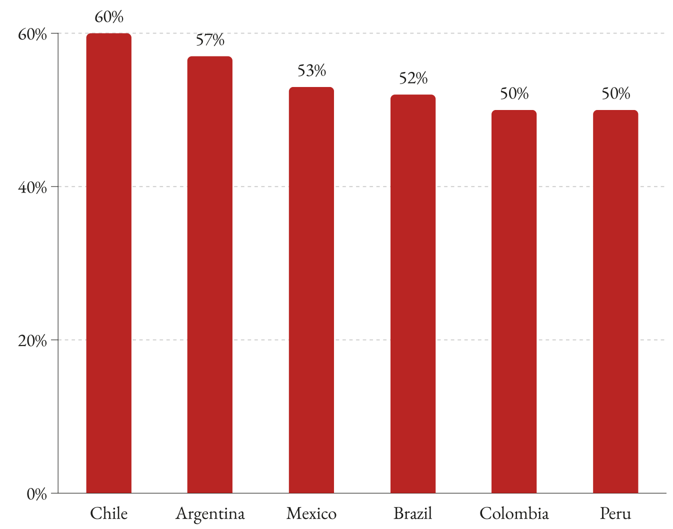


Source: UNESCO, ECLAC 2022

It is also worth noting that women's education in Latin America has developed substantially over the past fifty years according to the World Bank, with more than 60% of women in Latin America going to college, compared to less than half of all men. This represents a remarkable increase from 1970, when only 5% of women were educated beyond secondary school.

Furthermore, social mobility has increased over the last two decades in most countries in the region. In 2020, according to the Global Social Mobility Index (GSMI), Chile was estimated to be the country that best promoted equal opportunities for social advancement in Latin America. The GSMI is an aggregate of several indicators regarding health, education, and working conditions. The higher the score, the more that country provides equal opportunities for social advancement. Chile was awarded 60 points out of 100 in the area of social mobility, the highest score among the Latin American countries surveyed, and came in 47th out of the 82 nations studied worldwide.

Global social mobility index score in 2020

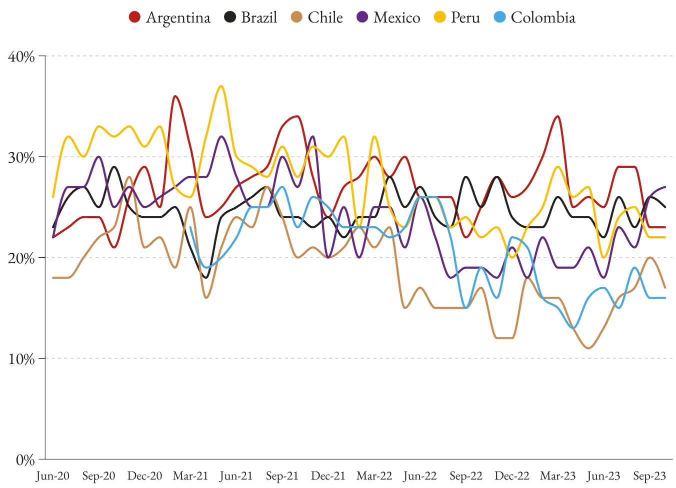


Source: World Economic Forum 2020

Based on a 2022 World Bank report, Latin American countries spend a similar amount of money on education institutions compared with the average of the 36 OECD countries of 4.9% of GDP. This spending is higher in Brazil, at 6%; and Chile, at 5.6%; in line in Argentina, at 5%; and Colombia, at 4.9%; but lower in Mexico, at 4.3%; and Peru, at 4%.

After the pandemic, the percentage of citizens that said education was one of their top three concerns has gradually decreased across the continent. However, despite the good progress made, education remains a significant worry for Latin American citizens. 22% put education within their top three concerns in 2023, much higher than the global average of 14%, and the highest region in the world.

% of citizens that said 'Education' was one of their top three concerns

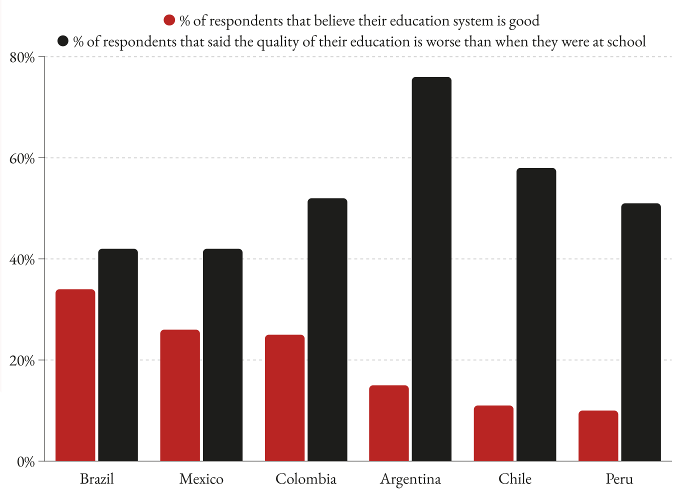


Source: Ipsos Global Advisor

Only 20% of Latin American citizens consider the quality of their education system to be good, far below the global average of 33%. This is particularly acute in Argentina, Chile and Peru where only 15%, 11% and 10% respectively, consider their education system to be good. In these three countries, between 50% and 75% consider the quality of their education systems to now be worse than when they were in school.

Comparable to the global average, only half of Latin American citizens believe their education system contributes to reducing social inequalities, whilst 38% consider the greatest challenges facing the education system are linked to unequal access to education, compared to 29% globally; 37% believe the greatest challenge is linked to inadequate infrastructure, compared to 24% globally; and 34% believe the greatest challenge is a lack of public funding, compared to 27% globally.

Quality of education by country



Source: Ipsos Global Education Monitor September 2023

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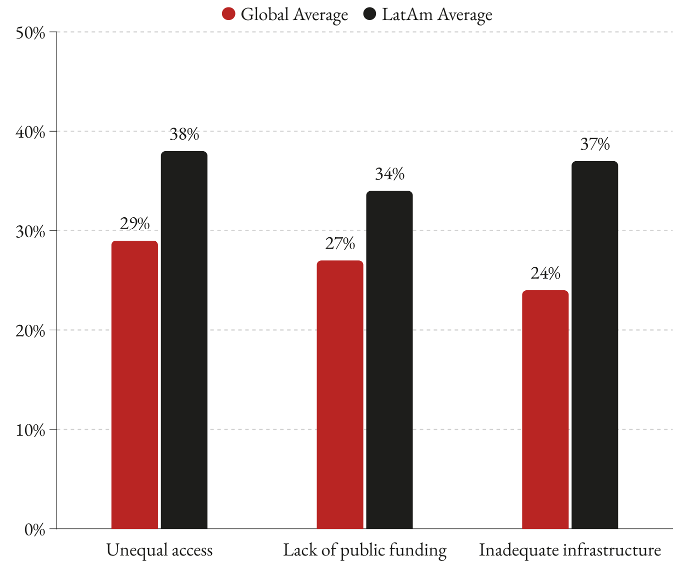
The biggest challenges facing the education sector
LatAm vs global average

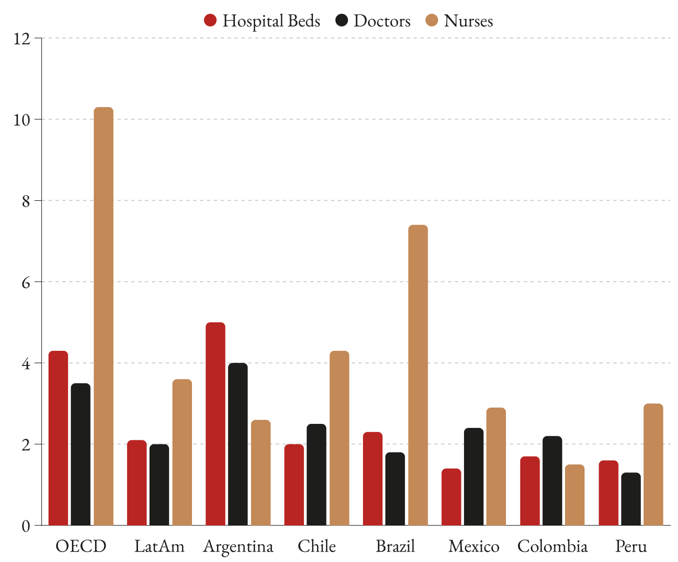


Source: Ipsos Global Education Monitor September 2023

Healthcare

Looking at healthcare metrics, on average there are 2 doctors per 1000 population in Latin America. Most countries fall well below the OECD average of 3.5 doctors per 1000 population, with only Argentina being above this number, with 4 doctors per 1000 population. The average number of hospital beds across the region is 2.1 per 1000 population, which is less than half of the OECD average of 4.7 beds per 1000 population.

Hopital beds, doctors and nurses per 1000 citizens

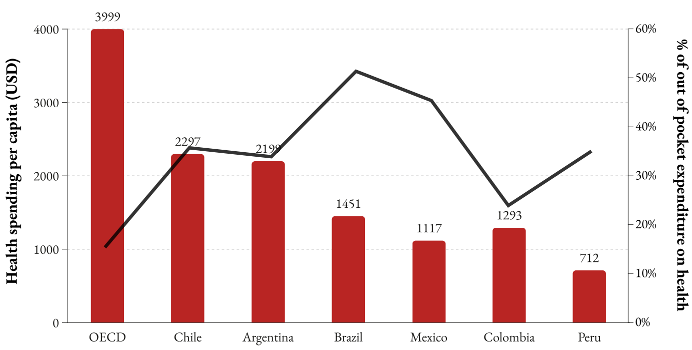


Source: Ipsos Global Education Monitor

Average public expenditure on health of 7.8% of GDP across the 6 countries looked at in this report, is not so far off the OECD average of 8.8% of GDP, but does differ significant by country. The highest level of healthcare spending is in Brazil, Argentina and Chile, respectively spending 9.6%, 9.5% and 9.3% of GDP on healthcare. Spending is slightly lower in Colombia at 8.1%, and much lower in Mexico, at 5.4%; and Peru, at 5.2%.

A main barrier for accessing health services arises from out-of-pocket health expenditures, which represent on average 40% of total health spending in Latin America, well above the 23% average in OECD countries. The high level of out-of-pocket expenditures in the region are an indication of weaker health systems and lower levels of health service coverage.

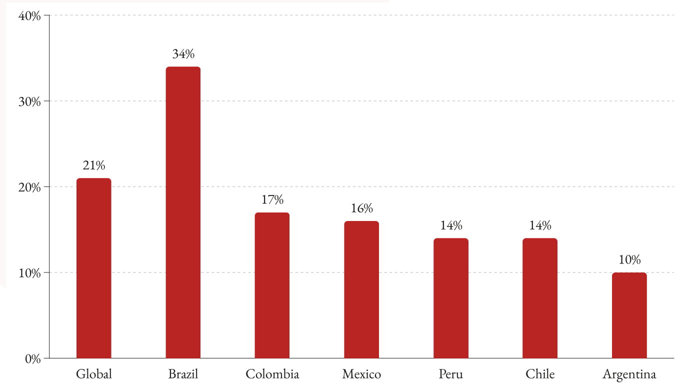
Health Expenditure in 2020



Sources: WHO, OECD 2023

In terms of citizen's concerns, in Brazil, healthcare is today one of the major worries, with 34% of Brazilians putting healthcare within the top 3 of their main concerns, just after poverty and inequality, and crime and violence. In the other main Latin American countries, concerns around healthcare are relatively low, averaging around 17% and below the global average of 21%.

% of citizens that said 'Healthcare' was one of their top three concerns



Source: Ipsos Global Advisor Oct 2023

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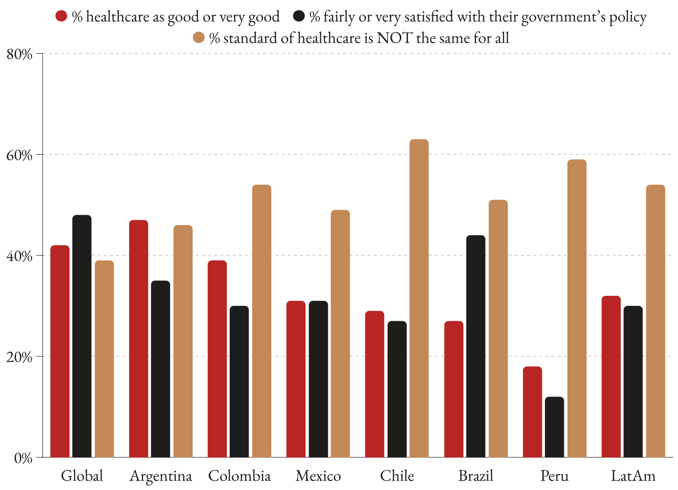
Only 27% of Brazilians rate the quality of healthcare that they and their family have access to as being either good or very good, compared to the global average of 42%. 47% of citizens in Argentina rate the quality of their healthcare as either good or very good, the highest of the countries looked at in this report, and significantly above the global average. The country with the lowest rating was Peru, with just 18% rating their healthcare system as either good or very good.

44% of Brazilians tend to be fairly or very satisfied with their government's healthcare policies, compared to just 12% of Peruvians, way below the global average of 48%. In terms of equality, most Latin Americans agree that the healthcare system in their country does not provide the same standard of care to everyone. This is particularly true in Chile where 63% believe that the healthcare system is unequal.

Healthcare in Latin America
Quality of care, satisfaction, equality



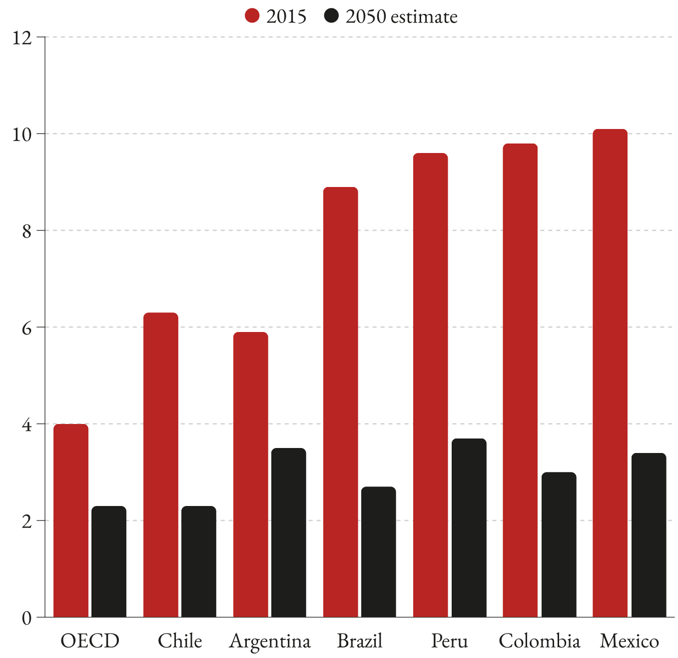
Ipsos Global Perceptions of Healthcare - July 2023

Others important social trends in Latin America

Ageing population

The number of Latin Americans aged 65 or over will double in the next 30 years, and the share of the population above 65 and 80 years old is expected to reach over 18% and 5% respectively, by 2050. The region is expected to experience the fastest rate of population aging in the world over the coming decades. By contrast, France and Sweden experienced similar growth over a much longer period, 115 years and 85 years respectively. In 50 years, both the Brazilian and Mexican populations will be quite flat, currently estimated to be 215 million and 130 million respectively. However, the number of individuals over the age of 65 will jump from 10% to 35% in Brazil, and from 9% to 25% in Mexico.

Ratio of people aged 15-64 to people aged over 65 years, 2015 and 2050



Source: United Nations 2023

This projected growth of the elderly population raises challenges related to pensions, health, and long-term care. At the same time, it opens up numerous business opportunities in different sectors: housing, tourism, care, and transportation, which could potentially generate millions of new jobs. These opportunities - termed the 'silver economy' - have the potential to be one of the drivers of post-pandemic economic recovery. Importantly, women play key roles in many areas of this market, as noted by the Inter-American Development Bank on this subject.

Generational differences

Generation Z, often referred to as just Gen Z, are individuals born between 1996 and 2012. It is often commented that they possess different values, attitudes and behaviours to the generations before them. According to the Ipsos Global Advisor survey, Gen Z individuals spend much more time interacting with friends online than in-person - more than double other generations; they are three times more likely to form relationships online than in-person - more than three times compared to other generations; and even if they would like to make new friends and expand their social circles in person, they find it more difficult to connect with people now compared to before the pandemic.

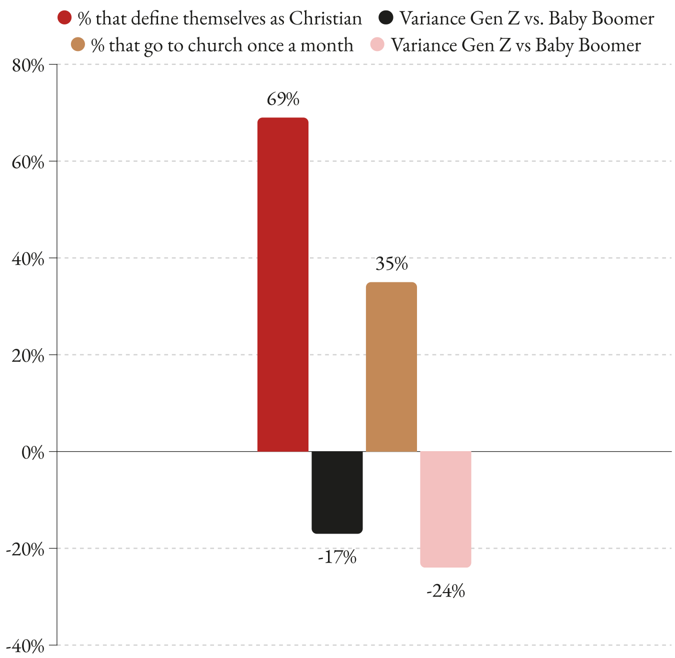
18% of Gen Z declare themselves LGBT+. This is more than the double of any other previous generation. The level of self-declared LGBT+ is quite high in Latin America, particularly in Brazil, where it is over 25%.

Latin America's Gen Z represent 25% of the population. Once Gen Z has become a part of Latin America's working-age population, they are expected to shape the region's consumer market until around 2050, when the demographic dividend period ends. Gen Z is truly mobile literate, as they have grown-up with smart phones since primary school and social media is part of their day-to-day lives. They also potentially represent one of the most vulnerable generations in recent memory, due to increasing job insecurity, unaffordable housing, and rapid automation in workplaces.

Decline of religion

Currently, more than two-thirds of Latin Americans identify as being Christian. But younger people from across the continent are increasingly less likely to identify as Christian, with the percentage of those from Gen Z who identify as Christian being 17% lower than those of the Baby Boomer generation born between 1946 and 1964. 35% of Latin Americans declare going to church once a month, but again, the difference between the Baby Boomer generation and Gen Z is a highly significant reduction of 24%.

Decline of religion in Latin America



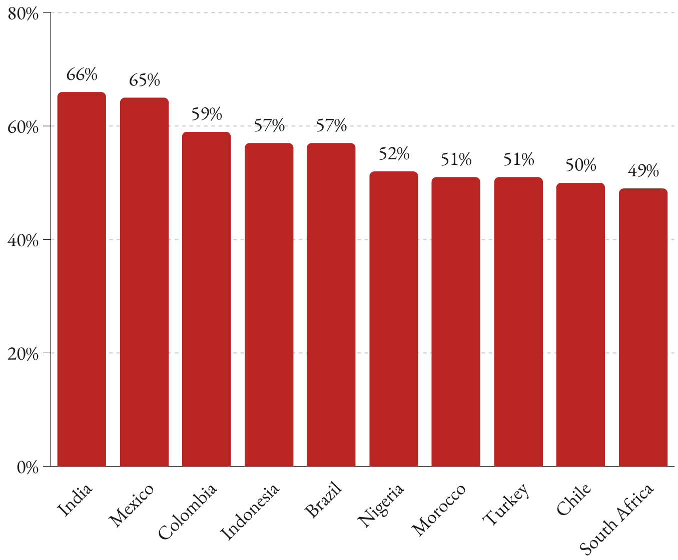
Source: Ipsos Global Education Monitor

Environmental concern

Day-to-day concerns around climate change and threats against the environment appears to be less of an issue for Latin Americans when compared to the global average. However, looking at the environmental situation as an absolute concern, Latin Americans appear at the top of the list.

Moreover, most Latin American citizens feel that priority should be given to environmental issues over economic growth. Overall, 89% of Latin Americans declared that they have already observed the effects of climate change in their country, higher than any other region. Furthermore, two thirds of them, but only less than half part at global level, are most likely to think that the solution to the world's environmental problems, will come through a change in their life style, as opposed to the solution coming from a technical advancement or innovation.

Top 10 countries worldwide concerned about the environment



Source: Ipsos Global Education Monitor

Conclusion

Socio-economic factors like poverty, inequality, inflation, and unemployment are important concerns for Latin Americans. After the pandemic, significant progress has been observed in a number of areas. Inflation has decreasing and is becoming less of a concern, whilst economic growth remains a significant issue to decrease poverty rates.

The global geopolitical situation could potentially put Latin America in an advantageous situation. Looking at previous periods of significant tension in Europe, such as World War II, or the 2008 financial crisis, the Latin American region was not impacted as greatly as other parts of the world, performing relatively well across multiple metrics. Tensions between the US and China, the war between Russia and Ukraine, and other geopolitical situations – particularly in the Middle East - make Latin America a relatively more attractive region to invest in and do business with once again. The impact of the recent US near-shoring on the Mexican economy is a good example of this.

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Aside from the socio-economic factors, the main citizen concerns appear to be focused on societal factors. Crime, violence, and corruption are the most specific concerns, and are considered much more important in Latin America than at the global level. These concerns have been growing over the last few years, and could be responsible for driving a 'democratic recession'.

Other concerns like education, infrastructure, and healthcare are more structural. Despite good progress being made in recent years, the quality of education remains a significant worry for Latin Americans, and inadequate infrastructure and a lack of efficient public funding needed to drive the improvement in productivity that the region is looking for, is also a major concern. Healthcare is less of a worry in Latin America, even if the high level of out-of-pocket expenditures are an indication of weaker health systems and lower levels of health service coverage. The projected growth of the elderly population will present challenges related to pensions, health, and long-term care.

Governments and institutions should therefore pay greater consideration to citizen concerns, not only at an economic level but also at a social level, implementing corrective actions and measuring impact on citizen perception and benefits. This should be a must for any government and institution to support the democratic future of the region.

Technical Note: These are the results of a 29-country survey conducted by Ipsos on its Global Advisor online survey platform. For this survey, Ipsos interviewed a total of 23,039 adults aged 18 years and older in India, 18-74 in Canada, Israel, Malaysia, South Africa, Turkey, and the United States, 20-74 in Thailand, 21-74 in Indonesia and Singapore, and 16-74 in all other countries. The sample consists of approximately 2,000 individuals in Japan, 1,000 individuals each in Argentina, Australia, Brazil, Canada, France, Germany, Great Britain, Italy, Mexico, Spain, and the U.S., and 500 individuals each in Belgium, Chile, Colombia, Hungary, Indonesia, Israel, Malaysia, the Netherlands, Peru, Poland, Singapore, South Africa, South Korea, Sweden, Thailand, and Turkey. Samples in Argentina, Australia, Belgium, Canada, France, Germany, Great Britain, Hungary, Italy, Japan, the Netherlands, Poland, South Korea, Spain, Sweden, and the U.S. can be considered representative of their general adult populations under the age of 75. Samples in Brazil, Chile, Colombia, Indonesia, Israel, Malaysia, Mexico, Peru, Singapore, South Africa, Thailand, and Turkey are more urban, more educated and/or more affluent than the general population. The survey results for these countries should be viewed as reflecting the views of the more "connected" segment of their population. The data is weighted so that the composition of each country's sample best reflects the demographic profile of the adult population according to the most recent census data. The "29-country average" reflects the average result for all the countries and markets in which the survey was conducted. It has not been adjusted to the population size of each country or market and is not intended to suggest a total result. Where results do not sum to 100 or the 'difference' appears to be +/-1 percentage point more/less than the actual result, this may be due to rounding, multiple responses, or the exclusion of "don't know/not sure" or not stated responses. The precision of Ipsos online polls is calculated using a credibility interval with a poll of 1,000 accurate to +/-3.5 percentage points and of where N=500 being accurate to +/-5.0 percentage points. For more information on Ipsos's use of credibility intervals, please visit the Ipsos website. Others Ipsos research are conducted along the same lines as the global advisor survey: Ipsos Global Trustworthiness Index in April-May 2023, Ipsos Views on Crime and Law Enforcement around the world in July 2023; Ipsos Trust worthiness Index in Oct 2023; Ipsos GLOBAL education monitor in Sept 2023; Ipsos Global Perceptions of Healthcare in July 2023; Ipsos - Religious Beliefs Across the World in May 2023

Environmental Outlook

Latin America's environment and climate change

Dr David Purkey, Centre Director, Stockholm Environment Institute, Latin America

Introduction

A recent article published by James Hansen - one of the first climate scientists to highlight the risks associated with greenhouse gas emissions - and others in the journal Oxford Open Climate Change suggests that the 1.5°C warming threshold, which the signatories of Paris Accords hoped to delay until the end of the 21st Century, may well be crossed by the end to the current decade. The conclusion is that the world must act urgently to avoid what experts consider to be a more devastating 2°C of warming. While the scientific community debates whether the 1.5°C target is still a reasonable expectation for 2100, the daily news bears witness to frequent record high temperatures and intense rainfall events across the globe. The impression of rapidly changing conditions appears to have generated greater urgency from several quarters to accelerate climate action.

Of relevance to the transitions that seem to be emerging in response to this growing climate urgency is the fact that Latin America possesses rich endowments of both fossil fuels and of the strategic minerals, including copper and lithium, that will support a necessary global transition to a zero-carbon energy system, and the associated post-carbon economy. If climate urgency on the part of policy makers and the public is, in fact, accelerating, this raises a few pertinent questions related to the role Latin

America can and should play in response to the global climate crisis.

- Are the countries of Latin America living up to the commitments they have made through the preparation of their Nationally Determined Contributions under the Paris Accord?
- Given the importance of measures to control emission related to land use in Latin America, are the countries making progress to reduce deforestation?
- Are the region's fossil fuel producers demonstrating leadership in winding down production as required to realise the zero-carbon energy transition at a global level?
- Are the countries of Latin America, endowed with significant reserves of the minerals and materials required to support a global energy transition and the decarbonisation of the global economy, making sufficient plans to prepare for responsible extraction of transition minerals and materials?

Replication of the same economic models that characterised past extractive activity in the region, including the production of fossil fuels, will surely create environmental and social harm, further complicating efforts to conserve the region's singular biodiversity, which constitutes a second global challenge relevant to Latin America. Since 1970 there has been a 68% decrease in the abundance of 5230 species monitored on a global level . While the annual loss of global primary forest cover declined from a peak in 2016, figures from 2022 show that deforestation has reach a plateau that remains higher than the average rate over the past two decades , even showing a small increase with respect to 2021 figures. It is perhaps significant that preliminary data for 2023 seems to suggest a marked decline in deforestation rates in the Amazon. These global figures are particularly relevant in Latin America as five of the ten most biodiverse countries in the world, including the top two, Brazil and Colombia, are located in the region, offering enormous opportunity in terms of emerging bioresource-based economic models, and enormous challenge in terms of conserving this invaluable endowment. The global biodiversity challenge raises other questions pertinent to the environmental outlook for Latin America.

- Are the countries of the region making sufficient progress towards halting deforestation and improving agricultural practices to realise their commitments?
- Are there any demonstrable novel and innovative bioresource-based economic models that capitalise on the region's singular biodiversity ?

Answers to these questions will provide the context for the 2024 Environmental Outlook for Argentina, Brazil, Chile, Colombia, Mexico and Peru. While available data sets will provide a sense of the recent trends and tendencies associated with these questions, anticipating how these trends and tendencies may evolve in 2024 will be challenging. Frankly, there is reason for both optimism and concern.

In addition to presenting information relevant to each of the big six countries in Latin America, however, this year's Environment Outlook also includes a more general discussion for the global and regional context related to the minerals necessary for the energy transition. In subsequent years, as the global energy transition gathers steam, this information may be disaggregated to the country level.

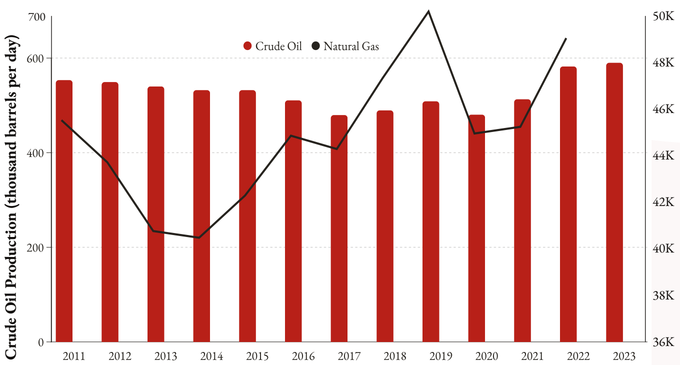
Argentina

According to the Climate Action Tracker, since the publication of the 2023 Environment Outlook, Argentina's commitment to reduce climate emissions has been downgraded from highly insufficient to critically insufficient. This is due primarily to two factors. First, the government finally published plans to reach net zero greenhouse gas emissions by 2050, but without providing sufficient detail on the measure taken to reach this objective. Second, based on emission projections developed for Argentina, the expectation is that future emissions will exceed targets set in the country's nationally determined contributions (NDCs) given current policies and actions. It appears that Argentina needs to increase its climate ambition, but given the politically charged atmosphere of 2023, it does not seem likely that 2024 will bring about any significant change, as none of the major candidates running in the 2023 elections have made climate action a central campaign theme. Quite the contrary, there seems to be renewed commitment to fossil fuel production.

> *"Crude oil production levels in 2023 are set to increase over 2022 levels, which themselves represented the highest production level since 2011, primarily based on expanding the ability to transport production from the Vaca Muerta field."*

Crude oil production levels in 2023 are set to increase over 2022 levels, which themselves represented the highest production level since 2011, primarily based on expanding the ability to transport production from the Vaca Muerta field. In addition, Argentina also plans to expand offshore oil exploration, and potentially production. The production of natural gas is also increasing largely due to expanded production in and transport from the Vaca Muerta field. Production levels in 2022 nearly reached 2019 record pre-pandemic production, with 2023 levels expected to be even higher. It appears that production of both oil and gas are on track to surpass internal demand in the coming years, allowing Argentina to enter export markets with the possibility of generating coveted foreign exchange. Amongst the countries in Latin America, however, Argentina has perhaps demonstrated the greatest potential for carbon lock-in. While the internal economic and political rational behind this has increased - lock-ins are perhaps understandable - they also put Argentina at risk of substantial stranded assets should the global transition to a zero-carbon energy system accelerate in the years ahead.

Annual crude oil and natural gas production in Argentina

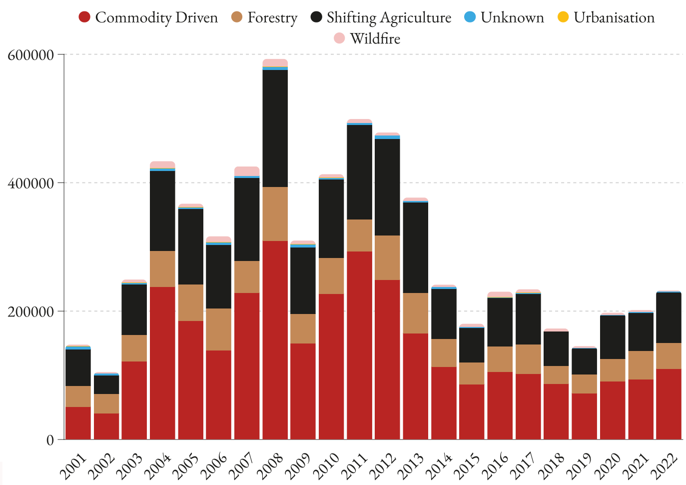


Source: CEIC

In addition, while Argentina had previously expressed greater commitments to expanded renewable energy generation, based on substantial wind potential in southern Patagonia and solar potential in the arid north-western Altiplano, recent commitments to expand electricity production have focused on increasing nuclear energy production, a new plant having been brought online in 2023 and others planned in the coming years.

Another important source of greenhouse gas emissions in Argentina is methane emissions from the livestock sector, and the associated deforestation caused by expanded cattle production and soy production . While overall deforestation rates have decreased since peaking around 2010, almost all of current deforestation is associated with the expanded production of agricultural commodities. These pressures are concentrated in the Gran Chaco Americano ecoregion in the north of the country where the location of high levels of deforestation correlate with zones of intense soy production for export markets. On aggregate, since 2000 Argentina has lost 10% of its total forest cover. This represents a real opportunity for Argentina to improve its commitments to greenhouse gas reduction as land use has accounted for 20% of the country's overall emissions since 2020. There is in fact, an expectation that land use-based emissions can be converted from source to sink with focused effort, perhaps as part of an effort to document responsible production within commodity supply chains.

Tree loss by driver in Argentina (Ha)



Source: Global Forest Watch

> ***"Argentina ranks third globally in terms of extractable reserves, and thus will be a major player in rapidly expanding lithium markets."***

In terms of the strategic minerals required to support a global transition to a zero-carbon energy system, Argentina's primary opportunity relates to lithium extraction in the northwest Andean Altiplano region shared with Bolivia, the country with the largest known lithium resources, and Chile, currently the world's second largest lithium producer. Argentina ranks third globally in terms of extractable reserves, and thus will be a major player in rapidly expanding lithium markets. Argentina is also committing to a new extraction method different from the evaporation pond approach common in Chile, that allows for the brine to be reinjected into aquifers following lithium extractions reducing potential impacts on local hydrologic conditions. Argentina is also promoting this approach in Bolivia, opening opportunities for regional cooperation.

Environmental Success Story: Buenos Aires 2050 Climate Action Plan

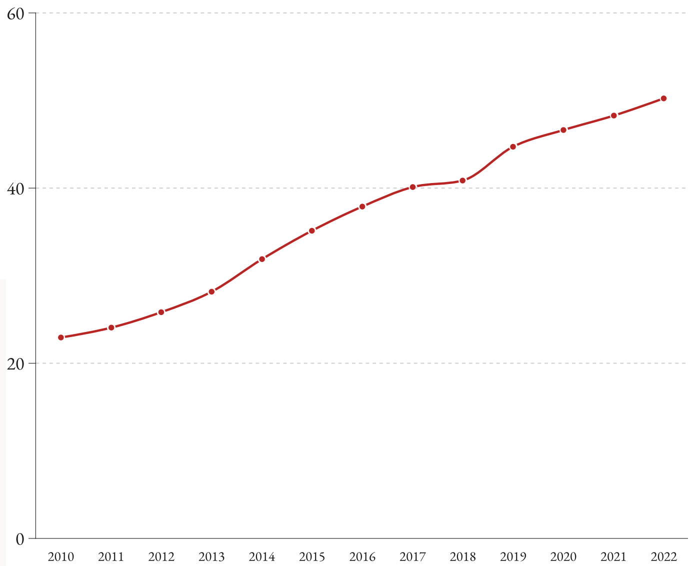
In 2023, the City of Buenos Aires was nominated for an SDG Action Award on the basis of its development of an ambitious climate action plan for the city. The plan was developed as part of Buenos Aires' participation in the C40 network of large global cities, and emerged from an extensive series of public engagement events. As part of the nomination for the award, it was argued that the plan will help "identify urban environmental activities, such as urban gardens, urban waste recycling, and eco-design, and identify companies whose traditionally non-environmental activities could transition towards more sustainable forms of production." The goal of the process is to gain a deeper understanding of opportunities for creating new green jobs, existing training needs, public support measures, experiences, best practices and lessons learned in this field. The plan included the development of on-line resources that provide data related to 30 indicators defined through the public engagement effort.

Puerto Madero, Buenos Aires

Brazil

Similar to Argentina, Brazil is demonstrating an increased reliance on the production and consumption of fossil fuels, primarily through the expansion of natural gas production and gas-fired powerplants, partially in response to uncertainty within the country's extensive hydropower generation system due to changing hydro-climatic conditions. As a result, according to the Climate Action Tracker, the country's commitments to the reduce greenhouse gas emissions are considered insufficient. It appears that Brazil's climate ambition has increased only slightly in the years since the release of its first NDC issued after signing the Paris Accord, despite more recent agreements for countries to increase ambition. According to some experts, the growing commitment to natural gas is limiting the potential expansion of projects that can tap into Brazil's renewable energy potential.

Natural gas production in Brazil (Bm3/year)



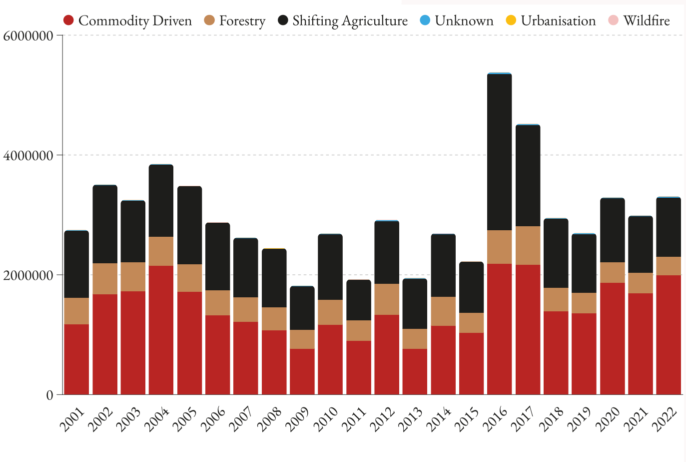
Source: CEIC

Some estimates suggest that Brazil has the potential to satisfy 83% of its internal electricity demand using renewable sources, including hydropower, wind, biogas, and solar energy, with the potential to be amongst the world's leaders in terms of the creation of new jobs in the renewable energy sector. As such, it does seem that Brazil could do more to seize this opportunity. A third Lula mandate has given signs of wanting to shift energy policy towards greater reliance on renewables, although this policy shift does not yet appear to be represented in available data. While Brazil has committed to carbon neutrality by 2050, plans to actually achieve this goal have been deemed incomplete and inadequate by the Climate Action Tracker.

> *"Policy statements by the Lula administration suggest a willingness to reduce deforestation rates, and preliminary data from 2023 suggest that this has begun to occur."*

Different from Argentina, Brazil possesses the ability to either dramatically reduce or increase its carbon emissions as a result of its land use and forest management decisions and practices. Brazil ranks second globally in term of total forest area, behind only Russia, with forests currently accounting for 61% of the country's territory, much of this located in the singular Amazon Rainforest. Unfortunately, after a few years of decline, deforestation rates began to climb again, coincident with what some consider to be lax implementation of existing forest protection laws during the Bolsonaro administration. This has contributed to a total loss of 12% of Brazil's existing forest cover since 2000. This forest loss makes up nearly 40% of total greenhouse gas emissions in Brazil, meaning that any plausible effort to increase climate ambition will require increased commitments to forest protection. Again, policy statements by the Lula administration suggest a willingness to reduce deforestation rates, and preliminary data from 2023 suggest that this has begun to occur.

Tree loss by driver in Brazil (Ha)



Source: Global Forest Watch

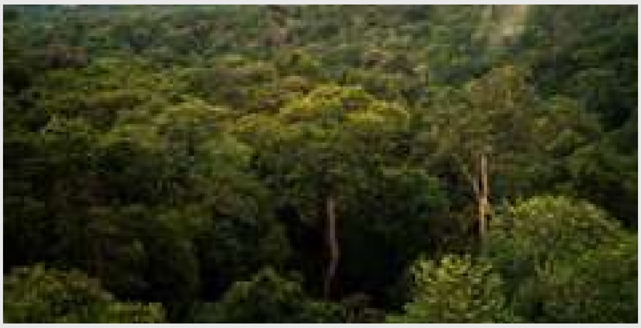
By far the biggest driver of this deforestation has been the expansion in the production of agricultural commodities, principally beef and soy. As in the case of Argentina, there is a high spatial correlation between zones of rapidly expanding soy production, as reported by Trase Earth, and zones of intense tree cover loss as reported by Global Forest Watch.

One important opportunity to reduce deforestation is to derive more economic value from trees that are harvested, to promote innovation that derives more value from the totality of harvested biomass. This effort has been referred to as the circular bioeconomy, and in the forest sector, innovations are emerging that could support an increase in the value-added products such as pharmaceuticals, nano-fibres, chemicals, and engineered construction materials, in addition to second generation biofuels. There are also innovations emerging related to the harvest of non-timber forest products that can be procured without harvesting the whole tree. Beyond the forest sector, Brazil has put in place policies and investment programs that would allow increased value creation from agricultural commodities and natural biodiversity. The country stands to be a leader in the emerging trend of bioresource based economic models.

In terms of strategic minerals, Brazil is comparatively well endowed with rare earth metals and is an important producer of steel, which is a component of most windmill technology. There is an opportunity to develop more responsible extraction policies and practices as part of the effort to respond to a transition to the emerging global zero-carbon energy system. Based on current assessments of reserves of the key transition minerals, copper and lithium, Brazil will not likely be a major player in these emerging markets.

Environmental Success Story: Sharp decline in Amazon Deforestation

Deforestation in Brazil's Amazon dropped by a third during the first six months of President Luiz Inácio Lula da Silva's term, according to government satellite data. From January to June 2023 the rainforest had alerts for possible deforestation covering 2,650 square kilometers, down from 4,000 sq km during the same period last year under former leader Jair Bolsonaro. This year's data includes a 41% plunge in alerts for June, which marks the start of the dry season when deforestation tends to jump.



Amazon rainforest

Chile

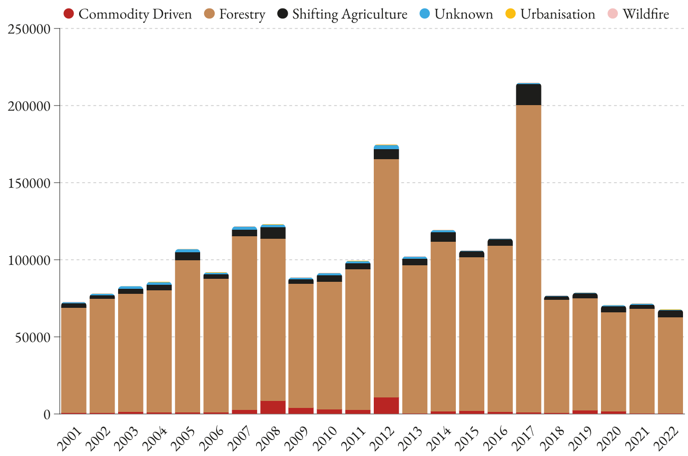
In terms of commitments to climate action, Chile has emerged as regional, and perhaps even a global leader. The most recent data suggest that Chile may have actually reached peak emissions in 2023, largely due to shutting down coal-fired power plants. Eight have already been shut down and plans are in place to achieve a coal phase out by 2030. Chile has also made a commitment to phase out internal combustion vehicles by 2035. Early progress towards these targets could mean that 2024 could even see emissions reductions in the country. The Climate Action Tracker suggests that Chile is now on track to even undercut its commitments articulated in its most recent NDC, and as such has deemed Chile's climate action commitments to be "Almost Sufficient" with respect to the global 1.5°C warming target. Few other countries are in such good company. It is likely that action to develop Chile's extensive wind and solar potential, which as of yet remains under-realised, will be the determining factor in terms of eventually achieving a sufficient classification.

"In terms of commitments to climate action, Chile has emerged as regional, and perhaps even a global leader."

In addition to phasing out coal, Chile passed an energy efficiency law that when implemented will make a major contribution to annual emissions reductions on the way to a 2050 net-zero commitment. This new law is accompanied by Latin America's first national climate strategy, which details over 400 specific emissions reduction actions to implement over the coming years and decades. The strategy also sets emissions targets by sector, which should make implementation easier to monitor than the more common aggregate emissions reduction target adopted by other countries.

Chile's climate commitments also consider that the country's forest will continue to act as a carbon sink, with increases in this carbon sequestration services representing as much as 50% of the country's 2050 net-zero commitment, which has been evaluated as acceptable. This means that Chile will need to pay particular attention to forest management and practice. Over recent decades forest loss and new forests have roughly cancelled each other out so that since 2020 Chile has lost less than 1% of historical forest cover. Any small loss in forest cover has been largely driven by the forestry/wood products sector which is generally more committed to reforestation than actors associated with the expansion of agricultural commodity production, the key deforestation driver in other countries in Latin America. To keep this balance, Chile should likely be pursuing new value-added circular bioeconomy innovations in its forest sector so as to avoid any accelerating losses in forest cover, which would make its net-zero commitment impossible to achieve.

Tree loss by driver in Chile (Ha)



Source: Global Forest Watch

"Cooperation with neighbours Argentina and Bolivia may also create the potential for a responsible lithium strategy to capitalise on rapidly growing international markets."

In terms of strategic mineral production, Chile is a globally important producer of both copper and lithium. While some companies operating in both sectors have been accused of environmentally and socially irresponsible extraction practices, there are suggestions that conditions may be improving. By far the most dramatic environmental impact from mining in Chile is on water resources, as much mining activity takes place in the arid north. In the past, water allocations to mining have been decided by project-by-project assessments carried out within Chile's private property water rights system. A new integrated watershed planning process recently initiated in Chile has the potential to allocate water for these extractive activities within a more socially, economically and environmentally holistic framework. This includes the recent development of a Strategic Water Management Plan in the Salar de Atacma watershed, currently the locus of most lithium production in Chile. Cooperation with neighbours Argentina and Bolivia may also create the potential for a responsible lithium strategy to capitalise on rapidly growing international markets.

Environmental Success Story: Humboldt Archipelago Marine Sanctuary

The Chilean Council of Ministers for Sustainability unanimously agreed on protecting the Humboldt Archipelago. The entire ecosystem, a total of 5,760 square kilometers, is now "Marine Protected". In its announcement, the Council stated: "With this measure, we are making progress in conserving biodiversity in coastal waters, creating sustainable development opportunities for communities and promoting economic benefits in tourism, recreation and fisheries. This is one of the most important environmental policy achievements in Chile in recent times, not only for the protection of this biodiversity hotspot, but also for safeguarding economic activities such as artisanal fishing and tourism."

Choros Island, Humboldt Archipelago, Chile

Colombia

According to the Climate Action Tracker , Colombia's recent update of its NDCs did demonstrate more ambition than the previous one, improving the overall assessment of Colombia's commitments from "Highly Insufficient" to "Insufficient". Given that the Paris Accord required signatory countries to avoid backsliding, this is positive news. In Latin America, Colombia is also one of the few countries to adopt the approach of setting an absolute cap on future emissions rather than simply committing to some percentage reduction in increasing emissions defined by a Business-as-Usual (BAU) scenario. Some countries in Latin America use this approach, and by updating their BAU scenarios through the years are actually committing to lower emissions reductions even if the percentage of their BAU commitments remain unchanged.

> *"Data suggests that Colombia is not on track to significantly reduce levels of coal production"*

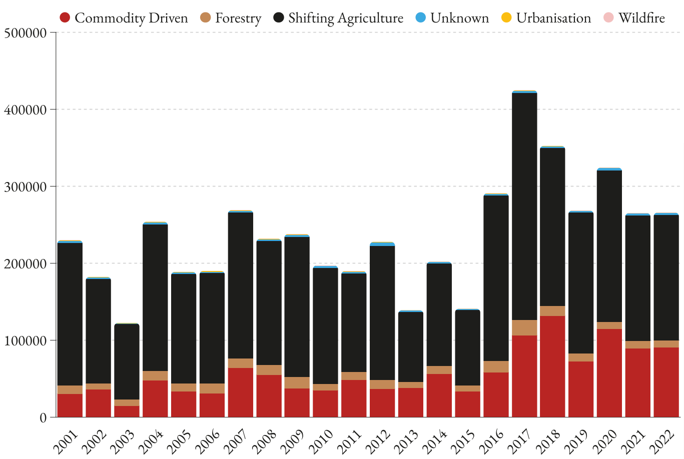
In spite of this improvement, there is concern that Colombia is not sufficiently committed to phasing out coal production, both for internal consumption, roughly 10% of national electricity generation, and export, roughly 13% of the value of total exports. Data suggests that Colombia is not on track to significantly reduce levels of coal production, showing an increase since the sharp decline during the COVID-19 pandemic.

Coal production in Colombia (Mtons/year)

Source: CEIC

Colombia claims that it will reach peak emissions by 2030, but according to the Climate Action Tracker, current plans and strategies lack sufficient detail to assess whether this claim is realistic, particularly since the general proposal suggests that the most important component of emission reduction efforts will be to reduce the rate of deforestation in Colombia to no more than 50,000 ha/year. Land use related emissions account for roughly 30% of the country's estimated current emissions. This is problematic as since 2016, when the signing of the Peace Accord between the government and FARC opened up areas previously too dangerous to enter, annual deforestation rates have been well above this target. The main driver of this recent deforestation has been the expansion of agricultural commodity production and shifting agriculture into new areas as previously cultivated soils decline in fertility. The most important deforestation processes are taking place in Colombia's Amazon and Orinoquia regions where vast areas have been cleared of FARC activity since 2016, without concomitant reestablishment of a state presence. While the total loss of forest cover in Colombia has only declined by 2.2% since 2020, the trend is heading in the wrong direction .

Tree loss by driver in Colombia (Ha)



Source: Global Forest Watch

As such, it is problematic that Colombia has not set clearer and more ambitious targets related to reducing emissions from other sectors such as transport and energy generation, which account for 40% of current emissions. Colombia has made some steps to increase the percentage of renewables, primarily wind and solar in the north of the country, and has set some goals in terms of electric vehicles, but there is still not a firm, actionable plan for a zero-carbon energy transition in the country. It is also problematic that in areas with the highest potential in terms of wind and solar, community opposition to new generation projects has intensified due to the fact that these are largely the same areas where prior production of fossil fuels have created significant social and environmental impacts while not contributing to marked improvements in local living standards.

One idea that has emerged is that perhaps known reserves of copper in areas currently producing coal could provide an alternative economic activity, given that the global demand for copper is increasing as the transition to a zero-carbon energy system and economy gathers steam. Higher prices accompanying growing demand may make development of some of these reserves more economically feasible. That said, there is well established resistance to extractive activity in these regions based on prior experience with coal mining. Another alternative economic model for Colombia is based on the bioeconomy. Colombia recently began implementing a national strategy to generate more value addition from the country's vast biodiversity - where increasing amounts of the country's science, technology and innovation budget is being channelled - with the hope of contributing up to 10% of the nation's GDP by 2030.

Environmental Success Story: Legislative progress towards a ban on fracking

A plenary session of the Senate of the Republic approved, with 62 votes in favour and 9 against, the bill that prohibits fracking and the exploitation of hydrocarbons in unconventional fields presented by the Petro Administration. The project approved by the Legislature aims to take care of the country's water resources, protect species and guarantee the health of communities, prohibiting the exploitation of some unconventional deposits, such as oil or gas shales, bituminous sands and methane hydrates.

Oil extraction, Colombia

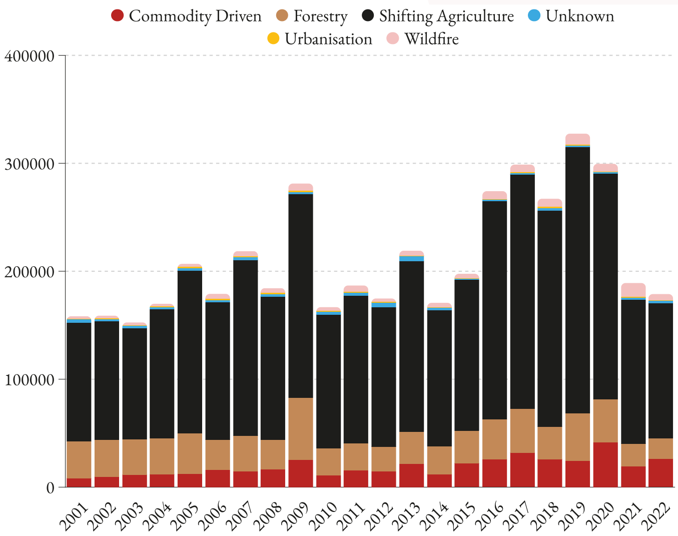
Mexico

Unlike Colombia, which set an absolute emissions target as part of its most recent NDC update, Mexico continues to define its commitments in terms of a percentage reduction in emissions with respect to a BAU scenario. The percentage reduction targets remain unchanged from previous NDCs submitted by Mexico. Problematically, in its most recent NDC, Mexico revised upwards its BAU emissions scenarios. This means that the NDC has actually relaxed its commitments to reduce emissions, which is counter to the Paris Accord's requirement that countries do not backslide. In addition, Mexico has yet to articulate a clear net-zero plan.

> *"Since 2020, Mexico has lost almost 8% of its historical forest cover. As such, vague commitments to achieve net-zero deforestation by 2030 lack credibility."*

While the most recent NDC does suggest that under the BAU scenario emissions will decrease in sectors such as transport and oil and gas, the BAU scenario suggests that emissions from agriculture and industry will increase. Emissions from other land use related categories are also projected to increase. This is perhaps because Mexico's deforestation rates have been historically high for the past five or six years. Most of this deforestation has been linked to shifting agricultural practices. Since 2020, Mexico has lost almost 8% of its historical forest cover. As such, vague commitments to achieve net-zero deforestation by 2030 lack credibility.

Tree loss by driver in Mexico (Ha)



Source: Global Forest Watch

Most fundamental, however, is that Mexico has not articulated a clear plan to wind down its production of fossil fuels. Earlier energy sector reforms that placed a premium on increasing renewable generation have been reversed to once again favour the fossil fuel industry. This is understandable in light of the industry's importance to the Mexican economy, but unfortunate in that there is an opportunity to demonstrate required leadership. It is possible to imagine Mexico participating in the required global zero-carbon energy transition, as it ranks ninth in terms of known lithium reserves. The recent formation of a state-owned lithium company may be a sign that Mexico is considering such a transition, given that the fossil fuel sector is also dominated by state-owned actors. Still, Mexican lithium reserves are located in clay formations and not in briny groundwater and would require new and innovative technologies to allow for their extraction. These are likely to be water intensive, and unfortunately most of these reserves are found in the most arid northern regions of the country.

Environmental Success Story: Protection of Mexico's Maize Biodiversity

Ten years after the Demanda Colectiva, a collective of 53 people from 22 organisations, filed their class-action suit to stop genetically modified corn being introduced into Mexico - the cradle of global maize genetics - the precautionary injunction remains in effect despite some 130 company appeals, and the organisation received the annual prize from the Pax Natura Foundation. Founded in 1996 to "create peace with nature on all levels for the preservation of life on this beautiful Planet Earth," the Pax Natura Foundation prize has previously been awarded to biologist Jane Goodall and former Costa Rican president Oscar Arias. The foundation selected the Demanda Colectiva for its "courage and wisdom to resist the ravages of industrial agriculture that degrades the land, destroys biodiversity and encourages increased carbon emissions."

Maize Cobs

Peru

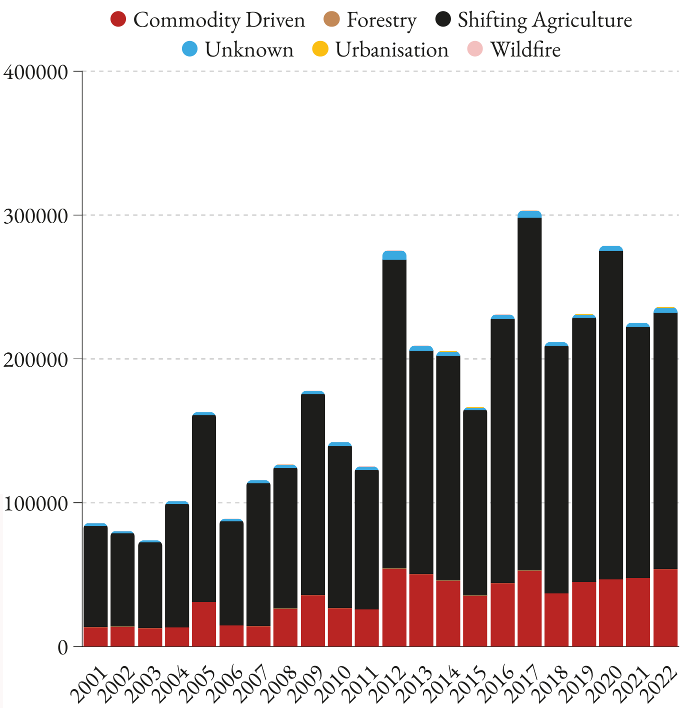
The situation with respect to climate ambition in Peru is mixed. While the Climate Action Tracker has assessed the country's climate commitments to be insufficient to limit temperature increases to 1.5°C by the year 2100, the commitments made roughly align with 2°C warming future. This assessment is based primarily on Peru's commitments to expanded renewable energy generation, which has actually begun to materialise in terms of on the ground investment. Unfortunately, at the same time, Peru is moving forward with plans to open fossil fuel production in its Amazon region, where reserves of 127 million barrels of oil have been identified. The lack of a coherent narrative related to climate ambition is consistent with the political instability that has plagued the country in the form of non-electoral changes in government and political protest. It has also meant that Peru has not updated its NDCs as expected under the Paris Agreement, meaning that the country's climate ambition has not increased as called for by UNFCCC agreements.

"Peru is moving forward with plans to open fossil fuel production in its Amazon region, where reserves of 127 million barrels of oil have been identified."

The government has suggested, however, that Peru will soon promulgate a Climate Change National Strategy that will commit the country to a 2050 net-zero target. Given that the largest current source of emissions in Peru are associated with land use factors, it is very likely that such a strategy will rely heavily on reducing rates of deforestation. This will be challenging to achieve as recent annual levels of deforestation have been comparatively high, reaching a historic peak of 190kha in 2020 . This means that the loss of 3.3% of the country's primary humid forest cover since the year 2000 will likely increase in the absence of concerted action to slow deforestation rates. Given that most deforestation is being driven by shifting agricultural production systems and the expansion of commodity based agricultural production, action to slow deforestation will likely require a commitment to more improved agricultural practices. This means that Peru's efforts to increase its climate ambition and to protect forests and biodiversity are inextricably linked, perhaps more so than any other Latin American country. This makes plans to develop fossil fuel production in the Amazon particularly worrisome given that such activity in the heart of the humid forest will surely serve as kernel of expanded deforestation, compounding both the climate and the biodiversity challenges in the country. It is interesting to note that the citizens of neighbouring Ecuador recently rejected plans to expand oil production in the Amazon. It will be interesting to see if Peru will follow a similar path.

"Peru could fully derive 85% of its national energy from renewable sources by 2050, including 35% provided by wind and solar."

Tree loss by driver in Peru (Ha)



Source: Global Forest Watch

Despite this confused state of affairs, encouraging analysis carried out on behalf of a major electricity provider in the country recently emerged. As a useful input to the anticipated Climate Change National Strategy, the report argued that Peru could fully derive 85% of its national energy from renewable sources by 2050, including 35% provided by wind and solar . This is possible because of strong wind and solar resources available to complement existing hydropower capacity, with a growing commitment to hydrogen as an energy source for industrial users. To meet this target, however, the Peruvian economy will need to undergo a rapid process of electrification. While offering an extremely promising roadmap, the question remains if a commitment to such an ambitious vision could emerge from such a politically unstable situation.

CANNING HOUSE

Environmental Success Story: Producing electric buses in Peru

The City of Lima has long had the unfortunate reputation for horrible traffic and poor air quality. As part of an effort to respond to both challenges, the Lima public transport system has been progressively integrating electric buses into its fleet. In 2023, for the first time, one of these buses was manufactured in Peru. Produced by the Modasa company for the Alliance of Sustainable Urban Mobility Companies (AEMUS), this bus points the way towards changing the energy matrix in public transport. This is consistent with the vision of a sustainable industry that is considerate of the environment, as promoted by the Ministry of Transport and Communications (MTC), an organisation to which the Urban Transport Authority (ATU) is attached.

New electric busses, Lima

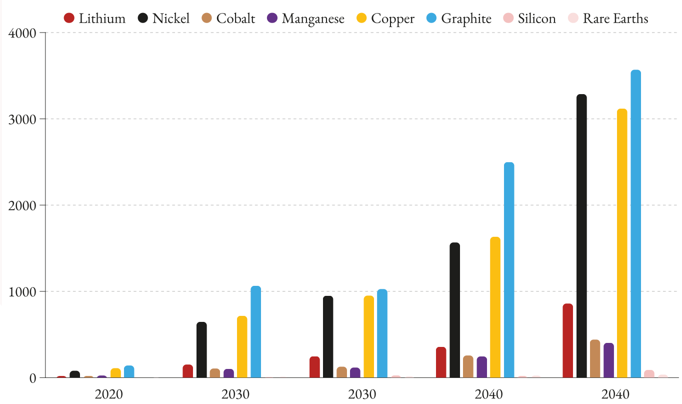
Regional Opportunities and Challenges Related to Transition Minerals

Of the incipient transitions underway in response to the global climate crisis, perhaps the most transformational is the energy transition towards a net-zero greenhouse gas emissions economy at some point in the future. In order to assess possible pathways towards the decarbonised economy, the International Energy Agency (IEA) has constructed a series of scenarios. One of these, referred to as the Stated Policy Scenario (STEPS), is designed to provide a sense of the prevailing direction of energy system progression, based on a detailed review of the current policy landscape. This scenario is not designed to achieve a particular outcome, but rather just a projection based on current trends. Another IEA scenario referred to as the Sustainable Development Scenario (SDS) assumes that concerted policy efforts speed up innovation timelines for new energy technologies so that innovation happens at least as fast as it has ever done historically. In other words, policies are pursued to achieve the decarbonised economy as quickly as are feasibly possible.

> *"Latin America will undoubtedly play and important role in the transition towards a decarbonised global economy."*

Based on these two scenarios, the IEA has developed certain projections regarding the world's future energy system and has translated these projections into estimated demand for what are commonly referred to as the transition or strategic minerals. According to the IEA, these include lithium, nickel, cobalt, manganese, copper, graphite, silicon, and rare earth minerals. According to the IEA, demand for these transition minerals under the STEPS scenario will double by 2040 and quadruple over the same timeframe under the SDS scenario. Much of this demand will come through an increase in the number of electric vehicles and the associated increase in required battery storage capacity. Starting from 2020 levels of 3 million electric car sales per year, and a total of 10 million electric cars on the road – representing 4% of the global total number of vehicles - the SDS scenario anticipates 70 million electric cars on the road by 2040 alongside similar growth in the electrification of light commercial vehicles, buses, and freight trucks. The increase in transition mineral demand associated with the growth in electric vehicle manufacturing and sales under either scenario will be substantial in the years leading up to 2030 and 2040.

Transition Mineral Demand ('000 tons)



Source: International Energy Agency

CANNING HOUSE

Given its known endowment of many of the transition minerals required to respond to either the STEPS or SDS scenario, Latin America will undoubtedly play an important role in the transition towards a decarbonised global economy. According to the Inter-American Development Bank, the countries of the region hold significant percentages of the known reserves for many of the important transition minerals, including perhaps most notably, 52% of the world's known lithium reserves and 38% of the world's know copper reserves. These are fractions significant enough to play a major role in defining how the energy transition will unfold.

Main mineral producers

Mineral	Main producers in Latin America	Percentage of global reserves
Lithium	Argentina, Bolivia, Chile	52%
Silver	Argentina, Bolivia, Mexico, Peru	39%
Copper	Chile, Peru, Mexico, Argentina, Brazil, Panama	38%
Granite	Brazil, Mexico	23%
Iron	Brazil Chile, Peru, Mexico	20%
Tin	Bolivia, Brazil, Peru	20%
Zinc	Bolivia, Mexico, Peru	17%
Nickel	Brazil, Colombia	17%

Copper mining is not new to Latin America. Chile and Peru were the top two producing countries in the world in 2022. Given the size of regional reserves and the projected increase in demand, one would hope that production could simply scale up responsibly to meet demand. According to the Business and Human Rights Resources Center, which produces and annual assessment of the social and environmental allegations registered against the mining industry, South America remains the region linked to the highest number of allegations, reported between 2010 and 2022, with 259 in total. Sixty-one incidents on the right to peaceful protest were reported in the region, with Peru having the most allegations of those, 37 in total, with over half related to the copper mining project Las Bambas. Unsurprisingly, given the water intensity of mining for transition minerals in the Andes region, over half of the allegations of water pollution, 64 out of 95, were registered in the region, mostly from leading copper producers in Chile and Peru. It is not likely prudent to surmise, therefore, that expanded production of copper will take place in a more responsible manner absent from changes in policy and enforcement.

Lithium, the other transition mineral where Latin America has reserves sufficient to be a major player in determining how the energy transition unfolds, is different, as there is not a long history in the region in terms of lithium production. Only production from Chile's Salar de Atacama has scaled significantly over past decades. This production has not been without conflict relating to the impact of brine extraction and subsequent evaporation in the very arid Andean Altiplano. These impacts translate into potential changes in mixing dynamics of lithium rich briny groundwater and adjacent less dense fresh groundwater descending from the surrounding mountains. This mixing zone is characterised by the lakes and wetlands that support emblematic flamingo populations and centuries old livelihood systems for the indigenous communities living close to the salar. A similar socio-ecological context exists in the many salars across Argentina, Bolivia, and Chile, where investments from both Chinese and western interests are pouring into the region.

> *"The simultaneous challenge and opportunity facing Latin America is to improve historic practices related to copper production and to develop new practices related to lithium production with an eye towards become the global leader with respect to the responsible production of transition minerals."*

The simultaneous challenge and opportunity facing Latin America is to improve historic practices related to copper production and to develop new practices related to lithium production with an eye towards become the global leader with respect to the responsible production of transition minerals. This will depend on two primary factors. First, that the region can become more involved in the value addition related to the extraction of primary inputs. This would represent a change compared to past patterns of extractive industries in the region and give the region more control than the current undifferentiated commodity markets. Second, there needs to be a recognition on the part of consumers of the value of purchasing products produced from responsible production. Consumers will be an important driver of the differentiation of commodity markets. If these factors come to pass, the energy transition could become the driver for both economic development and environmental stewardship in Latin America.

Conclusions

The overarching conclusion that emerges from this country-by-country assessment is that Latin America is not yet demonstrating global leadership in response to either the global biodiversity or the global climate challenge. But it has the potential to do so. While positive signs have emerged from some countries - such as Chile, which has articulated a clear net-zero vision; Colombia, which dramatically increased its climate ambition with its most recent NDC update; and Peru, which has developed a rigorous roadmap towards renewables - not one single country in the region has articulated the climate ambition deemed sufficient to keep global average temperatures below 1.5°C by the end of the century.

"Latin America is not yet demonstrating global leadership in response to either the global biodiversity or the global climate challenge. But it has the potential to do so."

Perhaps the biggest challenge facing the region is how land use practices serve as substantial sources of greenhouse gas emissions, particularly in the form of deforestation. Therefore, it is difficult to imagine the region making progress towards more substantial emissions reductions without bringing down annual deforestation rates, perhaps even requiring the achievement of net reafforestation in the region. Of course, given that much deforestation in the region is driven by expanded production of globally traded commodities, any decline in deforestation will likely require more conscious consumption patterns in the Global North. In this regard, it is important to note that all six countries evaluated here signed the global deforestation accord discussed prior to COP 26 in Glasgow. In addition, all of the newly elected left-wing presidents in Latin America have made public commitments to reduce deforestation in their respective countries. Whether these lofty ambitions translate to a real reduction in deforestation and eventual net afforestation, however, remains to be seen, particularly as significant deforestation in the region is being driven by the production of internationally traded agricultural commodities, suggesting that global consumers also bear some responsibility for deforestation in Latin America.

"Efforts to promote the circular bioeconomy are well underway, and offer a model for increasing the value addition associated with efficient management of natural and agricultural biodiversity."

Two potential strategies in the region, however, suggest a way forward. Efforts to promote the circular bioeconomy are well underway and offer a model for increasing the value addition associated with efficient management of natural and agricultural biodiversity. If more value can be sustainably added per unit of available biodiversity, the pressures to increase the harvest of this biodiversity can be reduced. Second, regional collaboration around the responsible production of strategic minerals is increasingly under discussion. The idea is that should Latin America be able to define and apply standards for socially and environmentally responsible strategic mineral production, then the region may be able to secure some commercial advantage in emerging markets for these minerals, driven by the global energy transition. If these strategies continue to mature, Latin America may emerge as a global leader in the effort to respond to our common biodiversity and climate challenges.

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