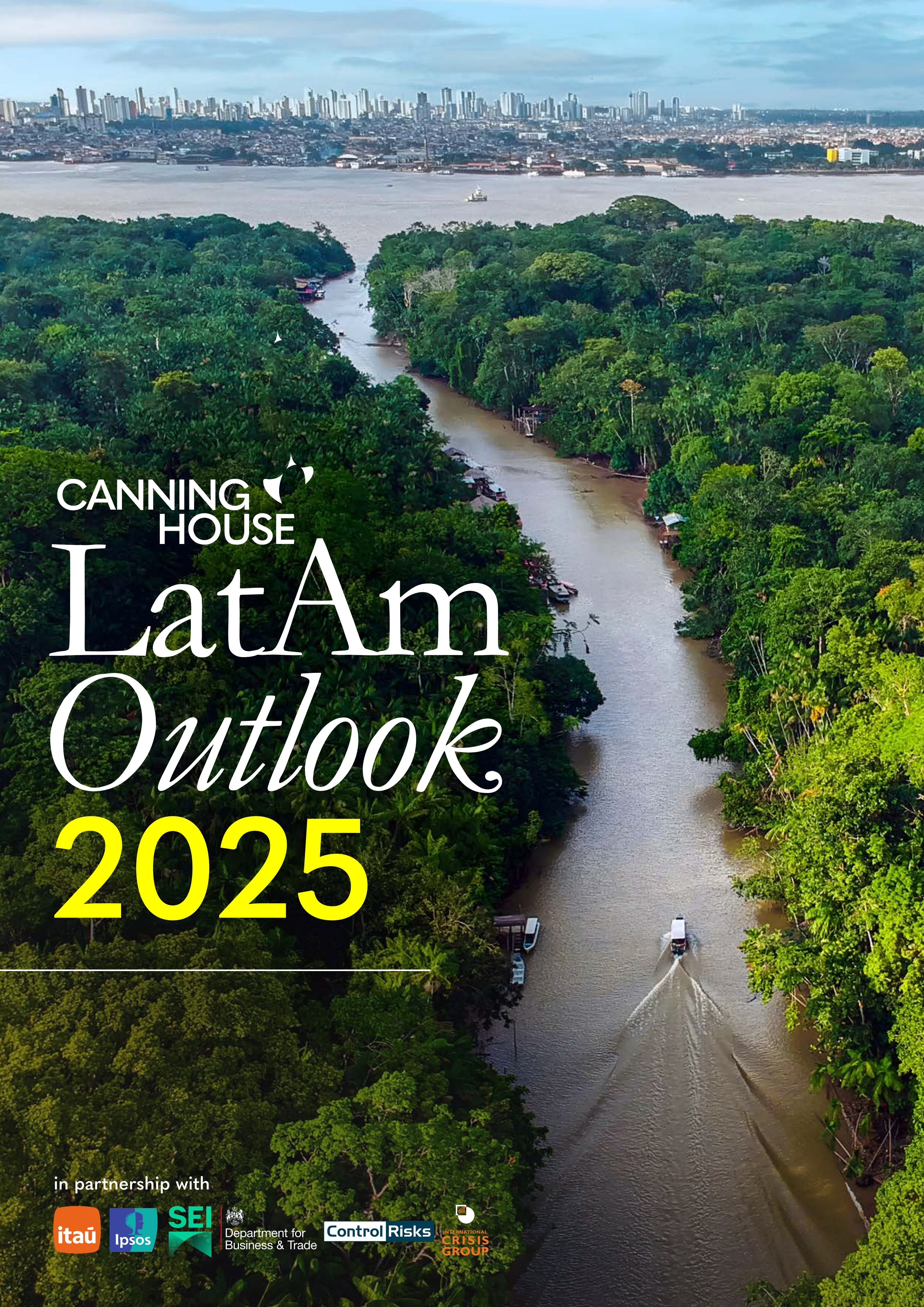

CANNING HOUSE

LatAm *Outlook* 2025

in partnership with

itaú Ipsos SEI Department for Business & Trade Control Risks International Crisis Group

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Introduction

Jeremy Browne, CEO, Canning House

Welcome to Canning House's Latin American Outlook 2025. We want everyone to better understand Latin America. So we have gathered together contributors of great authority and expertise, with each writing a chapter. Together they present a comprehensive examination of the opportunities and challenges facing Latin America. We hope you find it stimulating and informative.

Britain's casual disinterest in Latin America is ingrained. Across decision-making, agenda-setting leaders, in all sectors, it is near-automatic. So much so, they probably do not realise it.

Britain's 'global' businesses operate overwhelmingly in the northern hemisphere. Britain's international news media devotes a minuscule proportion of its resources to covering Latin America.

Britain's universities welcome comparatively few Latin American students. Fewer British travellers visit Latin America than similarly far-flung destinations in Southeast Asia. Britain's trade with Latin America lags behind that of comparable countries.

And Britain's political and foreign policy class neglects Latin America. It is a continent that is rarely mentioned by our parliamentarians. It has no members of the G7, or NATO, or the EU, and some other frameworks that analysts often use to understand global power dynamics.

This is not all bad, because Latin America partially avoids attention for welcome reasons. It is a continent without nuclear-armed countries, or aspirant nuclear-armed countries. It has violent organised crime, but not intra-nation wars. There are autocracies, but they are not global exporters of tyranny and terror. The theological fanatics who murdered thousands in the US in 2001, and who remain a threat today, are not based in Latin America.

To put it bluntly, part of the reason Latin America gets overlooked is because it does not host North Korea, Afghanistan or Iran, or the world two most dangerous existing flashpoints: Russia/Ukraine and Israel/Gaza/Lebanon. Instead, it is overwhelmingly host to open civic societies and democracies, which are far from flawless but have deepening roots.

Although contemporary interest in Latin America is thin, Britain does have close historical links. Canning House is named after the British Foreign Secretary who helped give birth to modern-day Latin America. Victorians, with a spirit of adventure, built railways and founded football teams. There remains an instinctive connection between Latin American countries and Britain, drawing on intuitive bonds and contemporary cultural reference points.

And maybe that is how things are set to be: a reasonable relationship, with many common points of reference and agreement, but underpowered and under potential. But there is a growing reason to believe, with new momentum in 2025, that Latin America can grow in importance, not just in Britain, but more widely.

Donald Trump recommencing his presidency in January 2025 is undoubtedly consequential. There are huge ramifications for Latin America, and for Latin America's relationships with other countries.

President-elect Trump's first meeting with another national leader, in Florida, was, extraordinarily, with President Milei of Argentina. Not the leader of Britain, or France, or Germany, or Canada. In a growing era of Great Powers competition, underscored by ideological dividing lines, Milei's brand of libertarian capitalism strikes a chord with the spirit of the new US administration.

Most Latin American countries have tried to keep their options open on the growing US-China divide. Many have avoided taking sides on its proxy off-shoot, Russia's invasion of Ukraine (although there is sympathy for Russia's viewpoint). Brazil, as Latin America's biggest power, aims to paint itself as an honest broker: simultaneously both a friend to Washington and a BRICS power, but crucially a moderate BRICS power, unwilling to approve Venezuelan membership. Mexico has sought to balance domestic left-radicalism with positive relations with Washington DC.

Can this all survive? Mexico is the US's biggest single trading partner. Its northern border is the main transit point for illegal immigration into the US. The diminution of globalisation, and US appetite for playing tough with China, could be economically beneficial to Mexico, but other countries around the Gulf of Mexico near-region will see opportunities if Mexico holds back from full-hearted co-operation with the US.

Brazil hosts COP30 in 2025, a centre-piece statement event in Lula's comeback presidency. In the one area where Latin America feels most comfortable in offering global leadership, the country that is the primary custodian of the Amazon could chart a future course for all mankind. Britain is Brazil's strong ally on climate change. But with Chinese and Indian fossil fuel consumption soaring, and the US pouring cold water on proceedings, there is a risk of a stumble in the jungle rather than a Brazilian global triumph.

Brazil also hosts the newly expanded BRICS in 2025. A grouping created by a Goldman Sachs acronym, sufficiently prestigious and uncontroversial to be embraced by President Bolsonaro, has rapidly warped into the main vehicle for challenging the US/Western world order. Despite qualified efforts by Brazil (and India), the BRICS is undoubtedly now a greater global platform for Chinese (and, to a degree, Russian) leadership. President Milei reneging on Argentinian membership (and floating instead the idea of associate membership of NATO) underscores the shift.

Meanwhile, Europe drifts. German economic and political leadership fades. Europe's share of both the global population and global wealth continue on a downwards trajectory. Britain, as a European country, suffers some of the same symptoms. But Britain, as a non-EU member, has different options, some good and some possibly invidious, and should seek to deploy them well.

All the while, Latin American trade shifts inexorably towards China. At the start of the century, it would have been near-unthinkable that the US would not be South America's biggest trade partner. A quarter of the way through the century, it is not, because China is. Whether China is just a partner of necessity, or also a partner of choice, is a big open question for many Latin American countries to ponder. The answer has implications for the future relationship with countries like Britain.

There are day-to-day opportunities in the Britain-Latin America relationship. We can, and should, trade more, from coffee and wine, to copper and lithium, to financial services. We should embrace people-to-people contact, from tourism, to students, to greater media interest. Chile and Uruguay, successful Latin American countries with an affinity with Britain, will start new presidential terms with new opportunities. In 2025 the Brazil-Britain bilateral relationship will celebrate its bicentenary.

But the big picture is that the world order is being recast. The competition is in every sphere and on every continent. Britain is a P5 member, a major economy, a NATO and nuclear power, with a global reach and a close association with the US. It cannot be a bystander. But nor, now, can Latin America be either. It is a large continent with many different interests and viewpoints, but its countries will be drawn to the centre of events, and to a greater degree than in the past, may struggle to conceal their hand.

The old alliances are not sufficient for the new world. Across the globe, Britain obviously retains umbilical connections, with fellow European nations, and with others with which it shares a deep kinship. But new times require new friends too, and more effort to rekindle previous friendships. 2025 is a good year for Britain and Latin America to start to work more closely together again, in our shared interest, and in the wider interest too.

Canning House is grateful to all of the authors of the Latin American Outlook 2025. Michael Stott from the Financial Times, Christian Perlingiere from Control Risks, Andrés Pérez from Banco Itaú, James Taylor from the Department for Business and Trade, Jean-Christophe Salles from Ipsos, Dr David Purkey from the Stockholm Environment Institute, and Ivan Briscoe from the International Crisis Group. The publication has been skilfully commissioned and edited by Ian Perrin, the Deputy CEO of Canning House.

Executive Summary

Global Outlook

Latin America's place in the world

Latin America stands at a key juncture. The diminishing influence of the West should offer the developing world's most democratic region a bigger opportunity to shine on the world stage. Its attractions include a strong commitment to peaceful co-existence, respect for territorial integrity, human rights, free elections in most countries, the environment, and the rights of women and minorities. It has an abundance of natural resources, many of which are critical to the energy transition, and has ambitions to reorder the world's security, diplomatic and economic architecture to accommodate new powers and enjoys good relationships across Africa, the Middle East and Asia. Most of its nations have credible institutions, and the region enjoys substantial global soft power.

Yet Latin America has so far failed to turn these natural advantages into clear and decisive diplomatic or economic leadership amongst the new "middle powers" or emerging nations in fora such as the Group of 20 or the BRICS bloc. Too often, sharp political divisions between Latin American nations and the absence of a strong and effective regional coordinating body have meant that the region punches well below its weight on the global stage. Indeed, there is a question over whether it is possible to speak of a "Latin American foreign policy" at all, given the divergences between the region's powers over fundamental issues. Mexico's economic ties to the US and Canada means it regularly turns its head north, and Central America also enjoys trade privileges with the US. On the other hand, South America's largest trading partner is China.

The coming years will be decisive for the region's ability to influence global events. Donald Trump's return to the US presidency offers Latin America the chance of working with Washington to supply critical minerals, boost hemispheric trade and bring production back from China closer to the US market, allowing companies to source from allies of the US. But Trump's threat to impose a 25% tariff on all Mexican and Canadian imports, his preference for a transactional foreign policy, and his strong distrust of China, will increase pressure on the region to pick sides. Latin America is most comfortable adopting a neutral position in times of great power conflict and will probably try to do so again. Its need for external trade and investment would argue for such an approach. Yet in an era of sharpening ideological polarisation, it is unclear whether such a strategy is sustainable over the medium to long term.

Political Outlook

The politics within Latin America

In **Argentina**, as President Javier Milei's administration looks towards 2025, it will continue negotiating with Congress to ensure governability and advance its agenda. The president will promote his strategy to control inflation and attract foreign capital. In his first year, Milei focused on austerity, controlling the fiscal deficit, and recovering economic activity. However, Argentina has seen increased poverty, ongoing inflationary shocks, and currency devaluation. Milei will face challenges in reducing inflation while balancing social demands. China remains a key commercial partner despite Milei's criticism. He declined to join BRICS and tried to build closer ties with the US, which may benefit from Donald Trump's re-election.

Heading into 2025, a pre-election year in **Brazil**, political tensions are likely to escalate. President Lula remains the key figure on the left, while the right scrambles to fill the gap left by Jair Bolsonaro, who plans to run despite being ineligible. Brazil's growing public debt concerns analysts, and budget cuts to control inflation may trigger public servant strikes. Limited GDP growth could negatively impact Lula's popularity. Lula continues to position Brazil as a key international player, especially for the global south, and has attempted to mediate the Russia-Ukraine conflict but without significant progress. He faces criticism for lacking long-term disaster prevention and climate resilience plans, despite his campaign focus on environmental conservation. These issues are likely to persist into 2025.

In **Chile**, after two failed constitutional redrafting processes, President Boric's administration has lost momentum and

congressional support for reforms, leading to uncertainty in 2025's elections. Boric's diplomatic stance, particularly his criticism of human rights abuses in Venezuela, El Salvador, Cuba, and Nicaragua, is positively viewed. Despite not improving social cohesion, Boric is seen as a moderate who avoided exacerbating polarisation. His political weakening may result in a right-leaning, pro-business candidate winning in 2025, taking office in March 2026.

After two years in power in **Colombia**, President Gustavo Petro's government has delivered mixed, modest results with few substantial transformations. This trend is unlikely to change in 2025 due to fiscal constraints, limited political capital, and pre-election strategies. Corruption allegations and various probes have damaged the government's credibility, impacting the president's approval rating. The prospects for the "Total Peace" initiative have decreased. Limited economic growth will restrict the administration's ability to achieve key goals like the energy transition, infrastructure enhancement, and reorienting industries towards greener activities.

President Claudia Sheinbaum of **Mexico** won the June election by a landslide, reflecting the popularity of her predecessor AMLO, who ended his term with a 60% approval rating despite negative perceptions in key areas like security. AMLO will remain a key political figure, leading Morena's factions. Sheinbaum, known for her strong leadership as Mexico City mayor, will lead an autonomous administration while advancing AMLO's legacy and proposals. Sheinbaum supports the controversial judicial reform bill to elect federal and supreme court judges by popular vote, raising business community concerns. Insecurity and organised crime issues persist, and Donald Trump's election could strain US-Mexico relations, especially regarding the USMCA renegotiation.

In **Peru**, tensions between President Dina Boluarte and Congress are escalating, with talk of potential impeachment by mid-2025, though its success is unlikely. Congress has been attempting to assert control over the judiciary and electoral authorities, while rule of law has been weakening in recent years, with reforms favouring organised crime and judicial rulings disregarding international obligations. Public discontent is mounting, reflected in widespread protests and strikes.

Economic Outlook

The macroeconomic forecast in Latin America

Fewer cuts by the US Federal Reserve, in the context of heightened inflationary risks, weaker exchange rates, and idiosyncratic factors mean more gradual adjustments to easing cycles through 2025 in most economies of the region are likely. In Mexico, the Central Bank is forecast to cut 25 bps to 10.0% in the final meeting this year, with a 2025 year-end policy rate of 9%. In Colombia, the terminal rate of the easing cycle is 6.5%, with potential larger cuts due to board turnover. Chile's terminal rate is 4.5%, reflecting higher inflationary pressures. Peru's cycle is expected to end earlier in 2025 at 4.5%, with inflation expectations still above the 2% target. Real ex ante rates are projected to remain above neutral in Mexico and Colombia, and close to neutral in Chile and Peru.

Chile and Peru's 2024 GDP growth is down to 2.2% and 2.9%, respectively, with 2025 also looking less promising due to lower carryover, tighter financial conditions, less growth in China, and lower copper prices. Mexico's 2025 growth is forecast at 1.0% due to higher rates and a deteriorating investment outlook. Colombia's 2024 GDP growth is forecast at 2.0%, with 2025 at 2.4%.

In Argentina, despite high inflation and stabilisation program effects, activity rebounded in 3Q24. The economy is expected to contract by 3.5% in 2024, followed by a 4.0% expansion in 2025. Fiscal consolidation continues, with confidence in the government rebounding further in November. Changes in the US could facilitate additional financing and investment opportunities. The next few months are key for consolidating disinflation, economic recovery, and ending the crawling peg policy.

In Brazil, the primary budget deficit is forecast at -0.4% of GDP in 2024 and -0.7% in 2025. Fiscal and external uncertainties and a stronger USD outlook mean FX projections are BRL 5.70 per USD in 2024 and 2025. GDP growth is projected at 3.2% for 2024 and 1.8% for 2025. The economy should decelerate in 2H24 and 2025 due to higher interest rates, reduced fiscal stimulus, and lower global growth forecasts. Inflation estimates are 4.8% for 2024 and 5.0% for 2025, with the monetary policy rate expected to reach 13.50% pa in 2025 and remain at that level until the end of the year.

Commercial Outlook

The business landscape in Latin America

The UK's commercial ties to Latin America are shaping up positively. Political and policy stability in the major markets of Brazil and Mexico is anticipated, whilst the economic reforms in Argentina are helping to open another major market in the region to international business. This stability is further enhanced when considered as part of the wider the global context, as Latin America will likely benefit from being a 'bystander' to the growing uncertainty and instability in many other regions.

UK trade with the region is already good and growing, and the expectation is for this to continue in 2025. The UK has a demonstrable track record of supporting large-scale infrastructure and energy projects in the region, and these conditions should create further opportunities in these two areas of UK expertise. Data from the Office for National Statistics (ONS) indicate that UK exports to the region are up 36% in the last 5 years, exports to Brazil are at record levels, and, Foreign Direct Investment (FDI) from the Latin America and Caribbean (LATAC) region in the UK was at least £125bn in 2022.

Fintech and agri-tech innovation also represent emerging opportunities for the UK in the region. Many Latin American economies are, for example, looking to adopt Open Banking frameworks modelled on the UK, which could be a driving force for innovation in banking industries across the region; and as a major agricultural producer and exporter, Latin America is clearly a key market for agricultural technologies, particularly those linked to climate change adaptation and resilience.

The hosting of the Pan-American Games in Peru (2027), as well as football World Cup matches in Mexico (2026), and Argentina, Uruguay and Paraguay (one game each in 2030), also presents commercial opportunities for the UK - a sports economy powerhouse - particularly in respect to hosting large scale events.

After a long journey, the UK will also see the CPTPP enter into force in December 2024, which will further deepen and strengthen UK trade with the three Latin American economies - Chile, Peru, Mexico - that are already party to the agreement.

Social Outlook

The social condition of Latin America – Top ten trends

Analysing recent trends across Latin America, there are significant grounds for optimism. Looking at citizens' perception of the direction their countries are taking, in just two years, the number of citizens that believe their country is heading in the right direction has increased from 20% in 2022 to 40% in 2024, representing a huge turnaround in opinion in a short period of time. The threat of organised crime remains a major concern, as the region remains one of the most violent on earth in terms of homicides. Corruption remains a main challenge in Latin America, negatively impacting democratic institutions and weakening public trust, and the region has shown little progress in the fight against corruption in recent years. Although Venezuelan migration has emerged as one of the largest and most complex migratory movements in recent Latin American history, it does not appear to be a major concern for the majority of the region's citizens, with the exception of Chile.

Unemployment rates vary significantly from one country to another, reflecting different economic and political realities. According to the International Labor Organization (ILO), the main labour problem in Latin America is the quality of employment linked to the increase in labour informality. Inflation has historically been one of the main macroeconomic challenges in Latin America. However, some of the region's largest economies, such as Brazil, Mexico, Chile and Peru, have recently managed to contain inflation very successfully, and in Argentina, President Milei is implementing a series of tough measures to curb inflation. Poverty rates in Latin America and the Caribbean are currently slightly below those recorded before the pandemic, and in 2023 the region reached its lowest recorded poverty rate in one hundred years, with only 25% of people living on less than USD $6.85 a day.

Education and skills accumulation are fundamental to address structural inequalities, improve social mobility and foster productivity growth in Latin America, and key indicators suggest this too is greatly improving across the region, with spending on education as a percentage of GDP having increased by 7% on average over the last 20 years. Likewise, spending on health has evolved favourably in Latin America over the past two decades, rising on average from 6% in 2000 to 8% in 2021, and reaching levels close to the world average of 10% in Brazil, Argentina and Chile. Aging populations however, will put increasing pressure on healthcare systems in coming years, particularly in Brazil and Chile.

Although Latin America and the Caribbean face significant challenges around environmental issues, in general terms, this concern remains secondary compared to issues such as the economy or security, with only 10% of Latin Americans placing climate change amongst their top three concerns in 2024. Latin America has witnessed important social transformations in recent decades, reflecting greater openness to diversity, advances in gender equity and growing access to technology. At the legislative level, more than 13 countries in the region have approved equal marriage, with Chile recently joining in 2022.

Environmental Outlook

Latin America's potential role in the global energy transition, and potential risks

The global energy matrix is still dominated by fossil fuels. There has been no dramatic reduction in the contribution of fossil fuels to this mix at the global level, even as the contribution of wind and solar have increased since the turn of the 21st Century. However, Latin America is well-positioned to lead the global energy transition. Whilst Argentina and Mexico face challenges reducing fossil fuel dependence, the region's emissions intensity is below the global average. There are issues with the current fuel mix, particularly an over-reliance on hydropower and difficulties in securing social license for renewable projects. Ecuador's heavy dependence on hydropower has led to significant power cuts during droughts, exacerbated by climate change. The region's potential for wind and solar energy is high but requires better agreements with local communities.

Latin America also has significant strategic mineral resources essential for the energy transition. Developing responsible mining protocols, especially for water-intensive lithium, could differentiate the region in the global market. Progress towards the 30% conservation target by 2030 is ongoing, but effective conservation remains a challenge. Only 32 of 50 countries in Latin America and the Caribbean have evaluated the effectiveness of their protected areas, with just 16 meeting the Aichi Target of evaluating 60% of their protected area coverage.

Despite these challenges, Latin America is well-placed to lead in the accelerating global energy transition. The region's substantial renewable energy potential and strategic mineral resources offer an opportunity to drive this transition. Realising this potential will help reduce the climate vulnerability of hydropower systems and accelerate the phase-out of fossil fuels. Additionally, the region's progress in meeting conservation targets can showcase leadership in responding to global climate and biodiversity challenges.

Risk Outlook

Instability and threats in Latin America

Organised crime and violence are major concerns in Latin America, despite the region being mostly free of conventional armed conflicts. Criminal groups contribute significantly to high levels of lethal violence and often adapt by shifting operations or forming new alliances when targeted by security forces. They also establish command centres within prisons, frustrating efforts to dismantle them.

In 2024, two events highlighted the threat of criminal organisations. In January, Ecuadorian criminal groups staged a violent nationwide defiance, seizing prison guards and causing public panic. In September, intense fighting erupted in Sinaloa, Mexico, following the arrest of key cartel leaders. This led to violent clashes and significant civilian suffering, with criminal factions setting up roadblocks and causing numerous deaths and kidnappings. These events underscore the persistent and evolving challenges posed by organised crime in Latin America.

2025 will test Latin America's new crime strategies. In Washington, the incoming US president may demand that Mexican authorities confront criminal organisations or let US special forces do so, despite past failures. Elections in Ecuador (February) and Chile (November) could well be overshadowed by security concerns. Argentine President Javier Milei's efforts to reduce violence in Rosario and Colombian President Gustavo Petro's "Total Peace" strategy, involving nine negotiations with armed groups, will face challenges. Venezuela's political crisis will continue to raise fears of cross-border criminal violence.

Reducing organised crime's impact on human security, the rule of law, and democratic politics remains crucial. Alternatives to heavy-handed approaches, which often gain political support but are counterproductive, should be pursued. Combining effective law enforcement with economic and social programs, including providing legitimate livelihoods for impoverished communities, is essential.

Short-term reductions in violence, whether through dialogue or law enforcement, are unlikely to last without broader reforms. Strengthening security and judicial systems, curbing illicit flows, and offering lawful livelihoods to former criminals are vital. Intelligence-led policing and international information exchange can enhance law enforcement. Prison reforms should prevent jails from being criminal hubs and offer inmates training and education. International counter-narcotics efforts should shift focus from low-ranking individuals to higher-value targets, including financial flows.

Global Outlook

Latin America's place in the world

Michael Stott, Latin America Editor, Financial Times

G20 Summit Rio (Credit: Palácio do Planalto)

Introduction

As the post-World War Two global order is remade amid the decline of the West, the rise of new emerging powers, a second Trump presidency and the growing ambitions of China and Russia, Latin America stands at a key juncture.

In theory, the diminishing influence of Europe and the United States should offer the developing world's most democratic region a bigger opportunity to shine on the world stage. Its attractions include a strong commitment to peaceful co-existence, respect for territorial integrity, human rights, free elections in most countries, the environment, and the rights of women and minorities.

Latin America has ambitions to reorder the world's security, diplomatic and economic architecture to accommodate new powers and enjoys good relationships across Africa, the Middle East and Asia.

Most of its nations have credible institutions, with generally well-run central banks, technocratic finance ministries and – in some countries – an independent judicial system. The region enjoys substantial global soft power. Its music, food, films and books are appreciated the world over and its languages are amongst the most widely spoken.

Yet Latin America has so far failed to turn these natural advantages into clear and decisive diplomatic or economic leadership amongst the new "middle powers" or emerging nations in fora such as the Group of 20 or the BRICS bloc. Too often, sharp political divisions between Latin American nations and the absence of a strong and effective regional coordinating body have meant that the region punches well below its weight on the global stage.

Indeed, there is a question over whether it is possible to speak of a "Latin American foreign policy" at all, given the divergences between the region's powers over fundamental issues. Free trade with North America has turned Mexico into a country far more focused on relations with Washington and Ottawa than with the rest of Latin

America, though those North American ties face a serious test in a second Trump presidency. Central America and the Caribbean also enjoy trade privileges with the US and the chance of closer integration into regional supply chains.

South America, on the other hand, has so far had limited opportunities for free trade with the US and the EU and has been unable to integrate into a single regional common market either. China has become the biggest trading partner for Brazil, Chile and several other South American nations but is much less important as a market for Mexico. Such divergences are more likely to increase than to decrease over time.

The coming years will be decisive for the region's ability to influence global events. Donald Trump's return to the US presidency offers Latin America the chance of working with Washington to supply critical minerals, boost hemispheric trade and bring production back from China closer to the US market, allowing companies to source from allies of the US. But Trump's preference for a transactional foreign policy and his strong distrust of China will increase pressure on the region to pick sides, rather than pursue neutrality. Trump's Cuban-American Secretary of State, Marco Rubio, is likely to pursue a revival of "maximum pressure" policies against the repressive governments in Venezuela, Cuba and Nicaragua, given his history of backing such moves.

As the war in Ukraine reaches the three-year mark and it becomes clearer to all sides that the conflict cannot be won decisively on the battlefield by either Kiev or Moscow, pressure for a diplomatic solution is likely to grow and the relevance of the peace negotiations advanced by Brazil and Mexico, amongst other nations, is likely to increase.

The BRICS grouping is likely to admit more new members over the coming years and those decisions will define the group's core purpose and mission. They will decide whether it becomes primarily an anti-Western forum, as China and Russia desire, or a broader emerging powers bloc with a more neutral stance, the posture favoured by Brazil and India.

Brazil will build on its hosting of the G20 summit in Rio de Janeiro in November 2024 to prepare for its role in staging the COP30 meeting in 2025 in the Amazon city of Belém and occupying the BRICS presidency in the same year. The COP encounter offers Latin America's biggest power the chance to achieve global progress on critical climate objectives as the target of limiting warming to 1.5 degrees Centigrade slips away, and to position itself as a major part of the solution via rainforest conservation and the promotion of green energy – an agenda which has become much more challenging to deliver with Trump back in the White House and Milei adding a climate-sceptical note from South America.

Under a second Trump presidency, Latin America is likely to come under increasing pressure to take a side in the intensifying geopolitical battle between the United States, the traditional great power in the region, and China and Russia. China has made big economic, diplomatic and trade gains in the region in the past two decades by positioning itself as a helpful ally which imposes few conditions in return for its investment. It has built a strong position in critical minerals and in power and transport infrastructure. So far, the United States and the European Union have responded with warnings about the risks of accepting Chinese investment without offering much in the way of attractive alternatives.

Latin America is most comfortable adopting a neutral position in times of great power conflict and will probably try to do so again. Its need for external trade and investment would argue for such an approach. Yet in an era of sharpening ideological polarisation, it is unclear whether such a strategy is sustainable over the medium to long term. So far, the region has been able to straddle the growing US-China conflict without having to choose sides but such a posture may not be tenable, particularly for Mexico and Central America, if Trump fulfils his campaign promises to adopt a much more aggressive stance towards Beijing.

This chapter sets out to examine the evolution of Latin America's foreign policy in recent years, its traditional policy positions, its participation in non-Western groupings and organisations and the objectives it seeks. It will look at the foreign policies of the key Latin American nations and ask what opportunities exist for the US, the UK and the EU in the fast-evolving new global order to engage with Latin America in the pursuit of common objectives. It will also evaluate some of the areas in which Latin American diplomacy might have the biggest impact in coming years.

President Lula addresses the United Nations (Credit: Lula Oficial)

Latin America's struggle for an independent foreign policy

Developing nations made their first efforts to break free of a Western-dominated international order within a decade of the end of World War Two. The Bandung conference of African and Asian nations was convened in 1955 and the Non-Aligned Movement of 1961 marked the beginning of the process. Latin America was absent from the first and did not take a leading role in the second; indeed, none of the region's three major powers are currently members of the Non-Aligned Movement, whose primary sponsor in the hemisphere has been Cuba.

Latin America's absence from the Bandung Conference and its limited engagement with Non-Aligned Movement reflected in part the fact that its experience of decolonisation (a driving force for the post-war generation of nationalist leaders) was in the distant past, rather than a contemporary phenomenon as in Africa and Asia. For the Caribbean, which was experiencing decolonisation in the latter part of the 20th century, the Non-Aligned Movement resonated much more strongly.

> ***"As the world appears headed into a period of much more acute tension between China and Russia versus the West, Latin America faces increasing pressure from the US and the EU to align itself more clearly with their interests, and to resist greater dependence on China for technology, investment and trade."***

During the Cold War years, Latin America was buffeted by the ideological tug-of-war between the two superpowers. Cuba was the Soviet Union's most reliable ally, while Central America in the 1980s and early 1990s turned into a battleground between Soviet and US proxies. In South America, US-backed military dictatorships predominated in much of the continent as bulwarks against Soviet expansion, an experience which checked the spread of communism, but came at a very high cost in human rights abuses, institutional decay, the suppression of democracy and persistent inequality.

The region thus has recent experience of having lived through a period in which its development and institutional stability were adversely affected by great power competition. There is little appetite for a repeat, particularly after a brief period in the 1990s and early 2000s, when the prospect of free trade and globalisation favoured the region and helped fuel a boom in commodity prices which lifted many Latin American economies.

Yet as the world appears headed into a period of much more acute tension between China and Russia versus the West, Latin America faces increasing pressure from the US and the EU to align itself more clearly with their interests, and to resist greater dependence on China for technology, investment and trade.

Western nations have expressed alarm at the rapid inroads China has made in Latin America, increasing its trade with the region from USD $12 billion in 2000 to USD $450 billion in 2023. The total stock of Chinese investment in Latin America is now estimated at USD $600 billion by Statista and in recent years it has been increasingly concentrated in key strategic sectors such as critical minerals (copper and lithium in particular), telecommunications and energy and transport infrastructure.

Examples include a Chinese company Tianqui's 22 per cent stake in Chile's SQM (the world's second biggest lithium producer) and Chinese investors' control of the electricity supply to Lima, as well as the Chinese-led USD $3.5 billion mega-port project at Chancay on Peru's Pacific coast, inaugurated at the APEC summit in November 2024, which allows faster and more cost-effective shipping of Latin America minerals and food exports to China.

China's involvement has not been limited to transport infrastructure, energy or mining. A Chinese military-run deep space monitoring station in Neuquén, Argentina has aroused particular US concern because of allegations (strongly denied by Beijing) that the base is used to spy on military satellite traffic. The US has also expressed alarm about China establishing eavesdropping bases in Cuba to spy on the United States.

Opening of Chancay mega-port, Peru (Credit: Presidencia Peru)

Sergey Lavrov, Russian Foreign Minister, and President Lula (Credit: Palácio do Planalto)

Russia's involvement in the hemisphere has had a different emphasis. Commercial links are much more limited, though Moscow is a key supplier of fertiliser to Brazil and has been selling large quantities of refined fuel to the region since the Ukraine war began, to get around Western bans on importing Russian oil products.

Russia's main military alliances in the region have been with Cuba and Venezuela, though the poor state of both these nations' economies have prevented significant new sales of weaponry from taking place in recent years. Nonetheless, Moscow's diplomatic support and the provision of limited military and other assistance have been important in preventing the international isolation of the governments in Havana and Caracas.

Where Russia has been more active in the information sphere. Russian-funded broadcasters and internet news sites such as Sputnik and Russia Today have had significant success in Latin America, thanks to free Spanish-language content and an anti-US posture which strikes a chord with the region's left, who are traditionally suspicious of Washington.

These channels have helped to stoke anti-Western sentiment by promoting the idea that the existing world order is unfair and that Western strictures on democracy, human rights and respect for sovereignty are hypocritical because of the West's own actions in countries like Iraq, Libya, Afghanistan, former Yugoslavia and Ukraine.

> *"US and European criticism of Latin America for failing to follow the Western line on Ukraine has stoked a perception in the region that its voice is either ignored or misunderstood."*

Crystallising these feelings has been the Ukraine war. Most Latin American nations condemned Russia's invasion as a clear violation of Ukrainian sovereignty and are clear that Moscow's military aggression cannot be condoned. Yet Western actions in support of Ukraine have caused deep unease. This is because of two factors: firstly, the West's massive military aid to Kiev, which many Latin American critics regard as something which has stoked the conflict instead of helping to end it.

There is deep regional concern that instead of trying to push both Russia and Ukraine towards a ceasefire and peace negotiations, the West has instead preferred to pursue a strategy designed to permanently weaken Russia's military, something which has had the effect of escalating and prolonging the conflict. There is also resentment at the enormous scale of Western military and economic aid to Ukraine (totalling over USD $300 billion by the end of 2024) compared to USD $223 billion in total annual global development assistance by wealthy nations in 2023.

The second cause for Latin America unease has been the West's sweeping economic and financial sanctions against Russia. These have gone far beyond most previous sanctions, cutting most Russian banks off from the SWIFT payments scheme and from credit card processing networks, freezing about USD $300 billion of Russian central bank reserves held overseas, banning flights from Russia and prohibiting the import of most Russian oil, gold and diamonds to the West.

Finally, Latin American diplomats tend to reject the Western argument that the Ukraine war represents an exceptionally dangerous or important conflict. They rather see it as a yet another territorial dispute akin to many others in the world and one which ought to be resolved by diplomatic channels.

Latin America already has the long and painful experience of draconian US economic sanctions against Cuba and more recently against Venezuela. In both cases, the sanctions worsened already serious economic crises, exacerbated hardship for the population and failed to achieve the stated objective of regime change.

Latin American foreign policy is therefore generally critical of the way the West has pursued the Ukraine war and averse to broad economic sanctions (though not targeted individual sanctions). Consequently, Western attempts to try to push the region into assisting with military aid to Kiev, supporting sanctions or halting diplomatic or commercial contact with Russia have almost all failed.

US and European criticism of Latin America for not following the Western line on Ukraine has further stoked a perception in the region that its voice is either ignored or misunderstood. Biden administration criticism of Brazilian President Luiz Inácio Lula da Silva in 2023 for supposedly "parroting Chinese and Russian propaganda" on Ukraine caused deep resentment. This was principally because the criticism fails to understand the reasoning behind the Brazilian position, which is not fundamentally pro-Moscow but seeks to keep diplomatic and commercial contacts open between Brazil and both parties to the Ukraine conflict in much the same way as Turkey, India or the Gulf nations.

Latin American nations ask themselves why Turkey, a NATO ally, and Saudi Arabia or the UAE have not experienced the same public criticism from the United States of their positions on Russia as Brazil.

Many of the same arguments apply to US and European pressure on Latin America to restrict Chinese trade, investment or technology. Why, nations in the region ask, should they not be free to trade with or receive investment from whoever they wish? US strictures about the risks of over-dependence on China ring hollow in a region which was long heavily dependent on US companies and in hock to US policy and preferences as a result.

Chinese technology is perceived as good value and fit for purpose. Why then, many Latin American nations argue, should they shun it and spend precious resources buying 5G equipment at higher prices from European suppliers if Europeans and the US are not willing to help compensate for the price difference? Infrastructure projects tend to prompt similar arguments. The US campaign to pressure Latin America into boycotting Huawei's 5G equipment has so far been a near-total failure.

> ***"It is hard to see how Western countries will be able to compete effectively unless they find much better ways to align government policy aims, the availability of deal finance and the behaviour of the private sector."***

APEC Summit 2024 (Credit: Presidencia Peru)

Further complicating matters, many Chinese investments in the region which are perceived as strategic or in key sectors are made when Western companies sell their stakes because Latin America is perceived as non-core or because they need to reduce debt levels. Hence the Chinese were able to snap up a stake in Chilean lithium miner SQM because the Canadians were selling as the result of an antitrust ruling. Beijing-backed companies could swoop on power assets in Chile or Peru because Spanish or Italian or US companies were selling out.

The 2024 APEC summit in Peru turned into a potent demonstration of the power of Chinese trade and investment, as President Xi Jinping inaugurated the Chancay mega-port as part of a state visit which also included hundreds of Chinese business executives. President Biden, by contrast, made an appearance as a lame duck leader at the same summit with nothing new to offer Peru and no big US projects to inaugurate.

In Chile, Chinese companies now control two-thirds of the energy sector. In Peru, they control all the power supplies to the capital Lima. In both nations, these moves happened because of divestment by European or North American companies. There is therefore a growing dissonance between the stated Western policy objective of containing Chinese investment in critical sectors and the behaviour of Western private sector companies.

At the same time, Beijing's companies and banks are completely aligned with the government's goal of building up its holdings in key energy and mining assets in Latin America. It is hard to see how Western countries will be able to compete effectively unless they find much better ways to align government policy, the availability of deal finance and the behaviour of the private sector.

This geopolitical competition sometimes overshadows a broader discussion about the region's potential to be a source of solutions to some of the world's most pressing problems. Latin America is a major food exporter and a key supplier of critical minerals such as lithium and copper. It is a potential source of large quantities of highly efficient renewable energy, thanks to its abundant solar and wind power potential. It is a crucial carbon sink because of the Amazon rainforest. It has plentiful supplies of water and fertile land. It has a relatively well-skilled workforce located far from conflict zones and close to the US market.

Yet the region's ability to make the most of these natural advantages will depend on its ability to navigate an increasingly polarised and complex international environment. How is the region placed to do so, and to make its voice heard in the global debate about the evolving new order?

Latin America's difficult quest for regional unity


Secretary General of the OAS Luis Almagro (Credit: OAS)

In recent times, Latin America has become increasingly polarised between the hard left and the hard right, with fewer centrist administrations holding power. The region's relatively short electoral cycles (typically mimicking the US four-year election calendar) and its division of power between elected executive presidents and congress (another import from the US) tend to magnify the effects of polarisation, leading to see-saw governments, which tend to abandon most of the initiatives pursued by their predecessors, regardless of merit, and start afresh.

> *"Latin America has long been handicapped by the lack of an established and institutionalised regional forum for diplomatic and political dialogue."*

The intensely personal nature of political struggle in the region, concentrated around the personalities of leading presidents, has made cooperation between nations and the achievement of common positions much more difficult. The challenges will only become more acute in a second Trump presidency.

Latin America has long been handicapped by the lack of an established and institutionalised regional forum for diplomatic and political dialogue. The Washington-based Organization of American States has highly respected human rights and elections arms but politically it has long been seen as a vehicle for US power projection and Cuba, Nicaragua and the Maduro government in Venezuela are all non-members.

Yet none of the regional alternatives which exclude the US has endured or given Latin America a strong voice on the global stage comparable to the one enjoyed by the Organisation of African Unity, the Arab League or ASEAN in their respective regions.

The South American integration body UNASUR, founded in 2008, proved to be an entity driven by the political left which was unable to transcend the end of the Pink Tide of left-wing governments in the second decade of this century and was effectively wound up, although more recently President Lula of Brazil has tried to revive it.

The Pacific Alliance only encompasses part of the region, as does the South American trade bloc Mercosur. Of the other regional bodies, only CELAC, the Community of Latin American and Caribbean states, is capable of convening the entire region for dialogue with external powers such as China or the EU.

CELAC however is a long way from being an effective regional body for Latin America and the Caribbean. As an intergovernmental coordinating mechanism, it lacks a permanent secretariat and its rotating presidency suffers when it is assigned to smaller nations lacking the diplomatic heft to organise and project power. It is not a trade bloc and has no policymaking authority, issuing instead political statements reached by consensus. Yet it remains the nearest thing Latin America has at present to a regional coordinating body.

This inability to coordinate policy regionally has other costs beside the diplomatic dwarfing of the region. One is that it makes the promotion of intra-regional trade very difficult. It is no surprise that Latin America is the region with the lowest levels of intra-regional trade in the world – less than 20 per cent of total trade, compared to three times that level in East Asia.

Mexico, it should be added, is in a special position because of its privileged relationship with the United States. Since the 1994 North American Free Trade Agreement and its successor USMCA, Mexico has been bound ever more closely into the North American orbit and, at least on trade matters, could not join an entity such as Mercosur without risking USMCA, something which would make no economic sense.

South America could potentially use the expansion of the Mercosur bloc to drive greater regional trade and political integration. The continent's two biggest economies, Brazil and Argentina, are both members and it has incorporated Bolivia, Paraguay and Uruguay as well as Venezuela (whose membership is currently suspended). Yet none of the Pacific coast nations are full members (they are associates) and in the case of Colombia and Chile, Mercosur membership would complicate existing bilateral free trade agreements with the United States. Finally, Mercosur has proved unable so far to ratify new trade agreements with the biggest global players, the EU, China or the US (the EU treaty has been well over two decades in the making but remains unratified).

In the absence of an effective regional coordinating body, the multilateral development banks have assumed a greater importance, coordinating on issues such as fighting organised crime which go beyond a narrow financial mandate. The CAF, for example, has grown rapidly from being a development bank focused on the Andes to one which now spans the region and lends on a scale not far behind the longer-established and bigger IDB.

> *"Fifteen years after the first BRICS summit, Brazil remains the only Latin American member and finds itself, along with India, fighting a bid by Russia and China to make the body an anti-Western one."*

If Latin America lacks an effective regional coordinating body, what of its efforts in global blocs such as BRICS? What do the region's interactions so far with the BRICS tell us about its emerging foreign policy priorities?

Brazil was one of the four original founding members of the BRICS, a Russian-inspired bloc which held its first ministerial meeting in 2006 and its first presidential summit in 2009. Brazil was drawn to the grouping by its promise of an alternative forum to existing Western-dominated ones, offering the prospect of a stronger voice for major developing powers.

Fifteen years after the first BRICS summit, Brazil remains the only Latin American member and finds itself, along with India, fighting a bid by Russia and China to make the body an anti-Western one. The first big expansion of the BRICS last year proved frustrating for Latin America: Brazil secured agreement on an invitation for Argentina while the Peronists were in power, only to see libertarian President Javier Milei reject the offer after taking power in December 2023.

BRICS Summit 2024 (Credit: MEAPhotogallery)

The expansion of the BRICS agreed in 2023 heavily favoured Middle Eastern and African nations, with Ethiopia, the UAE, Saudi Arabia, Egypt and Iran also invited to join. They underlined the heterogeneity of the BRICS as a bloc but some viewed the inclusion of Iran as shifting the grouping further away from a neutral stance towards an anti-Western one. By the end of 2024 Saudi Arabia had still not taken up its invitation to join.

The current waiting list features key emerging powers such as Turkey and Indonesia but omits any major Latin American nation, suggesting that its future evolution may pass the region by. Bolivia, Cuba and Venezuela - all strongly aligned with Moscow - are the only Latin American nations to have publicly expressed a desire to join.

Brazil did succeed in exerting some influence over Russia and China at the BRICS summit in Kazan, Russia in October 2024 by blocking invitations for Venezuela and Nicaragua to join the bloc. President Vladimir Putin had asked Nicolás Maduro to the summit and had hoped to use the occasion to seal Venezuela and Nicaragua's entry into the BRICS, rewarding close Russian allies and sending an implicit rebuke to the United States.

Lula was able to prevent the invitations from going ahead, so Maduro and Nicaraguan leader Daniel Ortega's son Laureano left the summit with supportive words from Putin, but no invitation. The broader question, however, of whether the BRICS bloc is a neutral one or an explicitly anti-Western one remains unresolved.

In search of a Latin American Foreign Policy

What then should a Latin American foreign policy agenda for the 21st century look like? Priorities will inevitably differ between nations and political camps, but to be successful over the longer term, such a policy ought to meet several strategic objectives. It should increase the region's security and prosperity, boost trade and investment and improve regional unity and connectivity. It should give Latin America a stronger and more united voice on the world stage and increase its weight in international institutions such as the IMF, the World Bank and the United Nations. It would make the region a leader in environment and climate diplomacy.

It could also promote changes to the international financial system to reduce reliance on the US dollar and encourage the development of alternatives which reduce the impact of US interest rate decisions on the region's borrowers. It would build on the region's traditional strengths of neutrality, the peaceful resolution of conflict and the promotion of human rights and democracy.

Some would add to that list climate justice in international talks on the environment, as well as the fight against hunger and poverty and more effective international coordination in managing the challenge of migration.

However, even though most of the region could accept most of the objectives listed above, the prospect of Latin America uniting to press common positions remains remote. Several of its presidents traded personal insults during 2024, with the presidents of Ecuador and Mexico falling out, the presidents of Argentina and Brazil clashing and the leaders of Peru and Colombia arguing, underlining how difficult it is in a politically polarised region to secure dialogue, let alone diplomatic agreement.

With Latin American presidents facing increasing challenges in governing amid widespread dissatisfaction at inadequate public services, entrenched inequality, slow economic growth and deteriorating security, the pursuit of effective, well-coordinated regional diplomacy is likely to take a back seat.

Such challenges come into sharp focus as Donald Trump begins his second presidency in January 2025. Foreign policy did not feature prominently in the US election campaign but illegal immigration did. Trump was clear in stating his intention to begin mass deportations of illegal immigrants from the US and to stop illegal migrants from crossing. He was equally clear in stating his preference for "homeshoring" (bringing jobs back to the US) over "nearshoring" (locating them in nearby countries) and in promising blanket tariffs on most countries, including Mexico.

Trump has described NAFTA as a "horrible, horrible trade deal – horrible for us, very good for Mexico and Canada" and has said he wants to make the successor agreement USMCA (which he negotiated) into "a much better deal". With Mexico reliant on the US market for 83 per cent of its exports, and the political mood in the US shifting to favour domestic production, changes to USMCA could pose a serious economic risk for Mexico.

However, not all the region fears Trump. Conservative allies such as El Salvador's President Nayib Bukele and Argentina's Javier Milei were quick to congratulate the Republican president on his win. Both hope he will ease the path to IMF approval of fresh loans programmes for their countries, as well as provide welcome ideological and diplomatic support. Milei is a friend of Elon Musk, a close ally of Trump, whose push to slim down the US federal government echoes what Milei is doing in Argentina.

Although Brazil's conservatives, led by former President Jair Bolsonaro, will draw political succour from Trump's victory, the impact of a second Trump term on Latin America's biggest nation is likely to be limited. Brazil is not heavily dependent on the US market for its exports, selling just USD $37 billion to the US in 2023 against USD $104 billion to China. Its large internal market means the country as a whole is much less trade-dependent than other Latin American nations.

Mexico is by far the most exposed Latin American nation to a Trump second term. The North American Free Trade Agreement and its successor USMCA have made Mexico the US's biggest trading partner. Mexico is heavily dependent on exports to its northern neighbour, as well as on US investment and on more than USD $60 billion a year in remittances sent home by Mexicans living in the US.

> ***"While President Andrés Manuel López Obrador managed to strike up a good personal relationship with Trump, Sheinbaum's ideological rigidity and resistance to negotiating with adversaries are likely to make for a much more difficult relationship."***

President Sheinbaum (Credit: Gobierno de México)

Trump is likely to start early the revision of USMCA which is scheduled for 2026 and to treat it as a full renegotiation, as well as seeking commitments on border security, the reduction of illegal migration and the war on drugs in return for agreements on trade and tariffs.

While President Andrés Manuel López Obrador managed to strike up a good personal relationship with Trump – in no small part because of similarities in the two men's leadership style – and was able to agree mutually beneficial deals, Sheinbaum's ideological rigidity and resistance to negotiating with adversaries are likely to make for a much more difficult relationship – particularly given how hard Trump is likely to push Mexico on sensitive issues such as migration and illegal drugs.

In addition, the second Trump term catches Mexico at an awkward moment diplomatically in Washington, when it has few friends on Capitol Hill because of the politically toxic migration and drug issues which dominate debate there. Mexico had a low-profile ambassador during the López Obrador years and Sheinbaum has yet to make a decision on her ambassador to Washington, preferring to wait until after the US election to do so. Her eventual nominee was likely to face big challenges in a much more hostile US political climate towards Mexico.

Trump is also likely to look for ways to step up pressure on the authoritarian governments in Venezuela, Nicaragua and Cuba during his second term and is likely to lean hard on Colombia to resume the eradication of coca plantations after production of the plant surged to record highs under Petro. It is not impossible to imagine that targeted US military interventions in Latin America to achieve Trump objectives -- for example regime change in certain states or action against key drug cartel figures -- might again be considered. The Trump years promise to be turbulent and unpredictable for the region.

Foreign Policy in the biggest Latin American nations

Turning to the foreign policy stance of the main Latin American powers, **BRAZIL** stands out as the leading nation in the region able to project diplomatic power effectively on the global stage, thanks to its size, its well-resourced and highly professional diplomatic service and the country's global importance on issues such as clean energy, food and commodity exports and the environment.

The Lula administration has attempted to play a constructive role in two major regional conflicts, the Ukraine war and the Middle East imbroglio. Although the aim is to seek a peaceful and just solution to both conflicts, the results so far have been sparse, reflecting the difficulty of achieving international consensus at a time of increasing polarisation and the limits of Brazil's diplomatic reach.

However, if the Trump administration seeks a speedy end to the Ukraine war, the solution adopted may not be dissimilar to Brazil's latest proposal, which would commit both sides to not escalating the conflict, renouncing the use of weapons of mass destruction and an immediate peace conference to achieve a ceasefire along existing battle lines, followed by negotiations on a lasting settlement. This idea was first proposed jointly with China in May 2024 and later won the support of various emerging powers.

Ukraine's President Volodymyr Zelensky at first dismissed the Sino-Brazilian plan as "destructive" but later said he would be open to incorporating parts of it in Ukraine's own proposals.

Lula's forays into Middle East policy have been more problematic. Israel declared him "persona non grata" after he described the attacks on Gaza as "genocide" and refused to apologise – an extraordinary development for a leader who was feted on previous visits to Israel. Brazil does not have much of a track record of successful Middle East international diplomacy to draw on – an effort by Brazil and Turkey to avoid further sanctions on Iran failed back in 2010 – and it will likely struggle to gain traction for its ideas in the current highly polarised environment.

> *"Perhaps the biggest challenge for Brazil on the world stage is to mark out a distinctive "Global South" posture independent of China and Russia in a BRICS bloc where India's rapidly growing economy and burgeoning tech sector is making it a strong competitor for global diplomatic attention."*

Brazil's desire for a greater global role has faced a severe test much closer to home in neighbouring Venezuela. Nicolás Maduro's brazen move to proclaim himself the victor of the July 2024 presidential election despite overwhelming evidence that he lost by a big margin to the democratic opposition deepened the regional crisis over how to deal with the Caracas government.

Brazil offered in the wake of the election to lead mediation efforts along with Colombia, an initiative backed by the Biden administration in the United States. However, the Maduro government showed little appetite for negotiations in the months after the election and instead led a harsh crackdown on opponents. The Lula government steadily toughened its rhetoric against Venezuela, provoking a sharp

Itamaraty Palace, Brasilia (Credit: Flickr, AC Moraes)

Presidents Lula and Sheinbaum (Credit: Palácio do Planalto)

response from Caracas, but as the weeks counted down to Maduro's inauguration for a third term, the prospects for a negotiated settlement to the Andean nation's long-running political crisis looked bleak.

Brazilian diplomats hoped that a successful G20 summit in Rio de Janeiro in November 2024 would set the South American powerhouse up to play host to the COP30 summit in Belém a year later. This would allow Brazil to burnish its green credentials on the global stage, presenting itself as a key part of the solution to climate problems thanks to the renewed fight against deforestation in the Amazon rainforest and ownership of one of the world's greenest energy grids. Brazil's role as a major food exporter, capable of feeding more than a billion people, is another area of non-traditional diplomacy in which Brasilia has a chance to shine. The climate agenda, however, faced a serious challenge from the Trump presidency and Argentina's decision to back Trump on climate scepticism further complicated the diplomatic challenge at the G20, where Biden appeared as a lame duck president.

But perhaps the biggest challenge for Brazil on the world stage is to mark out a distinctive "Global South" posture independent of China and Russia in a BRICS bloc where India's rapidly growing economy and burgeoning tech sector is making it a strong competitor for global diplomatic attention.

After spending the six years of President Andrés Manuel López Obrador's term almost entirely focused on domestic priorities, **MEXICO** has an opportunity to use its membership of the G20 and the OECD to project its traditionally independent and non-aligned foreign policy more widely and to tone down the isolationism and somewhat ideological diplomatic slant of the past six years.

President Sheinbaum missed the APEC summit in Peru but did attend the Brazil G20 summit in November 2024, a welcome contrast to her predecessor's habit of skipping these meetings. At the same time, Sheinbaum's early foreign policy signals were similar to those of López Obrador: a willingness to continue good relations with the US in order to reap the benefits of the USMCA trade agreement, continued economic support for Cuba, reluctance to criticise Maduro's repression and election fraud in Venezuela, and support for the left-wing government in Colombia.

> *"Our foreign policy will follow the constitutional principles of the self-determination of peoples, non-intervention and peaceful solution of conflicts," Sheinbaum said in her inauguration speech. "We will continue strengthening our economic and cultural relationship with the countries of Latin America and the Caribbean."*

Sheinbaum faced an early test: whether to try to heal the serious diplomatic rifts which emerged with Peru and Ecuador during her predecessor's tenure. These were caused by López Obrador's insistence on supporting left-wing former Peruvian President Pedro Castillo even after Castillo had been impeached by congress for trying to seize extraordinary powers, and by his attempt to offer Ecuador's left-wing former Vice-President, Jorge Glas, safe passage and asylum in Mexico after Glas was convicted of bribery.

In her early moves, Sheinbaum signalled continuity with López Obrador. She invited Russian President Vladimir Putin to her inauguration but not King Felipe VI of Spain, justifying the former on the grounds that it was normal diplomatic practice to invite all heads of state and the latter because Spain had not apologised for its colonial rule of Mexico, which ended two centuries ago.

Her presidency, however, is likely to be defined by how she tackles the challenge of dealing with a second Trump presidency. The stakes are especially high with the USMCA renegotiation looming and aggressive action by Trump against illegal migrants likely: if Sheinbaum is successful, the bilateral relationship could evolve along similar lines to the mutually beneficial deals struck by Trump and López Obrador. But if it deteriorates into open conflict, this could pose serious risks for the Mexican administration.

ARGENTINA saw a radical shift in foreign policy after the inauguration of libertarian President Javier Milei in December 2023. In an approach reminiscent of that of former Brazilian leader Jair Bolsonaro, Milei attempted to enlist the foreign ministry in a battle against what he termed the "socialist agenda" embraced by international organisations such as the United Nations.

This marked a complete U-turn from the policies pursued by the previous Peronist administration, which ran largely in line with the global progressive consensus in favour of women's rights, fighting climate change and battling poverty and inequality.

As was the case with Bolsonaro, Milei's ideological foreign policy involves strong support for Israel and the United States as well as, personal backing for other hard-right leaders such as Donald Trump in the US, Nayib Bukele in El Salvador and Santiago Abascal, head of the far-right Vox party in Spain.

Milei was among the first world leaders to congratulate Trump on his election victory and travelled shortly afterwards to attend a CPAC Investor Summit in Florida where he unveiled a new 'US-Argentina pact' and the intention to pursue a free trade agreement with the US, as well as a new deal with the IMF. Milei however, is likely to find very limited appetite or political space in the United States for a new trade deal.

Milei used his speech to the UN General Assembly in September 2024 in New York to denounce the UN's 2030 sustainable development agenda as "a supranational programme of a socialist nature" and accused the body of becoming a "multi-tentacled Leviathan that seeks to decide what each nation state should do and how the citizens of the world should live" – lines which will please Trump but are unlikely to land well with most of his fellow Latin American presidents.

Argentine diplomats have been ordered to embrace libertarian values of "the right to life, liberty and private property" when projecting the country's values overseas and resist supporting any declaration or resolution in international fora which runs contrary to these values. Milei also told any diplomat not willing to support these positions to resign.

A graphic example of what this policy means in practice came when Milei fired Diana Mondino as foreign minister in October 2024 after Argentine diplomats voted at the UN in favour of a resolution condemning the US economic embargo against Cuba, a move which enraged the president.

However, Milei's foreign policy is not always be as ideological in practice as in theory. The libertarian economist vowed during his campaign that he would not deal with China because it was governed by "assassins", but he quickly changed his tune in government and said he would attend the January 2025 Latin American CELAC summit in Beijing.

Milei justified the shift by saying that China had proved a good partner and just wanted to trade, therefore there was no reason for him to interfere. The reality was that the president realised that it would be far too costly to pursue conflict with Argentina's second biggest trading partner and the supplier of a USD $5 billion credit line.

On other issues, signals were mixed. A sceptic about man-made climate change, Milei ordered the withdrawal of Argentine's delegation from the COP29 summit in Baku amid talk that Buenos Aires might pull out of the Paris agreement on fighting climate change. However, not all of Milei's fiery ideological rhetoric on foreign policy has been matched by policy shifts.

Finally, amongst the region's other foreign policy heavyweights, **COLOMBIA'S** left-wing President Gustavo Petro has made a bid for leadership on global climate diplomacy, hosting the UN biodiversity summit in the city of Cali in October 2024 and trumpeting his government's decision to stop new oil and mining exploration as part of a shift to a more sustainable economy.

Although Petro's stance has caught the attention of climate campaigners, his bid for regional leadership on the issue has led to friction with Lula in Brazil, who sees himself as the obvious primus inter pares. In reality there is little competition: Brazil's long-standing diplomatic weight, its size and its ownership of most of the Amazon rainforest make it the clear regional leader on climate diplomacy, whatever Petro may aspire to.

Brazil's stance on climate justice is much more widely supported in the developing world than Petro's radicalism. Lula has argued that oil producing nations in the Global South have the right to exploit their hydrocarbons for the next two to three decades and to use the proceeds to combat poverty and transition their economies to more sustainable

President Petro (Credit: Presidencia de Colombia) energy models. Petro has adopted a much more extreme position, arguing for an immediate halt to new oil and gas exploration regardless of the economic consequences. Very few other nations have followed him.

Given Brazil's faster growth — its economy is expected to grow just over 3% this year after expanding 2.9% last year, whilst Colombia's economy is expected to grow at a slower rate, Brazil's arguments on continuing to produce oil are likely to resonate even more powerfully elsewhere in the developing world.

Along with Brazil, Petro has attempted unsuccessfully to coax Venezuela's Maduro to the negotiating table. But unlike Brazil, Petro has been more reticent in speaking out against Maduro's decision to steal the presidential election and against the severe crackdown which has followed. This again reflects Petro's preference for ideology and support for fellow left-wingers over principle, a tendency also shown by his Vice-President Francia Márquez in her strong public support for Cuba during a visit there.

CHILE'S left-wing government, by contrast, has adopted a clearer stance on human rights and democracy in Latin America, informed above all by principle. President Gabriel Boric has not hesitated to speak out against Venezuela's abuses of human rights and democracy, while avoiding ideological positions over neighbouring Peru and Argentina. He has emphasised the importance of international cooperation to tackle some of the region's biggest challenges, such as migration and climate change. Only on Cuba has the traditional allegiance of Chile's left to the government so far prevented Boric from speaking out clearly.

Conclusion

Latin America has much to offer a world in crisis. It is unique as a region free of interstate conflict, ethnic tension and nuclear weapons, committed to democracy, human rights and the rule of law. It is a key exporter of many of the commodities most in demand in the 21st century and is destined to play an outsize role in the transition to clean energy.

With wars raging in Europe and the Middle East and conflict threatened in Asia over Taiwan, Latin America's long-standing stance of peaceful co-operation and non-intervention offers an alternative model for successful co-existence. The region's natural resource advantages will play an increasingly important role in a world where commodities are likely to become scarcer and it is a natural leader on climate diplomacy.

Although the sharp polarisation of recent years has split the region and politicised some of the traditional foreign policy stances of key Latin American players, there are some signs of a return to a more broad-based consensus. Brazil says it has taken a balanced position between the West and the anti-Western Russia/China axis, refusing to align itself behind one or the other.

Mexico may engage to a greater extent under the Sheinbaum presidency than was the case under her predecessor, both regionally and on the global stage. Argentina under Milei may not always prove as ideological as its public statements might suggest. Yet a second Trump presidency will test to the limit the region's ability to pursue deals pragmatically and resist being drawn into sterile ideological battles.

More than anything, the region has an enormous geopolitical opportunity. It could seize that opportunity by uniting around a shared regional agenda which prioritises increased trade and foreign investment to drive greater prosperity and resists taking sides with China or the US, while at the same time sharing some of the fruits of that growth with the population via increased spending on public services.

Some Latin American presidents already see the potential. The leaders of Dominican Republic and Paraguay, in particular, have been vocal about pursuing such an agenda and are reaping the benefits of doing so, with faster than average growth. Brazil has also been supportive of increased regional trade, investment and integration to drive faster development.

Yet there is still a long way to go. If the region wants to project its power globally, be taken seriously as a major force in world affairs, and shape the global debate on key issues such as trade, climate and reforms to global institutions, it needs to speak clearly and loudly with a united voice.

To achieve this and to seize the opportunity to boost trade and investment within the region, Latin America should make it a priority to institutionalise and properly resource an existing forum such as CELAC which can bring together all its nations around non-partisan issues and agree joint government action. Despite the obvious difficulties during a Trump presidency, there is also a strong case for revitalising the OAS under a new leader in 2025.

In an increasingly polarised and fragmented world, Latin America's diplomatic voice is needed more than ever and its unity has never been more important. Will the region rise to the challenge? And will other parts of the world recognise the importance of engaging constructively with Latin America? We must hope that the answer to both questions is an emphatic "yes".

Political Outlook

The politics within Latin America

Christian Perlingiere, Partner, Brazil and the Southern Cone, Control Risks

Presidents Petro, Lula, Sheinbaum, and Boric (Credit: Palácio do Planalto)

Argentina

As President Javier Milei's administration looks towards 2025, it will continue its negotiations with Congress (legislature) to ensure governability and advance its agenda. The president will keep promoting his strategy to control inflation and attract foreign capital to Argentina.

Milei took office on 10th December 2023 after a highly polarised election. While his campaign discourse carried an inflammatory tone, his actions in the first year of his tenure have been pragmatic – focused on austerity, controlling the fiscal deficit and recovering economic activity.

> *"China has been one of Milei's main targets for criticism but remains a key commercial partner for Argentina – and the president adopted a much softer tone after winning the election."*

In this period, Argentina has faced a stark increase in poverty amid continued inflationary shocks and a pronounced devaluation of the peso (currency). Milei claims the poor economic environment reflects the mistakes made by past administrations and Argentina's large fiscal deficit.

Foreign policy priorities

China has been one of Milei's main targets for criticism but remains a key commercial partner for Argentina – and the president adopted a much softer tone after winning the election. He is, however, still cautious of building proximity with the country. He immediately declined an invitation from Brazil to join the BRICS (Brazil, Russia, India, China and South Africa) bloc, and invested time and resources trying to build a closer relationship with the US; although the extent to which this has been a success so far is debatable. However, with the re-election of Donald Trump in the US, his efforts are likely to curry favour with his administration.

To mitigate the dwindling of foreign reserves, Milei is investing in attracting foreign capital to Argentina. In July, Congress approved his proposal to create the Incentive Regime for Large Investments (RIGI). This programme establishes tax incentives like write-offs and a lowered income tax, as well as customs and currency exchange benefits. The RIGI was designed to suit mining companies, but other high-investment industries are also eligible for the stimulus.

In a similar effort, Milei is attempting to create an artificial intelligence (AI) hub in northern Argentina. He met with Silicon Valley leaders in early June to pitch the country as a haven for companies to evade jurisdictions with more stringent regulations. Bringing tech firms to Argentina would, however, require data centres, infrastructure and a stable power grid – which the country lacks. It would therefore constitute a significant investment for said companies, making it unlikely to be fruitful.

Governability issues

As part of Milei's strategy to create a leaner state, the administration dismissed over 31,000 public servants in its first year. Most worked at the Human Capital Ministry, which covers issues such as disaster response, human rights, social development and youth rights. Additionally, the administration refused to renew the collective bargain agreement, which led to frozen salaries. Unions responded with significant discontent and protests, claiming that the layoffs were instrumentalised by Milei to weaken institutions that promote fundamental rights and social welfare. They also argue that the lack of a bargain deal, combined with the country's hyperinflation, led to an acute loss of purchasing power and the impoverishment of public servants.

This type of measures has increased social unrest, even though the president's approval rating remains above 50%. This same discontent is reflected in Milei's relationship with Argentina's legislative branch. His coalition, La Libertad Avanza, did not win the majority of seats in the elections of 2023 and he has used a harsh tone when addressing Congress, even threatening to "rule by decree".

In June 2024, Milei introduced a legislative package called the Bases Law, which proposed the privatisation of several state-owned companies, tax reforms and pension and labour initiatives. The latter are particularly significant, as they will impose considerable changes to the country's labour system – as well as deregulate working conditions and employer-employee relationships. After extensive negotiations, the government managed to pass the packet through the lower house. Vice-President Victoria Villarruel, who is also president of the Senate (upper house), is trying to mobilise Senators to approve the bill with no major changes.

Economic instability

The elimination of market barriers and distortions was one of the main proposals of Milei's political platform, especially featuring the removal of capital and currency controls. Following significant economic reforms and budget restructuring, the country's monetary base shrank considerably during the first year of his presidency. That said, foreign exchange reserves have grown more timidly over this period, maintaining a negative net reserve of hard currency after accounting for liabilities such as debt payments.

President Milei (Credit: Casa Rosada)

Trade surpluses will likely remain dependent on continued demand for commodities, such as soya, exposing balances to the effects of climate phenomena and geopolitical factors. Even though he announced the lifting of capital controls around mid-year, Milei said that these measures can occur in tandem with economic growth, suggesting their removal is unlikely to happen in the coming months.

The administration has achieved significant containment of price pressures and fiscal surpluses. However, Milei is likely to keep facing challenges in further reducing inflation while balancing increasing social demands for the foreseeable future.

Brazil

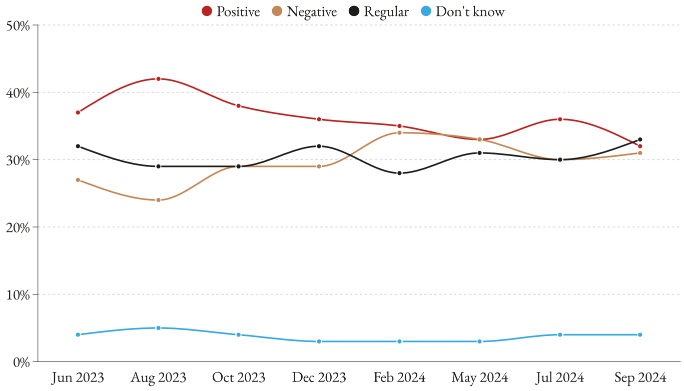
Heading into 2025, a pre-election year, political tensions are likely to escalate. President Luiz Inácio Lula da Silva remains the key name among the left, but his age is an increasing concern. On the right, political actors will run against each other for the gap left by the absence of former president Jair Bolsonaro (2018-22). Bolsonaro became ineligible in 2023 after being convicted of abuse of political power and misuse of the media during the presidential election campaign of 2022. He is, however, still active in the political arena and already spoke publicly in October about reversing his ineligibility and running for president in 2026. If he is unable to do so, the aspirant who receives his political support will likely be one of the main contenders in the election.

> *"President Lula continues his efforts from his first two terms (2003-07, 2007-11) of pitching Brazil as a key actor in the international sphere."*

The municipal elections of October 2024, in which citizens voted for mayors and council members, highlighted that the right is prevailing outside large cities and state capitals across the country. While Lula's popularity has been oscillating during the second year of this term, political stability will persist overall. He invested in a strategy of conciliation, negotiating with centre and even moderate right-wing politicians for the approval of policies.

President Lula (Credit: Palácio do Planalto)

President Lula's third term approval ratings



Source: Genial/Quaest

Legislative win

One of Lula's greatest achievements in 2024 was the approval of the fiscal reform, which simplifies the tax collection system by unifying five taxes into one for goods and services. The bill also establishes an additional and unified tax on goods whose consumption the government wants to disincentivise, such as alcohol and cigarettes. Additionally, it aims to mitigate regional inequalities by establishing collection based on the location of consumers of a certain good or service rather than of the company that produces it.

Economy facing growing debt and inflation

Brazil's growing gross public debt has caused concern among economic analysts, as it reached 78.5% of the country's GDP in July according to the latest government press release on the matter. Its increase pushes inflation and interest rates up. To control inflation, the Economy Ministry is likely to continue implementing budget cuts, which increases the risk of strikes among public servants. The most affected ministries are Health, Cities and Transport.

In September, the Central Bank announced a 0.25% increase to the country's basic interest rate. In a communiqué, it said new increases were dependent on whether the federal government's budget and inflation rates would remain within the fiscal limits. Lula is now pressured to maintain GDP growth while abiding by the fiscal commitments he is legally obliged to respect. Limited GDP growth will likely have a negative impact over the president's already-oscillating popularity.

Foreign policy highlights

President Lula continues his efforts from his first two terms (2003-07, 2007-11) of pitching Brazil as a key actor in the international sphere. He has tried to place himself as a mediator for the Russia-Ukraine conflict, with no significant progress to date. As Russia and China seek to increase their soft power over Latin America, the BRICS (Brazil, Russia, India, China and South Africa) bloc gained more protagonism. Lula is a keen advocate of the BRICS as a means of reforming global governance structures. He has tried to bring more countries from the region into the bloc, sending a personal invitation to Argentine President Javier Milei, which was promptly declined in December 2023. However, he did veto the admission of Venezuela at the recent summit in Russia in October 2024.

Throughout 2024, Lula heavily criticised Israel's actions in the context of the Israel-Hamas conflict, accusing it of perpetrating genocide against the Palestinian people and comparing it to the Nazi regime. In response, Israeli Foreign Minister Israel Katz called him an antisemite and branded him persona non grata within Israeli borders.

In November 2024, Brazil hosted and presided over the G20 meeting in Rio de Janeiro. The government's main goals for the summit were the promotion of social inclusion and combatting hunger. However, the meeting is unlikely to yield concrete results over 2025, as the victory of Donald Trump in the US presidential election in November 2024 and the conflicts in Europe and the Middle East do not favour consensus within the group.

Persisting environmental issues

2024 was marked by extreme weather events in Brazil, which caused serious persisting disruption to businesses and significant impacts to local infrastructure, assets, natural ecosystems and people. These will continue to unfold through 2025. In September 2024, a large part of the country's south-eastern and mid-western regions were covered by a cloud of smoke from large wildfires in the Amazon and Pantanal ecosystems. The fires spread easily due to the extreme drought the region has been experiencing since the first half of 2024. The navigability issues caused by the lack of rainfall had a significant logistical impact in the operations of the industries based in Manaus (Amazonas state).

Lula was heavily criticised for his lack of long-term planning for disaster prevention and climate resilience policies, despite focussing heavily on environmental conservation during his campaign. Additionally, workers at the Brazilian Institute of Environment and Renewable Natural Resources (Ibama) and the Chico Mendes Institute for Biodiversity Conservation (ICMBio) – both federal organs – went on strike for a month in July 2024 demanding better salaries and working conditions. The public servants also claimed the bureaus were understaffed and the workers on the field lacked proper tools and gear to act as inspectors in remote areas. The lack of personnel affected other agencies as well, which has led to delays in the granting of mining permits, the oversight of power grid operators and oil and gas licencing. These environmental issues are likely to persist into 2025.

Chile

Over two years into President Gabriel Boric's administration, the ruling left-wing Frente Amplio (FA) has lost the political strength it gained after the unrest of October 2019, sparked by an increase in the capital Santiago's underground transport fares, before evolving into a massive nationwide protest movement calling for social reforms. After the failure of two constitutional redrafting processes, the Boric administration has lost momentum and congressional support to pass reforms and lead social change in the country. This, coupled with timid economic growth and Boric's low approval rating, will drive uncertainty during 2025 – when Chile will hold presidential and legislative elections.

Boric loses political momentum and governability

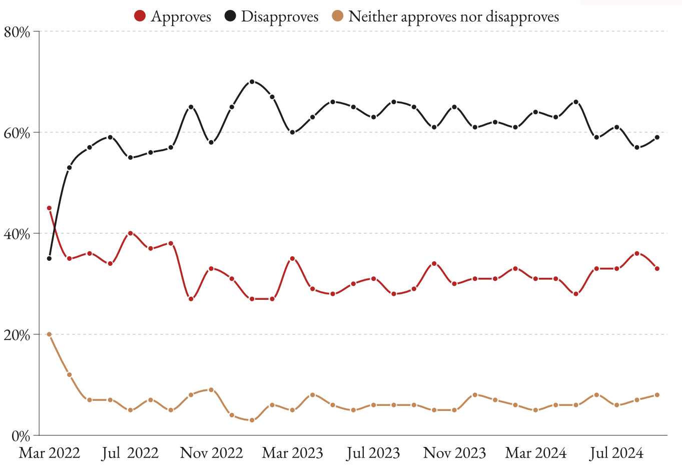
The lack of legislative cohesion and divergences between political factions and social groups buried the constitutional processes. Chileans rejected the first proposal for a new constitution in September 2022 and the second in December 2023, after which Boric ruled out a third attempt. Although the contents of the two proposals were significantly different (the first was progressive, the second more conservative), both failed to gain the population's confidence – which led to high levels of social disillusionment with the political establishment and eroded executive-legislative relations.

> *"Boric's stance on diplomatic issues has been positively evaluated by Chileans. He has consistently criticised human rights abuses and interference in election processes in Venezuela, El Salvador, Cuba and Nicaragua – regardless of the political ideology of their governments."*

Throughout 2024, Boric's administration unsuccessfully sought to advance the approval of the tax and pension reforms – his priorities for promoting socially oriented policies and funding investments in healthcare and education. However, differing views within the FA coalition and poor dialogue with centre and right-wing opposition parties have hindered efforts to pass relevant legislation. These challenges will persist over the coming year, undermining governability but not causing significant political instability.

Boric's approval rating has remained steadily low over the last year, oscillating between 28% and 35%, according to pollster Cadem. His popularity has mostly lost strength following high-profile security incidents across the country, such as the killing of three police officers in Biobío region in April and a series of shootings in the Santiago Metropolitan Region in July. Public security concerns gained momentum during the municipal elections of October 2024 and crime and drug trafficking are major concerns that the public feels the government should prioritise, according to a poll conducted between August and September 2024 by the Centre for Public Studies (CEP).

President Boric's Approval Ratings



Source: Cadem

Nevertheless, Boric's stance on diplomatic issues has been positively evaluated by Chileans. He has consistently criticised human rights abuses and interference in election processes in Venezuela, El Salvador, Cuba and Nicaragua – regardless of the political ideology of their governments.

Economic winding path

The OECD forecasts Chile's GDP to grow by 2.3% in 2024 (in real terms). This surpasses the average for the past 10 years, marked by timid economic expansion. Government debt and deficit are projected to remain manageable despite sustaining an increasing trend. That said, the lack of fiscal manoeuvrability and a deteriorating political landscape will continue posing challenges to Boric's administration over the next year. Investments are likely to remain contained over the coming months, as regulatory uncertainty – particularly due to slow and bureaucratic licencing processes – will remain a hindrance to new projects.

In October, the president announced a 2.7% expenditure increase in the budget plan for 2025, representing an attempt to balance escalating social demands – such as affordable housing and electricity supply – with the administration's commitment to fiscal discipline. The government plans to deliver 260,000 homes, which accounts for less than half the housing deficit in official estimates. Therefore, insufficient affordable housing will continue straining social cohesion. In the Santiago Metropolitan Region and the northern regions, continued immigration is likely to further compound the issue.

Gran Torre Costanera, Santiago

After the electricity rate freeze was lifted in July 2024, energy prices are bound to rise significantly over the next several months, impacting inflation and living costs. In response, the government on 26th August proposed substantial increases in subsidies to lower income households and small and medium-sized businesses. However, its diminishing political capital will likely result in slow negotiations with the opposition in Congress (legislature) and more limited funds to subsidise power. These persisting socioeconomic challenges are likely to continue weighing on Boric's approval rating.

Polarisation to lessen in upcoming elections

Boric's legacy will likely be that of a moderate politician who, despite not being able to improve social cohesion, made efforts to not exacerbate the polarisation in the country. Within this context, dealing with rising crime and violence rates will remain a central issue in Chilean politics during 2025. In addition, an ongoing high-profile investigation into the alleged involvement of Supreme Court justices in corruption and influence-peddling threatens to undermine Chile's anti-corruption credentials and generates institutional mistrust. This will likely drive anti-corruption rhetoric and promises of heavy-handed public security policies among candidates in the 2025 elections.

Boric's political weakening will likely result in the victory of a right-leaning, pro-business candidate in 2025, who will take office in March 2026. Two strong contenders are Republican Party (PR) leader José Antonio Kast, who ran for president in the past two elections (2017 and 2021), and Providencia Mayor Evelyn Matthei, a centre-right Chile Vamos coalition leader and its strongest presidential candidate for the election.

According to pollster Cadem, Matthei ranks first in terms of spontaneous voting intention, followed by centre-left former president Michelle Bachelet (2006-10, 2014-18) and Kast in third place. Bachelet has not confirmed whether she will run for office again; however, if the left is unable to produce a strong candidate and she continues to score well in the polls, she would be a robust choice.

The transfer of power will likely ease anti-government sentiment and boost stability, at least at the beginning of the next president's term. However, social pressures for economic growth, inequality reduction and better public security will continue to challenge the government for years to come, as civil discontent is unlikely to disappear.

President Boric (Credit: Vocería de Gobierno)

Colombia

Political instability and governability

After two years in power and contrary to his ambitions, President Gustavo Petro's government has delivered mixed, modest results and few substantial transformations to Colombia's development model and social structure. This trend is highly unlikely to change in 2025 given the government's significant fiscal constraints, limited political capital and the start of pre-election strategies (as early as mid-2025).

In 2025, his administration will continue to be hampered by a high dispersion of goals and governing tactics, low levels of policy and budget execution and limited success passing legislation in Congress (legislature) compared to previous governments. Petro's legislative effectiveness rate – the number of bills introduced to Congress compared to the number of approved laws – will likely remain low in 2025. Between July 2023 and July 2024, this rate was 11.5%, in contrast to an average of 60.7% during the second year of the past five administrations. It shows no signs of increasing over the rest of the current legislative term (ending in June 2025) or during the next one (starting in July 2025).

The government's credibility and reputation have been seriously damaged by several corruption allegations, including campaign funding irregularities, and various probes – administrative, criminal and political – that will continue to negatively impact the president's approval rating in 2025. His favourability rates are unlikely to increase beyond 35% over the rest of his term.

In parallel, institutional clashes among government branches and political radicalisation will escalate as Petro continues denouncing in 2025 an alleged soft coup to oust him from office through legal manoeuvres. The most recent claim concerns a probe initiated by the National Electoral Council (CNE) on 9th October against him and his 2022 campaign manager Ricardo Roa over alleged campaign irregularities.

However, this claim or Petro's denunciation of a strategy by other branches to remove him from office has no evident grounds. Under no scenario can the CNE impeach the president. The only constitutionally viable option to remove him from office is through a lengthy, uncertain and highly politicised impeachment process in Congress. Due to heavy red tape, complex proceedings and the balance of power in the House of Representatives (lower house), the body acting as prosecutor and in which the administration has favourable numbers, Petro is highly unlikely to be impeached. Nevertheless, he will continue and even escalate his claims on a purported lawfare and regularly rally his supporters to mobilise in his favour.

This will also become a campaign platform for his party in the general election of 2026. Both pro- and anti-government marches are likely to increase and intensify in the next year. However, Colombia's robust checks and balances will prevent executive overreach or any radical policy shift under Petro's government. Democratic backsliding is also highly unlikely.

Haphazard security environment

2024 will end with a mixed picture in terms of security, violence and criminal dynamics, with some indicators improving in urban areas and humanitarian conditions deteriorating in several conflict-stricken rural zones. Police data indicates a slight decline of 3% in homicides nationwide from January to September compared to the same period in 2023, as well as a 16% drop in muggings – a predominantly urban crime that heavily impacts citizens' security perceptions. Terrorist acts also decreased by 14% from January to September, and kidnappings dropped by 22%.

President Petro and Colombian soldiers (Credit: Presidencia de Colombia)

> *"The prospects for the government's "Total Peace" initiative to simultaneously negotiate peace with different armed groups have sharply decreased in 2024."*

On the other hand, and according to the United Nations Office for the Coordination of Humanitarian Affairs in Colombia, the number of people affected by forced displacements and mobility restrictions soared in 2024, by 29% and 137%, respectively, particularly in rural areas of Chocó, Putumayo, Nariño, Antioquia and Bolívar departments. Despite the government's efforts to negotiate peace with various guerillas, sustained, more intense and frequent armed confrontations among illegal armed groups competing over territories and illicit revenues – coca crops, cocaine trafficking, illegal mining – will likely keep driving this humanitarian erosion in 2025.

Extortion has also increased 20% this year and will remain elevated in 2025. Despite being a widely underreported crime – due to fear of retaliation or mistrust in the authorities – this spike sustains the growing trend the country has seen over the past years. In 2023, reported cases of extortion reached the highest number in the past decade. Both guerilla groups and criminal organisations such as the Gulf Clan in 2025 will continue using extortion as a highly profitable source of revenues, as well as a tool to exercise control over communities and territories, demarcating the zones where they operate.

The prospects for the government's "Total Peace" initiative to simultaneously negotiate peace with different armed groups have sharply decreased in 2024. Talks indefinitely stalled in May with the Central General Staff (EMC) and with the National Liberation Army (ELN) in September. Both groups show a deep divide between the most belligerent factions and pro-peace blocks. The former have intensified their attacks on state forces and critical infrastructure, including oil pipelines in Arauca, Boyacá and Casanare departments. This trend will likely continue in 2025.

The government will likely now pursue partial, localised and more pragmatic agreements with regional factions of groups such as the EMC and the ELN that have demonstrated a commitment to peace negotiations instead of maximalistic pacts with the entirety of rebel organisations. Additionally, the government appears willing to initiate exploratory conversations with purely criminal groups that have no ideological foundation or political agenda, such as the Gulf Clan.

Limited economic growth

The economic landscape will remain challenging in 2025, with meagre growth prospects (2.5%, according to Control Risks' strategic partner Oxford Economics). The government is set to kick off 2025 with unbalanced expenditures, adding extra pressure on a fiscal deficit that will likely close 2024 at 5.6% of GDP, the largest since the pandemic.

Additionally, the executive's projection of tax revenue this year will fall short. Consequently, the administration will likely continue cutting its spending in 2025 – an inevitable measure under the current fiscal conditions. Although government decisions signal a continued commitment to fiscal responsibility, public revenues, budget planning and execution are likely to underperform and not reach social well-being and productivity agenda goals in 2024.

This will significantly limit the administration's ability to deliver on key agenda goals such as the energy transition, enhancing social and critical infrastructure and reorienting key national industries towards knowledge-intensive and greener activities. The country's vulnerabilities to financial shocks or turmoil in 2025 are likely to increase.

President Sheinbaum (Credit: Gobierno de México)

Mexico

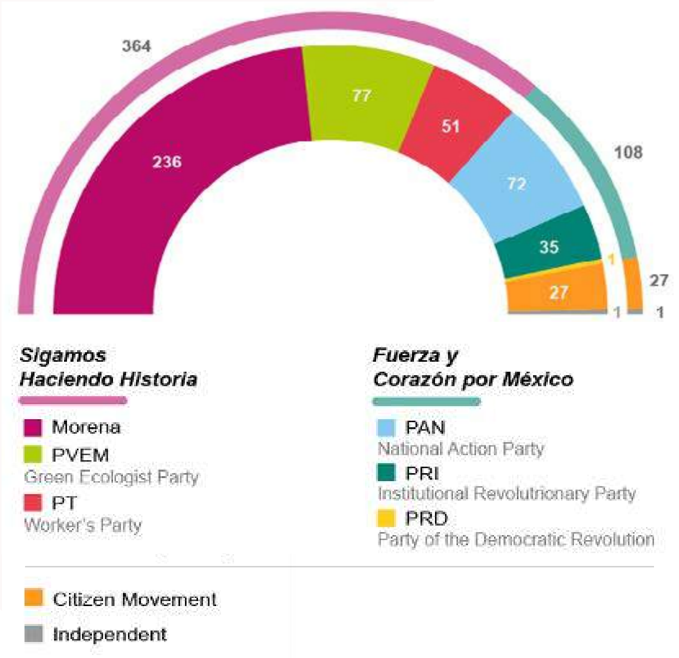
Electoral triumph

President Claudia Sheinbaum, of the Sigamos Haciendo Historia coalition – which comprises the ruling National Regeneration Movement (Morena), the Green Ecologist Party (PVEM) and the Workers' Party (PT) – won the election on 2nd June with 59% of the votes and took office on 1st October. She won by a landslide, with a 30-percentage point advantage over runner-up Xóchitl Gálvez, of the Fuerza y Corazón por México (FCM) coalition – made up of the Institutional Revolutionary Party (PRI), the National Action Party (PAN) and the Party of the Democratic Revolution (PRD).

> *"Sheinbaum demonstrated strong leadership skills during her mandate as Mexico City mayor (2018-23) and will lead an autonomous administration, though she will remain committed to consolidating AMLO's legacy and advancing his flagship proposals."*

Morena also had major victories in state and legislative elections. It won in seven of the nine state governorships contested, achieved a supermajority in the Chamber of Deputies (lower house), and a near-supermajority in the Senate (upper house). Since the election, Morena has already secured the votes needed in the Senate to approve its legislative agenda without having to negotiate with the opposition.

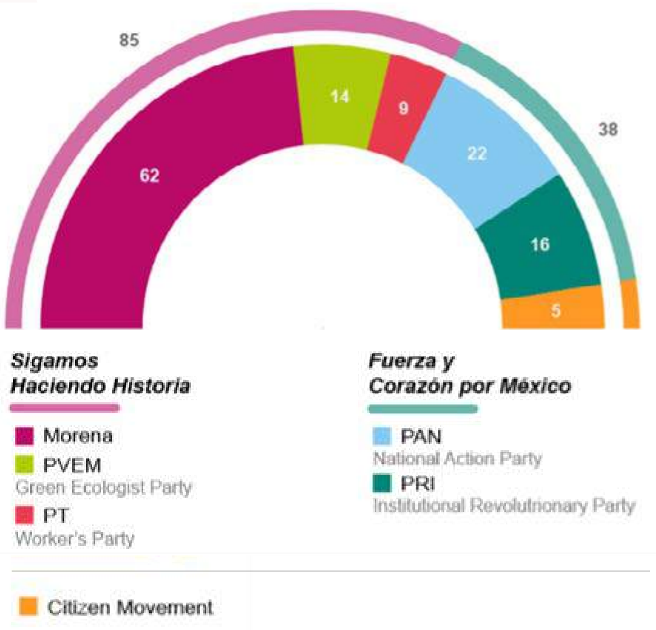
Composition of the Chamber of Deputies



Source: National Electoral Institute

CANNING HOUSE

Composition of the Senate



Source: National Electoral Institute

The election results testify to the popularity of former president Andrés Manuel López Obrador (AMLO, 2018-24). He ended his administration with an approval rating of around 60%, well above average for a president, despite an overall negative perception in key policy areas such as security. This popularity is mostly explained by his charisma and the expansion of social programmes and labour rights, including salary increases, over the past six years, especially considering that the working class represents a large portion of Morena's base.

The results also highlight that the Morena-led coalition was able to capitalise on the growing anti-establishment sentiment in Mexico, particularly against the PRI and the PAN. A large portion of voters associate these parties with deep-rooted corruption, an inability to combat insecurity, and an increase in socioeconomic inequality over the past few decades. Moreover, their campaign failed to present a coherent and attractive programme, given the past rivalries between them.

AMLO's role in Sheinbaum's administration

AMLO named his government the country's "Fourth Transformation" (or "4T"), which Sheinbaum has publicly embraced as a sign of continuity. The 4T's stated purpose has primarily been to shake up the political and business establishment to create a more equitable society, prioritising people with the lowest income through social programmes.

AMLO will remain a key political figure in Mexico in the coming several years. He will continue to be Morena's ideological leader and will co-ordinate the party's factions. Sheinbaum demonstrated strong leadership skills during her mandate as Mexico City mayor (2018-23) and will lead an autonomous administration, though she will remain committed to consolidating AMLO's legacy and advancing his flagship proposals.

For instance, at least during her first year in office, Sheinbaum will have little room to shape the legislative agenda, which will remain committed to the priorities established during AMLO's term. Morena's two-thirds majority in both houses of Congress (legislature) will prevent gridlock and its proposals will pass without much negotiation with opposition parties. To implement policies in her areas of focus, like green energy, science and technology and women's rights, Sheinbaum will likely resort to more direct actions such as introducing presidential decrees and regulatory roadmaps.

Erosion of checks and balances

On 5th February 2024, AMLO sent Congress a package of 20 reforms, the most controversial being the judicial reform, which was enacted on 15th September whilst he was still in office. It introduces the election of all federal judges and Supreme Court (SCJN) justices through popular vote starting in 2025. It also stipulates a reduction of the mandates, salaries and overall qualification requirements for more than 1,600 of them. Sheinbaum has committed to implementing the reform.

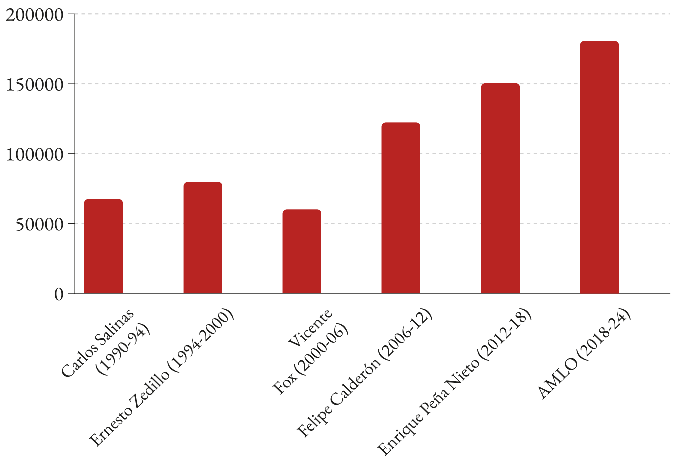
For companies, this threatens to yield bias in disputes emerging from arbitrary actions taken by the government, reducing protection for businesses by siding with the executive branch. The prospect of a politicised judicial system will therefore damage the separation of powers and the checks and balances system, increasing legal uncertainty for foreign investors. Arbitration and mediation proceedings will likely increase as a result.

There are other controversial reforms in the package. One of them proposes the elimination of regulatory and oversight agencies, such as the National Electoral Institute (INE) and the Federal Economic Competition Commission (Cofece), and the absorption of their functions by the executive branch. This will also increase concentration of power and reduce legal certainty for investors, ultimately denting foreign investment prospects.

Main challenges ahead

In addition to the prospects of reduced legal certainty, Sheinbaum will face various pressing challenges in 2025 and beyond. Prominent among them are rising insecurity and the expansion of organised criminal groups (OCGs) around the country. OCGs are diversifying their activities, sophisticating their modus operandi and infiltrating local politics and the licit economy. Turf wars in several states will further destabilise the security environment. Government capacity to respond to these dynamics will likely remain insufficient – a trend seen over the past two decades.

Homicides per administration



Source: Executive Secretariat of the National Public Security System (SESNSP)

Mexico's relations with the US and China will pose another dilemma for Sheinbaum as she reconciles trade and investment from both countries on the one hand, and attempting to avoid strife with the US, particularly regarding investment in strategic industries, on the other. Ultimately, Mexico will not seek Chinese investments at the expense of the US and Canada and its position will not pivot towards China, at least during Sheinbaum's administration. This is particularly true as the signatories prepare to revise the United States-Mexico-Canada Agreement (USMCA) in 2026 and Mexico attempts to guarantee favourable trade conditions.

Lastly, Sheinbaum will face some macroeconomic challenges. Even though she has inherited a mostly healthy economy, some imbalances will persist. Throughout her six-year term, Sheinbaum will likely struggle to significantly reduce inflation, boost economic growth, attract foreign investors and manage high levels of public debt. This will be particularly challenging given numerous government-sponsored social programmes and reduced legal certainty for the private sector.

Peru

Political overview

The removal of former president Pedro Castillo (2021-22) from power produced a more challenging political-risk environment, though abrupt and profound changes to the country's political and economic model are unlikely. Lawmakers approved the establishment of a Senate (upper house) in 2026 to form a bicameral Congress (legislature). In the meantime, the unicameral Congress will remain a strong counterbalance for the once-dominant executive branch. Most legislators use their position to boost their own popularity rather than to advance any specific agenda. Congress continues pushing reforms to bring judicial institutions under more of its oversight, creating risks for political stability and judicial independence.

Tensions between President Dina Boluarte and Congress are escalating, with talk of potential impeachment by mid-2025, though its success is unlikely. Congress has been attempting to assert control over the judiciary and electoral authorities, while rule of law has been weakening in recent years, with reforms favouring organised crime and judicial rulings disregarding international obligations. Public discontent is mounting, reflected in widespread protests and strikes.

Political stability

Congress has ousted three of Peru's last four presidents through either impeachment or the threat thereof, with former presidents Castillo and Martín Vizcarra (2018-20) removed through formal processes and Pedro Pablo Kuczynski (2016-18) resigning under pressure. Vizcarra's 2020 impeachment briefly affirmed the resilience of Peruvian democratic institutions, yet Castillo's removal in 2022 incited considerable unrest, casting doubt on the country's stability. Boluarte's governability remains tenuous, her efforts largely focused on boosting investor confidence. Tensions have also arisen with Petroperú, the state's oil company, whose board resigned in September 2024 over dissatisfaction with the government's slow response to the company's financial issues.

Boluarte's popularity is near historic lows, with recent polling placing her approval rating at around 5%. A highly fragmented political landscape awaits the election of April 2026, with nearly 70 political parties contending but lacking trusted, experienced candidates. This suggests a likely run-off between two low-support candidates, risking further legitimacy and governance challenges for the new president.

The candidate of the Fujimorista party – Fuerza Popular, a political party founded by followers of former president Alberto Fujimori (1990-2000) – remains uncertain. Following Fujimori's passing in September, Keiko Fujimori, his daughter, is reportedly undecided on her candidacy, likely due to low polling and legal troubles. Even so, she remains influential, controlling a major congressional bloc and aligning with left-wing lawmakers to sustain Boluarte and counter anti-corruption measures. Although widely unpopular, her established political presence will still give her the option of another attempt in the 2026 run-off.

Institutional encroachment

Congress continues its multi-pronged efforts to control the National Board of Justice (JNJ), responsible for judicial appointments, and the National Jury of Elections (JNE) through measures that appear to consolidate legislative power over these bodies. Congress appointed new JNJ members to assume office in early 2025 – a process led by Josué Gutiérrez, widely seen as aligned with congressional interests.

Congress is also proposing reforms that would impact the JNE's independence, including granting the armed forces control over completed ballots – which will likely favour political interests. The head of the JNE, Roberto Burneo, faces significant pressure as Congress attempts to limit the institution's autonomy. Meanwhile, in a broader push, the legislature has proposed a bill for a one-time dismissal of 800 police officers under investigation, potentially targeting high-profile figures such as anti-corruption officer Colonel Harvey Colchado. However, the constitutional court recently surprised observers by ruling against a congressional attempt to dismiss two JNJ members, indicating resistance within Peru's judiciary amid mounting national and international scrutiny.

Security marked by rising discontent

In 2025 and 2026, Peru's security outlook will be marked by growing public discontent, with rising organised crime and ineffective government responses posing serious challenges. Growing frustration among Peruvians, especially over extortion targeting bus drivers, has already led to multiple strikes, with another three-day strike planned in November 2024 during the APEC summit. Law 32108, which many believe benefits criminal organisations by limiting legal tools against crimes such as extortion and human trafficking, has intensified these frustrations. The law's critics argue it undercuts the effectiveness of law enforcement by mandating defence counsel presence during property searches, diminishing the element of surprise. Alongside this, the government's sporadic use of "states of emergency" to deploy military personnel in high-crime areas has drawn widespread criticism from security experts, who call for comprehensive policies that target prevention rather than reliance on emergency measures.

> *"Boluarte's administration has shown a pro-business agenda, notably through expedited licencing in key industries such as mining and energy, yet corruption will remain pervasive, adding another layer of regulatory and security risk for businesses."*

Public disillusionment with both the executive and legislative branches will be unlikely to diminish, especially as violent crime reportedly continues to rise. The recent law, along with inadequate anti-crime strategies, threatens to cause larger, more sustained anti-government protests if current trends in public mobilisation persist. Regulatory stability is likely to endure over this period, with Congress maintaining a pro-investment stance and showing limited appetite for regulatory overhauls. However, the social instability tied to security concerns will likely intensify business risks. Boluarte's administration has shown a pro-business agenda, notably through expedited licencing in key industries such as mining and energy, yet corruption will remain pervasive, adding another layer of regulatory and security risk for businesses.

Palacio Municipal de Chiclayo

Gradual economic recovery

In 2025, Peru's economic outlook will reflect gradual recovery from the technical recession that began in 2023, supported by recent GDP growth and easing inflationary pressures. GDP increased by 1.4% in Q1 2024 and 3.6% year-on-year in Q2 2024, buoyed by domestic demand and increased public investment, particularly in infrastructure projects for education, agriculture and public administration. However, private investment remains low, particularly in non-residential construction, though there is some optimism with increased investments in the mining and hydrocarbons sectors. Given Peru's position as a major global producer of copper, silver and zinc and as the world's fifth-largest gold producer, the mining sector will remain essential, accounting for over 60% of exports. Challenges persist, however, with political instability and recurring protests causing disruption, likely deterring future investment in mining.

The public sector continues to benefit significantly from mining revenue, with USD $1.86 billion in tax revenue generated between January and August 2024. The mining industry has also been a significant employment source, particularly in regions like Arequipa, La Libertad, and Áncash, employing over 231,000 people as of 2024. The mining exploration project portfolio, valued at USD $644 million, is projected to grow, supporting both local employment and public revenue through royalties and taxes. However, while mining and public investment are promising, economic growth remains constrained by lingering poverty rates, which affect roughly one-third of the population, and growth rates that are modest compared to the pre-2014 period. Political risks will likely continue influencing the investment climate, although Peru's stable macroeconomic policies, including low public debt and a strong financial system, remain critical for resilience.

President Boluarte (Credit: Presidencia Perú)

Other Countries to watch

Venezuela

The government of Nicolás Maduro will remain internationally isolated and subject to extensive US-imposed sanctions. The election in July 2024 was widely deemed illegitimate, as it was marked by widespread irregularities and strong accusations of fraud. The economy continues to be fragile amid exchange rate volatility and high inflation. This will persist during 2025, as Maduro's authoritarian crackdown after the elections and resulting international condemnation raise the risk of a new tightening of sanctions.

> *"Maduro and his allies in the ruling United Socialist Party of Venezuela (PSUV) will likely retain control of the key civilian institutions of power – including the National Assembly (legislature), the Supreme Tribunal of Justice (TSJ) and the National Electoral Council (CNE)."*

Oil production – the main source of foreign exchange and government revenue – grew modestly in the first half of 2024 but remains well below the levels seen before the escalation of US sanctions in 2019. The government's capacity to rapidly ramp up output will remain constrained by sanctions, dilapidated infrastructure and poor governance. In this context, businesses will continue to face considerable challenges over the next year.

Maduro and his allies in the ruling United Socialist Party of Venezuela (PSUV) will likely retain control of the key civilian institutions of power – including the National Assembly (legislature), the Supreme Tribunal of Justice (TSJ) and the National Electoral Council (CNE). For example, in August 2023 the government designated a close ally as president of the CNE. Maduro's dominance of these institutions was evidenced in the week after the 2024 election, when the CNE and TSJ rapidly validated his victory, contravening the process established in the country's laws.

Maduro's ability to withstand domestic and international pressure and retain his grip on power will depend heavily on continued loyalty of the armed forces. Over the past few years, Maduro has secured the backing of the military by placing allies in top leadership positions. In the weeks after the election, dozens of military officers were detained after calling for the election results to be respected. Significant negotiations between Maduro and the opposition are unlikely to resume into 2025 after the fallout from the contested election.

Unrest linked to political opposition will likely persist into 2025, but incidents will be isolated and small-scale due to the threat of arbitrary detention and violence by state forces. Massive protests such as those seen in 2019 are unlikely. Violence during demonstrations is also unlikely, as the opposition is demoralised and largely peaceful. Significant political attacks or vandalism affecting private company assets and government-owned infrastructure will continue to be rare. Protests promoted by opposition groups will remain small and will be easily subdued by the armed forces.

Central America and the Caribbean – Honduras and Guyana

The political landscape across Central America and the Caribbean in 2025 will be heavily influenced by upcoming elections. Although there are some exceptions – notably Haiti – most countries will experience broad political stability. Governments in the region's largest economies, including Guatemala, the Dominican Republic, Panama and Costa Rica, along with countries such as El Salvador, will focus on managing public expectations and addressing key concerns among the population.

In Honduras, the road to the general elections of 30th November will dominate the political agenda in 2025. Although there are no official candidates yet (primaries are scheduled for 9th March), a polarised environment is likely to heighten tensions among the political class and the population as the election date approaches. Since taking office in 2022, President Xiomara Castro has faced significant challenges, including addressing the population's long-standing disillusionment with the political class and frustration over the high-level of corruption. Although Castro pledged to tackle these issues, progress has been limited and will likely be a key determinant in the next election. Her main challenge now is to rebuild voter support and position the ruling Liberal and Refoundation Party (Libre) as the favourite. Potential flashpoints of instability include growing discontent over Castro's unfulfilled promises as her term nears its end, along with persistent allegations linking her inner circle to organised crime and corruption. Claims of electoral fraud are also likely to fuel public unrest, further intensifying political tensions and undermining trust in the election process.

Guyana will hit major economic and political milestones in 2025. The rapid development of offshore oil reserves in the Stabroek block will put the country on track to produce 900,000 barrels per day by the second half of the year. This would make Guyana the world's largest oil producer per capita and consolidate its status as a key non-OPEC supplier in global markets. The economy will likely grow by another 15% after tripling in size since 2020.

On the political front, general elections are likely by the end of the year. President Irfaan Ali of the People's Progressive Party/Civic, who took office in 2020 after a disputed vote, will run for re-election. His political position has benefitted from an unprecedented oil boom over the past three years, but in a country with no polling data, the elections will provide the first meaningful measure of whether the government has done enough to translate oil wealth into wellbeing for the average citizen. With control of surging oil wealth on the line, a contentious campaign and legal challenges to the outcome are likely.

President Ali of Guyana and Prime Minister Modi of India (Credit:MEAPhotogallery)

Economic Outlook

The macroeconomic forecast in Latin America

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Itaim Bibi Business District, São Paulo

Regional Trends

The Fed's tidal waves ripple through the region

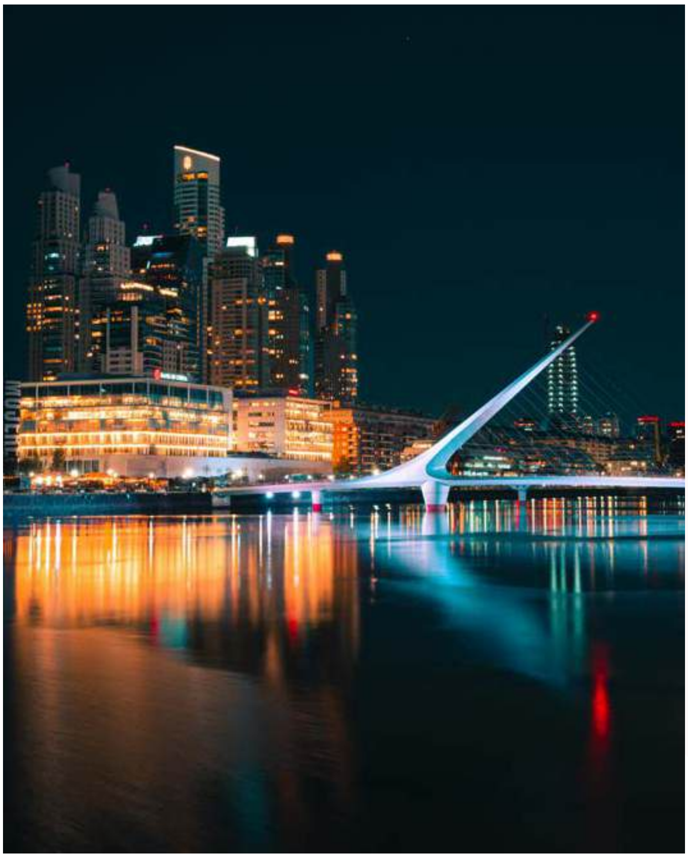
Fewer cuts pencilled in by the US Federal Reserve, weaker exchange rates on average, and idiosyncratic factors have led to a recalibration towards fewer cuts in monetary policy paths through 2025. In Mexico, the Central Bank is forecast to cut 25 bp in each of the remaining meetings this year. The 2025 year-end policy rate is forecast for a contractionary 9%, implying a string of continuous 25 bp cuts. In Colombia, the terminal rate of the cycle is at 6.5%; and board turnover in 1Q25 could eventually lead to larger cuts, to be reflected in a widening of domestic risk premium. In Chile, the terminal rate stands at 4.5%, the ceiling of the neutral range, to be met at a more gradual pace, also reflecting higher inflationary pressures from second round effects. Similarly, in Peru, an earlier end to the cycle in 2025 at 4.5% is forecast, with inflation expectations having interrupted their decline above the 2% target. While real ex ante rates are projected to remain above neutral in Mexico and Colombia, they are projected to edge close to or at neutral in Chile and Peru.

In Chile and Peru, 2024 GDP growth is down for this year, standing at 2.2% and 2.9% respectively, due to weaker than expected activity prints, with 2025 also not looking as promising as previously due to lower carryover, tighter financial conditions, less growth in China, and a step down in copper prices. As small open economies, both Chile and Peru stand to bear the brunt of a potential escalation of protectionist policies and a more pronounced deterioration of the growth outlook. In Mexico, 2025 growth is forecast at 1.0%, on higher rates and a deterioration of the domestic investment outlook, the latter a result of constitutional reforms; discussions on trade with the US should keep volatility elevated in the near term.

The 2024 GDP growth forecast in Colombia stands at 2.0% and 2.4% for 2025.

In Argentina, while still in a fragile macro-social environment amid high inflation and the effects of the stabilisation program, activity rebounded sequentially in 3Q24, with leading indicators suggesting that the worst of the adjustment might be over. As a result, the economy is expected to contact by 3.5% in 2024, followed by a 4.0% expansion in 2025. The fiscal consolidation marches on and surveys suggest that confidence in the government rebounded in October. Changes in the US could eventually facilitate access to additional external financing and investment opportunities. The next few months will be key in consolidating the disinflation path, cementing the economic recovery, while at the same time preparing the end to the crawling peg policy.

In Brazil, fiscal and external uncertainties and the outlook for a stronger USD globally means FX projections are BRL 5.70 per US dollar in 2024 and also 2025, despite the widening interest-rate differential. GDP growth for 2024 is projected at 3.2%, and 1.8% for 2025. The economy should decelerate somewhat in 2H24 and 2025 due to higher interest rates, reduced fiscal stimulus and downward revisions in global growth forecasts. Inflation estimates for 2024 stand at 4.8%, for 5.0% for 2025. Inflation is expected to reach 13.50% pa in 2025 and remain at that level until the end of next year.



Puerto Madero, Buenos Aires

Argentina

The pieces are falling into place

- After signs of stabilisation last month, activity rebounded sequentially in 3Q24, with leading indicators suggesting that the recovery has legs. A GDP contraction of 3.5% is expected in 2024, followed by a 4.0% expansion in 2025. Importantly, surveys suggest that confidence in the government rebounded in October, remaining high despite high inflation and aggressive economic adjustment.

- Disinflation continues to be driven by the crawling peg policy, despite the real appreciation of the Argentine peso. 2024 inflation is predicted to come in at 120% by the end of the year. For 2025 inflation is estimated at 35%. Following recent policy rate adjustments, interest rate forecasts for YE24 and YE25 now stand at 30%.

Cementing signs of a recovery?

The stabilisation of economic activity and the improvement of leading indicators were flagged as green shoots in October 2024. Since then, data at the margin has all pointed in the same direction. According to the EMAE (official monthly GDP proxy), economic activity increased by a modest 0.2% MoM/SA in August, following a 2.1% MoM/SA increase in July. The consecutive sequential gains led to an increase of 1% QoQ/SA in the quarter ended in August, the first rise since October 2023 (+1.9% QoQ/SA). On an annual basis, activity fell by 3.8% in August, contracting less than expected (Bloomberg median was -5.3%), leading to a decline of 2.9% in the quarter ended that month. Leading indicators such as manufacturing activity (+2.6% MoM/SA) and construction activity (+2.4% MoM/SA) are pointing to another sequential gain in September. Activity has recovered most of the losses seen during the worst moments of the adjustment shock.

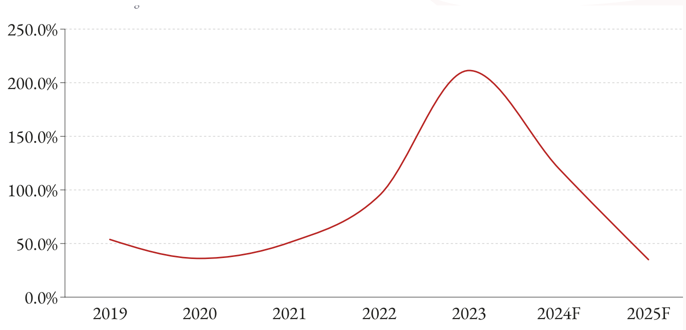
Disinflation continues

Consumer prices rose by 2.7% MoM in October, down from 3.5% in the previous month, marking the lowest monthly increase since YE21 due to the appreciation of the peso in real terms. Annualised quarterly inflation fell to 50.1% from 57.8%, and annual inflation dropped to 193.0% from 209.0%. The core measure increased by 2.9% MoM, slowing from 3.3%. The crawling peg policy, contributing to the peso's appreciation, is expected to aid further disinflation. The 2025 budget bill indicates this policy will be eased if inflation decreases as expected, while utility tariff adjustments will continue with reduced subsidies.

New rate cuts

The central bank (BCRA) cut the monetary policy rate by 500 bps in November, to 35%. After a series of seven cuts to the policy rate between December through May, the central bank cut the policy rate again, bringing the cumulative reduction to 9,800 bps. The decision was taken in the context of a significant reduction in inflation expectations. For context, in May - at the time of the previous rate cut - analyst inflation expectations for the following three months were at 4.9% MoM, but expectations had declined to 3.0% MoM in the latest survey. Twelve-month inflation expectations were at 65.6% MoM in May but were down to 35.0% MoM in the latest survey.

Inflation in Argentina (CPI)

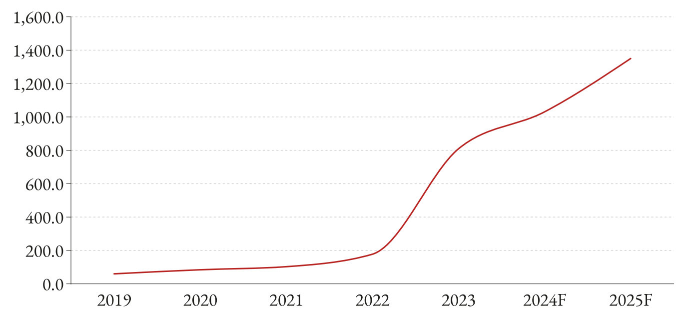


Source: Banco Itau

All quiet on the foreign exchange front

News of fiscal progress, falling inflation, and central bank USD purchases narrowed exchange rate spreads. Despite negative net reserves and large 2025 bond maturities, calm was maintained by USD inflows from the tax amnesty, high export liquidation, and potential repo lines. Domestic interest rates at 3.0% MoM and a 2.0% crawling peg reduced exchange rate pressure. The average spread between the official rate and blue-chip swap fell below 20% in October, down from 30% in September. The Central Bank will continue its 2% MoM depreciation policy, lowering further in 2025, to support disinflation.

Exchange Rate ARS/USD

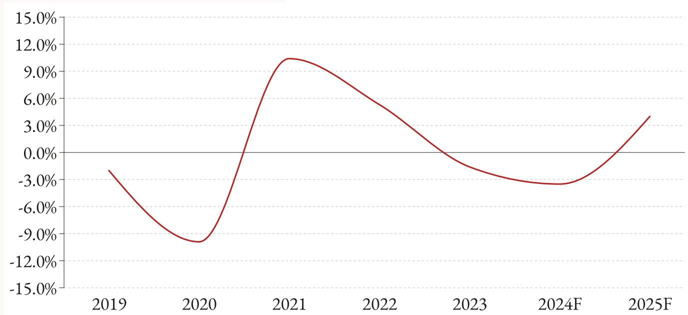


Source: Banco Itau

Fiscal surpluses continued in October

The primary surplus reached 1.8% of GDP in the first ten months, with a nominal balance of 0.5% of GDP. The consolidated nominal deficit is estimated at 1.6% of GDP, much lower than the 10.6% deficit in the same period of 2023. Real tax revenues fell due to economic contraction, while strict expenditure control led to a 29.3% YoY decline in primary expenditures. The Treasury will use peso deposits to purchase dollars for January bond amortisation (USD $2.7 billion) and expects positive net financing from multilaterals in 2025, with a possible new IMF program. A repo line with private banks is also being considered to strengthen reserves. Improved fiscal results and clarity on short-term maturities have significantly reduced the country's risk premium.

Real GDP Growth in Argentina



Source: Banco Itau

Confidence in the government rebounded in October

Confidence in the government rose to 48.5% in October, up from 43.2% in September, according to the Universidad Torcuato Di Tella's survey. This 12.3% MoM increase partially offsets September's sharp decline, though confidence remains 15.2% below the December peak. Support for Milei's leadership is high despite economic contraction and inflation. Notably, confidence rose even after President Milei vetoed the university funding bill, with the biggest increases in fiscal adjustment-related components, indicating support for Milei's fiscal consolidation.

Improved Outlook

The sequential rebound in economic activity has gained some steam, prompting a revision of GDP growth forecasts for 2024 and 2025, driven by a higher statistical carryover. A GDP contraction of 3.5% is expected in 2024, followed by an expansion of 4.0% in 2025. The recovery of real wages and a better environment for investment being the main drivers.

An inflation rate of 120% is expected for year-end 2024, dropping to 35% in 2025. The government plans to use dollar financing for 2025 debt maturities to maintain the crawling peg policy and accelerate disinflation. Lower country risk may enable a return to international markets. Forecasts include nominal exchange rates of 1,030 ARS/USD at YE24 and 1,350 ARS/USD at YE25, with a policy rate of 30% for both years, aligningwith lower expected inflation.

The government's strategy of diversifying dollar funding may delay the elimination of multiple exchange rates in the short term. The USD blend is an ace up the BCRA's sleeve. While the program discourages reserve accumulation (as BCRA only buys 80% of total exports), it allows the authorities to keep the spread between the official exchange rate and the blue-chip swap at minimum levels due to the exporters' liquidation in that market.

However, if the BCRA eventually decides to eliminate the USD blend (a unified foreign exchange market), it would be able to purchase around USD $20 billion in 12 months, at the cost of fuelling inflation in the short term.

Donald Trump's re-election is seen as positive for the Milei administration, potentially smoothing relations with multilaterals like the IMF. The recently approved RIGI investment law could boost US investment in strategic sectors such as energy, mining, and services. Looking ahead to 2025, the mid-term elections in Argentina will be crucial, with half of the Lower House and a third of the Senate up for grabs. The election process starts in May with party precandidate selections, focusing on Buenos Aires, where Kirchnerism remains strong The government aims to increase its low congressional participation.

Argentina Economic Table

	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity							
Real GDP growth (Private Estimates) - %	-2.0	-9.9	10.4	5.3	-1.6	-3.5	4.0
Nominal GDP - USD bn	452.0	385.3	487.3	630.6	597.6	634.7	750.4
Population	44.9	45.4	45.8	46.2	46.6	47.1	47.5
Per Capita GDP - USD	10,057	8,490	10,640	13,643	12,810	13,484	15,800
Unemployment Rate - year avg	9.8	11.6	8.8	6.8	6.1	8.2	8.0
Inflation							
CPI % (*)	53.8	36.1	50.9	94.8	211.4	120.03	34.98
Interest Rate							
Reference rate - eop - %	55.00	38.00	38.00	75.00	100.00	30.00	30.00
Balance of Payments							
ARS / USD - eop	59.90	84.15	102.75	177.10	809.00	1030.00	1350.08
Trade Balance - USD bn	16.0	12.5	14.8	6.9	-6.9	17.0	12.0
Current Account - % GDP	-0.9	0.9	1.4	-0.7	-3.4	1.6	0.3
Foreign Direct Investment - % GDP	1.5	1.1	1.4	2.4	3.8	1.0	2.0
Gross International Reserves - USD bn	44.8	39.3	39.6	44.6	23.1	30.5	31.5
Net International Reserves - USD bn	13.6	5.2	4.3	6.0	9.0	0.0	0.0
Public Finances							
Primary Balance - % GDP (**)	-0.4	-6.5	-3.0	-2.4	-2.7	1.5	1.3
Nominal Balance - % GDP (**)	-3.8	-8.5	-4.5	-4.2	-4.4	0.0	0.0
Gross Public Debt - % GDP	93.8	108.7	82.8	87.7	163.3	83.9	82.1
Net Public Debt - % GDP (***)	57.8	66.9	48.1	48.7	92.6	46.2	45.7

(*) National CPI for 2017 and 2018. (**) Excludes central bank transfer of profits from 2016. (***) Excludes central bank and social security holding. Sources: Central Bank, INDEC and Itaú

Brazil

Recalculating the route

- The primary budget deficit is forecast at -0.4% of GDP in 2024 and -0.7% of GDP for 2025, amid higher revenues due to a resilient labour market. Without the prospect of convergence to primary results compatible with public debt stability, the adoption of measures that ensure compliance with the framework becomes even more important.

- Fiscal and external uncertainties and the outlook for a stronger USD globally means FX projections are BRL 5.70 per US dollar in 2024 and also 2025, despite the widening interest-rate differential.

- 2024 GDP growth is projected at 3.2%, and 1.8% for 2025. The economy should decelerate somewhat in 2H24 and 2025 due to higher interest rates, reduced fiscal stimulus and downward revisions in global growth forecasts.

- Inflation estimates for 2024 stand at 4.8%, amid more pressure on food consumed at home due to higher protein prices. The projection for 2025 is currently 5.0%, incorporating mainly the effect of a weaker currency on industrial goods prices, more pressure on underlying service prices and the announcement of the increase in the ICMS tax on fuels in February.

- Faced with a weaker currency, still-resilient activity, unanchored inflation expectations for a prolonged period, and mounting risks, the Central Bank will need to reassess the degree of monetary tightening and move further, and faster, into contractionary territory. The Selic benchmark rate is expected to reach 13.50% pa in 2025 and remain at that level until the end of next year.

Fiscal: Risk of non-compliance with the framework increases the need for adjustments

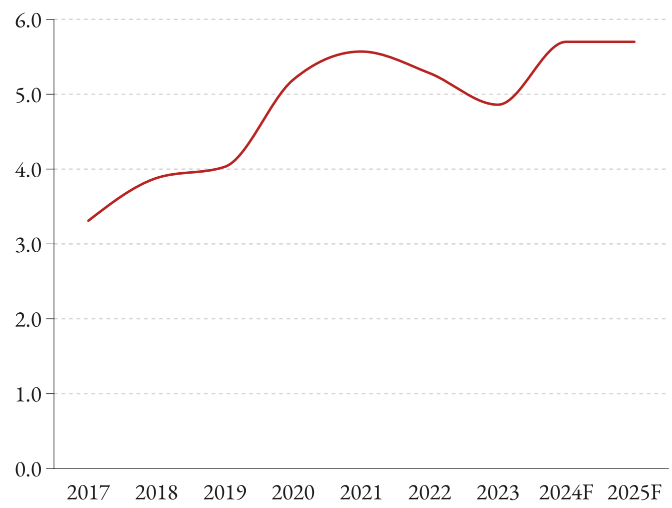
Rising mandatory expenses are expected to hinder compliance with the fiscal framework's spending cap until 2026, necessitating an adjustment of at least BRL 60 billion (BRL 25 billion in 2025 and BRL 35 billion in 2026). Next year's target can be met if measures to find irregularities in social security benefits succeed, slowing the growth of beneficiaries. For 2026, an additional BRL 35 billion adjustment is needed. Legislative approval is required, so these measures should be addressed soon, as planned in the upcoming fiscal package. Short-term measures ensuring 2026 compliance must be combined with structural changes to reduce expenditure growth and reinforce fiscal rule transparency and credibility.

The primary budget result is projected to be -0.4% of GDP (BRL -40 billion) in 2024, and 0.7% (BRL -80 billion) in 2025, still indicating a fiscal deterioration (higher public debt) over the next year. To meet the lower end of the tolerance interval for the 2024 primary result target (-0.25%), the government will still depend on extraordinary revenues, such as those from measures to offset the payroll tax break. For 2025, despite including higher revenues linked to a tight labour market, a fiscal deterioration is expected compared with the current year. Going forward, structural measures will be necessary to promote convergence to primary surpluses on a recurring basis.

Strong global USD and fiscal uncertainties

FX projections are 5.70 reais per USD for 2024 and 2025. Domestic and external uncertainties have weakened the BRL, despite a wider interest rate differential. US election results and their impact on economic activity and inflation limit the prospect of lower interest rates, strengthening the dollar globally and justifying a more depreciated real. To prevent further BRL weakening, spending cuts of at least BRL 35 billion in 2026 are essential to signal fiscal commitment and contain the risk premium. The current account deficit is projected at USD $56 billion in 2024 and USD $58 billion in 2025, due to higher outflows in the services balance and structural factors like increased use of streaming services, mobile apps, and online gambling. Higher interest payments nd profit remittances abroad also contribute to the worsening current account, explaining the limited exchange rate response to monetary policy.

Exchange Rate BRL/USD



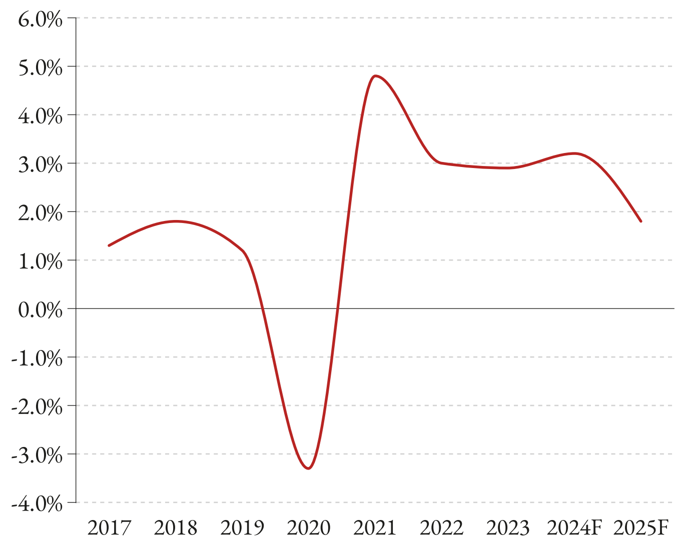
Source: Banco Itau

Slowing activity in 2H24

GDP growth projection for 2024 is predicted at 3.2%. Monthly activity indicators in 3Q24 are showing incipient signs of a slowdown. GDP should continue to grow, albeit at slower pace than in 1H24. The deceleration should also be triggered by a gradual reduction in the fiscal impulse and by a smaller (but still positive) contribution from the credit cycle.

The 2025 projection stands at 1.8%. Slower growth is expected due to higher interest rates, a smaller fiscal momentum, and downward revisions in global growth forecasts. This slowdown, however, is cushioned by a high household savings rate and by a still-resilient labour market, as well as a robust credit impulse, which may recede less than expected (as in 2024).

Real GDP Growth in Brazil



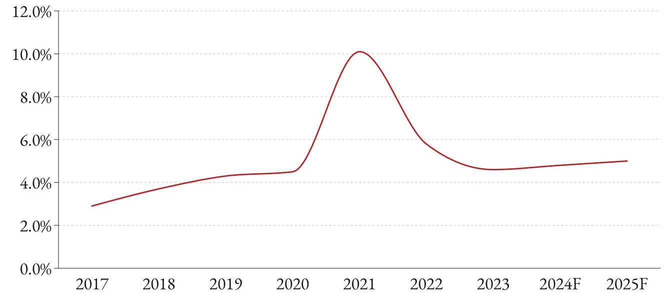
Source: Banco Itau

The unemployment-rate estimate stands at 6.5% for 2024 and 7% for 2025. In September, the seasonally adjusted unemployment rate fell further to 6.5%, driven again by growing employment (in both the formal and informal segments), even as the participation rate remained stable. Effective real wages declined slightly and remained stable in recent months. However, the wage bill continued to expand, due to rising employment. The unemployment rate should remain at the current level even with a slowing economy in 2H24.

More pressure on inflation, higher risks

Inflation for 2024 is projected at 4.8% amid greater pressure on prices for food consumed at home due to rising protein

Inflation in Brazil (IPCA)



Source: Banco Itau

prices, and the 2025 forecast stands at 5.0%. The effects of a weaker currency have been incorporated on industrial goods prices, more pressure on underlying services prices (especially food away from home, driven by the recent hike in protein prices) and the expected announcement of an increase in the ICMS tax on fuels in February. The balance of risks for next year will remains upwardly asymmetrical with the possibility that the economy remains resilient and the exchange rate continues to depreciate.

Greater degree of monetary tightening is needed

At its last meeting, the Brazilian Central Bank's Monetary Policy Committee raised the Selic rate by 50 bps to 11.25% pa. The inflation forecast increased to 3.6% for 2Q26, with risks remaining upwardly asymmetrical. The statement highlighted the importance of upcoming structural fiscal measures and inflation expectations. The Selic rate is expected to reach 13.50% in 2025 and stay there through next year. A more vigorous 75 bps increase is anticipated at the next meeting due to revised exchange rate projections and commodity price pressures. If a significant spending cut is announced, signalling fiscal commitment, the interest rate cycle may be shorter, with potential cuts in late 2025 or early 2026. However, a longer cycle is possible depending on exchange rate and economic activity trends.

Rio de Janeiro

Brazil Economic Table

	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity									
Real GDP growth - %	1.3	1.8	1.2	-3.3	4.8	3.0	2.9	3.2	1.8
Nominal GDP - BRL bn	6,585	7,004	7,389	7,610	9,012	10,080	10,856	11,591	12,415
Nominal GDP - USD bn	2,063	1,916	1,872	1,475	1,670	1,951	2,175	2,169	2,178
Population	205.2	206.5	207.9	209.2	210.1	210.9	211.7	212.6	213.4
Per Capita GDP - USD	10,054	9,276	9,007	7,050	7,949	9,255	10,273	10,202	10,205
Nation-wide Unemployment Rate - year avg (*)	12.8	12.4	12.0	13.8	13.2	9.3	8.0	6.8	6.8
Nation-wide Unemployment Rate - year end (*)	12.6	12.3	11.6	14.7	11.6	8.5	8.0	6.5	7.0
Inflation									
IPCA - %	2.9	3.7	4.3	4.5	10.1	5.8	4.6	4.8	5.0
IGP–M - %	-0.5	7.5	7.3	23.1	17.8	5.5	-3.2	5.7	5.3
Interest Rate									
Selic - eop - %	7.00	6.50	4.50	2.00	9.25	13.75	11.75	12.00	13.50
Balance of Payments									
BRL / USD - eop	3.31	3.88	4.03	5.19	5.57	5.28	4.86	5.70	5.70
Trade Balance - USD bn	56	47	35	50	61	62	99	74	68
Current Account - % GDP	-1.2	-2.8	-3.5	-1.7	-2.4	-2.1	-1.0	-2.6	-2.7
Direct Investment (liabilities) - % GDP	3.3	4.1	3.7	3.0	2.8	4.7	2.9	3.2	3.9
International Reserves - USD bn	382	387	367	356	362	325	355	370	370
Public Finances									
Primary Balance - % GDP	-1.7	-1.5	-0.8	-9.2	0.7	1.2	-2.3	-0.4	-0.7
Nominal Balance - % GDP	-7.8	-7.0	-5.8	-13.3	-4.3	-4.6	-8.9	-7.6	-8.5
Gross Public Debt - % GDP	73.7	75.3	74.4	86.9	77.3	71.7	74.4	78.2	81.7
Net Public Debt - % GDP	51.4	52.8	54.7	61.4	55.1	56.1	60.9	62.6	67.6
Growth of public spending (% real, pa, **)	-0.6	1.9	2.3	29.2	-24.7	6.0	7.6	3.6	3.1

(*) Nation-wide Unemployment Rate measured by PNADC (**) The 2023 payment of extraordinary court-ordered debts (precatórios) not included. Including it, spending grew by 12.5% in 2023 and fell by 0.3% in 2024. Source: IMF, Bloomberg, IBGE, BCB, Haver and Itaú

Chile

Growing headwinds

- Domestic demand remains weak. An upward unemployment rate trend indicates growing slack. Leading indicators suggest the bulk of the investment adjustment has materialised, but as the Boric administration's final year approaches and global uncertainty rises, a meaningful investment rebound appears unlikely.

- Supply shocks continue to push inflation, while the weaker Chilean peso will lead to a further wave of tradable price pressure. The central bank will continue to lower the policy rate, but a higher FFR and slower inflation convergence process means the terminal rate will likely stand at 4.5%.

Global challenges rise

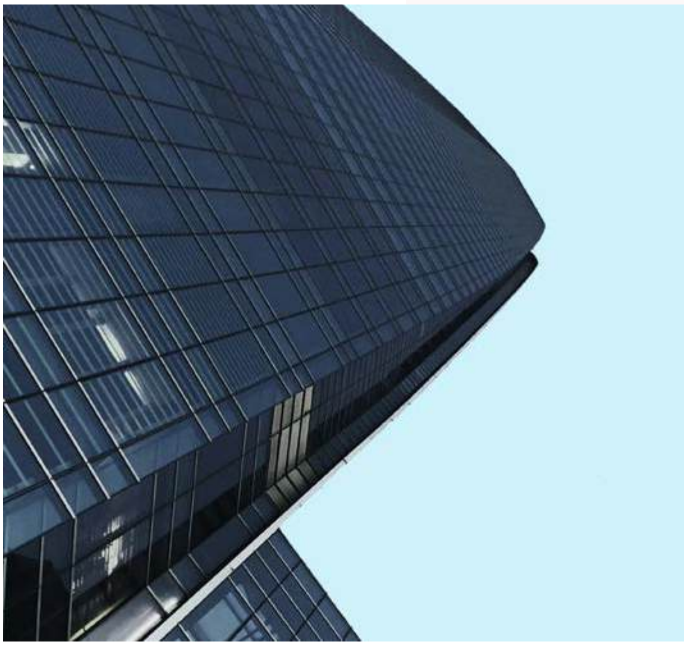
Protectionist US trade policies would be negative for Chile. As a small, open economy (trade openness exceeding 50% of GDP), policies that raise barriers to trade and hinder growth prospects of key partners would pose headwinds to Chile's recovery path. With more than 40% of exports sent to China, a hark back to a 2018-19 styled trade war would weaken global growth, lower commodity prices and lead to further weakening of the CLP. While Chile currently has a small current account deficit (2.4% estimate; 2010-19 average: 3.5%), low levels of central bank reserves (13% of GDP), higher public debt (gross debt nearly 20pp higher than in 2017); lower assets in the Stabilisation Fund (USD $3.8 billion; USD $14.7 billion in 2017) and a shallower local capital market following several pension fund withdrawals, leave the economy more vulnerable to global shocks relative to the 2018-2019 trade war.

Activity ended 3Q on a weak footing

After a one-off rebound in July, led by the education sector, lifted growth at the start of 3Q24, activity underwhelmed in August and September. Employment growth dynamics have been muted over the last five months, as private consumption is projected to rise by less than 2% this year, and at a similar rate in 2025. Imports of capital goods and business survey results suggest that the two-year investment decline may have concluded, but the combination of internal and global dynamics will likely keep non-mining businesses in a wait-and-see mode. While copper prices may be capped versus a pre-Trump scenario, they remain high amid supply shortages and a global transition into greening economies, supporting sector-specific investment. Gross fixed investment is expected to contract between 1-2% this year and grow by 3-4% in 2025.

CLP whiplash

At the time of writing the October scenario the Chilean peso was trading at around 900 pesos per USD, responding to expectations of a swifter easing cycle by the Fed and the announcement of Chinese stimulus measures. Subsequently, stronger US data at the margin cooled expectations of a fast easing cycle, while electoral results in the US raised financial volatility and cooled sentiment toward EM. The CLP is around 10% weaker than at the close of September. While copper has only fallen 4% during the same period, a reversion of risk sentiment toward EM is evident in the rise in non-residents' shorting of the CLP.



Business District, Santiago

Higher short-term inflation pressures

Electricity prices rose by around 19% MoM in October. The adjustment followed the 7% and 12% hikes in June and July, respectively, as the normalisation process advanced following several years of frozen prices. Nevertheless, food price pressures came in well above expectations, supporting a 1% monthly increase in October. The YTD price accumulation sits at 4.5%. At the margin, rising pressures come from goods, with services broadly stable. Short-term inflation expectations have increased following the recent surprise and CLP dynamics, but the key two-year outlook remains anchored to the 3% target, signalling that the market still deems pressures as transitory, with domestic demand too weak to sustain above-target inflation.

Rate cuts to continue, for now

The central bank's board was unanimous in its decision to cut the policy rate by 25bps to 5.25% at its October meeting. The meeting minutes show 25bps was the only plausible option. At the time of the meeting, the central bank signalled that both inflation and activity were broadly in line with its baseline scenario. The current guidance remains taking the policy rate to neutral (3.5-4.5% nominal rate range), but global tensions have been highlighted as a risk to monitor.

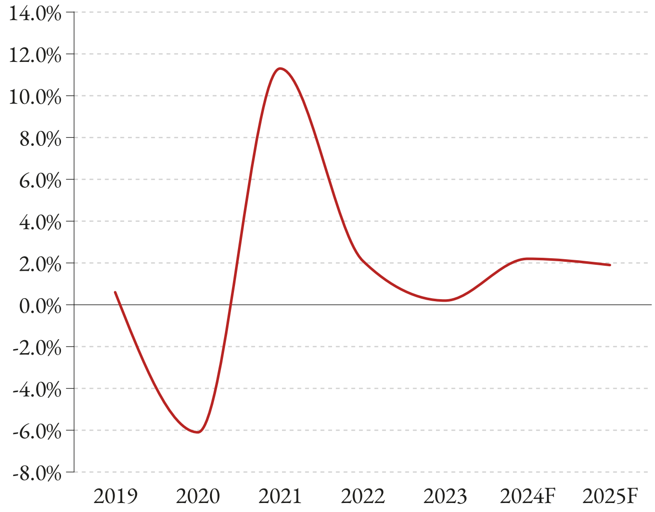
The fiscal battle

The cumulative fiscal deficit widened to 2.5% of GDP in September, surpassing the MoF's 2.0% year-end forecast and last year's 2.4% deficit. Revenue growth improved slightly to -2.9% YoY but remains below the annual forecast. Current expenditure growth slowed, with cumulative growth at 5.5%, necessitating significant spending cuts to meet the 3.5% forecast. Fiscal revenue underperformance has led to resistance in Congress over the 2025 Budget, resulting in concessions for lower spending. Risks point to a higher fiscal deficit in 2025, as revenue targets appear challenging.

Lower growth, higher inflation and rates

Activity data in Chile continues to be volatile amid several transitory shocks and calendar effects, but data at the backend of 3Q24 lost steam. Growth is expected at 2.2%. Weaker carryover (-10pp to 0.7%), lower China growth (-50bps to 4%), and higher average interest rates and inflation support a downward revision of 20bps to 1.9%.

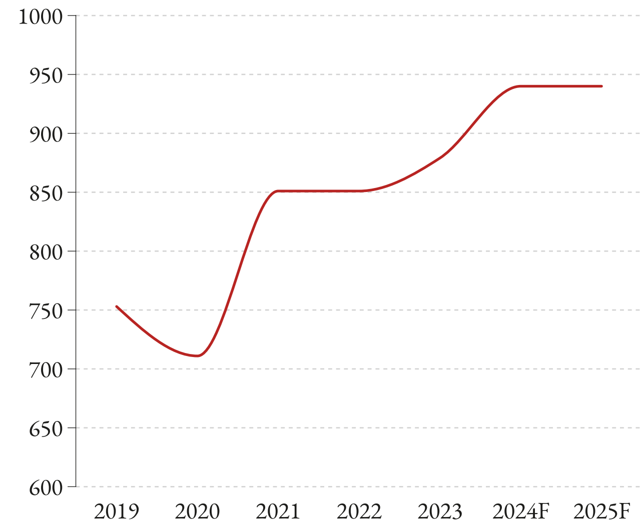
Real GDP Growth in Chile



Source: Banco Itau

Underwhelming policy stimulus measures in China, along with an EM risk-off sentiment has seen the CLP depreciate significantly. While there is some overshooting in the latest figures, the global scenario is coherent with a weaker currency path. Chile is one of the economies most exposed to a global slowdown. A year-end 2025 exchange rate of CLP 940/USD is anticipated. The large upside CPI surprise in October and a higher CLP path result in a higher average inflation scenario. Inflation is estimated to stand at 4.7% this year, and is expected to fall to 3.5% next year. Lower global oil prices and softer domestic demand will limit the impact of higher inflation pressures stemming from the weaker CLP.

Exchange Rate CLP / USD

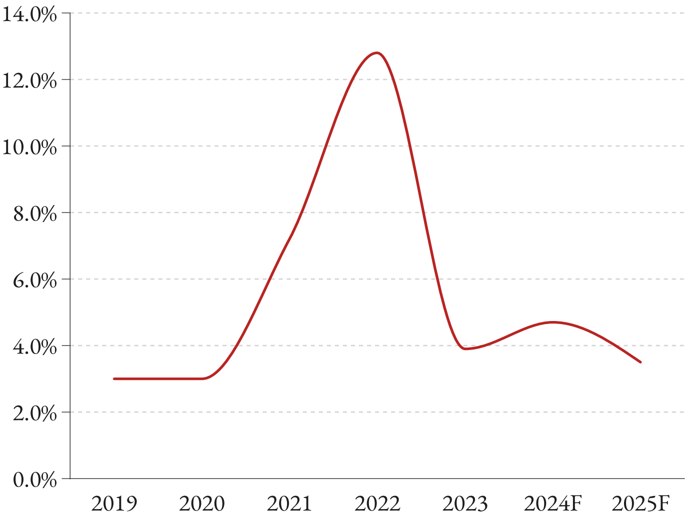


Source: Banco Itau

The nominal fiscal deficit for 2024 is expected to be 3% of GDP, reflecting insufficient revenue improvement. For 2025, a consolidation to 1.8% is anticipated, higher than the administration's 1% estimate, due to a less favourable global scenario. Slower inflation convergence and higher global rates suggest fewer rate cuts in Chile. The central bank is expected to cut rates by 25bps to 5% next month but indicate a higher rate path in its IPoM compared to September (4.2% average during 4Q25). The Board aims for rates to reach 4.5%, with potential pauses due to global volatility.

Port of Valparaíso, Chile

Inflation in Chile (CPI)



Source: Banco Itau

Chile Economic Table

	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity							
Real GDP growth - %	0.6	-6.1	11.3	2.1	0.2	2.2	1.9
Nominal GDP - USD bn	273	254	311	303	332	317	336
Population	19.1	19.5	19.7	19.8	20.0	20.1	20.2
Per Capita GDP - USD	14,312	13,068	15,810	15,294	16,617	15,777	16,619
Unemployment Rate - year avg	7.2	10.8	8.9	7.9	8.7	8.5	8.5
Inflation							
CPI - %	3.0	3.0	7.2	12.8	3.9	4.7	3.5
Interest Rate							
Monetary Policy Rate - eop - %	1.75	0.50	4.00	11.25	8.25	5.00	4.50
Balance of Payments							
CLP / USD - eop	753	711	851	851	879	940	940
Trade Balance - USD bn	3.0	18.9	10.3	3.7	15.3	22.0	21.0
Current Account - % GDP	-5.3	-1.9	-7.4	-8.6	-3.6	-2.4	-2.3
Foreign Direct Investment - % GDP	5.0	4.5	4.9	6.0	6.6	6.6	6.8
International Reserves - USD bn	40.7	39.2	51.3	39.2	46.3	46.0	50.0
Public Finances							
Primary Balance - % GDP	-1.9	-6.3	-6.9	2.1	-1.6	-1.9	-0.7
Nominal Balance - % GDP	-2.9	-7.3	-7.7	1.1	-2.4	-3.0	-1.8
Net Public Debt - % GDP	7.9	13.4	20.2	20.4	23.1	25.0	26.2

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

Colombia

Higher fiscal noise, higher rates

- Following the unexpected deflation in October, YE24 CPI is forecast at 5.1%, and 3.7% for 2025 due to higher pass-through from a weaker COP to goods prices.

- Despite the CPI surprise, fewer cuts by the Fed, and heightened pressure on the exchange rate, BanRep is expected to maintain a 50bp pace in the last meeting of the year, taking the policy rate to 9.25%. The terminal rate for 2025 stands at 6.5%, primarily due to fewer Fed cuts being expected in 2025. Turnover at BanRep's board, in early 2025 might lead to larger cuts and an acceleration towards neutral, to be eventually reflected in a weaker exchange rate.

Fiscal accounts still front and centre

Tax revenues grew by 3.3% YoY in September, but YTD nominal tax collection is down 8.1% YoY, leading to a 0.7% GDP revenue shortfall through 3Q24. This challenges the nominal fiscal deficit target of 5.6% of GDP. The government is considering a 2% GDP spending cut for the final quarter. Meanwhile, the sovereign issued its largest transaction ever (USD $3.6 billion) with dual tranche dollar bonds, achieving negative issue premiums and covering this year's financing needs while prefunding a significant portion of 2025.

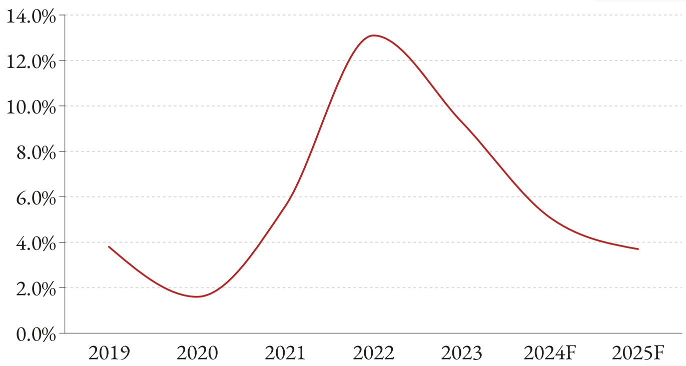
A proposal to increase revenue transfers from the Central Government to the regions surprised in Congress. The latest proposal of the reform lowered the transfers from the central government to the regions from 46.5% of revenues to 39.5% and to extend the transition period from 10 to 12 years. For context, transfers last year reached 20% of the central government's revenues. The adjustments to the initial proposal mean the fiscal effort between 2026 and 2035 would decrease from 3.1pp to 1.7pp. The bill is likely to progress.

The disinflationary process continues

Positive surprises to activity persisted in August. In the context of a gradual recovery, activity has broadly surprised to the upside during the past several months. On an annual basis, the monthly GDP proxy posted an annual expansion of 2.0% YoY in August, despite a marginal sequential decline (0.5% MoM SA). The economy grew 1.4% QoQ/SAAR during 3Q24, up from 0.4% in 2Q. Looking at the labour market, the national unemployment rate fell sequentially in September to 9.1%, well below BanRep's NAIRU estimate of 10.7%.

On-core prices are driving faster disinflation. Consumer prices fell 0.13% MoM in September, while core inflation (excluding food and energy) rose 0.13%. Annual headline inflation dropped 40bps to 5.41%. Non-durable goods inflation (mainly food) fell to 3.8% YoY, down 91bps, and energy inflation dropped to 9.7%, down 162bps. Core inflation decreased 12bps to 5.96% (from a peak of 10.60% in April last year). Quarterly inflation was 2.9% (SA, annualised), with core inflation rising to 5.4% from 5.1% in 3Q24 (SA, annualised)

Inflation in Colombia (CPI)



Source: Banco Itau

Banrep resists increasing the pace of cuts

In a divided decision, BanRep cut the policy rate by 50bps to 9.75%. Three members voted for a 75bp cut, while four favored 50bps. The one-year ex-ante real rate fell to 5.7%, above BanRep's neutral rate estimate of 2.4%. The majority highlighted the impact of currency depreciation on inflation and fiscal pressures, noting persistent services inflation and potential risks from a large 2025 minimum wage increase. BanRep's baseline scenario suggests a policy rate path above analysts' expectations of 9.0% by year-end and 6.0% by YE25, with no short-term acceleration in cuts. The neutral rate was revised up to 2.6% for next year (5.6% nominal).

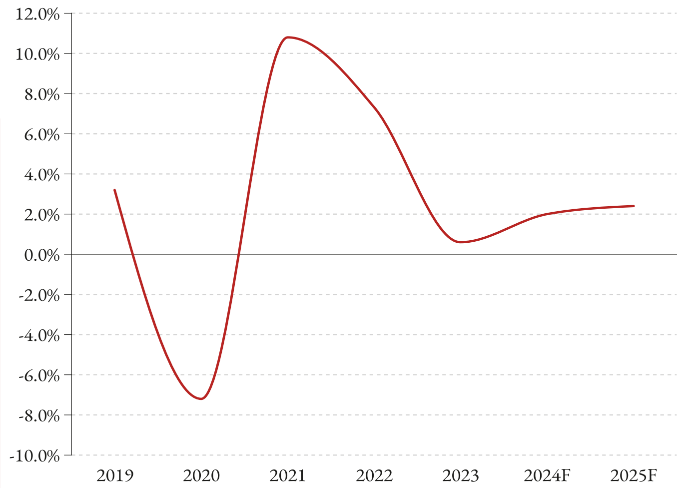
More exposed to the US, than China

Colombia's largest trade partner is the US with 27% of total exports headed north and only 5% directed to China. Measures that boost short-term US growth should favour the Colombian economy, although these gains could be netted by tighter global financial conditions or a deterioration in terms-of-trade.

Less space to cut

Given persistently better than expected activity prints, GDP growth is forecast at 2.0% for 2024 and 2.4% for 2025, as prior upside risks are countered by higher rates and inflation scenario.

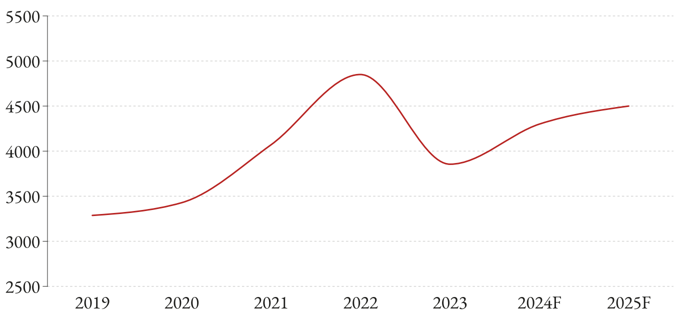
Real GDP growth in Colombia



Source: Banco Itau

The current account deficit (CAD) remains low. High transfers and a better services balance will sustain the CAD at a low 2.5% this year (stable from 2023; 2010-19 average: 4%), and gradually widen to 2.8% of GDP next year amid lower oil prices. A stronger global dollar and greater domestic policy uncertainty (primarily related to fiscal policy) means that the YE25 exchange rate between the Colombian peso and USD stands at COP 4,500/USD.

Exchange rate COP / USD



Source: Banco Itau

Lower YE inflation, but weaker COP pressures the disinflation path next year. Following the deflation in October, YE24 CPI is forecast at 5.1%, and 3.7% for 2025. Amid tight global financial conditions and domestic fiscal noise, BanRep will likely remain cautious in the last monetary policy meeting of the year. A year-end rate of 9.25% is expected for 2024, and for 2025 is currently stands at 6.5%, primarily due to changes in the international scenario. Nevertheless, the replacement of two board members by President Petro in February 2025, in line with BanRep's institutional framework, may tilt the balance of the Board towards favouring larger cuts. Such a development would see a negative response through the FX channel.

Colombia Economic Table

	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity							
Real GDP growth - %	3.2	-7.2	10.8	7.3	0.6	2.0	2.4
Nominal GDP - USD bn	323	270	322	345	364	416	411
Population	50.4	50.9	51.4	51.8	52.2	52.7	53.2
Per Capita GDP - USD	6,411	5,312	6,272	6,659	6,976	7,893	7,710
Unemployment Rate - year avg	10.9	16.7	13.8	11.2	10.2	10.6	10.5
Inflation							
CPI - %	3.8	1.6	5.6	13.1	9.3	5.1	3.7
Interest Rate							
Monetary Policy Rate - eop - %	4.25	1.75	3.00	12.00	13.00	9.25	6.50
Balance of Payments							
COP / USD - eop	3287	3428	4070	4850	3855	4300	4500
Trade Balance - USD bn	-10.8	-10.1	-15.3	-14.5	-9.7	-7.5	-7.0
Current Account - % GDP	-4.6	-3.4	-5.6	-6.2	-2.7	-2.5	-2.8
Foreign Direct Investment - % GDP	4.3	2.8	3.0	5.0	4.8	3.3	3.7
International Reserves - USD bn	52.7	58.5	58.0	56.7	59.1	60.6	61.0
Public Finances							
Primary Central Govt Balance - % GDP	0.4	-5.0	-3.6	-1.0	-0.3	-0.9	-0.9
Nominal Central Govt Balance - % GDP	-2.5	-7.8	-7.1	-5.3	-4.3	-5.6	-5.5
Central Govt Gross Public Debt - % GDP	50.3	65.0	63.0	60.8	56.7	61.3	64.5

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

Mexico

More volatility ahead

- A stronger USD and a higher domestic risk premium add to the depreciation of the Mexican peso, with a FX forecast of MXN 21.0/USD for 2025.
- Banxico's recent guidance opens the door for continued rate cuts and a sustained easing pace of 25 bp. Higher expected interest rates in the US means the YE25 call stands at 9.0%.
- 2025 growth forecast stands at 1.0%, on higher rates and a continuous deterioration of the institutional investment outlook, plus uncertainty about the relationship with the US.

Bank of México

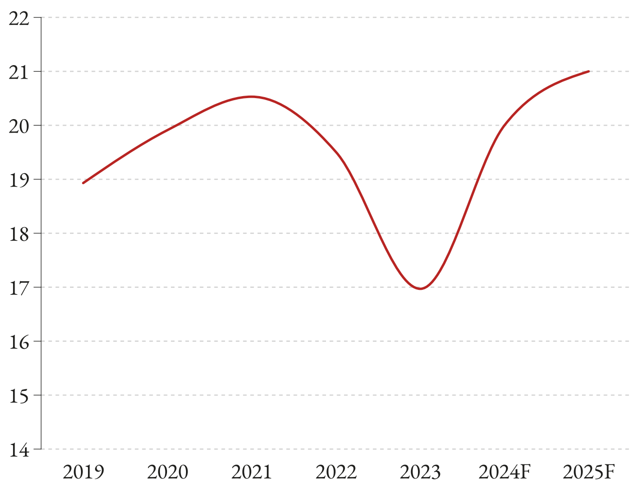
Trump administration is expected to have a limited impact on Mexico, but uncertainty and volatility are likely to increase

Mexico has significant exposure to the US due to its geographical location and the integration of manufacturing supply chains, reflected in the high share of total exports to the US (c80%). Despite the lingering uncertainties, the incoming Trump administration is unlikely to significantly jeopardise the relationship between the countries in the near term, given that it is highly beneficial for both. Although rising tariffs on all exported goods is unlikely, increased market volatility is anticipated amid tariff threats and a stronger US stance on bilateral trade. The country faced a similar situation of increased volatility and uncertainties during the first Trump administration, but Mexico ultimately benefitted from the higher growth in the US and nearshoring opportunities. On a related note, the United States Mexico-Canada Agreement (USMCA) is expected to be renegotiated in 2026. Mexico will likely be in a less favourable position to negotiate, but is likely to cooperate to maintain the trade agreement. Negotiations are expected to focus on activity of Chinese firms operating and selling through Mexico, particularly auto parts. Immigration and increased border control will also take the spotlight.

MXN depreciation next year

The FX forecast for 2024 stands at MXN 20.0/USD, and MXN 21.0/USD for 2025. The USD is expected to remain strong and end 2025 near the current levels. A higher domestic risk premium also adds to the depreciation in FX forecast for MXN.

Exchange Rate MXN / USD



Source: Banco Itau

The recent judicial reform – which includes the election of judges by popular vote – and progress in the initiative to strip autonomous entities (regulatory agencies) of their independence have contributed to the recent rise in domestic risk premium to peak levels.

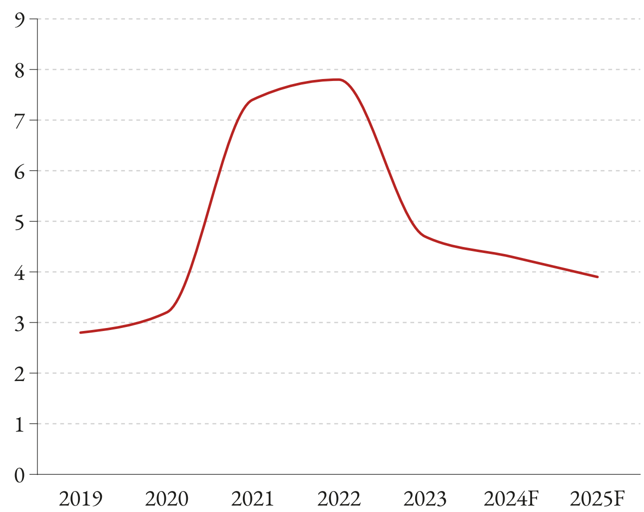
Fewer policy rate cuts in 2025

Banxico's recent guidance opens the door for continued rate cuts and a sustained easing pace of 25-bp (YE24 rate of 10%). A well-behaved, albeit weaker, MXN, deteriorating growth outlook for next year, lower inflation, and the FOMC's easing cycle should open the door for Banxico to continue its rate cuts next year, but at a slower pace than previously expected. The YE25 call stands at 9.0%. Fewer cuts are expected by the Fed next year, leaving Banxico with less room to continue to cut rates after March 2025 without affecting the domestic currency and inflation.

Sticky service inflation

Headline CPI rose by 0.55% MoM in October, with core CPI up 0.28%. Annual headline inflation increased to 4.76%, while core inflation fell to 3.80%. Tradables continued to disinflate (down 2.8% YoY), aided by "El Buen Fin" sales. However, MXN depreciation may drive goods inflation higher next year. Service inflation remains high at 5.0% YoY, above Banxico's target, due to a tight labour market with unemployment near 3%

Inflation in Mexico (CPI %)

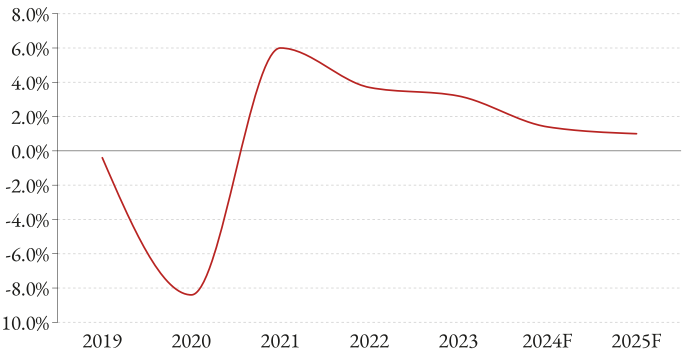


Source: Banco Itau

Weaker activity outlook for 2025

Preliminary data from leading indicators showed some recent improvement. GDP growth of 1.4% is forecast for 2024, consistent with a gain of 1.0% QoQ in 3Q24 and 0.2% QoQ in 4Q24, and GDP growth for 2025 is expected to be 1.0%. Growth is expected to lose momentum next year, to an average pace close to 0.1% QoQ. The investment outlook is set to continue to deteriorate. Higher than previously expected rates will also affect the economy next year. With deteriorating activity, higher rates, and a weaker currency, with conflicting effects on prices, the CPI forecast stands at 4.3% for this year and 3.9% for next year.

Real GDP growth in Mexico



Source: Banco Itau

Mexico City

Mexico Economic Table

	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity							
Real GDP growth - %	-0.4	-8.4	6.0	3.7	3.2	1.4	1.0
Nominal GDP - USD bn	1,298	1,129	1,318	1,463	1,796	1,931	1,877
Population	125.6	127.7	129.0	130.1	131.2	132.3	133.4
Per Capita GDP - USD	10,335	8,844	10,218	11,241	13,688	14,593	14,075
Unemployment Rate - year avg	3.5	4.4	4.1	3.3	2.8	2.7	3.0
Inflation							
CPI - %	2.8	3.2	7.4	7.8	4.7	4.3	3.9
Interest Rate							
Monetary Policy Rate - eop - %	7.25	4.25	5.50	10.50	11.25	10.00	9.00
Balance of Payments							
MXN / USD - eop	18.93	19.91	20.53	19.50	16.97	20.00	21.00
Trade Balance - USD bn	5.4	34.2	-10.8	-26.9	-5.5	-10.0	-15.0
Current Account - % GDP	-0.3	2.4	-0.3	-1.2	-0.3	-0.4	-0.6
Foreign Direct Investment - % GDP	2.3	2.8	2.7	2.7	1.7	3.0	3.5
International Reserves - USD bn	180.9	195.7	202.4	199.1	212.8	225.0	225.0
Public Finances							
Nominal Balance - % GDP	-1.6	-2.8	-2.8	-3.2	-3.3	-5.9	-3.9
Primary Balance - % GDP	1.1	0.1	-0.3	-0.4	-0.1	-1.4	0.6
Net Public Debt - % GDP	43.9	49.9	48.9	47.6	46.8	51.4	51.8

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

Peru

Recalibrating the monetary policy path

- The 2024 growth forecast stands at 2.9%, and at 2.8% for 2025. The bouts of strikes related to security concerns pose transitory downside risks to activity.

- Persistent downside surprises mean the year-end inflation forecast is currently 2.5%, and will remain unchanged at 2.5% by the end of 2025.

- The Central Bank is likely to pause in December, with the year-end call at 5.0%. Fewer cuts by the Fed and still above target inflation expectations mean the terminal rate forecast stands at 4.5%.

Activity slows in 3Q

Monthly GDP fell 0.5% MoM in September, with quarterly growth slowing to 0.8% QoQ in 3Q24 from 1.8% in 2Q24. Annual GDP growth was 3.2% YoY in September, down from 3.5% in August, driven by manufacturing (2.7% YoY) and commerce (3.5% YoY). Mining grew 1.1% YoY, down from 8.9% in August. Agriculture grew 1.1% YoY, while fishing contracted 14.6% YoY.

Fiscal revenues are normalising, with real revenues up 9.1% YoY in the rolling quarter ending October, though down from 12.7% the previous month. Year-to-date revenues declined 0.2% YoY through October. Elevated copper prices and economic recovery should support revenue improvement. Non-financial real expenditure growth was 7.9% YoY through October, expected to moderate in 4Q24 due to base effects.

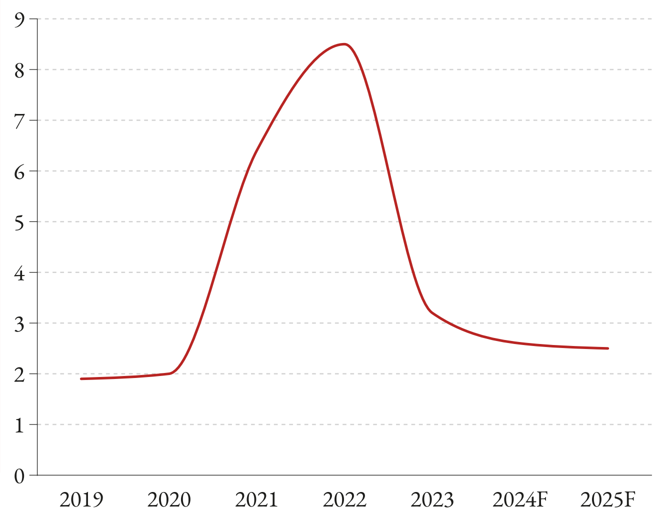
Following the stabilisation of the sovereign's outlook by Moody's (from negative) with the rating unchanged at BAA1 last month, this month, Fitch affirmed Peru's long-term foreign currency debt rating at BBB and stabilised the outlook (from negative). According to Fitch, sound policymaking has supported the economic recovery despite political volatility.

Lima, Peru

Déjà vu on inflation

Inflation fell again by 0.1% MoM in October, below market expectations, and recorded its second consecutive fall. The decline was mainly driven by volatile food items, that led to a fall of 0.6% MoM in the food and non-alcoholic beverage category. On an annual basis, inflation rose by 23 bp to 2.01%, given negative base effects, returning to the mid-point of the 2% (+/- 1%) target. Headline inflation has stood within the target range for seven consecutive months. Core inflation (ex-food & energy) rose slightly 0.1% in October, which led to an annual fall to 2.5% from 2.6% in September, recorded its lowest level since August 2021. Led by Don Julio Velarde, the Peruvian central bank keeps outperforming its regional peers regarding inflation control.

Inflation in Peru (CPI %)

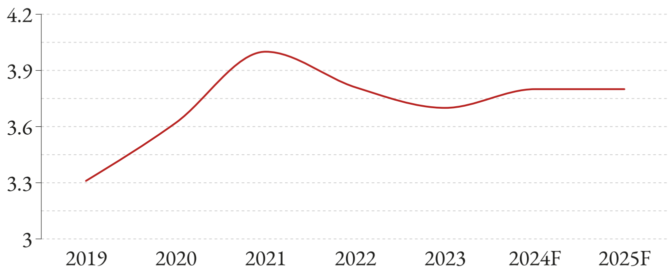


Source: Banco Itau

Sticking to the plan

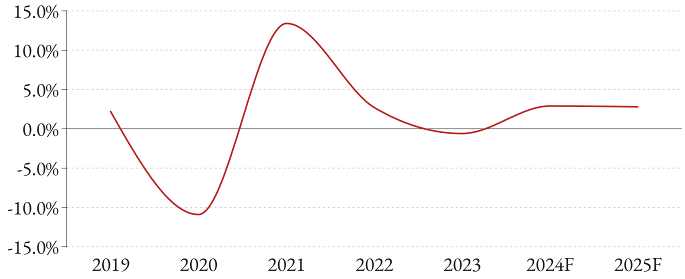
In November, the Central Bank of Peru (BCRP) cut the policy rate by 25 bps to 5.0%, resuming the easing cycle after holding at 5.25% in October. The statement noted the real rate is now close to neutral but maintained data-dependent guidance for future adjustments. Twelve-month inflation expectations remained at 2.45% in October, bringing the one-year real ex-ante rate to 2.55%, nearing the 2.0% neutral rate. The BCRP has reduced the nominal policy rate from 7.75% in September 2023 to 5.0%. Exchange rate volatility will be managed by Central Bank interventions or pauses. The exchange rate is expected to end 2024 at PEN 3.80/USD.

Exchange rate PEN / USD



Source: Banco Itau

Real GDP growth in Peru



Source: Banco Itau

Raising the monetary policy path

Even though activity has recovered, and leading indicators show an improvement, the 2024 growth forecast stands at 2.9%. The bouts of strikes related to security concerns pose transitory downside risks to activity. Lower carry-over means 2025 growth stands at 2.8%, slightly below potential of 3.0%.

A renewed US-China trade war poses downside risks to Peru's growth outlook, through a weaker external impulse and lower terms of trade. One third of Peru's exports are destined to China. Persistent downside surprises mean the year-end inflation forecast is currently 2.5%, and will remain unchanged at 2.5% by the end of 2025. The Central Bank is likely to pause in December, with the year-end call at 5.0%. Fewer cuts by the Fed and still above target inflation expectations mean the terminal rate forecast stands at 4.5%.

Peru Economic Table

	2019	2020	2021	2022	2023	2024F	2025F
Economic Activity							
Real GDP growth - %	2.2	-10.9	13.4	2.7	-0.6	2.9	2.8
Nominal GDP - USD bn	233	206	226	244	267	284	296
Population	33.2	33.5	33.8	34.2	34.5	34.9	35.2
Per Capita GDP - USD	7,030	6,156	6,690	7,155	7,747	8,140	8,413
Unemployment Rate - year avg	6.6	13.6	10.9	7.7	6.8	6.8	7.0
Inflation							
CPI - %	1.9	2.0	6.4	8.5	3.2	2.6	2.5
Interest Rate							
Monetary Policy Rate - eop - %	2.25	0.25	2.50	7.50	6.75	5.00	4.50
Balance of Payments							
PEN / USD - eop	3.31	3.62	4.00	3.81	3.70	3.80	3.80
Trade Balance - USD bn	6.9	8.1	15.1	10.2	17.7	18.5	18.0
Current Account - % GDP	-0.6	0.9	-2.1	-4.0	0.8	0.8	-0.7
Foreign Direct Investment - % GDP	2.0	0.3	3.2	4.6	1.5	2.5	3.0
International Reserves - USD bn	68.4	74.9	78.5	72.2	71.3	74.0	76.0
Public Finances							
NFSP Nominal Balance - % GDP	-1.6	-8.9	-2.5	-1.7	-2.8	-3.2	-2.2
NFSP Primary Balance - % GDP	-0.2	-7.3	-1.0	-0.1	-1.1	-1.4	-0.4
NFSP Debt - % GDP	26.5	34.5	35.8	33.9	32.9	34.0	34.2

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

Note: All data and views consider information as of November 18, 2024. All information accurate at time of printing.

CANNING HOUSE

Commercial Outlook

The business landscape in Latin America

James Taylor, Regional Director of Exports & Infrastructure, Latin America & the Caribbean, Department for Business and Trade

Valparaíso, Chile

Introduction

The coming years are promising for UK-Latin America trade relations. There is sizeable commercial potential presented by Latin America for the UK - based on its population of over 650 million, economy of USD $6.7 trillion (as estimated by the IMF), a growing middle class, and an abundance of natural resources, including the critical minerals vital to the global energy transition.

The continent has not been as significantly impacted as others by recent geopolitical instability, Moreover, the governments in the two largest markets in the region, Brazil and Mexico, look set to offer stability over the coming year. Increasingly, UK trade with Latin America is also underpinned by a series of trade and investment agreements, most recently The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which covers three Latin American markets (Chile, Peru, Mexico) and will come into force on 15th December 2024 (later in Mexico).

The Latin American economy is forecast to grow at 2.6% in 2025 according to World Bank estimates, driven by rising commodity prices, increased domestic demand, and continued investments in infrastructure. The UK is well place to support, and benefit from, this growth. UK trade and investment with LATAC is already good and it's growing. Data from the Office for National Statistics (ONS) indicate that UK exports to the region are up 36% in the last 5 years, exports to Brazil are at record levels, and Foreign Direct Investment (FDI) from the Latin America and Caribbean (LATAC) region in the UK was at least £125bn in 2022.

This chapter covers recent developments in UK-Latin American trade and the prospects for 2025 by journeying through the sub-regions. It begins with CPTPP, before running through the region geographically. From this overview, it is evident that the UK has a strong and growing footprint in energy and infrastructure projects, and these sectors should continue to represent the greatest opportunities for the UK, as Latin America continues to invest in the energy transition and closing the regional infrastructure gap.

> *"The UK's entry into the CPTPP strengthens its trading relationships and enhances the benefits for businesses in the region by reducing costs, improving supply chain reliability, and increasing market access."*

Fintech and agri-tech innovation also represent emerging opportunities for the UK in the region. Many Latin American economies are, for example, looking to adopt Open Banking frameworks modelled on the UK, which could be a driving force for innovation in banking industries across the region; and as a major agricultural producer and exporter, Latin America is clearly a key market for agricultural technologies, particularly those linked to climate change adaptation and resilience.

The final theme is appropriate for the football loving region, with Mexico set to co-host the 2026 World Cup, Peru the Pan-American games in 2027, and three countries - Argentina, Uruguay and Paraguay - one game each of the 2030 World Cup. The UK is a sports economy powerhouse, particularly in respect to hosting large scale events, and an increase of activity from UK companies is expected in this space.

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

On 15 December 2024, the UK officially joins the CPTPP. The Agreement will enter into force at that time just between the UK and those CPTPP Parties who have ratified UK accession, which at the time of writing is Chile, Peru, Japan, Singapore, New Zealand, Vietnam, Brunei, Australia and Malaysia.

This modern and ambitious Free Trade Agreement (FTA) covers more than 500 million people. With the UK as part of it, CPTPP is comprised of economies worth 15% of global GDP, or £12 trillion according to IMF estimates. .

The Latin American markets in the partnership — Chile, Peru, and Mexico — constitute a quarter of CPTPP membership. The UK's entry into the CPTPP strengthens its trading relationships and enhances the benefits for businesses in the region by reducing costs, improving supply chain reliability, and increasing market access.

Each market within the CPTPP has its own unique qualities (set out in the regional sections below), presenting a wide variety of commercial opportunities.

CPTPP benefits

For goods, over 99% of exports between CPTPP members will have zero tariffs. New rules of origin allow businesses to diversify their supply chains and routes to market, giving consumers in both the UK and Latin America better choice, quality, and access to products.

An example of a UK business looking to the region for growth is Manchester-based Cocogreen, a leading provider of coir substrate. The business transforms coconut husks – a naturally occurring raw material - into an environmentally safe and effective replacement for peat moss, used in the production of edible crops. The firm has already gained a firm foothold in the Latin American agriculture sector. Berry growers in Mexico, Chile and Peru, three of the firm's quickest-growing export markets, are increasing their investment in its world-leading substrate technology, which enables them to maximise food yields while saving on water, fertiliser and labour costs. It anticipates expanding across the region, growth that could be accelerated by the UK's membership of CPTPP.

In 2023, the UK exported almost £2.3 billion of food and drink to CPTPP countries according to HMRC. Joining will create new opportunities for British producers to sell products such as meat, chocolate, and dairy to some of the world's biggest markets in Latin America. UK dairy products, including cheese and butter, will get better access through lower tariffs to Mexico, creating new opportunities for UK exporters who will become more price competitive.

Mexico City

Modern rules of origin will help British businesses by allowing them to trade more freely across the region. For example, UK automotive manufacturers could sell car engines to a car maker in the region, who could then sell the final cars on preferential tariff terms to any member country subject to meeting the rules of origin. Additionally, greater access to global supply chains will be an important source of competitive advantage for businesses.

Joining the CPTPP also offers the UK an opportunity to diversify supply chains across a broad and varied range of economies. Strengthening relationships with nations such as Chile and Peru, which have access to important metals and minerals including gold, copper and lithium, is essential for the UK's resilience, security and energy ambitions.

An Agreement that supports UK trade in services

Being part of the CPTPP will play to UK strengths and will unlock opportunities for globally respected services sectors, which employ over 80% of the UK workforce, particularly as the UK sells more services (worth £39.8 billion) than goods to CPTPP members. The UK is therefore well placed to benefit from new guarantees for service providers as part of the agreement, as its contemporary rules make it easier to establish, operate investments, and conduct business, helping to improve the two-way flow of investments across CPTPP member states.

> *"CPTPP brings provisions to encourage easier digital trade, and is committed to the highest data protection standards and modern data flow rules. This includes businesses not facing unjustified data localisation requirements, meaning they can store their data wherever they want, reducing administrative costs around setting up additional data storage facilities."*

For example, Temporary Entry commitments in the CPTPP will help facilitate travel for businesspersons to CPTPP markets and provide legal certainty that access will continue in the future. This will provide important clarity for individuals and businesses across multiple sectors, paving the way for long-term economic growth and investment. In 2021, 9% (almost £4 billion) of trade in services between the UK and selected CPTPP countries was delivered through the temporary movement of businesspersons.

In addition, the CPTPP brings provisions to encourage easier digital trade, and is committed to the highest data protection standards and modern data flow rules. This includes businesses not facing unjustified data localisation requirements, meaning they can store their data wherever they want, reducing administrative costs around setting up additional data storage facilities.

The agreement includes a modern chapter on financial services that opens markets between members, expanding opportunities and easing frictions to cross-border trade and investment. UK exports in services to Chile in the four quarters up to the end of Q4 2023 were valued at £714 million, an increase of 23% year-on-year. Financial services have emerged as a significant component of the UK's exports to Chile, reflecting the deepening collaboration between the two nations in this sector.

The CPTPP also creates a more attractive investment environment between the UK and CPTPP parties, thanks to provisions that limit market access barriers and promote more inward investment. This is further evidence of the UK government's commitment to securing investment that benefits both businesses and workers, the level of which from CPTPP countries in the UK is around £182 billion, supporting over 5,000 jobs (2021 figures), and is expected to boost wages by £1 billion in total.

This is an agreement that is set to grow, with other important economies seeking to become members, including Latin American nations such as Uruguay, Ecuador, and Costa Rica. The UK is also the first new country to accede to CPTPP since its inception, becoming part of this major group that will be crucial both economically and strategically in the coming decades. As such, the UK will be well positioned to help shape its future, from influencing the future development of the CPTPP rulebook to championing the group's expansion to new economies, which could include a stronger presence in Latin America.

Baroness Chapman, Minister for Latin America and the Caribbean, addressing Canning House

Mexico

Mexico is the 12th largest economy in the world and the second largest in Latin America. Its growing, young, and increasingly wealthy population will drive demand for imports, which DBT forecast to grow by 42% (in real terms) between 2021 and 2035. With a population of over 130 million people, its market is larger than France and Italy combined, and UK trade with Mexico reached over £5.8 billion in 2023 according to ONS figures. Located as a key gateway in between the US and Latin America, Mexico employs a 6 million strong workforce in its manufacturing sectors in the Americas, providing a real opportunity for UK businesses to expand across the region.

Following elections in June, President Sheinbaum began her 6-year term on 2 October 2024. Her predecessor, Andrés Manuel López Obrador had a largely domestic focus and concentrated on major projects such as Tren Maya, Dos Bocas refinery and increasing Mexican involvement in the energy market. The international business community has, however, welcomed the signals from President Sheinbaum that her government is likely to be more open and international facing, with a clear focus on growth objectives.

The incoming administration has already sought UK collaboration, for example Baroness Chapman signed an MoU with Mexico's new Minister for Agriculture, Dr Julio Berdegué, to unlock cooperation on agri-trade, innovation, and biodiversity when she visited for the Presidential inauguration.

> *"Healthcare and life sciences represents another significant area of opportunity for the UK, as the sector accounts for the largest amount of UK exports to Mexico in terms of value, including pharmaceuticals and medical devices."*

The commercial outlook for UK-Mexico looks promising. Mexico is already the UK's largest source of Foreign Direct Investment (FDI) from Latin America with new milestone investments signed in 2024, including a £30 million from Grupo Bimbo (creating 120 new jobs), and £125.3m from Orbia. Equally, the UK is Mexico's 7th biggest source of FDI (as of Q4 2023), with over £30 billion investment stock in Mexico. Throughout the year, this record has been complemented through additional high value deals, such as a £34.5m investment from AstraZeneca into sustainability, sites expansion, and research and development.

Looking forward, there are clear opportunities to deepen the commercial relationship, most notably in financial services, healthcare and life sciences. In recent years, the UK government has delivered Technical Assistance programmes to Mexican regulators on financial service reform, which have improved market access and created a new market for fintech. Shortly afterwards, Revolut successfully obtained their banking licence in Mexico: the first time the Mexican government has granted a licence to a "digitally native" financial company.

Healthcare and life sciences represents another significant area of opportunity for the UK, as the sector accounts for the largest amount of UK exports to Mexico in terms of value, including pharmaceuticals and medical devices. The UK is increasingly seen at the forefront of research and development in these fields.

Finally, it would be remiss to not mention the 2026 FIFA World Cup, which Mexico will co-host alongside the United States and Canada, in the key cities of Mexico City, Guadalajara, and Monterrey. These marquee global events always create commercial opportunities, and the UK has a particularly strong offer. The UK government is therefore exploring the potential of cultural, sporting and business collaboration opportunities in areas such as infrastructure, event management, sponsorship, and energy.

Akron stadium, Mexico. (Credit: Alejan98)

Central America & Spanish Speaking Caribbean

The political cycle has coalesced in the region, with many countries holding elections in 2024. Consequently, there are now new or returning governments in Panama, Dominican Republic and El Salvador. These governments have, by and large, started setting out their respective priorities and so the expectation is that 2025 will be a year of action.

Over the last two decades, the Dominican Republic has stood out as one of the fastest growing economies in the Americas. In April, the UK signed a Government-to-Government (G2G) agreement with the President of the Dominican Republic that could open access to a pipeline of infrastructure projects worth over £2 billion and strengthen trade ties between the two countries. Following the President's re-election in May 2024, the UK will now seek to mobilise government and industry resources to help the Dominican Republic deliver on the President's infrastructure ambition, through potential projects in water, healthcare, energy and transport sectors. Though investors will be looking at how the new tax reform bill progresses and impacts how the government finances its ambitious infrastructure agenda.

The infrastructure opportunities are not limited to the Dominican Republic. In October 2024, the UK's Department for Business and Trade led an infrastructure mission to Panama, a consequence of the significant pipeline of projects in the region. The mission, coming shortly after President Mulino's first 100 days in office, resulted in the President welcoming collaboration with the UK on its infrastructure pipeline. There is a clear ambition to leverage the UK Export Finance (UKEF) to help finance infrastructure projects. It is also expected that there will be opportunities for UK companies to support the continued development of the metro system in and around Panama City, and the planning of a proposed new rail line connecting Panama City with David, a city in the west of Panama. There is also a healthy pipeline of social infrastructure, such as hospitals, and logistics projects.

> *"The life sciences sector will, though, continue to be the most significant sector of UK commercial presence in the Central America region, due to the footprint of major British firms such as Haleon, AstraZeneca and GSK."*

The outlook for opportunities in Costa Rica is perhaps slightly longer term than Panama. Costa Rica held municipal elections this year, and the change is expected to create a new business climate and set regional development objectives. Additionally, ministerial changes, notably in the Ministry of Public Works and Transport (MOPT), may lead to shifts in infrastructure management and could lead to challenges in execution of key infrastructure projects, such as Puerto Caldera, the largest entry port for goods in Costa Rica's pacific coast. The other markets in the region have also prioritised infrastructure development, but in these markets, it is anticipated that opportunities for UK firms will primarily be through regional Multilateral Development Banks – such as IDB, CABEI, and CAF.

Beyond infrastructure, the UK continues to see success across a range of other sectors, from security, through to education and food & drink. The life sciences sector will continue to be the most significant sector of UK commercial presence in the Central America region, due to the footprint of major British firms such as Haleon, AstraZeneca and GSK. There are further opportunities for suppliers in the health sector, specifically equipment for hospitals and medical facilities.

Panama City, Panama

Brazil

Brazil is the world's ninth largest economy and accounted for roughly 52% of the South America's GDP in 2023. It is also the UK's largest trade partner in Latin America according to the ONS, with total trade of goods and services amounting to £11.2 billion in the four quarters to Q2 2024, a 7.2% increase from the same period the previous year. An influential voice at the World Trade Organisation, the country held the G20 Presidency in 2024, and will host the BRICS Presidency and COP30 in 2025.

Despite the size of the market and its prominence on the world stage, Brazil is only the UK's 28th largest trading partner and can be a challenging market for UK companies, due to a complicated regulatory environment. However, the political and economic environment in Brazil looks increasingly favourable and stable. President Lula has managed several reforms to date, including a long-awaited tax simplification reform and a flexible fiscal framework allowing spending to grow in line with revenue.

> *"Looking forwards, President Lula has clearly stated his desire to move away from a dependence on commodities towards a more 21st century economy, which presents a broad range of opportunities for UK companies including in infrastructure, energy, education, health and cyber security."*

A sign of the improving operating environment for UK businesses is the news that the UK recently secured Geographic Indication recognition for Scotch whisky in Brazil. This will improve intellectual property protection as well as significantly cut-down on the red-tape to import Scotch into Brazil, which is especially useful for SMEs, providing a welcome boost to a market currently worth nearly £90 million/year.

Looking forwards, President Lula has clearly stated his desire to move away from a dependence on commodities towards a more 21st century economy, which presents a broad range of opportunities for UK companies including in infrastructure, energy education, health and cyber security.

The energy transition is probably the standout area of opportunity for the UK. Brazil has untapped potential in solar power products, low-carbon hydrogen, and an opportunity to profit from its major deposits of critical minerals important to help support decarbonisation efforts. Clean growth represents an area of shared interest for the UK and Brazil, demonstrated by initiatives such as the Green and Inclusive Growth (GIG) Partnership and the Clean Power Alliance, launched by Prime Minister Starmer and President Lula on 19 November at the G20 Summit in Rio de Janeiro. This collaboration in areas of shared interest will likely see growing opportunities for UK companies in oil and gas decommissioning projects, as well as commercial interests through the UK-Brazil Industrial Decarbonisation and Hydrogen Hubs. There is significant Offshore Wind (OSW) potential and ambition in Brazil, another area of opportunity for UK industry.

Last year, Lula announced his flagship infrastructure programme, the Growth Acceleration Program (Novo PAC, in Portuguese), with up to £236 billion in expected investments across priority areas such as transport, smart cities, health, water, energy transition, defence, and science. With similar programmes carried out during Lula's second term (2007-2010), the Novo PAC aims to foster economic growth through state-driven investments and economic incentives, as well as public-private partnerships.

In January 2024, Brazil also announced its long-term industrial strategy, called New Industry Brazil (NIB), with up to £41.4 billion in funds for six mission-oriented priority sectors: agro-industrial chains, health industries, infrastructure, digital transformation, bioeconomy and energy transition, and defence.

Healthcare and life sciences remain critical sectors for collaboration, with Brazil's healthcare reforms aiming to broaden access and integrate advanced medical technologies. Significant disparities in healthcare access across regions and demographics present UK firms with opportunities in public health infrastructure, medical devices, and pharmaceuticals. Skill transfer initiatives and best-practice exchanges have strengthened the UK's position as a trusted partner in Brazil's health system modernisation.

Prime Minister Starmer and President Lula (Credit: Palácio do Planalto)

Andean Region

In contrast to the rest of Latin America, the commercial outlook across the Andean region in 2025 is likely to be influenced by elections, with upcoming elections in Bolivia, Chile, and Ecuador. These will then be followed by elections in Colombia and Peru in 2026.

Any potential change in government will likely impact country priorities, as well as the business environment for international firms. The UK has, however, already demonstrated that significant commercial opportunity exists in these countries despite occasional political uncertainty – as evidenced by the continued success of the UK's infrastructure offer in Peru. Moreover, despite the potential political changes, the commercial outlook for the UK in the region remains largely positive, particularly in infrastructure and energy. UK trade with the region is also well covered by trade agreements.

Medellín, Colombia

As already mentioned, the UK's trade with Chile and Peru will soon be covered by the CPTPP. Chile is one of the UK's largest trading partners in the region and is attractive proposition for UK businesses. Its economy is very open, and highly dependent on international trade (approximately 75% of its GDP), with UK exports to the country comprising two thirds of UK-Chile trade. A stable macroeconomic environment, accommodating trade and investment regime, consumer purchasing power rising, a pro-business sentiment, and a strong drive for innovative solutions puts Chile in first position when it comes to regulatory support and modernity when it comes to services.

The CPTPP should present enhanced trading opportunities for UK businesses, by improving access to Peru as an export market. Trade between the UK and Peru is already covered by the UK-Andean FTA, where Peru is the most important partner for the UK within the FTA representing 46% of total trade with the bloc. Peru's economy is growing, with GDP projected to expand up to 3% this year according to IMF estimates, the highest growth rate since 2021. The UK is also the largest foreign investor in Peru according to Lloyds Banking group, with some of the largest UK companies already present in the country including AngloAmerican, Mace, Arup, and Gleeds.

Trade with these two countries is also already covered under the UK-Andean trade agreement, as is trade with Ecuador and Colombia. The FCDO Minister for Latin America and the Caribbean, Baroness Chapman, signed a Double Taxation Agreement in August 2024 between the UK and Ecuador, which, once in force, will improve the business operating environment for UK companies in the region. April 2024 saw the launch of the newly created British Bolivian Chamber of Commerce during the visit to Bolivia of the Minister for Exports, Lord Offord of Garvel CVO. The creation of BritCham Bolivia reflects the interest of UK companies in the market despite the difficult political and economic environment, and it will foster bilateral trade between the two countries.

This increasingly developed framework of trade agreements in the region affords UK companies greater protection in the market, whilst unlocking commercial opportunities for UK companies. The resource-rich nature of Andean countries, as well as the continuing efforts to close the infrastructure gap in the region, mean that two most notable areas of opportunity are in the energy and infrastructure sectors.

> *"The energy sector presents real opportunities for UK companies in the Andean region. Chile, for example, expects to produce the lowest-cost hydrogen in the world by 2030 and to be among the world's top three hydrogen exporters by 2040."*

The energy sector presents real opportunities for UK companies in the Andean region. Chile, for example, expects to produce the lowest-cost hydrogen in the world by 2030 and to be among the world's top three hydrogen exporters by 2040. According to estimates by Chile's National Green Hydrogen Strategy, with World Bank support, this industry could generate up to USD $330 billion in private investment opportunities, and some USD $30 billion in exports by 2050. The UK government and industry is well placed to support this ambition. In September 2024, the UK's export credit agency, UK Export Finance (UKEF), signed an MoU with the implementing unit, the Chilean Production Development Corporation (CORFO), to support financing of blue and green hydrogen projects in Chile. This was complemented by another MoU between UK's Department for Energy Security and Net Zero (DESNZ) and the Chilean Ministry of Energy to collaborate on energy transition, including on green hydrogen and offshore wind. There are further opportunities for UK companies in enhancing energy security and driving the energy transition across the region.

Offshore wind is another area of opportunity. In October 2024, the Colombian Government published the list of companies wishing to participate in offshore wind projects in the country. This was the first of its type on the whole continent and an important milestone within this first 'Offshore Wind Allocation Round', which aims to create 3 GW of renewable energy capacity.

Whilst in Bolivia, the National Electricity Company (ENDE) currently has 19 hydropower projects in their pipeline to start developing in different regions, with an estimated potential of 6376 MW. The ambition is to implement at least 2000 MW of this target by the end of 2025, resulting in 70% of the energy matrix coming from renewable sources.

The UK continues to be a significant infrastructure partner in the region. In Peru, the UK signed a new Government-to-Government (G2G) agreement to support the USD $630 million delivery of two high complexity hospitals in August 2024. This builds on two existing G2G agreements, which were both extended in September 2024 – with a one-year extension with Bicentennial Schools G2G and a two-year extension of G2G with Peruvian Infrastructure Authority on education, health and flood defence projects. UK firms are gaining significant recognition in the Andean market through these programmes and are well placed to capitalised on the strong pipeline of opportunities in the region. The pipeline in Peru includes a USD $405m drainage and agricultural development project (Majes Siguas II), USD $5 billion Line 3 of Lima metro, and the USD $3 billion Lima-Ica railway line. It was also announced that the Lima will again host the Pan American Games in 2027, creating further opportunities in infrastructure and beyond for the UK, especially after the UK played a substantial role, via a G2G, in the successful delivery of the 2019 iteration.

The strong UK infrastructure presence in Peru, should serve to create wider opportunities in the region. Chile, for example, is pursuing national rail development programme worth USD $4 billion and is expecting to kickstart projects on several airport expansions in 2025. Increased government budget focused on prison security and plans for new prisons (including a high-security prison in Santiago), should also create opportunities for the UK.

Spanish-speaking Mercosur

The UK has a long history of commercial ties with this part of Latin America, with 2025 marking the 200-year anniversary of bilateral trade relationship between the UK and many countries across the region. 2025 is expected to present significantly more opportunities in Argentina for UK businesses, as President Milei's government is making significant efforts to stabilise the economy and is making headway, with inflation slowing down to 2.7% in October, the lowest level in three years. According to Reuters, Argentina also likely had a trade surplus for the tenth straight month in September, helping to accumulate a net USD $16 billion in hard currency since Milei took office.

President Milei's government has an ambitious agenda of deregulation and simplification that is helping to normalise the operating environment in Argentina. President Milei has plans to privatise more than two dozen state-owned companies, including the state airline, the railways, the postal service, and the national water supplier. The government has also created a new investment promotion regime for projects over USD $200 million, in the areas of energy, forestry, infrastructure, mining, and technology. The expectation is that the energy and mining sectors will benefit the most, with initial investments anticipated to be in excess of USD $50billion. Another sign that economy is more open to international business is the government's elimination of all import restrictions and reduced import financing limitations to payment 30 days after shipment. Across this ambitious pro-business agenda, there is a growing willingness and desire to work with UK companies.

> *"Sport continues to be a connecting theme across the region, with Argentina, Paraguay and Uruguay also having their moment in the global spotlight in 2030, as each country will host one game each of the FIFA World Cup, to mark the event's centenary. Again, this will likely create opportunities for the UK to leverage its experience of hosting major global tournaments and events."*

Asunción, Paraguay

Football match, Argentina

Uruguay and Paraguay, whilst both significantly smaller, are also increasingly seen by UK companies as markets with significant commercial opportunity. Paraguay's credit rating was raised to investment-grade in July 2024, marking a momentous milestone for one of the fastest-growing economies in Latin America. This is encouraging more UK companies to enter the market. An increasing number of UK engineering and design firms are expected to enter the market in 2025, in support of both private and public funded infrastructure, across a range of sectors, including transport, water, and energy. Paraguay, like other countries in South America, is suffering from the effects of climate change, and has recently experienced its most severe drought in over a hundred years, exacerbated by the La Niña weather phenomenon. British expertise in water management will start to support the country and address these challenges in 2025. For example, Biwater – A UK based water solutions company - will support the development of an aqueduct to supply water to vulnerable communities in three states of the Chaco region, following the recent signing of an MoU between the company and three regional governors.

Uruguay's democratic stability means that the election and installation of a new government in 2025 will not signal a significant shift in the business environment. Uruguay will continue to offer long term predictability for investment, with a bilateral trade relationship underpinned by the annual UK-Uruguay Trade Dialogue. The country's small size, strong human capital and tax regime have proven positive for UK firms looking to innovate in pharmaceutical research, technology and logistics services and as a staging point for trade into the wider Mercosur region (more than £120 million/year is now managed from hubs in country by just two UK pharmaceutical companies). In the future, Uruguay's near 100% renewable energy production, biomass and access to the Atlantic offer scope to support e-fuels development at scale. Two UK firms have a sizeable presence already in the renewable generation landscape. Aerospace will be a new sector to follow as Uruguay is laying the foundations of its own National Space Agency and learning from UK experience. In 2024, the UK's Intellectual Property Office and its counterpart in Uruguay signed a Patent Prosecution Highway, which allows for a speedy process when filing patents in both jurisdictions.

Sport continues to be a connecting theme across the region, with Argentina, Paraguay and Uruguay also having their moment in the global spotlight in 2030, as each country will host one game each of the FIFA World Cup, to mark the event's centenary. Again, this will likely create opportunities for the UK to leverage its experience of hosting major global tournaments and events.

Conclusion

Latin America is a large and diverse region, with a range of markets. 2025 is, by and large, shaping up positively for the UK's commercial ties with the region. Political and policy stability in the major markets of Brazil and Mexico is anticipated, whilst the economic reforms in Argentina are helping to open another major market in the region to international business. This stability is further enhanced when considered as part of the wider the global context, as Latin America will likely benefit from being a 'bystander' to the growing uncertainty and instability in many other regions.

UK trade with the region is already good and growing, and the expectation is for this to continue in 2025. The UK has a demonstrable track record of supporting large-scale infrastructure and energy projects in the region, and these conditions should create further opportunities in these two areas of UK expertise.

After a long journey, the UK will also see the CPTPP enter into force in December 2024, which will further deepen and strengthen UK trade with the three Latin American economies that are already party to the agreement.

Social Outlook

The social condition of Latin America – Top ten trends

By Jean-Christophe Salles, CEO Latin America, Ipsos

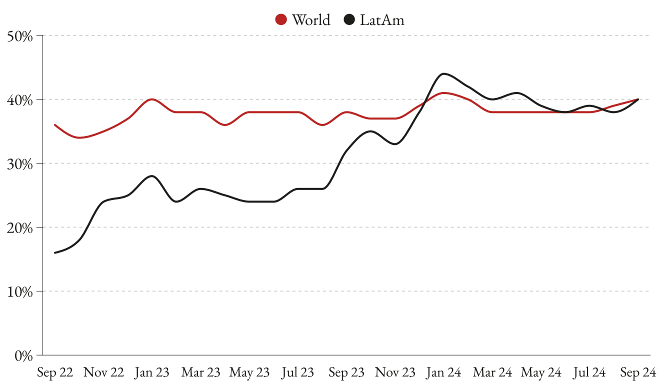
San Miguel de Allende, Mexico

Overview

There is a tendency when it comes to Latin America to see the glass half-empty. The news headlines about the region in western countries are all too often negative, regularly highlighting issues pertaining to crime, conflict, violence, inequality, and natural disasters. However, it would be fatalistic to always highlight the problems and not recognise the progress made in Latin America in recent years across a plethora of metrics. Obviously, not everything is perfect, but on many issues the glass can certainly be considered to be half-full.

Looking, for example, at citizens' perception of the direction their countries are taking, in September 2022, only 20% of Latin Americans stated that their countries were going in the right direction (versus 40% at the global level - average of 30 countries). Two years later, in September 2024, Latin America is in now line with the global average, with 40% of Latin Americans believing that their countries are going in the right direction, representing a huge turnaround in opinion.

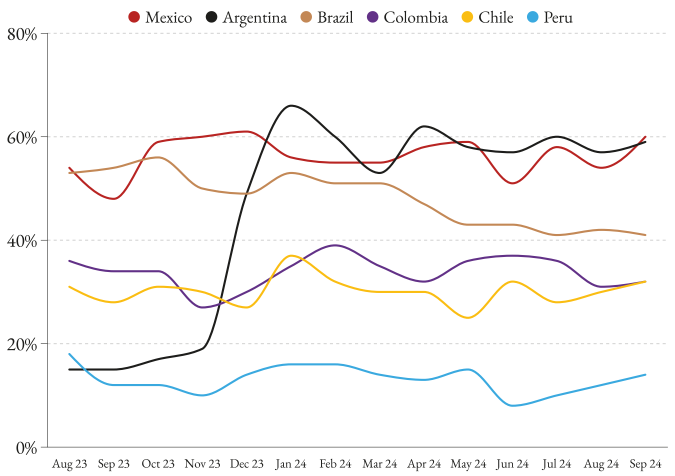
% of citizens that believe their country is heading in the right direction



Source: Ipsos Global Advisor

Although this positive trend cannot be observed in all the countries of the region, it can be observed in the three largest ones. 60% of Mexicans think that their country is going in the right direction, well above the global and regional average, with similar levels before and after the election of Claudia Sheinbaum. 59% of Argentines believe that their country is going in the right direction, moving from very negative territory to very positive territory after the election of Javier Milei. Brazil also remains above the average of the 30-countires for which data is collected, albeit with a downward trend throughout the year. Colombia and Chile were fairly stable during 2024 with only around one third of citizens stating that their countries are heading in the right direction, below the global average but above, for example, France (22% in September 2024) or Japan (28%). Peru, however, remains very low, with 86% of Peruvians thinking that their country is going in the wrong direction.

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



Source: Ipsos Global Advisor

This chapter outlines the top ten social trends in the region, using data from various international organisations such as the World Bank, the Organisation for Economic Cooperation and Development (OECD), the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), and declarative data from Ipsos. Thousands of Latin American citizens were interviewed about their perceptions, concerns and way of life during the process of gathering this information. Each social trend is reviewed one by one for the six largest countries in the region – Argentina, Brazil, Chile, Colombia, Mexico, Peru - analysing their status in recent years, and assessing the macro-social data for each of them.

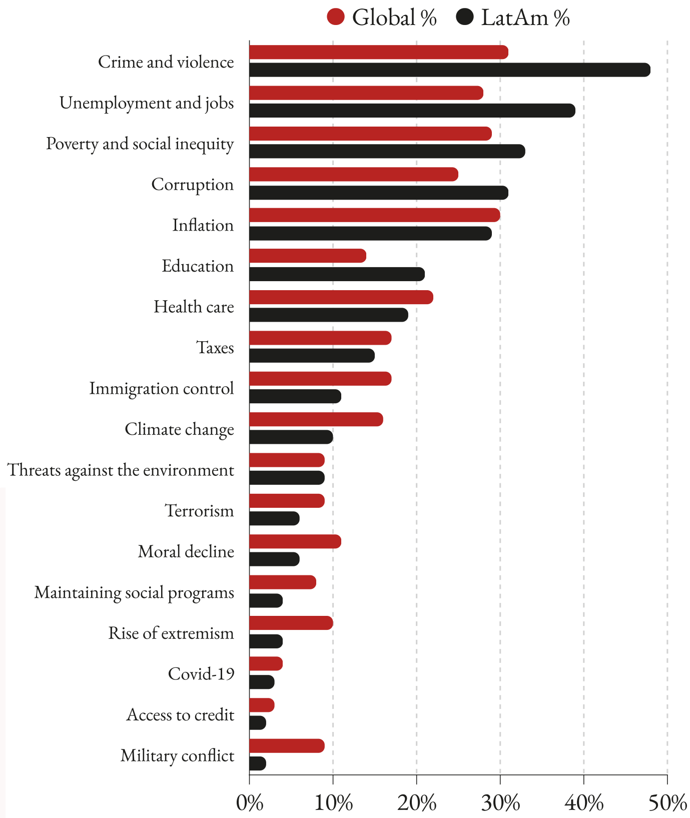
Based on the data received and responses given, the top ten social trends identified can be grouped into three main clusters:

Trends linked to societal factors, impacting the day-to-day lives of citizens, but not linked to their own, personal conditions: e.g. crime & violence, Corruption, and immigration.

Trends linked to socio-economic factors, impacting the day-to-day lives of citizens, and linked to their personal situation: e.g. unemployment, inflation, and poverty & inequality

Trends linked to socio-political factors, linked to a broader context: e.g. education, healthcare, climate change, and diversity.

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



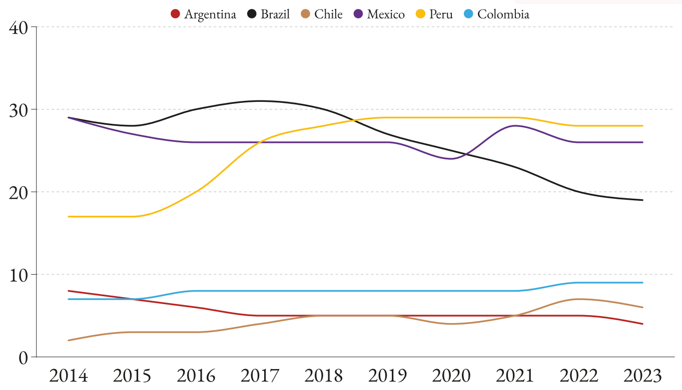
Source: Ipsos Global Advisor

Crime and violence are by far and away the main concerns for Latin Americans, being 17pts higher compared with the global average in September 2024, followed by unemployment being 11pts higher than global average. Poverty and social inequality are the third Latin American concern relatively close to corruption (respectively 33% and 31%) and both concerns being more important for Latin Americans than at global level. At the opposite end, compared with the global average, Latin Americans are much less concerned by climate change, immigration control, the rise of extremism, and military conflict.

1. Crime and Violence: The threat of organised crime remains

In 2024, Latin America remains one of the most violent regions in the world, accounting for approximately 40% of global homicides, even though its population represents only 9% of the world's total. According to the World Bank, the region has an average homicide rate of 18.4 per 100,000 inhabitants, compared to a global average of 6.2 homicides. However, this regional average masks large variations between countries. The Global Peace Index 2024 ranks Colombia and Mexico amongst the least peaceful countries in the world, whilst Argentina and Chile have maintained homicide rates below 8 per 100,000 inhabitants, much nearer the global average.

Intentional homicides per 100,000 people



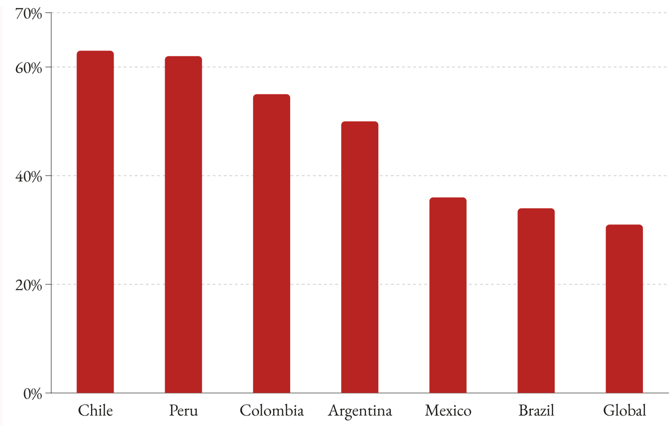
Source: World Bank, UNODC, International Homicide Statistics database

Factors such as poverty and inequality, corruption, the presence of organised crime, drug trafficking and illegal economies fuel violence in several countries. In the region, 50% of homicides are associated with organised crime, compared to 24% globally. In addition to the impact on people's lives, this level of criminal violence affects people's well-being and behaviours, with 30% of households saying they have been victims of violence in the last year, and 51% of the population reporting not feeling safe compared to 20% globally. It increases the cost of doing business, as one in four companies identify crime as a serious or very serious constraint to doing business; and it undermines the rule of law and erodes trust in institutions, costing the region 3.5% of GDP annually, taking valuable resources away from urgent needs such as education and health.

In addition, crime and violence disproportionately affect women, children and diverse populations. According to the World Health Organization, one in three women have been a victim of physical or sexual violence in their lifetime, and the homicide rate amongst youth (20-25 years old) is 3 times higher than in the rest of the population, with one study indicating that 58% of children having been victims of physical, sexual or emotional abuse.

The perception of insecurity in Latin America is closely linked to the population's high exposure to violent crime. In 2024, 50% of Latin Americans believed that the amount of crime or violence in their neighbourhood had increased in the last 12 months, compared to 31% at the global level. This feeling was particularly acute in Chile, at 63%; Peru, at 62%; and Colombia, at 55%.

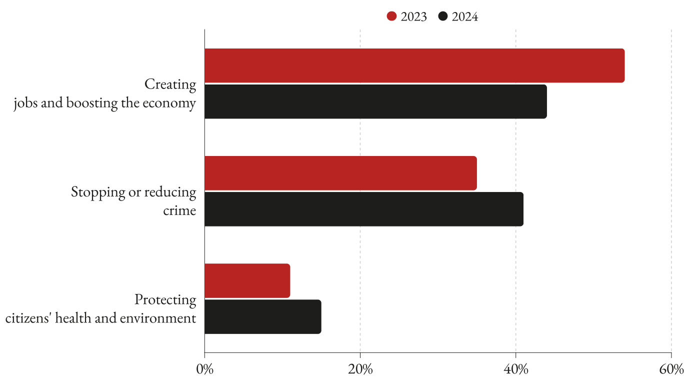
% of citizens that believe the amount of crime or violence in their neighbourhood increased in the past 12 months



Source: Ipsos Attitudes on Crime and law enforcement

As a consequence, 41% of Latin Americans in 2024 believe their governments should make combatting crime their top priority, 6% higher than in 2023 and well above the global average of 22%.

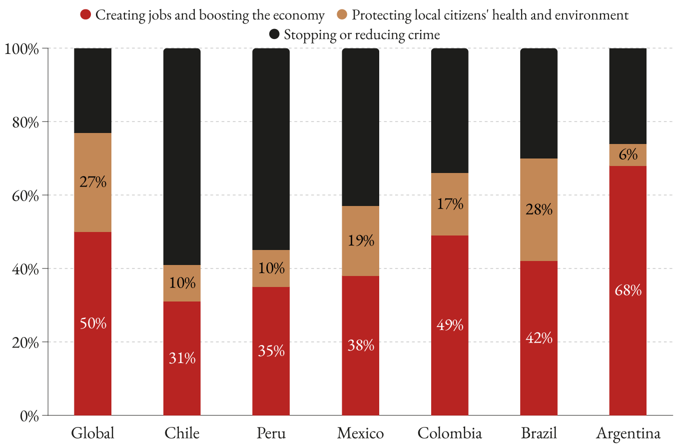
% of Latin Americans who believe the following should be their government's main priority



Source: Ipsos Attitudes on Crime and law enforcement

Even a majority of Chilean, Peruvian and Mexican citizens state that the top priority of their respective governments should be to stop or reduce crime over creating jobs, boosting the economy, and protecting health and the environment. For countries with relatively low homicide rates such as Chile and Peru, this may be linked to the recent increase in violence and the emergence of organised crime that did not exist a few years ago.

% of Latin Americans who believe the following should be their government's main priority



Source: Ipsos Attitudes on Crime and law enforcement

Security policies in Latin America vary drastically between countries. El Salvador for example has adopted a mano dura (iron fist) approach and has reduced its homicide rate to less than 7 per 100,000 inhabitants by 2024, an impressive drop from 103 per 100,000 in 2015. According to the Ministry of Justice and Public Security, this reduction has occurred in parallel to the arrest of more than 71,000 alleged gang members under the state of emergency. However, organisations such as Human Rights Watch have noted that these policies have led to human rights violations, with tens of thousands of arbitrary detentions and more than 150 deaths in custody since 2022.

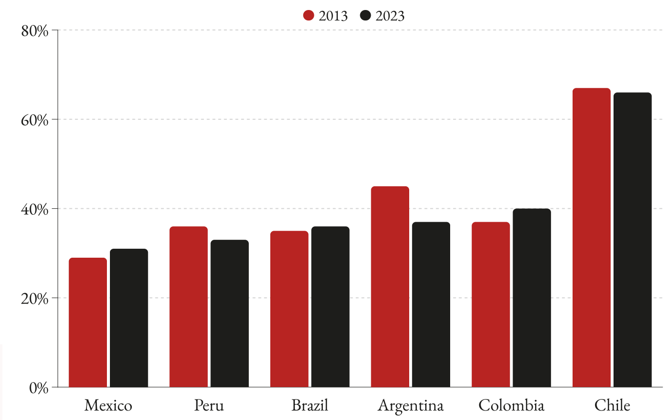
Brazil, on the other hand, has combined its mano dura approach with social policies to pacify the favelas, with some success also. According to the Brazil 2024 Atlas of Violence, its homicide rate has reduced from 30 per 100,000 in 2017 to 19.3 per 100,000 in 2024. Security and favela pacification policies in cities such as Rio de Janeiro and São Paulo have been key to this reduction, although violence remains prevalent in northern and north-eastern regions, such as in the state of Bahia, where homicide rates remain above 40 per 100,000 inhabitants.

According to the Inter-American Development Bank (IDB), countries that have invested in police reforms, social reintegration programs and institutional strengthening have been able to reduce violence more quickly. And a recent study by the United Nations Office on Drugs and Crime (UNODC) highlights that, although the total number of homicides in the region remains high, this figure has decreased by 3% since 2018.

2. Corruption, trust and democracy: The road is long, but not only for Latin America

Corruption remains one of the main challenges in Latin America, negatively impacting democratic institutions and weakening public trust. According to Transparency International's Corruption Perceptions Index (CPI), the region shows little significant progress in the fight against corruption, with several Latin American countries towards the bottom of the global ranking.

Corruption perception Index (CPI) in 2013 and 2023



Source: Transparency International

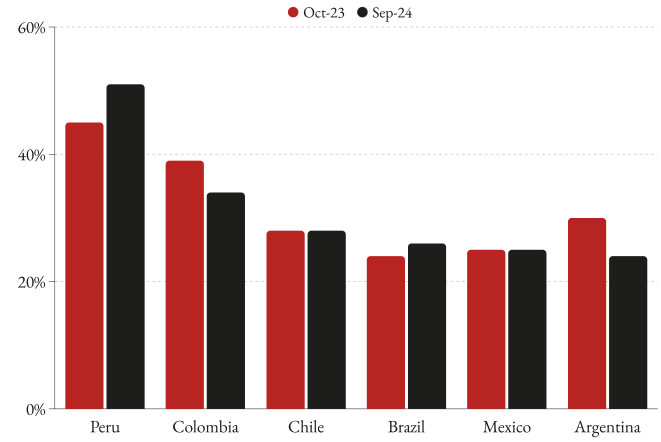
Only Chile appears in the top 30 countries with the lowest corruption index, at levels comparable to France, the United States and Taiwan. Argentina is at a similar level to countries such as Croatia, South Africa and Senegal, and most of the other Latin American countries are in the 100-130 range of the 180 countries listed, alongside places like Ethiopia,

Favela, Rio de Janeiro

Vietnam, Togo and Laos, with no improvement over the last 10 years.

Corruption, and financial or political scandals is currently the fourth largest concern of Latin Americans, and has been relatively stable throughout the year. However, it is much more of a worry in Peru than other countries, affecting mainly the most vulnerable populations, limiting investment in essential sectors such as infrastructure, health and education.

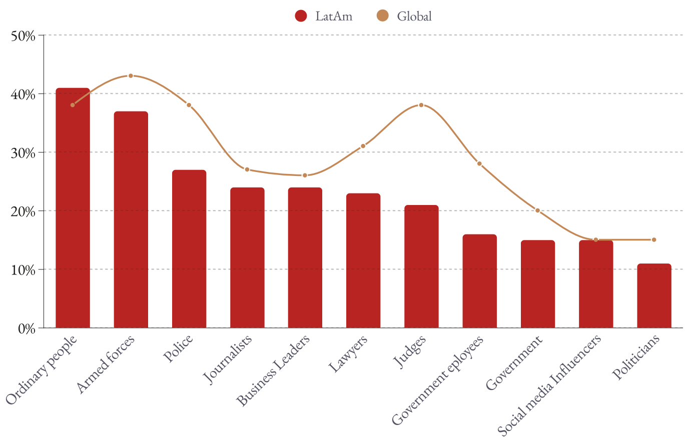
% of citizens that said 'Corruption, financial or polical scandals' was one of their top three concerns



Source: Ipsos Global Advisor

Linked to corruption, trust in institutions amongst Latin Americans continues to be low, yet relatively stable compared with previous years. As a snapshot of Latin American citizen's opinions: 37% trust members of the armed forces, compared to 43% globally; 27% trust the police, compared to 38% globally; 23% trust in lawyers, compared to 31% globally, and 21% trust judges, compared to 38% globally.

% of citizens that believe the following groups are trustworthy

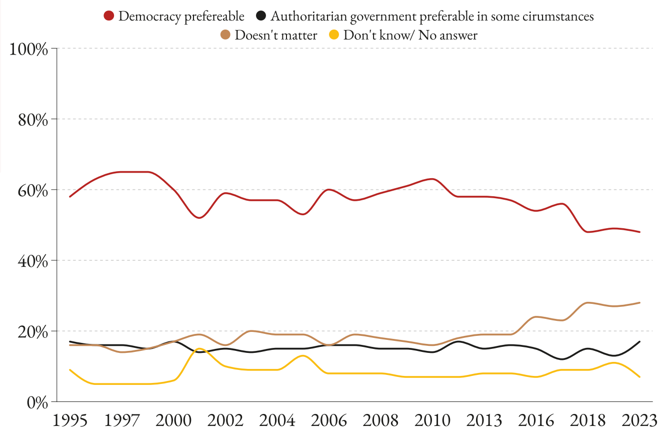


Source: Ipsos Trust worthiness Index

Of the six largest economies in Latin America, levels of trust in the four institutions - armed forces, police, lawyers, and judges - is particularly low in Argentina and Peru, with only 16% of Argentinians and 13% Peruvians trusting their judges, and only 20% 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.

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 in charge of their countries, the preference and attitudes in favour of authoritarianism, the collapse of the performance of governments, and the damage to the image of political parties. 85% of Latin Americans believe that there is increasing conflict between people who don't share the same values in their countries. This trend may be linked to the political polarisation increasingly being observed, which materialised in the choices of the last presidential elections in several countries such as in Chile between Katz and Borich, in Brazil between Lula and Bolsonaro, in Colombia between Petro and Hernandez, and in Argentina between Milei and Massa.

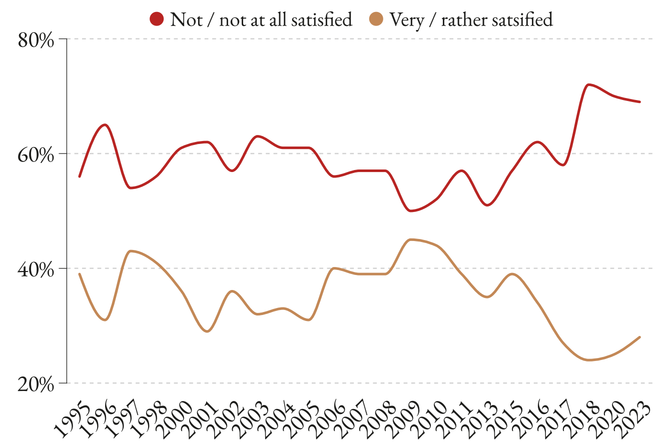
Support for democracy accross Latin America 1995-2023



Source: Latino Barometro 2023

The recession of democracy 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 increasingly 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. This disaffection may be linked to the low proximity that citizens feel with political parties or governments. For example, in 2024, 73% of Latin Americans believed that traditional parties and politicians don't care about them, higher than the global level of 67% and particularly high in Peru and Chile at 79% each respectively. Furthermore, 82% of Latin Americans are worried that government and public services in their country will do too little to help people in the years ahead, compared to 75% of people globally.

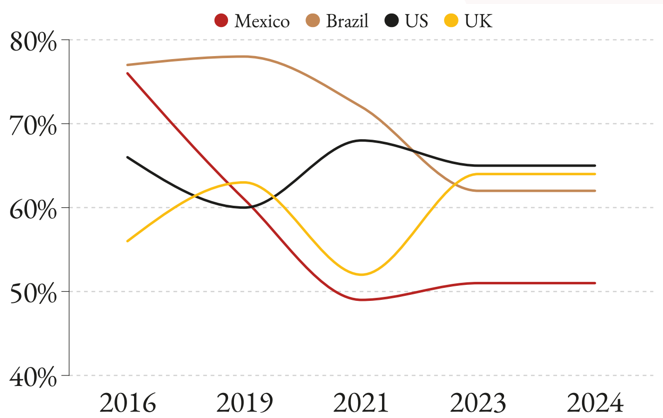
Latin American's satisfaction with democracy



Source: Latino Barometro 2023

But free and fair democracy only returned to Latin America in the 1980s, and creating democratic institutions that work to change people's lives can take time. However, it is worth noting that in 2016, 77% of Brazilians and 76% of Mexicans believed that their societies were among the most broken in the world, whilst today, the trend seems to reverse and much more in line with the global average and less than the US or the UK.

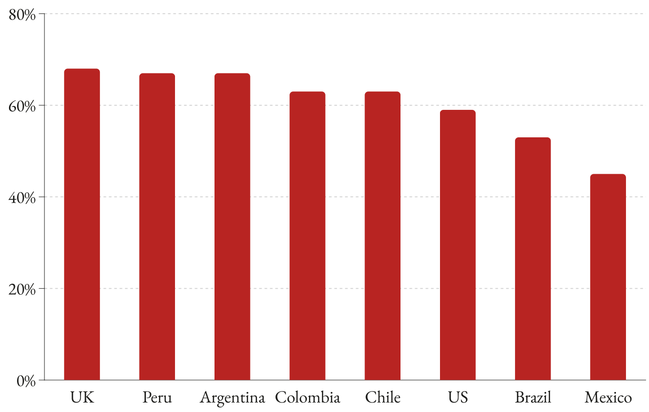
% of citizens who believe that their society is broken



Ipsos populism in 2024

Even more so if we look at the feeling of living in a society in decline. Today, citizens of Sweden or the UK say like Peruvians or Argentines that their societies are in decline, and those of the United States (59%) say more than Brazilians (53%) or Mexicans (45%) that their societies are in decline. Latin America is improving (apart from Peru), the road is still long, but this more positive citizen perception of society may lead to more social integration, better connections between "leaders" and citizens and ultimately less populism.

% of citizens of who believe that their country is in decline in 2024



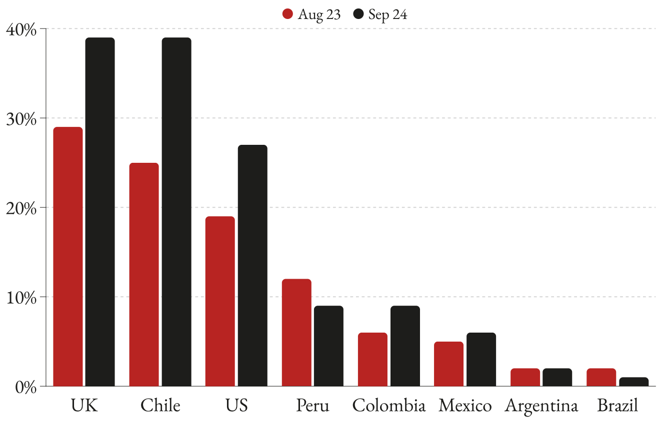
Ipsos populism in 2024

Inner city football, Buenos Aires

3. Immigration: Even with the Venezuelan crisis, there are fewer concerns than in Europe and the US

Although Venezuelan migration has emerged as one of the largest and most complex migratory movements in recent Latin American history, it does not appear to be a major concern for the majority of the region's citizens, with the exception of Chile.

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



Ipsos Global Advisor: What Worries the World

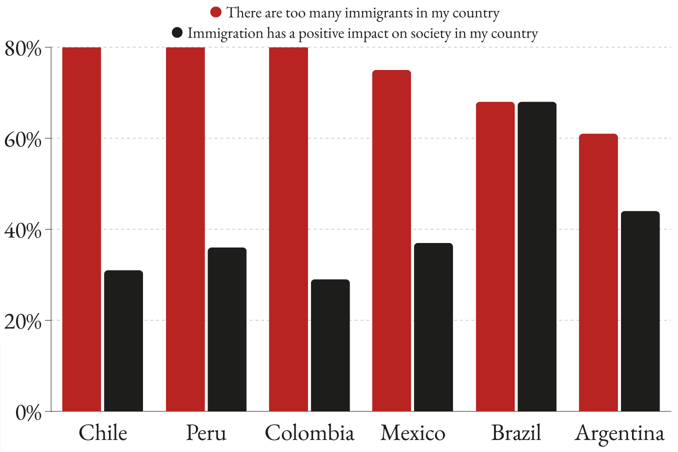
Since the moment the crisis started to accelerate in 2015, it is estimated that more than 7.7 million Venezuelans have left the country, constituting about 25% of the total population according to data from the International Organization for Migration (IOM) and the United Nations High Commissioner for Refugees (UNHCR). This massive migration has transformed the demographics of neighbouring countries, particularly Colombia, Peru and Chile, generating both challenges and opportunities for the receiving nations.

By 2024, the Venezuelan migration flows had stabilised compared to the most critical years (2018-2021), but the numbers remain sobering. According to data from the Interagency Coordination Platform for Refugees and Migrants from Venezuela (R4V): Colombia has received 2.8 million Venezuelans, representing more than 40% of the total number of Venezuelan migrants in the region; Peru has received 1.5 million, making it the second largest recipient country in Latin America; Chile has received 600,000, with a significant increase in the last five years; Brazil has received 450,000, many of whom enter through the border state of Roraima; and Argentina has received 220,000.

In addition, the World Bank estimates that migratory flows have generated an increase in the immigrant population in some countries of 3-5% in recent years. In Colombia, Venezuelan migrants represent approximately 5.6% of the total population in 2024. In Peru, the figure is 4.5%, which has generated considerable pressure on the health, education and social services systems.

The rapid increase in the migrant population has generated generally negative reactions in receiving societies. 83% of Chileans believe there are too many immigrants in their country, as do 82% of Peruvians, and 81% of Colombians, and two-thirds of Chileans and Colombians believe that immigration has a negative impact on their country's society. Conversely, Brazilians appear more open, with 68% stating that immigration has a positive impact on their society.

Reactions to migration



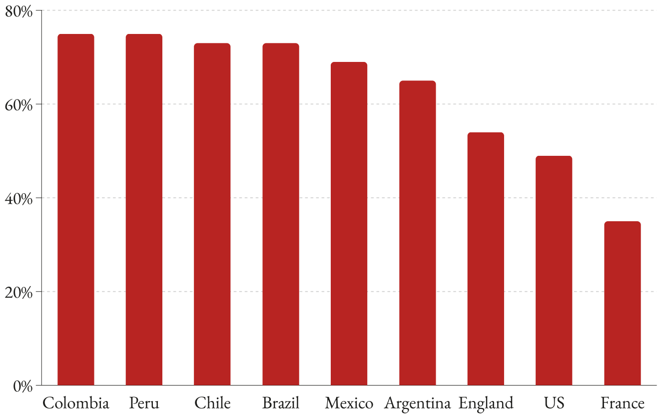
Source: Ipsos global trends

World Bank and ECLAC projections suggest that migration will continue at a moderate pace in the coming years, especially if the crisis in Venezuela does not improve significantly. Governments must continue to adapt their policies to manage the integration of this population in a sustainable manner. The key will be to foster social and economic inclusion, minimising social tensions and harnessing the potential of migrants to contribute to receiving economies.

Beyond immigration, Latin Americans are very open to globalisation, like the vast majority of emerging countries and in contrast to the more developed countries and in particular European countries. 69% of Latin Americans believe that globalisation is good for them and for their countries, 7% higher than 10 years ago and 11% greater than the average of the 30 countries in the study. Note the very low levels in France, where only 35% of citizens believe that globalisation is good for their country, compared with 49% of US citizens, and 54% of English citizens.

High density housing

% of citizens that agree 'Globalisation is good for my country'



Source: Ipsos global trends

4. Unemployment: The problem of informality remains

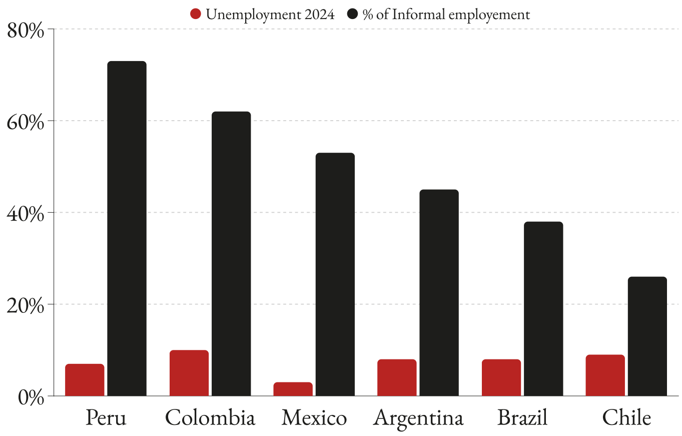
Throughout the region, unemployment rates vary significantly from one country to another, reflecting different economic and political realities. According to the International Labor Organization (ILO), the main labour problem in Latin America is the quality of employment linked to the increase in labour informality.

According to IMF projections as of April 2024, the percentage of unemployed people in Colombia was 9.9%, followed by Chile at 8.7%, then Brazil and Argentina at 8%, Peru at 7%, and Mexico at 3%, the Latin American country with the lowest unemployment rate. The agency clarifies that the definitions of each country regarding unemployment may vary, but, in general terms, an unemployed person is someone who is part of the active population and who is looking for a job without finding one.

Mother and child, Peruvian Andes

However, these figures do not fully capture the reality of underemployment and informal employment, which remain dominant features of many Latin American economies. In countries such as Colombia and Peru, labour informality has increased, reaching rates above 60%, reflecting a lack of formal jobs and the inability of governments to absorb workers in regulated productive sectors. Informal occupations have contributed to the creation of between 40% and 95% of jobs between the third quarter of 2020 and the second quarter of 2023. The average informality rate in the region's labour markets stood at 48% in mid-2023, however, in some countries it exceeded 70%.

% Unemployment and informal employment as % of total employment

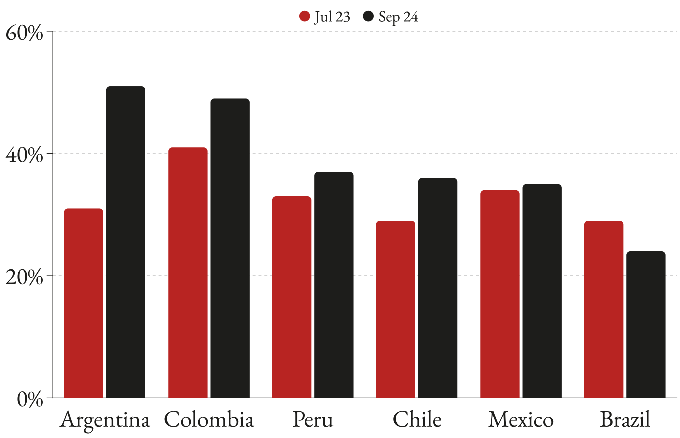


Source: IMF 2024 and ILO Q3 2022

Unemployment is not only an economic problem; it has profound social implications. Young people, who make up a significant part of the unemployed population, face unemployment rates that exceed 20% in countries such as Brazil and Argentina. Women continue to be one of the most affected groups. Wage gaps, combined with higher unemployment rates than men, reflect structural inequalities in Latin American labour markets. The impact of unemployment in rural communities is equally alarming. In rural areas of Peru, where access to formal employment is almost non-existent, informal agricultural work remains the only option for many families, perpetuating poverty and limiting economic development.

Unemployment in Latin America in 2024 remains a central concern for the economic and social stability of the region, as well as for its citizens. Unemployment concerns have risen over the last year in almost all Latin American countries, particularly in Argentina, as well as in Colombia and Chile. Efforts to address this problem have been complicated by several factors, from inflation and political crises to the impact of technology on labour markets. If governments fail to move forward with structural solutions, such as investment in education and technical training, disparities will continue to widen and productivity will remain low.

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



Source: Ipsos Global Advisor, What Worries the World

5. Inflation: A good example of institutional resilience

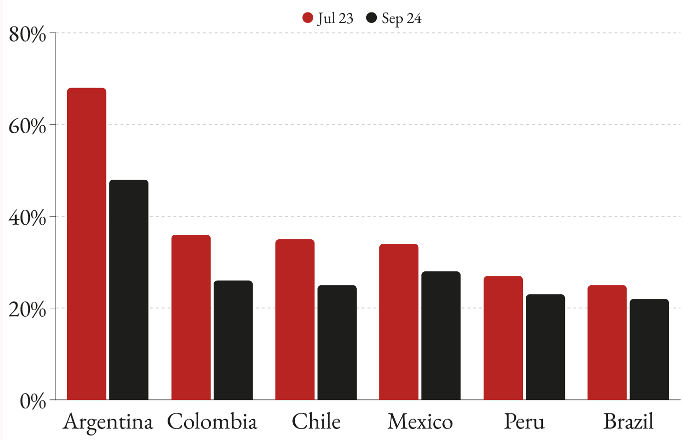
Inflation has historically been one of the main macroeconomic challenges in Latin America. For decades, the region faced high levels of inflation, which severely affected economic growth and social welfare. However, in 2024, some of the region's largest economies, such as Brazil, Mexico, Chile and Peru, have managed to contain inflation very successfully.

Day of the Dead celebrations, Mexico

Central banks in Latin America have adopted a proactive monetary policy to control inflation, focusing on price stability through the manipulation of interest rates and other financial instruments. In 2024, these policies have proven effective. According to World Bank and IMF data, average inflation in Latin America is 5.1% in 2024, a significant improvement from the 7.7% recorded in 2022. Even in Argentina, inflation is at its lowest since November 2021, anticipating an annual rate for 2025 of approximately 35%, much lower than the 2024 rate estimated at 120%.

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 and 2024. Today, inflation is much less of a concern in Latin America than at global level. Even in Argentina, for the last 2 months, inflation is not the main worry anymore, and has been replaced by unemployment (51% vs 48% in Sept 2024).

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



Ipsos Global Advisor: What Worries the World

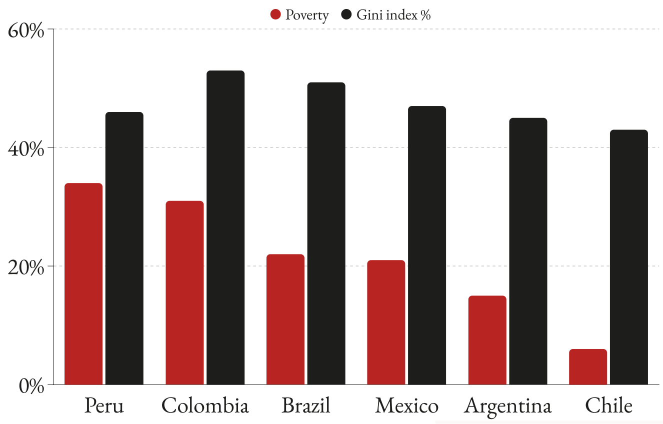
6. Poverty and inequality: A structural issue with improvements in Mexico and Brazil

According to the World Bank, poverty rates in Latin America and the Caribbean are currently slightly below those recorded before the pandemic. Overall, in 2023 the region reached its lowest recorded poverty rate in one hundred years, with 25% of people living on less than USD $6.85 a day (measured in 2017 purchasing power parity).

Brazil and Mexico, the largest economies in the region, were the main drivers of poverty reduction. Public policies of social inclusion, economic growth and welfare programs have contributed to improving the living conditions of millions of people in these countries. In Mexico, extreme poverty went from 7.4% of the population in 2018 to 5.9% in 2024. Likewise, the multidimensional poverty index, which includes health, education and quality of life indicators, has decreased, reflecting progress in key areas such as housing and access to basic services. In Brazil, extreme poverty fell from 6.5% in 2018 to 4.8% in 2024, driven by cash transfer programs and improvements in access to education and health.

Colombia also recorded a slight improvement in the number of Colombians living in poverty during the years 2022-2023, falling by 3.1% compared to 2021. But Colombia remains one of the countries in Latin America with the highest poverty rate, and one of the countries with the highest income inequality in the world. On the other hand, countries such as Argentina saw their poverty level rise by more than 4% in 2023, with approximately one in ten inhabitants living in extreme poverty. In Peru, poverty also increased in 2023 due to climatic effects such as drought and the impact of El Niño, social conflicts, and political instability, and remains above pre-pandemic levels. However, given the projected economic growth for 2024, poverty is expected to be reduced by 2-3%.

Poverty: Those living under USD $6.85 per day



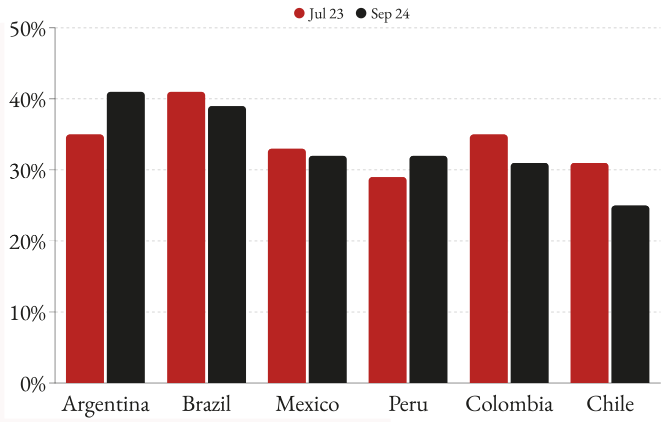
Source: World Bank 2024 and country estimates

Inequality remains a challenge, but measured through the Gini coefficient, it has shown a downward trend, led by Brazil and Mexico. In Mexico, the Gini coefficient went from 0.499 in 2018 to 0.469 in 2024, and in Brazil, from 0.535 in 2018 to 0.507 in 2024. In Mexico, social programs have been crucial to these advances. The Beca para el Bienestar Benito Juárez program, which replaced Prospera in 2019, has supported more than 9 million low-income students in 2024, significantly improving access to education and reducing dropout rates. In Brazil, the Auxilio Brasil / Bolsa Familia programs, has reached 21.6 million families in vulnerable situations. This program has been key to reducing extreme poverty rates, providing a basic monthly income to the poorest families and linking the aid to school attendance and the vaccination of children.

The World Bank estimates that inequality in Latin America decreased slightly to 49.7% in 2023 and will remain at that level in 2024. But for James A. Robinson, the 2024 winner of the Nobel Prize in Economics, poverty and inequality in Latin America are deeply rooted in colonialism, the exploitation of indigenous people and the existence of slavery. These inequalities are self-reproducing and are linked to problems of inclusion, marginalisation and exploitation, which is why the region has not yet found a way out of these issues.

Looking at poverty and social inequality as citizen concerns, they have remained relatively stable in Latin America in recent years, a bit higher than the global average. However, they remain the first concern for citizens in Brazil along with crime and violence, and the second and growing concern for citizens in Argentina after inflation and unemployment. In all the studies conducted by Ipsos in the region, Brazilians and Argentines always appear as the most sensitive to social inequality. For example, 83% of Brazilians and 78% of Argentines state in 2024 that having large differences in income and wealth is bad for society.

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



Source: Ipsos Global Advisor, What Worries the World

7. Education: Getting better, but more is needed

Education and skills accumulation are fundamental to address structural inequalities, improve social mobility and foster productivity growth in Latin America. According to the IDB report "The State of Education in Latin America and the Caribbean" launched in January 2024, three dimensions are key to educational development: financial resources, coverage and efficiency, and learning.

First, public spending on education as a percentage of GDP in Latin America has experienced a remarkable increase of 7% on average over the last 20 years. However, this investment per student in primary and secondary education (USD, PPP) is still much lower than in the OECD. This dimension explains to a greater extent the lag in educational development in the region compared to OECD countries. Second, despite progress in primary education coverage, challenges persist in access to secondary education. On average, 35% of young people between 21 and 23 years of age have not completed secondary education, and there are inequalities in coverage depending on socioeconomic level, rural areas, and racial and ethnic minorities. On average, the region's population has two years less schooling than that of OECD countries. Third, the countries of the region continue to have a low level of learning compared to OECD countries. In reading and science, more than half of the region's 15-year-old students do not reach the minimum level of competencies, whilst for mathematics the percentage rises to 75% according to the Programme for International Student Assessment (PISA). Learning gaps between quintiles also show that, on average, disadvantaged students report a rate of underperformance more than 30% higher than advantaged students. Performance on these three dimensions appears better in Chile and Argentina than in the other 4 large countries in the region.

	Yearly spending USD in PPP*	% Reaching minimum level**	% ending high school
OCDE	9291	63%	80%
Chile	4871	42%	87%
Argentina	3535	24%	70%
Brazil	3178	25%	72%
Colombia	3086	27%	73%
Mexico	2561	32%	60%
Peru	1688	31%	60%

**Yearly spending per student in primary and high school, in USD in PPP*

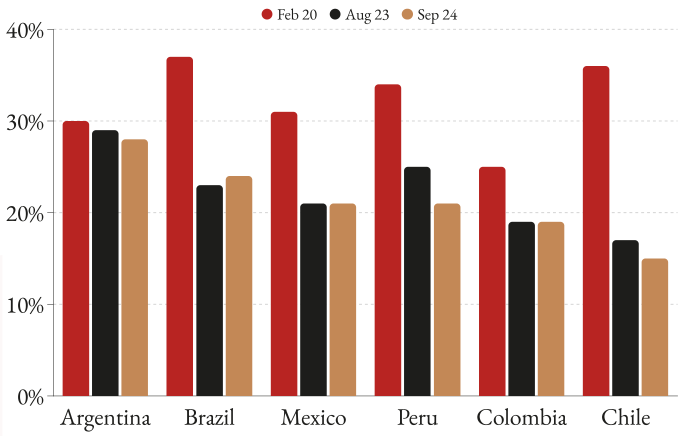
***% reaching minimum competency level in reading and mathematics*

Source: IDB Education Outlook in Latin America

The digital divide is also one of the most significant obstacles to educational equality. According to a 2024 report by the IDB, around 66% of households in Latin America have internet access, but this figure varies drastically between and within countries. In Argentina, 89% of urban households have internet access, whilst in rural areas, only 24% of households have connectivity. Lack of access to technological devices is also critical. A UNICEF study in 2023 revealed that 33% of secondary school students in the region do not have a personal computer or tablet at home, which seriously affects their school performance.

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. 21% put education within their top three concerns in 2024, much higher than the global average of 14%, and one of the highest regions in the world.

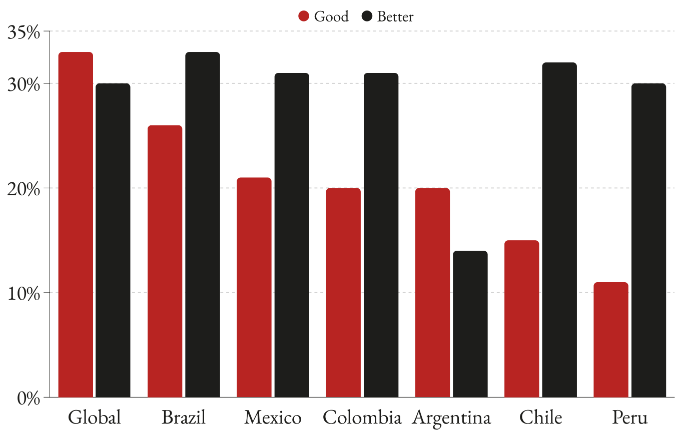
% of citizens that said 'Education' was one of their top three concerns



Ipsos Global Advisor: What Worries the World

On average, only 24% of Latin Americans consider their education system to be good, compared to the global level of 33%. However, Latin Americans are more likely to recognise that education has improved compared to when they were in school, except in Argentina. Furthermore, the importance of education is recognised by almost all governments in the region, and higher educational authorities recently agreed on the Declaration of Santiago 2024, a document that reaffirms the commitment of States to the right to education and the targets of Sustainable Development Goal 4 (SDG4), setting the course for regional educational policies with priority axes in the reactivation, recovery and transformation.

% of citizens who believe that education quality in their country is 'good' and 'better than when they were at school'



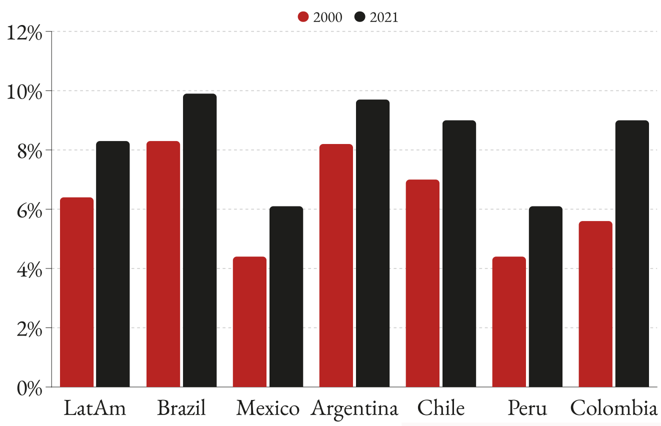
Source: Ipsos Global Education Monitor 2024

8. Health: More investments but aging societies create challenges

According to the World Bank, based on data from the World Health Organization (WHO), current spending on health, measured as a proportion of GDP, has evolved favourably in Latin America over the past two decades, rising on average from 6% in 2000 to 8% in 2021, and reaching levels close to the world average of 10% in Brazil, Argentina and Chile.

In 2021, health spending in Argentina represented 9.7% of GDP, increasing from 8.2% in 2000. In Brazil, in the same year it was equivalent to 9.9% of GDP, up from 8.3% in 2000. In Colombia, it increased from 5.6% of GDP in 2000 to 9% in 2021, whilst in Chile spending increased from 7% of GDP in 2000 to 9% in 2021. In Peru and Mexico, health spending rose identically from 4.4% to 6.1% of GDP between 2000 and 2021.

Healthcare spending as % of GDP

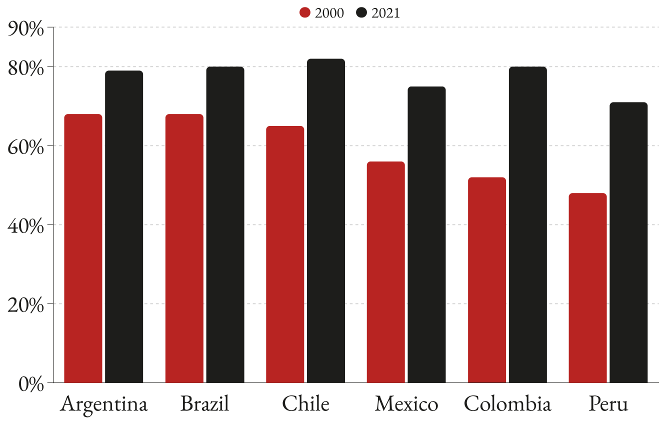


Source: World Health Organization 2024

The WHO also tracks Universal Health Coverage (UHC) through an index on a scale of 0 to 100, which converts 14 tracer indicators of health services coverage - such as reproductive, maternal, newborn and child health, diseases and capacity and access to services - into one single summary measure. This index indicates that health coverage has also improved significantly over the last 20 years in Latin America and in each of its major countries.

Valparaíso, Chile

Universal Health Coverage Index

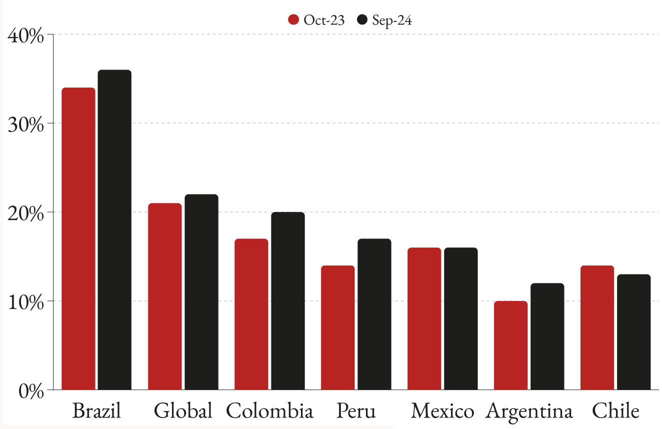


Source: World Health Organization 2024

Latin American countries have mixed health systems with both state and private participation. Public spending contributes 50% of total health spending, but with important variations by country. In Argentina and Colombia for example, public spending represents 66-70% of total healthcare spending, whereas in Chile, Peru and Mexico the figure is 50%, and in Brazil it is only 45%.

Latin Americans' concern for health has been fairly stable over the last few years and is below the global average, with the exception of Brazil. Whereas for most Latin Americans, health is ranked as the seventh most important concern, in Brazil it is the third, just after crime and violence and poverty and inequality. This level of concern may be linked to the quality of health care, the high share of private participation but also to the importance of health for Brazilians versus other concerns.

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



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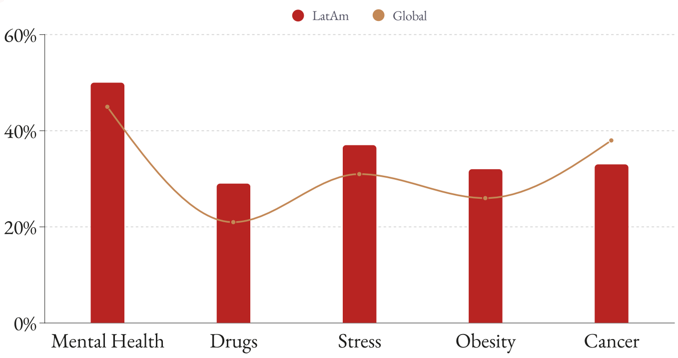
Only 29% of Brazilians rate the quality of medical care as good, compared with 48% of Argentines; 75% say that waiting times to get an appointment with a doctor are too long; 82% state that they cannot afford to pay for 'good' medical care; and only 27% believe that the health care system treats everyone according to the same standards of care.

Amongst the main health problems currently reported by Latin Americans, mental health dominates, led by Chile on 69%; followed by stress, led by Argentina on 43%; cancer, led by Peru on 40%; obesity, led by Mexico on 59%; and drug abuse, jointly led by Colombia and Argentina on 37%.

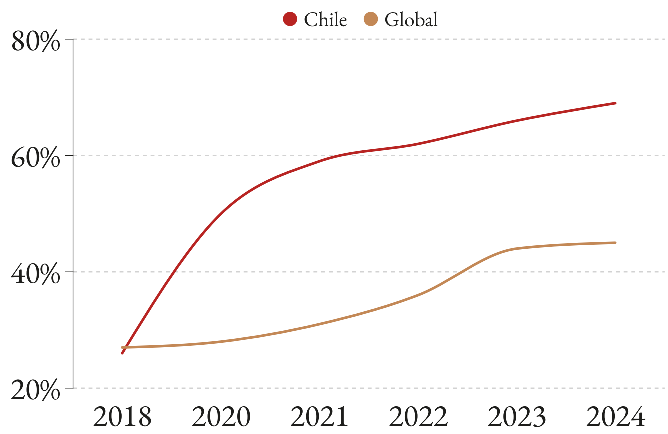
% of citizens that perceived the following health problems as the most important in their country



Source: Ipsos health service report 2024

Furthermore, Chile is the only country in the world that ranks mental health as the main health problem currently faced by the population, and this problem has risen consistently over the last few years, particularly since the COVID-19 pandemic started in 2020.

% of citizens that perceived mental health as the biggest health problem facing people



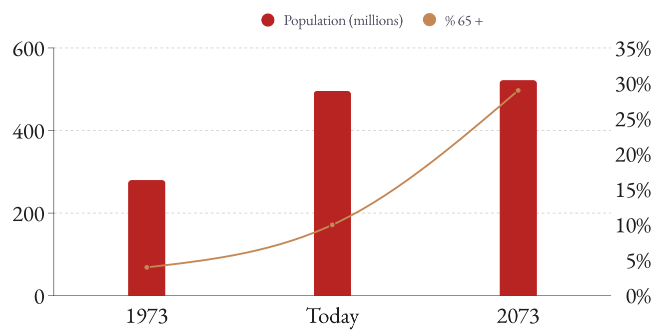
Source: Ipsos health service report 2024

The aging of populations - characterised by longer life expectancy and a declining birth rate - will also put increasing pressure on healthcare systems in coming years. For example, approximately 15% of Brazilians are currently over the age of 65; a considerable increase from 8.6% in 2010. It is projected that by 2050, this will reach 25%, placing Brazil amongst the countries with the highest proportion of older adults in Latin America. The aging of the population is reflected in a higher prevalence of chronic diseases. 69% of adults over the age of 65 in Brazil suffer from at least one chronic disease, such as hypertension or diabetes. This figure has grown by 15% in the last decade, which has increased the demand for specialised medical services. Long waiting lists for treatment and a lack of adequate geriatric health infrastructure have become constant concerns. It is estimated that by 2030, public health spending related to aging will represent 12% of Brazil's GDP, which threatens to destabilise the national budget if structural reforms are not implemented.

Brazil is not the only Latin American country facing these challenges. Throughout the region, the population is aging rapidly. The proportion of people over the age of 65 in Latin America is currently 9%. But it is estimated that this proportion will be close to 30% in 2073 and could, in the coming years, begin to destabilise the health systems. During the next few years the population of Latin America will grow much less, and could even start to decrease in countries such as Chile.

Over the next 50 years, the population of Latin America's six largest countries is estimated to grow by 5% from 496 million today to 522 million. However, the number of people over the age of 65 is likely to multiply by 3 from approximately 50 million to 150 million, i.e., from 10% to 29% of the total population. All the major countries of the region will be impacted in a relatively similar way, although with a stronger bearing in Chile, where the population could soon start decreasing and the rate of population over 65 could reach 34% in 2073. The least affected of the six large countries will likely be Peru with a population that is predicted to continue to grow from 34 million today to 44 million in 2073, and with the rate of people over 65 years of age rising from 8% today to 22%. This trend will not only impact health care systems, but also all pension and retirement systems.

Population of Latin America's six largest countries vs % of population over 65



Source: World bank

9. Climate change: Important for governments, youth and high income earners, less so for others

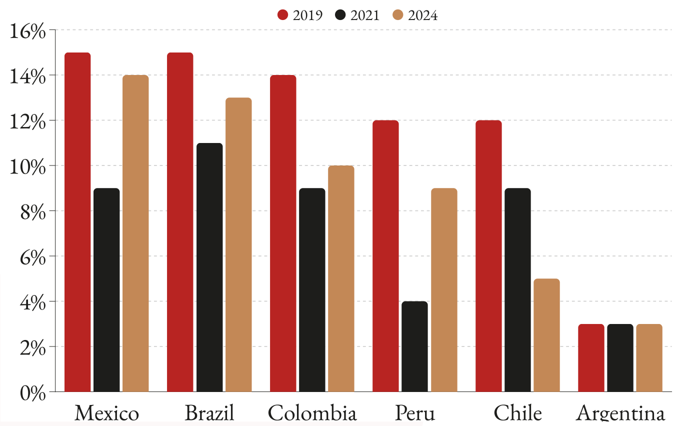
Although Latin America and the Caribbean face significant challenges around environmental issues, in general terms, this concern remains secondary compared to issues such as the economy or security, with only 10% of Latin Americans placing climate change amongst their top three concerns in 2024.

But socioeconomic disparities are a crucial factor in environmental perceptions. According to data from the World Bank and ECLAC, households with higher incomes tend to be more concerned about environmental problems than those in vulnerable situations. In Chile, for example, 52% of high-income earners express concern about the environment, compared to only 18% of those who earn a low-income. In Mexico, this pattern is similar. Whilst 61% of the upper classes consider the environment a priority, only 23% of lower-income households share this opinion. This disparity is also reflected in the willingness to pay for sustainable products or contribute financially to green initiatives. According to a report by the IDB, 48% of high-income Latin Americans are willing to pay more for green products, compared to only 22% in the most vulnerable sectors.

The region has seen several important initiatives at both government and citizen levels. In 2024, Chile introduced the Climate Change Framework Law, which establishes a commitment to reduce greenhouse gas emissions by 30% by 2030 and achieve carbon neutrality by 2050. According to Chile's Ministry of Environment, 47% of citizens support these policies, but only 15% believe that the government has implemented sufficient measures to achieve these goals. In Brazil, one of the countries most affected by deforestation, 38% of respondents indicated that protecting the Amazon is a national priority, according to the National Survey on the Environment 2024, conducted by the Brazilian Institute of Public Opinion (IBOPE). However, only 24% believe that the government's environmental policies are effective, highlighting the distrust of some citizens in institutions to help combat the climate crisis.

At the citizen level, movements such as "Fridays for Future" have gained momentum in the region. In 2024, more than 150,000 young people in Argentina participated in climate protests, demanding stricter measures against deforestation and pollution. In Colombia, 61% of young people between the ages of 18 and 29 are involved in climate action, according to data from the National Youth and Environment Survey 2024. And when asked about the willingness of citizens to take individual action to mitigate climate change, 73% of Latin Americans responded positively, showing a notable disconnect between the level of concern and willingness to act. They also support action by their governments in this regard, as 73% of Latin American citizens agree that their country should do more to fight climate change, compared with 63% at the global level. 83% of Latin Americans agree that the world is heading for environmental disaster unless we change our habits quickly, 3% more than 10 years ago. Additionally, 89% of Latin Americans think that companies' impacts on the environment should be more closely controlled by their governments, compared with the global average of 80%. As climate change affects the region more severely, collaboration between governments, citizens and businesses will be crucial to effectively address environmental challenges.

% of citizens that said 'threats against environment' was one of their top three concerns



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10. Social transformations: More open and diverse societies

Latin America has witnessed important social transformations in recent decades, reflecting greater openness to diversity, advances in gender equity and growing access to technology.

The growing acceptance and visibility of LGBT+ communities has been one of the most marked social changes in Latin America. At the legislative level, more than 13 countries in the region have approved equal marriage, with Chile recently joining in 2022. In terms of adopting inclusive policies, Argentina continues to be a pioneer with its Gender Identity Law (2012), allowing trans people to change their name and legal gender without the need for medical or judicial procedures.

CANNING HOUSE

Public opinion has also shown a positive trend toward inclusion. 56% of Latin Americans support LGBT people talking openly about their sexual orientation or gender identity with everyone compared with 50% globally; 58% have a family member, friend or co-worker who is Lesbian, gay or homosexual, compared with 48% globally; and 10% declare themselves LGBT+, the same as the global level, but this rises to 17% for those born between 1996 and 2012, otherwise known as Generation Z.

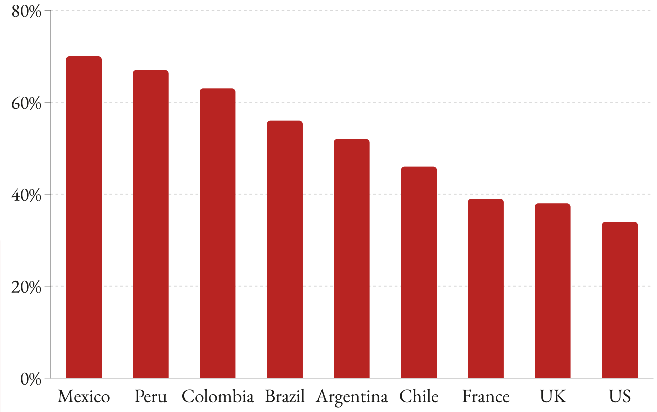
Progress in gender equality is another key axis of social change in Latin America. In the political sphere, women's representation in public office has increased significantly in recent years. According to ECLAC, women hold 33% of parliamentary seats in the region, with Mexico the stand out example with 49%.

In terms of labour participation, women represent 42% of the labour force in the region, a slight increase from the 40% recorded in 2015, according to a World Bank report. The gender wage gap remains a structural problem as women earn an estimated 20% less than men for the same work, a figure that has shown improvement compared to the 27% difference recorded in 2010. Access to higher education is an area in which women have made significant progress in Latin America. According to UNESCO, 55% of university students in Latin America are women, outnumbering men in most countries. This growth in female enrolment, which has increased by 15% since 2010, has the potential to reduce gender gaps in the workplace in the long term.

Despite significant progress being made across many gender-related metrics, 27% of Latin Americans still believe that the main role of women in society is to be good mothers and wives. This number is lowest in Argentina, at 21%; with Chile at 22%; Colombia at 25%; and is much higher in Mexico at 37%. However, the Latin American average is lower than the global average of 39%; lower than in the US, at 30%; and at the same level as in the UK.

Technology has played a fundamental role in the social transformation of the region. Latin America has always shown a great capacity to adapt and take advantage of technological innovation and this is being confirmed with the arrival of Artificial Intelligence (AI). 59% of Latin Americans declare themselves enthusiastic about AI, compared with 53% at the global level. Mexicans are the most enthusiastic, on 70%; Peruvians next on 67%; then Colombians on 63%; followed by Brazilians on 56%. Only Chileans say they are more nervous (51%) than enthusiastic (47%) about AI. Moreover, two-thirds of Latin Americans believe that AI is having a positive impact on the world we live in, much more than citizens in the US, UK, or France, where only one third of the population believe AI is a force for good. Latin Americans are also big users of technology with 85% stating they use Instagram every day, compared to 67% globally, and 92% using WhatsApp compared to 67% globally.

% of citizens that agree 'Products and services using artificial intelligence make me excited'



Source: Ipsos the wonder and the worry of AI

Conclusion

In a world of multiple crises - climate change, technological accelerations, military conflicts, geopolitical tensions, deglobalisation, aging populations, cost-of-living - there may be opportunities for Latin America.

When the world's population is preparing to fall, and 36 countries - especially developed ones - have decreasing

Cuetzalan, Puebla, Mexico

populations, Latin America holds up better. When societies are becoming more and more diversified, Latin America leads the way in recognition. When technology is accelerating, Latin America is always very open to change and knows how to adopt quickly. When climate change becomes a priority, Latin Americans say they are willing to change their lifestyle. When the world becomes more dangerous due to various military conflicts and geopolitical tensions, Latin America appears less concerned.

In addition, poverty is falling, reaching its lowest historical levels, particularly in the two largest countries of Brazil and Mexico, and institutions are more resilient than assumed: the recent response of central banks across the region in tackling inflation being a good example.

Does this mean everything is fine in Latin America? Obviously not. Crime, violence, corruption, unemployment, informal employment, and inequality all continue to be important issues affecting the region and much more important than at global level, driving what appears to be a "democratic recession."

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.

These are the results of a 31-country survey conducted by Ipsos on its Global Advisor online platform in 2024. For this survey, Ipsos interviewed a total of 23,667 adults aged 18 years and older in India, 18-74 in Canada, Republic of Ireland, Malaysia, South Africa, Türkiye, 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 1,500 individuals each in Germany and Brazil, and 1,000 individuals each in Australia, Canada, France, Great Britain, Italy, Japan, New Zealand, Spain, and the U.S., and 500 individuals each in Argentina, Belgium, Chile, Colombia, Hungary, Indonesia, Ireland, Malaysia, Mexico, the Netherlands, Peru, Poland, Singapore, South Africa, South Korea, Sweden, Switzerland, Thailand, and Türkiye. Samples in Argentina, Australia, Belgium, Canada, France, Germany, Great Britain, Hungary, Italy, Japan, the Netherlands, New Zealand, Poland, South Korea, Spain, Sweden, Switzerland, and the U.S. can be considered representative of their general adult populations under the age of 75. Samples in Brazil, Chile, Colombia, Indonesia, Ireland, Malaysia, Mexico, Peru, Singapore, South Africa, Thailand, and Türkiye 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 Global 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. When percentages do not sum up 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" or not stated responses. The precision of Ipsos online polls is calculated using a credibility interval with a poll where N=1,000 being accurate to +/- 3.5 percentage points and of where N=500 being accurate to +/- 5.0 percentage points. For more information on Ipsos' use of credibility intervals, please visit the Ipsos website. The publication of these findings abides by local rules and regulations. For more information on Ipsos' use of credibility intervals, please visit the Ipsos website. Other Ipsos research is conducted along the same lines as the global advisor survey: Ipsos populism, anti-elitism and nativism in February 2024; Ipsos the wonder and the worry of AI in June 2024; Ipsos attitude on Crime and Law Enforcement in July 2024; Ipsos Trust worthiness Index in Oct 2024; Ipsos education monitor in Sept 2024; Ipsos Health services report in July 2024; and Ipsos global trends in October 2024.

Environmental Outlook

Latin America's potential role in the global energy transition, and potential risks

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

Atacama desert, Chile

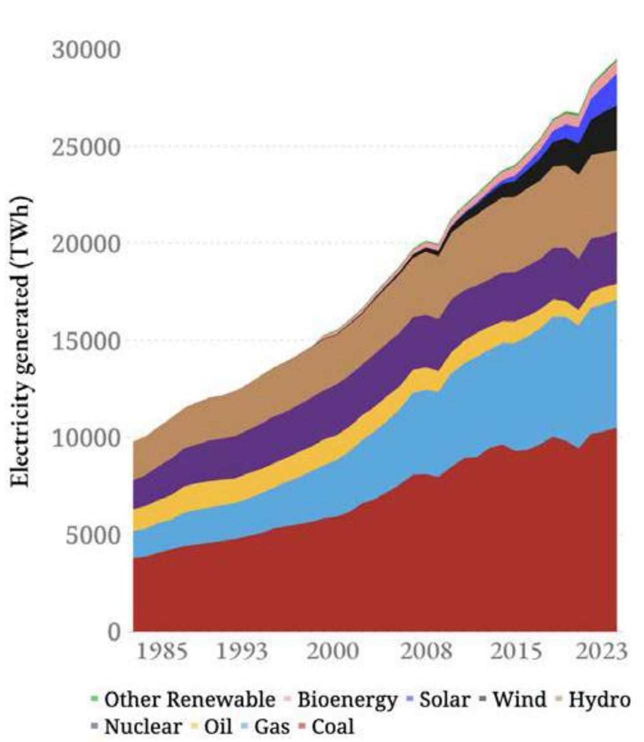
Introduction

Canadian academic Vaclav Smil has published extensively on historical energy transitions and has concluded that past global energy transitions have taken decades to complete. Analysing the transitions from wood to coal to oil as the dominant global fuel, he concluded that the wood to coal transition in the 19th Century lasted 60 years, whilst the coal to oil transition in the 20th Century took 50 years. His conclusion was that we should not expect that the fossil fuel to renewable transition will happen overnight. One factor that may perhaps call into question his conclusion is that whilst previous global energy transitions were driven largely by technological and economic factors, a transition to renewables will also be driven by important changes in public policy. A 2023 article published in the journal Oxford Open Climate Change suggests that the 1.5oC 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 daily news bearing witness to frequent record high temperatures and intense rainfall events across the globe appears to have generated greater urgency from several quarters to enact policy frameworks that accelerate the current global energy transition.

> *"Make no mistake, the global energy system is still dominated by fossil fuels.......There has been no dramatic reduction in the contribution of fossil fuels to this mix, even as the contribution of wind and solar have increased since the turn of the 21st Century."*

Make no mistake, the global energy matrix is still dominated by fossil fuels. There has been no dramatic reduction in the contribution of fossil fuels to this mix, even as the contribution of wind and solar have increased since the turn of the 21st Century. Rather, natural gas seems to be compensating for any slowdown in the overall level of reliance on coal and oil.

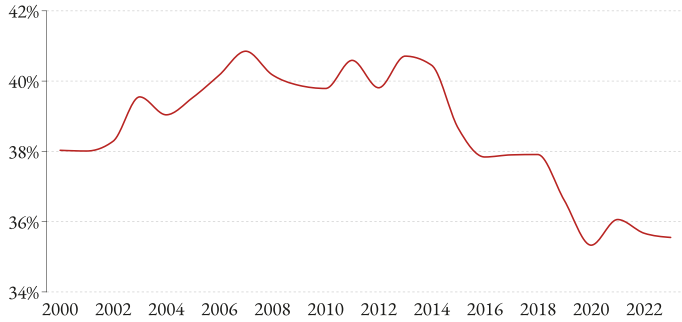
Global electricity by generation source



Source: Ember (2024)

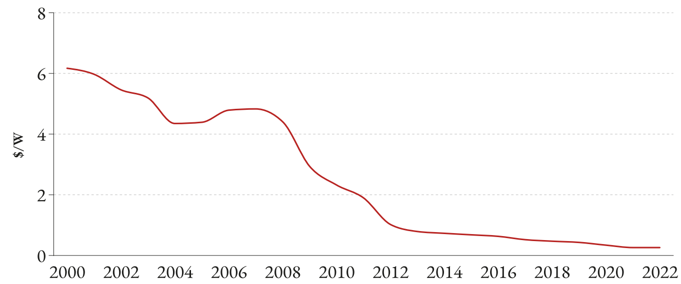
Nonetheless, whilst the pace of the change is uncertain, there are numerous signs that a transition towards the decarbonisation of the global economy is underway. It is possible to point out a variety of indicators that suggest as such. For example, the percentage of global electricity generated through the burning of coal has declined slightly over the course of the 21st Century since reaching a peak in the years before and after 2010. This may have something to do with the improving technological and economic competitiveness of renewable energy sources, as suggested in the steady decline in the price of solar panels. Changes in the personal transport consumer market also suggest that a movement towards electric vehicles has accelerated over recent years.

Coal share of global electricity generation



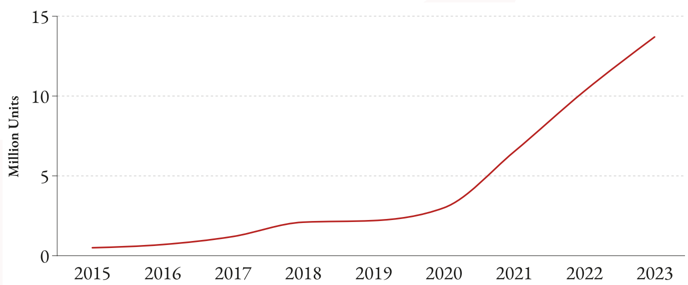
Source: International Energy Agency (2024)

Phatovoltaic panel cost



Source: International Renewable Energy Agency (2023)

Global plug-in EV sales

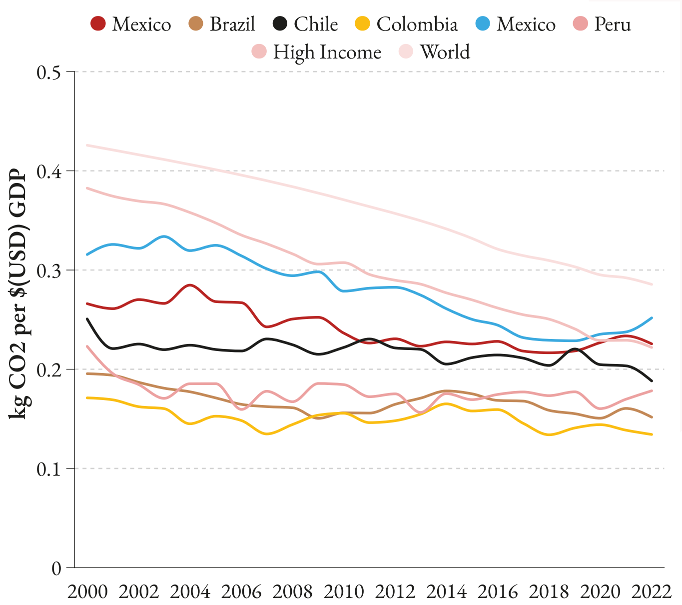


Source: International Energy Agency (2024)

Again, we are nowhere near the end of the era of fossil fuels, as there is a lot of inertia within the current global energy systems in the form of enormous investments made in generation and transmission infrastructure associated with the current dominance of fossil fuels within the global fuel mix. In addition, a shifting geopolitical landscape will likely interrupt a smooth and steady transitions towards a decarbonised global energy system, as was seen, for example, when Germany temporarily reopened decommissioned and soon-to-be decommissioned coal fired power plants in response to vulnerabilities in its natural gas supplies caused by the Russian invasion of Ukraine. Still, it is likely prudent to begin evaluating the roles that Latin America might play in a future decarbonised global energy system, as well as the environmental opportunities and risks for the region posed by such a transition.

A good place to start this evaluation would be to define a baseline of where the region stands within the current fossil fuel based global system. One way to do this is to look at the region's contribution to current global greenhouse gas emissions based on emissions intensity defined by the level of emissions per unit of GDP. The graph below plots changes in this indicator for the six largest economies in Latin America as compared to similar trends at the global level and within high-income countries. Several conclusions seem justified. First, Latin America countries are not among the world's most intense emitters, as they fall below both global levels and those within high-income countries. Second, global and high-income country emissions intensities are falling faster than in Latin America. In fact, Argentina and Mexico now meet or exceed emissions intensity levels in high-income countries. Nonetheless, Latin American countries are starting from a favourable position as the world seeks to transition from a fossil fuel dominated energy system to a decarbonised energy system.

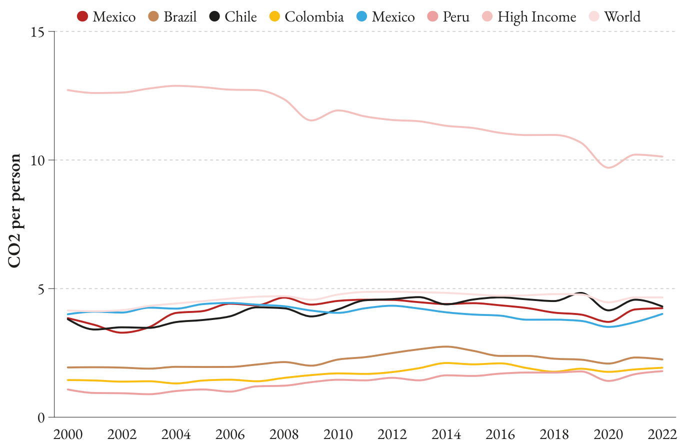
Carbon dioxide emissions intensity from fossil fuels and industry



Source: Global Carbon Budget (2023)

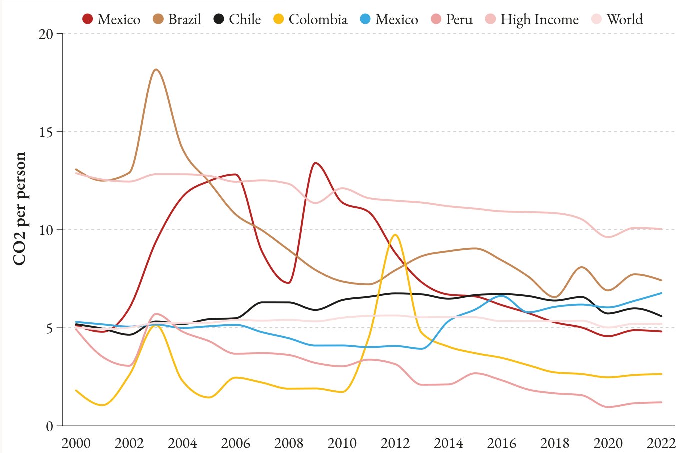
It makes sense, however, in assessing potential roles and risks for the region going forward to understand the structure of these regional emission profiles. One way to do this is to understand the current sources of emissions. The graphs below show emissions per capita since 2000 in the six large Latin America economies, within high-income countries, and at a global level when only emissions related to fossil fuel consumption are considered, as compared to total emissions that also include those linked to changes in land use.

Carbon dioxide emissions per capita from fossil fuels and industry



Source: Global Carbon Budget (2023)

Carbon dioxide emissions per capita from fossil fuels and land use change



Source: Global Carbon Budget (2023)

> ***Latin America is not comparatively reliant on fossil fuel consumption per capita, falling below the global average and well below the levels in high-income countries........ emissions related to changes in land use are the key challenge, and opportunity, for the region.***

This data reveals a few key realities. First, Latin America is not comparatively responsible for per capita fossil fuel related emissions, falling below the global average and well below the levels in high-income countries. Second, emissions related to changes in land use are the key challenge, and opportunity, for the region in terms of contributing to reductions in greenhouse gas emissions, with Argentina, Brazil and Colombia showing strong variability when these emissions sources are considered. This suggests the region's challenges related to deforestation, which have been focus of previous Environmental Outlooks, remain of vital importance.

Still, Latin America is not as constrained as other parts of the world by the lock-in and inertia created by previous investments in generation and transmission infrastructure associated with comparatively high levels of fossil fuel dependence. This suggests that the transition towards a decarbonised energy system may not be such a heavy lift for the six largest economies in the region, although there are differences in the credulity of this claim on a country-by-country basis. In addition to perhaps leading the way towards national-level decarbonisation, however, Latin America has the opportunity to be a major player in the global energy transition by virtue of its favourable endowment in minerals critical to this transition.

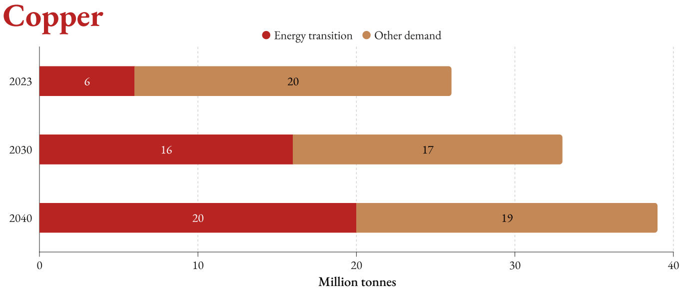
In order to assess possible pathways towards the decarbonised economy, the International Energy Agency (IEA) has constructed a series of scenarios. One of these, referred to as the Stated Policy Scenario (STEPS), is designed to provide a sense of the prevailing direction of energy system progression, based on a detailed review of the current policy landscape. This scenario is not designed to achieve a particular outcome, but rather it is just a projection based on current trends. Another IEA scenario, referred to as the Net Zero Emissions Scenario (NZE), reverses this approach by assuming the policies will materialise so that efforts to achieve a particular outcome, i.e. a decarbonised energy system by 2050, are successful.

Based on these scenarios, the IEA has developed projections regarding the estimated demand for what are commonly referred to as the transition or critical minerals. According to the IEA, these include copper, lithium, nickel, cobalt, graphite, and the rare earths. The graph below shows projected increases in demand until 2040 associated with each of these critical minerals under the more ambitious NZE scenario. Given that these projections represent the greatest opportunity for countries endowed in these critical minerals, they define the a “best-case” economic opportunity scenario for Latin America. The demand projections are divided between demand associated with the energy transition and other uses for each mineral.

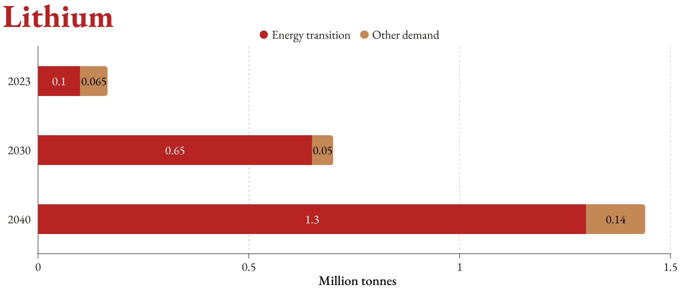
> *“According to the Inter-American Development Bank, the countries of the region hold significant percentages of the known resources for many of the important transition minerals, including perhaps most notably, 52% of the world’s known lithium resources and 38% of the world’s known copper resources.”*

Projected increase in demand for critical minerals

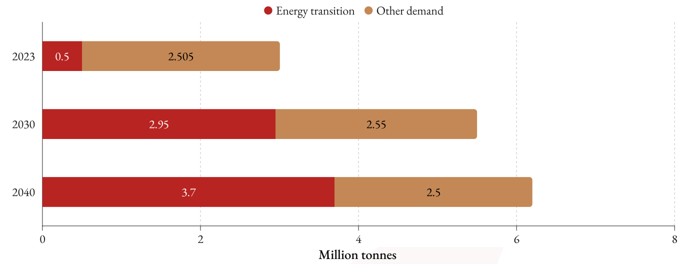
Copper



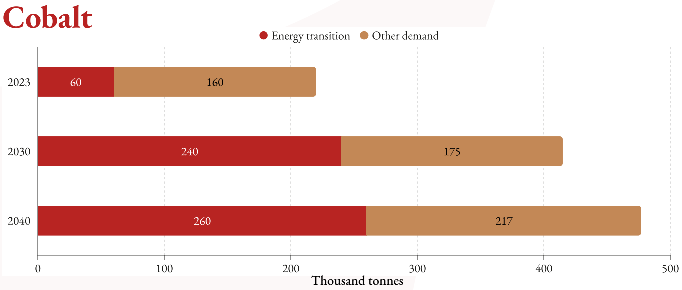
Lithium



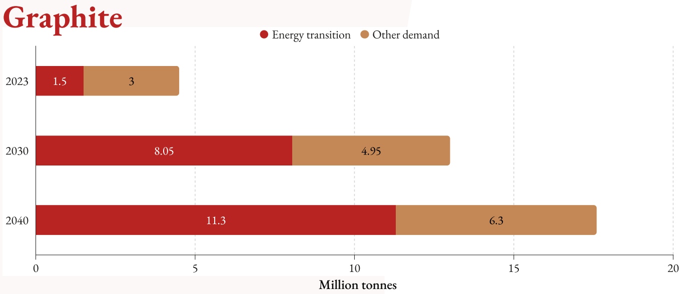
Nickel



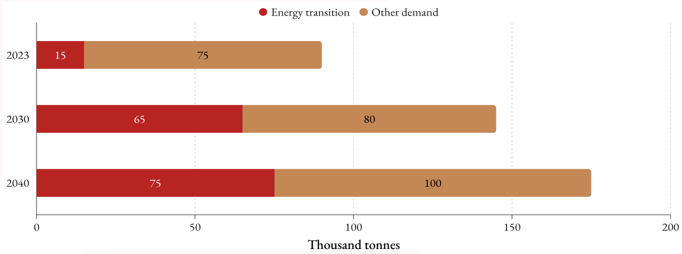
Cobalt



Graphite



Rare Earth Elements



Source: International Renewable Energy Agency (2023)

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Given its known endowments of many of the transition minerals, Latin America will undoubtedly play and important role in the transition towards a decarbonised global energy system. The only question is how the increasing role for the region within the energy transition will unfold with respect to environmental and social impacts. According to the Inter-American Development Bank, the countries of the region hold significant percentages of the known resources for many of the important transition minerals, including perhaps most notably, 52% of the world's known lithium resources and 38% of the world's known copper resources.

Mineral	Latin American Countries with Significant Resources	Regional Share
Lithium	Argentina, Bolivia, Chile, Mexico	52%
Silver	Argentina, Bolivia, Mexico, Peru	39%
Copper	Chile, Peru, Mexico, Argentina, Brazil, Panama, Colombia	38%
Granite	Brazil, Mexico	23%
Iron	Brazil, Chile, Mexico, Peru	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 2023. Given the size of regional resources and the projected increase in demand; one would hope that production could simply scale up responsibly to meet demand. As previously reported in the Environment Outlook, however, scaling up based on current conditions would not necessarily be a good thing. According to the Business and Human Rights Resources Centre, which produces an annual assessment of the social and environmental allegations registered against companies within various sectors, including the mining industry, South America remains the region linked to the highest number of allegations against mining companies, reported between 2010 and 2023, with 283 in total. Sixty-three incidents on the right to peaceful protest were reported in the region, with Peru having the most allegations of those, 39 in total, with over half related to the copper mining project Las Bambas. Unsurprisingly, given the water intensity of mining in the Andes region, over half of the allegations of water pollution, 67 out of 99, were registered in the region, mostly against copper producers in Chile and Peru.

> *"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."*

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 significant 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 dense 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 population 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 production lithium and other critical minerals with an eye towards become the global leader with respect to their responsible production.

Uyuni Salt Flat, Bolivia

Based on this context, the following country specific analysis related to the six largest Latin American economies in the 2025 Environmental Outlook will focus on four key issues:

1. The current fuel mix within each countries energy system and what it suggests about country- level challenges of contributing to the global transition towards a decarbonised energy system.

2. The recent trends as it pertains to land-use based emissions and what this suggests in terms of challenges and opportunities for each country.

3. The state of play with regards to opportunities to responsibly participate in emerging markets for the minerals critical to the energy transition.

4. The level of commitment that each country has expressed in terms of the protection of its biodiversity, as an indicator of a commitment to reduce the extent of deforestation in the region.

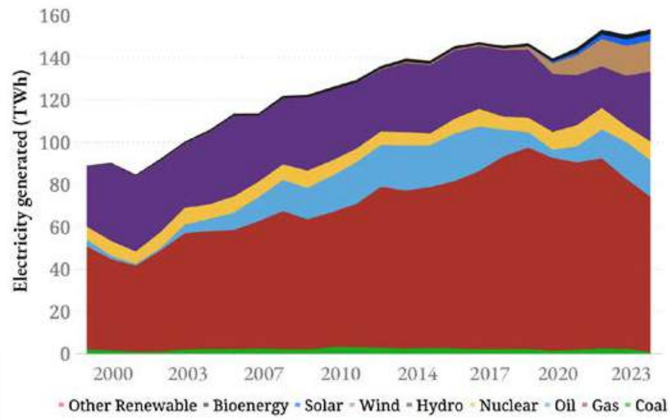
Analysis of these issues will suggest some insights regarding the roles and risks for the region associated with the global energy transition.

Los Glaciares National Park, Argentina

Argentina

The fuel mix within Argentina's energy system reveals a heavy reliance on natural gas. This should not be too surprising given that the country has increased production over the years from its substantial Vaca Muerta gas field. Realising economic benefit from substantial investment in fossil fuel production are a central part of economic recovery plans in Argentina, as the energy sector generates a positive account balance in a country in need of foreign exchange reserves. In fact, in the first six months of 2024, the energy sector generated a trade surplus of USD $2.7 billion . Given its economic importance, it is not likely that Argentina will take the lead in Latin America in terms of accelerating the transition to a decarbonised energy system.

Electricity generation by source in Argentina

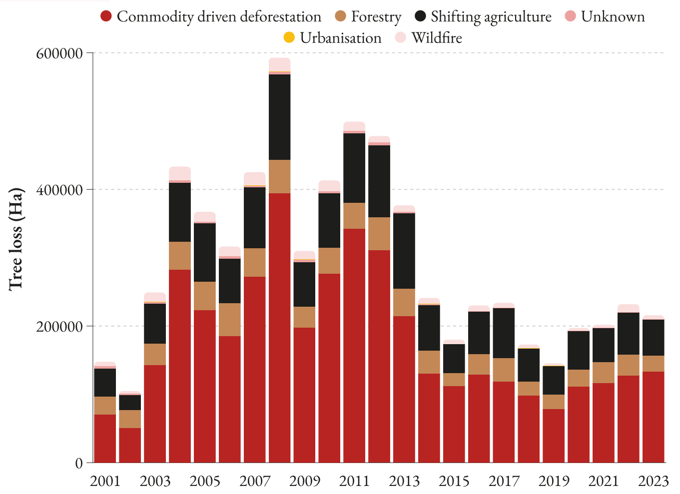


Source: Ember (2024)

Still, it is encouraging to see that a slight decline in the dependence on natural gas over the most recent years seems to have been compensated for by an increase in renewable energy generation. Most notably wind power has increased over this same period, along with a rebound in the levels of hydropower generation. Biofuel production has also increased, albeit still representing a small portion of the fuel mix. This perhaps represents an opportunity for the country as volatility in Argentina's recent total greenhouse gas (GHG) emissions on a per capita basis are largely linked to land-use factors, which show a strong correlation to annual tree loss, as indicated in the graph below. The main driver of tree loss over the period has been commodity driven deforestation concentrated in the Gran Chaco ecoregion in the north of the country. Perhaps some of this land-use transformation could be focused on the production of biofuels, where the country is already the 8th leading global producer of ethanol.

"Whilst the decarbonisation of the energy system in Argentina will not be the most rapid in Latin America, the country stands to play a key role in facilitating this transition globally via its potential in terms of the production of critical minerals."

Tree loss in Argentina



Source: Global Forest Watch

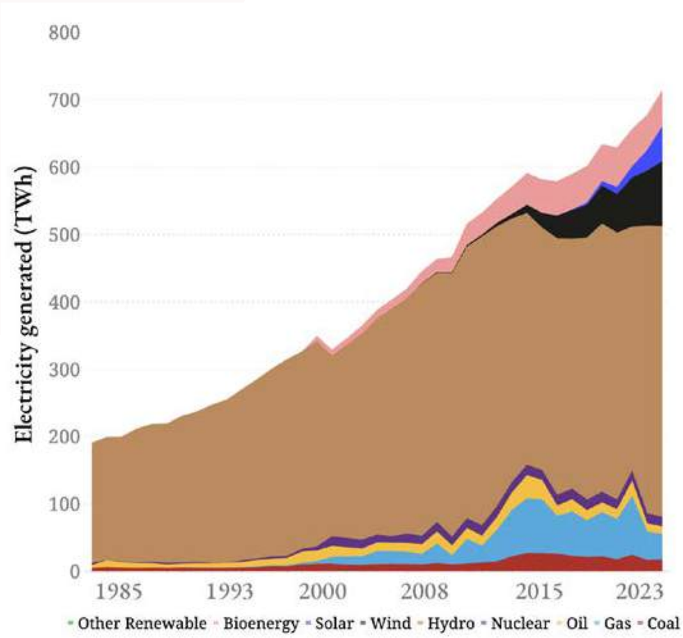
Whilst the decarbonisation of the energy system in Argentina will not be the most rapid in Latin America, the country stands to play a key role in facilitating this transition globally via its potential in terms of the production of critical minerals. Whilst various sources rank countries differently in terms of the importance of resources related to the critical minerals, Argentina appears on several Top 20 lists developed for lithium and copper. The government has implemented policy reforms to fast-track production of these two critical minerals but has encountered judicial resistance in some provinces related to a lack of understanding pertaining to the environmental and social impact of these projects, highlighting the need to develop effective responsible mining protocols as quickly as possible. If this can be done, Argentina is posed to play a key role facilitating the decarbonisation of the global energy system.

Beyond its potential contribution to the global energy transition, like other countries in Latin America, Argentina has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Argentina has reached a level of 9.5% in pursuit of this commitment.

Brazil

The fuel mix in Brazil reveals a comparatively low dependence on fossil fuels. This is possibly because of the enormous hydropower capacity available to the country and by the rapidly expanding production of other renewables such as wind, solar, and bioenergy which has long been a focus of Brazilian innovation. Brazil lies only behind the United States in terms of ethanol production levels. These data suggest that Brazil is in a very strong position to show global leadership in terms of the decarbonisation of its energy system, even though its disproportionate reliance on hydropower may create vulnerabilities in the face of changing hydrologic regimes in response to global climate change. These pose a threat to both the water available to run through hydroelectric turbines and the water required to produce the feedstocks for bioenergy production. This creates a real opportunity to capitalise on rapidly expanding wind and solar generation in Brazil as these are not as vulnerable to shifting hydrologic regimes.

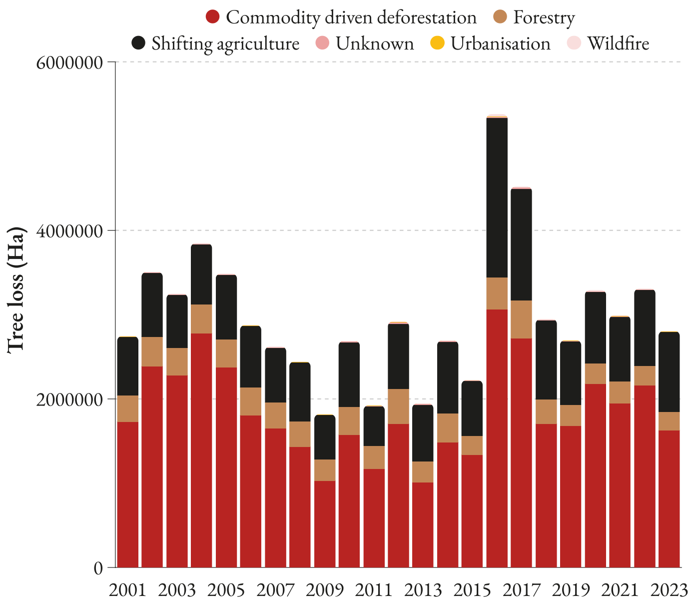
Electricity generation by source in Brazil



Source: Global Forest Watch

Like Argentina, Brazil's per capita GHG emissions over recent years have shown high levels of volatility when land-use based emissions are taken into consideration. Whilst the correlation between combined carbon dioxide emissions per capita from fossil fuels and land use change, and deforestation in Brazil are not as strong as in the case of Argentina, emissions peaks around 2004 and 2016 are also seen in the deforestation data.

Tree loss in Brazil



Source: Global Forest Watch

> ***"Brazil is well placed to contribute to the global energy transition by virtue of its endowment of critical minerals as the country appears high on various top 20 lists developed for nickel, graphite and rare earth metals."***

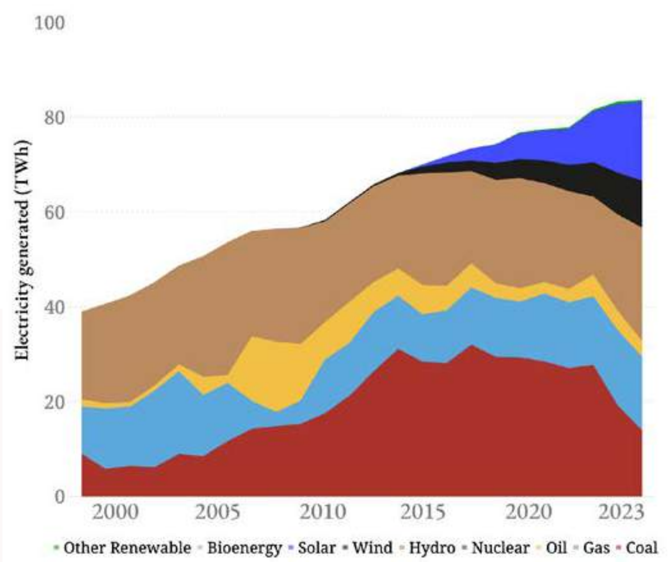
In addition to benefiting from a comparatively strong starting point in terms of the decarbonisation of its own energy system, Brazil is well placed to contribute to the global energy transition by virtue of its endowment of critical minerals as the country appears high on various top 20 lists developed for nickel, graphite and rare earths, as well as further down on lists related to copper. In terms of nickel production, the laterite heap leaching approach used in mines such as PiauÍ are comparatively cost effective, and therefore competitive. Nonetheless, nickel is often regarded as the dirty mineral in the clean energy transition, given problems related to water contamination from leachate and deforestation at mining sites.

Beyond its potential contribution to the global energy transition, like other countries in Latin America, Brazil has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Brazil has reached a level of 30.3% in pursuit of this commitment.

Chile

The fuel mix within Chile's energy system is the most distinct when compared to the other six large economies in Latin America. Whilst the country has historically had a substantial reliance of hydropower generation, typical of the Andean region, the amount of generation capacity has remained relatively unchanged over the 21st Century. Also unique to Chile is the fact that the contribution of fossil fuels to the energy matrix as begun to decline over the past decade, with this decline being compensated for by impressive increases in generation for wind and solar, such that these sources now exceed the burning of coal with the Chilean energy system. The shift places Chilean in a leadership position in terms of the decarbonisation of its energy system with respect to the rest of Latin America, if not with respect to the rest of the world.

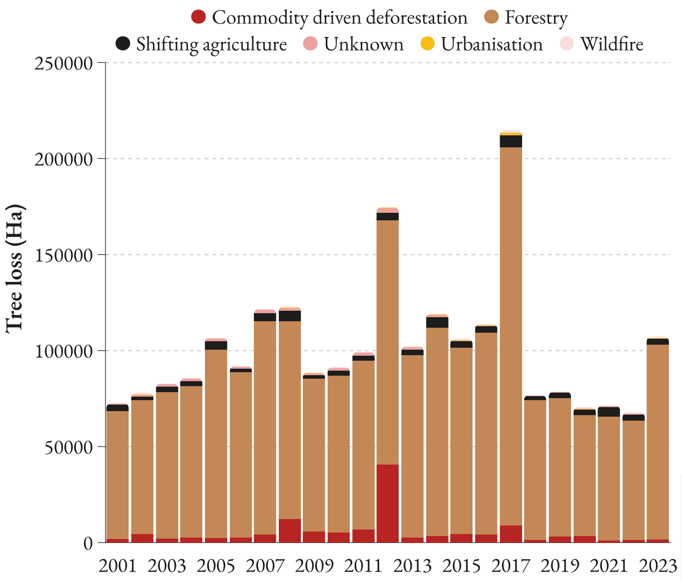
Electricity generation by source in Chile



Source: Ember (2024)

The implication of this transition is that Chile has maintained a very low GHG emissions per capita profile over the course of the century, even showing a slight decline when land-use based emissions are considered. This may be explained by the fact that most of the tree loss in Chile is concentrated with a forestry sector which relies primarily on harvests from plantation forestry resulting in very little loss of primary forest as indicated in the figure below. It is interesting to note, however, that very little of the energy is Chile's energy systems comes from what are classified as "other" renewable sources, which include the use of residual material associated with the forestry sector. This perhaps creates a further opportunity for the country.

Tree loss in Chile



Source: Global Forest Watch

> *"In terms of its potential contributions to the decarbonisation of the global energy system, Chile is in a very favourable position, as the country ranks 1st and 4th, respectively, on the lists of known copper and lithium resources."*

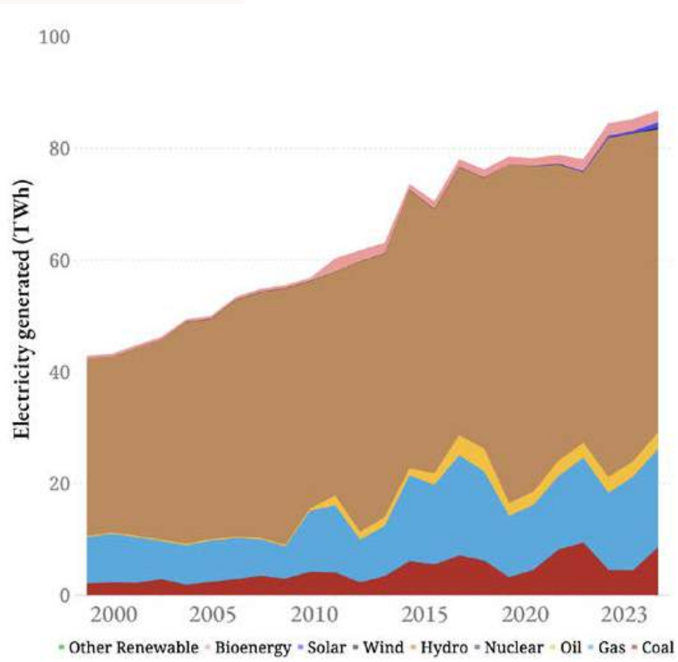
In terms of its potential contributions to the decarbonisation of the global energy system, Chile is in a very favourable position, as the country ranks 1st and 4th, respectively, on the lists of known copper and lithium resources. As it relates to lithium, Chile has the longest experience with extraction of lithium from briny groundwater characteristic of the Southern Andes, with active lithium extraction underway in the Salar de Atacama watershed for nearly four decades. This affords Chile some competitive advantages as a first mover, but also the opportunity to be a leader sharing its experience regarding the challenges and opportunities of this type of lithium extraction with its neighbours in Argentina and Bolivia as part of possible regional collaboration.

Beyond its potential contribution to the global energy transition, like other countries in Latin America, Chile has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Chile has reached a level of 21.05% in pursuit of this commitment.

Colombia

Like other countries in the Andean region, Colombia's energy system relies heavily on the generation of hydropower. Whilst this places Colombia in a good place in terms of the decarbonisation of its energy system, it does pose some vulnerabilities in the face of future climate change. Colombia's neighbour, Ecuador, even more reliant on hydropower than Colombia, is currently suffering from electricity shortages associated with the extremely dry La Niña climatic conditions. This potential vulnerability has prompted a debate in Colombia related to the need to either expand natural gas production and consumption or to expand renewable generation, which is currently comparatively minor with the country's energy system. From a GHG emissions perspective the renewables pathway would be more attractive, but the challenge of securing social license in Colombia to operate wind and solar projects to capitalise on the country's enormous potential has proved challenging.

Electricity generation by source in Colombia

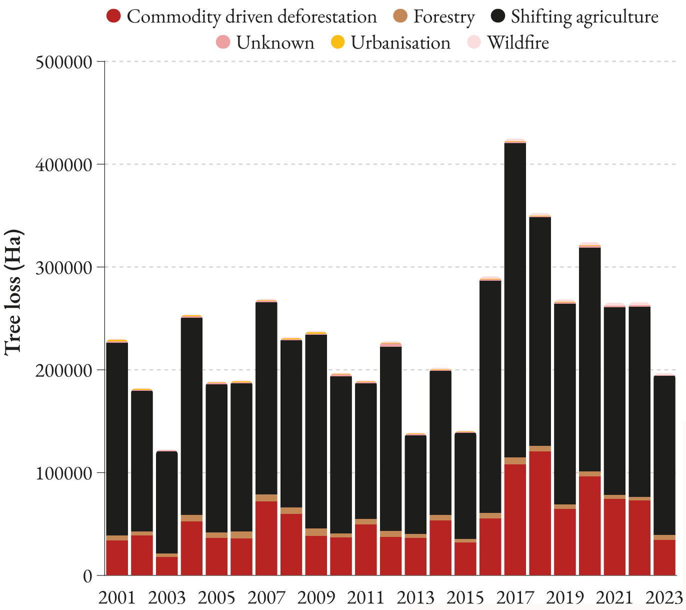


Source: Ember (2024)

> *"Likely because of its comparatively smaller reliance on fossil fuels, Colombia has had a relatively low and flat per capita GHG emissions profile due to the consumption of fossil fuels over the course of the 21st Century."*

Likely because of its comparatively smaller reliance on fossil fuels, Colombia has had a relatively low and flat per capita GHG emissions profile due to the consumption of fossil fuels over the course of the 21st Century but has shown high variability and comparatively higher GHG emissions when land-use based emissions are taken into consideration. As in the case of Argentina and Brazil, peaks in total emissions have some level of correlation with peaks in annual tree loss, which, in Colombia is primarily driven by shifting agricultural practices, as can be seen in the figure below. Much of this takes place on the eastern fringe of the Andes mountains in the country's Amazon and Orinoco ecoregions, regions that unfortunately still suffer from reduced presence of the state as compared to other parts of Colombia resulting in difficulty reducing deforestation rates.

Tree loss in Colombia



Source: Global Forest Watch

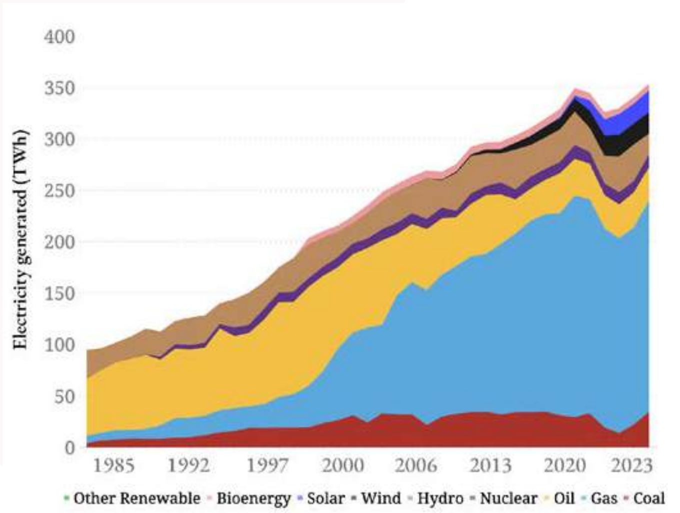
Despite its large potential to generate wind and solar energy, Colombia is not as well-endowed in the critical minerals required to support the global transition towards a decarbonised energy system as it fails to appear among the top 20 countries with respect to known resources of the minerals analysed by the IEA. Early geologic characterisation efforts have identified a few parts of the country with copper resources that could potentially be developed as commercially viable reserves. Ironically, these are in some of the same parts of the country where commercial production of fossil fuels currently occurs, coal in La Guajira and Cesar and petroleum in Putumayo. This creates an interesting opportunity to integrate planning related to the phase out of fossil fuel production with planning related to scaling up the production of critical minerals.

Beyond its potential contribution to the global energy transition, like other countries in Latin America, Colombia has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Colombia has reached a level of 16.4% in pursuit of this commitment.

Mexico

Even more so than Argentina, the fuel mix within Mexico's energy system is substantially dependent on fossil fuels. Like Argentina, however, this is a manifestation of substantial investments and economic output related to fossil fuel production. Some recent increases in renewable energy generation have occurred, but this has not resulted, unfortunately, in any significant decline in the country's fossil fuel dependency. Whilst there is some speculation that the election of a climate scientist, Claudia Sheinbaum, to Mexico's Presidency will lead to more asserted action towards an energy transition, early policy goals suggests that the President hopes to grow renewable and natural gas contributions to the future energy mix in parallel. There is also early indication that she hopes to achieve this parallel development within the structures of existing national oil and gas and electricity transmission companies, perhaps limiting the spaced for innovation and investment.

Electricity generation by source in Mexico



Source: Ember (2024)

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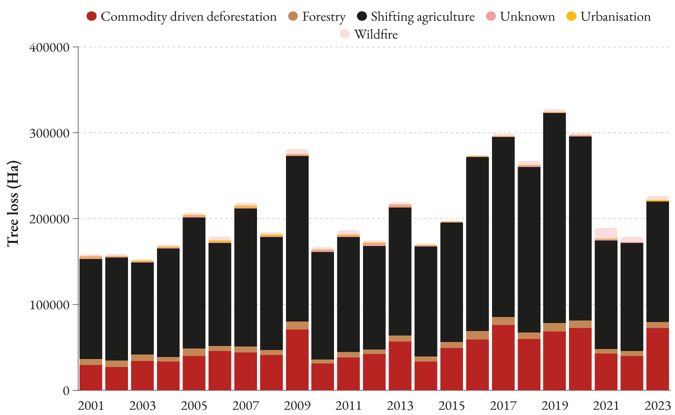
> *"Mexico is in a somewhat favourable position in terms of providing the critical minerals required for the global transition towards a decarbonised energy system. It ranks around 10th on the various list of lithium resources by country, 7th in terms of copper, and 10th in terms of graphite."*

This approach is unlikely to place Mexico in a leadership position in Latin America with respect to the decarbonisation of its energy system. Perhaps this explains why Mexico is the only member of the G20 yet to formulate a net-zero target, even as its per capita fossil fuel related GHG emissions profile tracks very close to the global average, as does its emissions intensity defined per unit of GDP. Whilst Mexico shows less variability in GHG emissions per capacity when land-use contributions are considered than Argentina, Brazil and Colombia, recent increases in tree cover loss, principally driven by shifting agriculture, as indicated in the figure below, are temporally correlated in total per capita GHG emissions, including land use change, in Mexico.

Tree loss in Mexico



Source: Ember (2024)

Interestingly, Mexico is in a somewhat favourable position in terms of providing the critical minerals required for the global transition towards a decarbonised energy system. It ranks around 10th on the various list of lithium resources by country, 7th in terms of copper, and 10th in terms of graphite. Different than lithium produced in Argentina, Chile, and in Bolivia, via extraction from briny groundwater, lithium in Mexico is found in within the matrices of clay minerals found in dry northern Mexico, the extraction of which is achieved via washing and leaching. This means that like other lithium produced in Latin America, the responsible management of water resources will be a key consideration. This does create some opportunities for general collaboration around waterwise lithium production that could prove beneficial to the region.

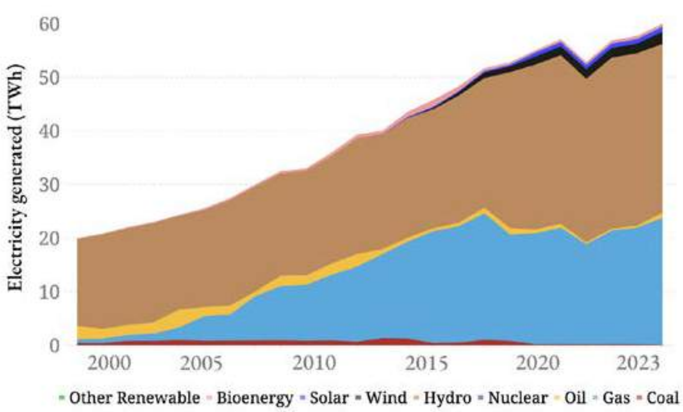
Beyond its potential contribution to the global energy transition, like other countries in Latin America, Mexico has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Mexico has reached a level of 14.6% in pursuit of this commitment.

Mayan forest, Mexico (Credit: Joel Riis)

Peru

Like other countries in the Andean region, Peru's fuel mix within its energy system reveals a high level of reliance on hydropower generation, but with a growing dependence on natural gas as well. Whilst much of this gas is produced within Peru, the country has been an importer of from other natural gas producing countries in the region. Like Colombia, the high level of dependence on hydropower does create vulnerabilities with respect to climate change like those currently being felt in their common neighbour, Ecuador. Peru has not, as of yet, made much significant progress in terms of developing renewable energy resources.

Electricity generation by source in Peru



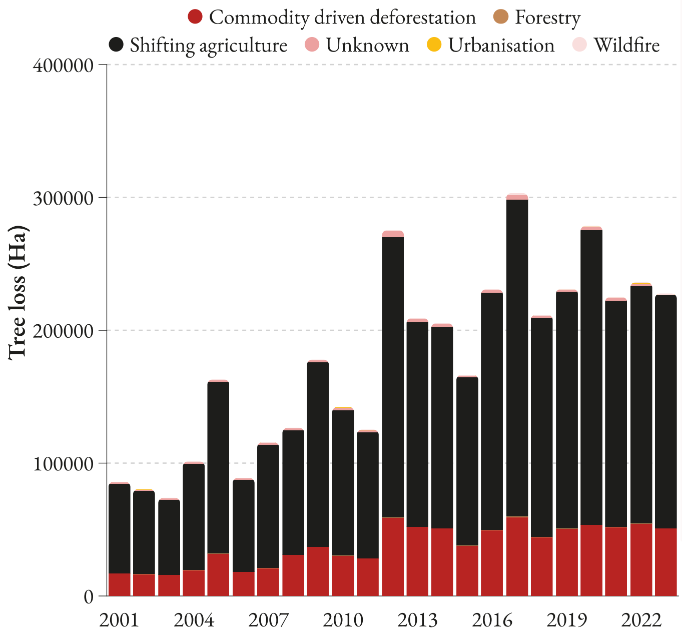
Source: Ember (2024)

This perhaps leaves Peru in an intermediate position in terms of regional leadership on the decarbonisation of its energy systems as it GHG emissions profile over the course of the 21st century is well below the global average, along with the other two highly hydropower dependent big six economies of Brazil and Colombia. Like Colombia, however, there is some level of inertia in the system driven by internal fossil fuel production that may make it harder for the country to pursue an aggressive expansion in renewable energy production. Starting from a similar fuel mix profile, Chile has been much more aggressive than Colombia and Peru in expanding renewables, likely because it is not endowed with significant fossil fuel resources.

> *"In terms of potential contributions to the global transition to a decarbonised energy system, Peru is extremely well endowed when it comes to copper, with some interesting possibilities related to lithium as well."*

Also similar to Colombia, Peru has experienced recent increases in annual tree cover loss driven largely by shifting agriculture, as can be seen in the figure below, although to a lesser extent in terms of the total areas of tree cover loss. Most of this is taking place on the eastern fringes of the Andes in the country's Amazon ecoregion. In spite of this recent increase, Peru has not exhibited an increase in total GHG emissions per capita when both fossil fuel consumption and land-use factors are taken into consideration. This lack of temporal correlation is difficult to explain.

Tree loss in Peru



Source: Global Forest Watch

In terms of potential contributions to the global transition to a decarbonised energy system, Peru is extremely well endowed when it comes to copper, with some interesting possibilities related to lithium as well. The country is usually listed as number 2 or 3 on lists of copper reserves per country and has been listed as high as 14th on national lithium resource assessments. Lithium deposits in Peru are more similar to the lithium enriched clays found in Mexico, and are located in a comparatively water stressed region of the country, like the briny groundwater deposits found in Argentina, Bolivia and Chile. This means that like other lithium produced in Latin America, the responsible management of water resources will be a key consideration. This does create some opportunities for waterwise production that could prove beneficial to the region.

Beyond its potential contribution to the global energy transition, like other countries in Latin America, Peru has also committed to global targets related to the ecosystem projection through the United Nations Convention on Biological Diversity, including a commitment to conserve 30% of its terrestrial and inland water areas, and marine and coastal areas, through ecologically representative, well-connected and equitably governed systems of protected areas and other effective area-based conservation measures. Currently Peru has reached a level of 22.5% in pursuit of this commitment.

Mining operations, Peru (Credit: Diego Delso)

Conclusion

The analysis presented in this year's Environment Outlook suggests that Latin America is indeed comparatively well-placed from a global perspective to take proactive leadership in the unfolding global energy transition. Whilst Argentina and Mexico have made substantial investments that will complicate efforts to reduce fossil fuel dependance, none of the six largest economies in the region start above the global average in terms of emissions intensity. Nonetheless, issues related to the current fuel mixes in the region do exist. The first pertains to vulnerability related to an excessive dependence on hydropower generation. The second issue pertains to challenges confronting efforts to secure social license to develop renewable energy projects.

> *"Energy systems that are heavily dependent on hydroelectricity will become more vulnerable to climate change."*

Even more that its neighbours Colombia and Peru, Ecuador has developed a substantial dependence on hydropower generation. This dependence has become clear during the drought currently impacting the northern Andes as water levels in important reservoirs continue to decline, leading to daily power cuts that can extend to over eight hours a day. Drought conditions in this region are often associated with strong La Niña episodes within the important global El Niño Southern Oscillation (ENSO) climate cycle, conditions that are currently in place. Unfortunately, climate scientists are increasingly convinced that future climate change will lead to the strengthening of the ENSO cycle. A recent publication from the National Oceanic and Atmospheric Administration in the US suggests that "extreme El Niño and La Niña events may increase in frequency from about one every 20 years to one every 10 years by the end of the 21st century under aggressive greenhouse gas emission scenarios, and that the strongest events may also become even stronger than they are today."

If this is true, this would suggest that energy systems that are heavily dependent on hydroelectricity will become more vulnerable to climate change. Given the enormous amount of potential hydropower generation potential available in Latin America, it is not surprising that many countries in the region have invested substantially in this energy source over the years, and it will surely remain an important component of the regional fuel mix for the foreseeable future. Fortunately, the region is also endowed with impressive generation potential from other renewable sources such as wind and solar. Realising this potential, however, has been complicated by difficulty securing social license to develop utility scale renewable projects. The biggest challenge has been reaching agreement with local communities that have not had positive previous interactions with mining and energy companies. Much work is needed in the region to develop model protocols for benefit sharing from wind and solar energy projects that will allow Latin America's substantial renewable energy potential to be achieved. Realising this potential will not only help to reduce the climate vulnerability of the region's hydropower systems but will also help to accelerate fossil fuel phase out in Latin America.

> *Latin America is extremely well placed to lead the world in meeting sustainable development challenges. This creates an opportunity to seize the mantle of leadership within the inevitable energy transition now unfolding."*

In addition to substantial renewable energy potential, as mentioned, the region is also well placed to produce the strategic minerals critical to a global energy transition. Like social license associated with realising Latin America's renewable energy potential, efforts to capitalise on strategic mineral leadership will require protocols designed to reduce environmental and social impacts and to share benefits. Lithium offers a promising opportunity to develop regional responsible water management protocols in what is a water intensive enterprise. The development of such a protocol could allow the region to differentiate lithium produced in the region within what is currently an undifferentiated commodity market which incentivises least-cost production by producing countries, often at the expense of environmental and social standards and safeguards.

Whilst Latin America is making progress towards meeting its commitments towards the 30% conservation by 2030 target under the United National Convention on Biological Diversity, the challenge lies in making sure that the designation of protected areas results in actual conservation improvements. Unfortunately, as of July 2023, of 50 countries and territories in Latin America and the Caribbean, only 32 have carried out any evaluation of the effectiveness of their protected areas in terms of biodiversity conservation and only 16 have met the objective of evaluating 60% of their protected area coverage under the Convention's Aichi Target. This offers another opportunity for Latin America to show leadership in terms of responding to the combined climate and biodiversity threats currently challenging global sustainable development efforts.

In spite of these challenges, however, Latin America is extremely well placed to lead the world in meeting these sustainable development challenges. This creates an opportunity to seize the mantle of leadership within the inevitable energy transition now unfolding.

Risk Outlook

Instability and threats in Latin America

Ivan Briscoe, Senior Director for Policy, International Crisis Group

São Paulo, Brazil

Introduction

Organised crime and the violence associated with it plague Latin America, and stand out as the leading public concerns in numerous countries. Even though the region is now almost entirely free of conventional armed conflicts, with the last guerrilla strongholds restricted to Colombia and a few tiny factions operating elsewhere, its levels of lethal violence remain among the highest in the world. Criminal groups account for a large part of this bloodshed, and, with a clutch of exceptions, show few signs of retreating. When supposedly dealt a definitive blow by security forces, these outfits have tended to shift bases of operations and trafficking routes, or strike new profit-sharing pacts with officials who may protect them. Often, they regroup and establish new command centres within prison confines. In the words of one prosecutor in Rosario, a city that suffers some of Argentina's worst rates of violent crime: "all the time we are requesting the arrests of people who are already in jail". The frustration of civilians and authorities over the failure to dismantle criminal groups runs high, and continues to fuel calls for radical switches in policy, most commonly toward forms of mano dura (iron fist) policing.

Two events in 2024 have underlined the scale of the threat posed by criminal outfits, the nature of the new operating structures that govern illegal businesses, and the ways in which Latin American citizens are responding. In January, criminal groups in Ecuador staged a nationwide act of violent defiance against the state. They seized over a hundred prison guards, occupied a television station during a live broadcast and sowed panic by setting off explosive devices in public spaces, demonstrating how far they were prepared to disrupt public life in order to preserve their core interests (in this case, control over the jail system).

Alongside Costa Rica, Uruguay and Chile, Ecuador is the undisputed leader of a quartet of Latin American countries that were formerly considered quite peaceful, but have recently seen sharp rises in criminal violence. Chile's murder rate doubled between 2016 and 2022, although it still remains low by regional standards. Ecuador's case is far more extreme: the murder rate for 2023 stood eight times above that of 2016, and ranked as the highest in South America. One recent academic study found that 67% of citizens in these four countries are gripped by fear stemming from crime, driving support for tough state responses. Just weeks into his term in office, Ecuador's President Daniel Noboa won plaudits from many citizens for responding to January's mayhem by mobilising the army and declaring the country to be in a state of "internal armed conflict".

The year's second significant event could be considered less of a surprise. A vicious wave of fighting shook the state of Sinaloa, northern Mexico, from September onwards. Sinaloa is home to the drug trafficking cartel of the same name, a syndicate that was once so prosperous and powerful that it reputedly penetrated the heights of state power (a US court sentenced former federal public security minister Genaro García Luna to 38 years in prison in October for accepting millions of dollars in bribes from the cartel). High-level arrests, internal divisions and competition from new criminal upstarts such as the Jalisco New Generation Cartel have nevertheless chipped away at the Sinaloa's supremacy. The arrest in July of the US of two of the group's leaders, one of whom was the veteran capo Ismael "El Mayo" Zambada, appeared to confirm that law enforcement has the cartel against the ropes.

Not for the first time in Latin America, however, a successful police operation against commanding criminal figures brought in its wake violent pandemonium. Rival offshoots of the Sinaloa cartel proceeded to clash repeatedly from early September in the state capital Culiacán, a city of around a million inhabitants, and locked horns in a conflict that has heaped misery on locals. Among various acts of intimidation, reports indicate that criminal factions have set up roadblocks, where they inspect the mobile phones of those passing through to check for any ties to enemy factions. An estimated six people were being killed a day and seven kidnapped following Zambada's arrest; the first two months of fighting claimed in total 363 lives.

Violence and the Fragmentation of Organised Crime

These flare-ups in new and established epicentres of organised crime shine a light on some of the most prominent trends in violence and illicit behaviour across Latin America. At the heart of the criminal reconfiguration that the region has witnessed over the past three decades is the splintering of integrated conglomerates in the heartlands of Latin America crime – the cartels in Mexico and Colombia – into smaller, niche-like operations acting within wider networks. In the case of international trafficking, above all of drugs such as cocaine, these different operating units occupy segments of the supply chain, whether as producers, processors, transporters, logistical providers, violent enforcers, financiers, launderers, business and political intermediaries, local vendors and international traders.

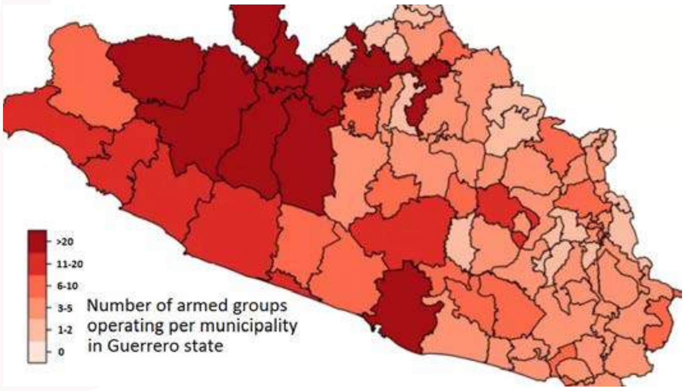
> *"Networked atomisation has become the new organising principle of illegal business in Latin America, and the origin of many of its most alarming effects on states and society."*

A similar process has taken place in what were once the region's safe havens. A senior police officer and murder investigator in Chile told El País that the family clans which used to control criminal activity and lord over low-income neighbourhoods have given way to far more variegated networks that extend their domain over much larger areas. "Today everything is externalised. For instance, if you arrest somebody, they have the drugs but not the weapons. And if they are raided, you won't find anything".

Networked atomisation has become the new organising principle of illegal business in Latin America, and the origin of many of its most alarming effects on states and society. The numbers of groups spawned by the fragmentation of organised crime over recent years can be bewildering: in Mexico, at least 200 groups were operating in 2020 according to a count by Crisis Group, 40 of them in the state of Guerrero alone. In Ecuador, President Noboa's proclamation of internal conflict in January listed 22 groups, some of them almost unknown even to security experts. A recent study of the Caribbean by the UN Office on Drugs and Crime, meanwhile, found that in 2021 an estimated 379 criminal groups were present in Jamaica, where the total population stands under three million, although one third of these were considered dormant.

Monterrey, Mexico

Map of armed groups in Guerrero, Mexico



Source: Crisis Group

Different operational profiles within the crime business require distinct aptitudes. Violence, in particular, tends to flare within fairly restricted settings, helping explain the huge variation in murder rates within countries. Increasingly, bloodshed is concentrated not where the greatest mark-up in the price of drugs is accrued, which is during shipment to user markets in Europe and the US, but in the fight for turf that is considered of core strategic value for various illicit trades, where armed supremacy determines dominance in the local criminal marketplace or access to supply routes abroad.

Large international trafficking organisations may arm and sponsor competing local gangs. Albanian mafia or rival Mexican groups appear to have done exactly that in Ecuador, paying off their partners with guns or drugs that can be sold locally, often cut with cheap substances to create highly addictive and noxious compounds. High-calibre weapons and booming local drug markets drive the competitive violence that has engulfed the country's Pacific coastline. A similar sort of arrangement between local gangs and larger criminal groups can be found elsewhere, whether this involves the estimated 700 street gangs in Monterrey, Mexico's richest city, or among the hundreds of so-called combos of Medellín, Colombia.

> *"The emergence of a sort of illegal "precariat" class, generally based in badly serviced, economically neglected areas of large cities where other employment options are scant, and operating as wage labourers for larger illicit organisations, appears to have become a common feature in several countries – and especially so in the wake of the COVID-19 pandemic."*

Nothing in Latin America's crime world is axiomatic, however, and exceptions to the rule can always be found. Not all local groups with claims over territory, a share of community loyalties, and a readiness to use violence form part of a cross-border criminal network. Rival gangs in Guatemala and Honduras, for example, have murdered an estimated 5,000 bus drivers during the past 15 years as they compete over extortion rackets in the transport sector, without any notable participation by criminal allies. But the emergence of a sort of illegal "precariat" class, generally based in badly serviced, economically neglected areas of large cities where other employment options are scant, and operating as wage labourers for larger illicit organisations, appears to have become a common feature in several countries – and especially so in the wake of the COVID-19 pandemic. These factions may fight over drug retail spots or extortion rackets; they may also be roused to action by minor piques and social grudges, often exacerbated by sub-cultures that venerate caricatures of masculine honour, material accumulation and physical force. In the case of the border town of Tabatinga in the Brazilian Amazon (see more below), criminal groups issue via social media pictures of women targeted for murder because they have been seen with men from a rival outfit or supposedly erred in some way.

Equally, transnational criminal organisations that compete with one another elsewhere may ally with the same local outfit that offers a safe means to acquire illegal goods, ensure the complicity of police and military, and get access to ports for export. Precisely these services are provided to international cocaine traffickers by the dominant criminal group in northern Colombia, the Gulf Clan, or as it now styles itself, the Gaitanista Army – an offshoot not of urban gangs, but of the country's former paramilitary and guerrilla forces. Now made up of around 9,000 members, the Clan traffics drugs, smuggles migrants through the Darién Gap, and runs illegal mining and extortion rackets. At the heart of its breakneck territorial expansion has been its ability to enforce community compliance, which it does by mixing the latent threat of violence with perks for locals, whether jobs, controlled food prices, Christmas gifts or promises to stamp out petty crime.

Like its counterparts, the Gulf Clan does not shrink from the use of force whenever it considers its business is in danger. Clashes with other groups and their suspected allies over turf and markets represent the lion's share of the violence currently attributed to organised crime. But selective killings remain the mafia's most notorious misdeeds, at least since Colombian Justice Minister Rodrigo Lara was shot dead in 1984 by a hitman on a motorcycle in northern Bogotá. Targeted assassinations seek to neutralise and deter the threats posed by community, state, media, judicial and security figures to crime groups' impunity and ability to accumulate riches. The toll from these attacks is long and tragic: 1,300 Colombian community leaders reportedly killed over the past eight years; 220 mayors and local councillors slain in Mexico from 2006 to 2022; at least nine prosecutors murdered in Ecuador since 2019. These acts of violence represent the most flagrant examples of crime's power to muzzle its critics and foes.

That said, scholars and experts have questioned whether attacks on high officialdom serve criminals' long-term profit-making interests. Evidence suggests they court the risk of a backlash from the state, such as the response mounted by Colombian authorities against Pablo Escobar in the 1990s or by the Guatemalan government, supported by the UN, in the mid-2000s when confronted by seemingly untouchable criminal groups. The murder of Ecuadorian presidential candidate Fernando Villavicencio in August 2023 was startling for the way it suggested a return to the largely forgotten practice of criminal assassinations of top-level national political figures. Yet it was also notable for the fact that the killers were young men from the poorest parts of Cali, in Colombia, recruited exclusively for the hit, and found hanged in jail a few weeks later, presumably as a means to silence them.

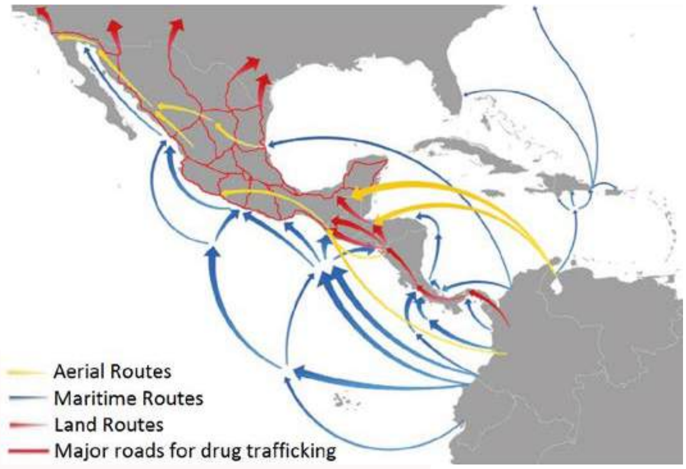
Survival, Diversification and Spread

The ability of criminal enterprises to withstand repeated law enforcement offensives owes much to the break-up of large organisations. This process of re-composition is often painful, and not always quick. But whether whole organisations are dismantled – such as most recently the Revolutionary Armed Forces of Colombia (FARC), principally a Marxist guerrilla group but in its later years a key arbiter of Colombia coca production, which demobilised after the 2016 peace agreement – or leaders are removed, for example through the "kingpin strategy" in Mexico that spelled the capture or killing of dozens of capos during the height of its "war on drugs", the results have tended to be the emergence of more groups operating at a lower profile, often with a specific territorial foothold and market niche. Though each may be individually expendable, collectively they make up extremely resilient criminal markets.

> *"In the tri-border region of the Amazon, Peruvian drug producers, Brazilian urban crime syndicates and former Colombian FARC rebels have coalesced into a series of cross-border ventures that operate in cocaine supply, gold dredging and illegal fishing, outsmarting in the process national security forces that are under-resourced and ill-disposed to collaborating with one another."*

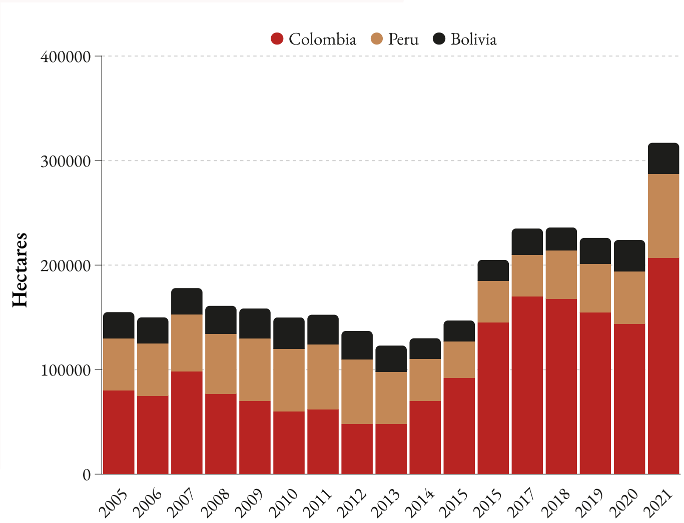
Besides enabling survival from successive law enforcement offensives, these new networked arrangements also help deliver geographical spread and product diversification. The phenomenon is observable both within and between countries. Mexican crime has broken new ground since its "war on drugs" was declared in 2006, most recently to the states of Guanajuato, Zacatecas and Chiapas. But the primordial geographic shift in Latin American crime over the past 30 years lies in its changing cross-border cocaine supply routes (interestingly, the international map of coca production has barely altered in that time, although crop sizes have increased). US maritime and aerial interdiction in the Caribbean in the 1980s and 1990s first displaced the main supply route north to Central America and Mexico; soon after, West Africa became an important way-station for cocaine reaching Europe. More recently, intensifying pressure on Central American drug outfits has shifted the backbone of trafficking to sea routes along the Pacific, servicing both the largely stagnant US market and booming European sales.

Major cocaine routes from South America to North America



Source: UNODC 2023

Coca bush production



Source: UNODC 2023

Armed Police, Ecuador (Credit: Presidencia de la República del Ecuador)

Despite sensationalist claims, the move into fresh territory for concentrated criminal activity rarely involves a physical invasion. This is not to say that incursions across borders are unknown: Mexican cartels penetrated deep into Guatemala in the late 2000s, while public and media alarm has sounded in Colombia, Peru and Chile over the expansion of the Venezuelan outfit Tren de Aragua. But these are rarities. Mexican and Colombian criminal groups have not set up camp in Ecuador or Costa Rica. Emissaries from these organisations bring seed money and the prospect of lucrative contractual arrangements. Businesses, politicians and security or judicial officials are bought off. Existing local gangs and groups, often relatively innocuous in origin – the Choneros in Ecuador started carrying out heists on trucks 20 years ago, while some of their rivals were built from remnants of gangs that peacefully demobilised a decade ago – can be drawn into emerging supply chains as local heavies, lookouts and fixers. As these groups get wealthier and better armed and connected, their stakes in an expanding business tend to increase.

This spread is in essence one of multiple transactional bargains, fuelled by the supply of guns, cash and drugs, frequently mediated by violence and, crucially, driven by illicit opportunity. As the number of participants in the criminal marketplaces grows, so does the number of illegal businesses they engage in. In the tri-border region of the Amazon, as discussed below, Peruvian drug producers, Brazilian urban crime syndicates and a splinter groups of ex-FARC rebels called the Central Armed Command (EMC) have coalesced into a series of cross-border ventures that operate in cocaine supply, gold dredging and illegal fishing, outsmarting in the process national security forces that are under-resourced and ill-disposed to collaborating with one another.

Likewise, traditional and newer crime groups in Mexico are at pains to diversify, particularly as demand for cocaine in the US remains largely static. Other drugs are taking its place, such as crystal methamphetamine and the deadly synthetic opioid fentanyl. Leveraging the stranglehold they have established over territories, groups in Mexico are also diversifying into exploitation of every available resource to hand, extorting avocado producers, stealing oil from pipelines (huachicoleo) or simply occupying legal markets, such as food supply, by intimidating all law-abiding competitors into submission.

The Role of States

The scoresheet of Latin American states and security forces in their fight against organised crime, whether measured by drug seizures, extraditions or prosecuted leaders, is long and largely commendable. Some countries have made huge steps in reinforcing their police forces and prosecution services and giving them more sophisticated investigative toolkits, or reshaping urban landscapes and sprucing up poorer neighbourhoods to deter crime. International co-operation, though still weak, has improved. But the prevailing sense in many countries of the region is that officialdom has let citizens down, that laws are broken with ease, and that the tide of violence is rising fast.

Distinguishing perceptions from reality is at the heart of criminologists' repertoire, and in the Latin American case, important caveats have to be appended to often doom-laden public opinion. Several countries have managed to achieve sharp reductions in their murder rates in recent years, and not just because they have copied El Salvador in carrying out a dragnet of suspected offenders and denying the accused due process: these countries include Guatemala, Honduras, Colombia and, for more accidental reasons probably related to the scale of its emigration, Venezuela. The emergence of the Pacific as the main seaway for the export of drugs and the conversion of Ecuador into South America's most violent land, as noted above, cannot be separated from the effective suppression of previous trafficking routes.

As both changing cocaine routes and the clashes in Sinaloa have demonstrated, the unintended consequences of law enforcement successes are at the core of the evolution and migration of Latin American crime. What seem to have been major policing feats backfire, often by driving criminal fragmentation, or failing in their aftermath to provide alternative law-abiding livelihoods, particularly to young men in low-income areas.

Most importantly, the very states that dispense justice can also find their efforts offset – or even overturned - by the amalgam of public officials who put the law into practice. In a number of historic authoritarian or police states, high officials operated protection rackets over criminal groups, withholding the force of the law in exchange for obedience and a cut of the profits. Such was the system prevailing under the Federal Security Directorate in Mexico until it was disbanded in 1985. Much as this and similar systems reeked of corruption, they often managed to put a cap on levels of criminal violence.

Proof that this is not always the case can now be found in Venezuela, which is both one of Latin America's most prominent authoritarian states and also one of its most violent countries, at least until very recently. Pinning down the truth of the complicity between Chavismo and organised crime is agonisingly hard, and made more difficult by the absence of independent justice and complications of media investigation in the country as well as the way accusations have been treated as crossfire in broader political battles. It is no coincidence that the charges of seeking to "flood the United States with cocaine" filed in March 2020 by the U.S. Department of Justice against Venezuelan leaders, including Nicolás Maduro and Defence Minister Vladimir Padrino López, came during the "maximum pressure" campaign against Caracas. Maduro has dismissed such charges as "imperialist attacks".

Collusion between senior Venezuelan officials and criminal groups is nevertheless demonstrable or at least highly probable at various levels. While these ties have fuelled violence, they have also served as props to the authorities – and could again play an important role if the Maduro government finds itself isolated in the wake of its contested election triumph in July. Senior politicians have used para-police forces with ties to crime - colectivos - to stifle opposition in poor areas of major cities. Leading Chavistas have also acknowledged in private that official policy at the height of the campaign to topple Maduro from 2019 to 2021 included alliances with Colombian guerrilla groups, above all the National Liberation Army (ELN), to reinforce defence of Venezuela's border with Colombia, discipline frontier communities and oversee gold mining in the south of the country. These affiliations with the ELN and other groups operating illegal border crossings and other rackets, and the threat posed to them by rival criminal factions that did not count on state support, eventually embroiled the Venezuelan military in serious clashes in the border state of Apure in 2021.

Most crucially, support from the armed forces is fundamental to the government's survival following its electoral debacle. The quid pro quo between civilian Chavista leaders and military top brass is likely to continue to involve beneficial economic arrangements, especially given the paltry official

Bogotá, Colombia

wages generals still earn. A host of appointments of active and retired officers to state bodies represent one sort of pay-off. But the alleged role of the military in leasing out territory to traffickers exporting cocaine from Colombia has attracted attention and speculation. Although drug trafficking through Venezuela pales in size to that along the Pacific, the route connecting the Catatumbo region in Colombia, a coca-growing heartland, to the Atlantic coast has thrived. Locals around Lake Maracaibo have been known to call the village of San Felipe "Sinaloa", in honour of the small planes carrying drugs that take off from nearby airstrips.

Just as Latin America's authoritarian governments can nurture crime, the end of authoritarian rule and the transition to democracy can do exactly the same. To be clear, state ties to crime were not created by democratic regimes. Nor are they worse in democracies than in autocracies. But in Mexico and Central America, criminal groups booming from the late 1980s onwards as a result of the reconfiguration of cocaine supply routes toward the US land border took full advantage of the emergence of newly empowered regional and local state authorities, reconstituted police forces and emerging political parties. Using the lure of money and threat of violence, these criminal outfits proceeded to establish links to numerous state offices.

The proliferation of ties between illegal groups and public and elected officials in Mexico's decentralised democratic system meant that the chief (and only) benefit of state collusion with crime was lost. In other words, corrupt partners in the state were no longer able to exert control over criminal groups or the violence they generate because they could not act with credible authority. In Mexico, illegal outfits now seek out areas where public sector posts, largely at the local level, can be used in a discretionary war to serve their ends; but they have no interest in ceding any power in the process. When confronted with a non-cooperative official, or one tied to a rival group, their reaction is brutal. This underpins the dreadful toll of mayors killed in Mexico, including the brutal beheading of the mayor of Chilpancingo in October. Argentine journalist Germán de los Santos, an expert on Rosario, notes that the surge in criminal violence in the port-city has also been driven by exactly this dispersion of corrupt relations between rival crime groups and myriad officials: "nobody [in the state] could ask for obedience, because no single police force is seen as responsible for imposing order".

The results of these diversifying state-crime ties can be seen in the many criminal investigations under way or which have concluded in Latin America and the US. Most recently, these have included convictions of former Honduran President Juan Orlando Hernández for conspiracy to traffic drugs; the case against García Luna, noted above; charges across the breadth of the Colombian establishment (including judges, politicians, and top security officials); and the ongoing Metástasis case in Ecuador, in which close to 30 officials have so far been charged with assisting the criminal activities of a well-known drug trafficker. In their number is a former director of the national prison service and the head of the council charged with appointing judges.

> *"How far are Latin American states willing to go in combating organised crime without endangering basic protection of human rights or democratic norms?"*

Confronted with this panorama of criminal collusion and ongoing or rising violence, many law-abiding Latin American citizens despair. Opinion polls suggest that many have been attracted towards the tactics espoused by El Salvadoran President Nayib Bukele, who abandoned in 2022 a clandestine effort to reach understandings with the country's jailed gang leaders to adopt a draconian law enforcement campaign. Bukele's approach appears hostile to defendants' legal rights and prisoners' human rights, and rests on an extraordinary concentration of power in his hands, but there is little denying its popularity. His message is clear, resounding and rooted in the fear generated over decades by hyper-violent gangs (El Salvador recorded the world's highest murder rate in 2015 and 2016): "we have imprisoned thousands, but the reality is that we have liberated millions", he declared at the UN General Assembly in September.

Governments across the region, from left and right, are finding themselves under huge pressure to embrace this same majoritarian and utilitarian logic. In Chile, President Gabriel Boric's budget for next year is set to finance hundreds of extra police officers, combat organised crime in jails and stiffen border control – though that is still not enough to satisfy the far-right Republican Party, which wishes to see the military protect schools and hospitals. Even Colombia's President Gustavo Petro, who has spearheaded the "Total Peace" strategy to engage all armed and criminal groups in talks, has shown growing impatience with his fickle interlocutors, and approved greater use of force with the National Liberation Army (ELN) and some FARC dissident factions.

Case Studies in Crime

There seems to be nowhere to hide from the public clamour for big sticks. But Latin America's long-standing struggles against crime, as illustrated below in the case studies of Mexico and the tri-border area of the Amazon, suggest some fundamental questions for policy-makers recur without so far receiving a definitive answer. How far are Latin American states willing to turn to the military or suspend protection of human rights or democratic norms in combating organised crime? What are the risks of law enforcement campaigns in terms of large-scale corruption and worsening violence as crime groups fragment and reconfigure, and how can these effects be handled? And what do states have to do to ensure that highly profitable illicit markets, unequal societies and unscrupulous officials do not enable organised crime to rebound and prosper?

President Bukele (Credit: Casa Presidencial El Salvador)

Mexico

Former Mexican President Andrés Manuel López Obrador, who left office in October, deployed troops on a scale never seen before to fight crime across the country, but this measure has barely loosened the grip of illegal outfits over his six-year term. In some ways, his government and that of his heir, President Claudia Sheinbaum, could call its policy a success. Violence, measured by reported murders, has dipped from the historic heights of a few years ago, an achievement supporters attributed to the former president's incorruptible character. Indeed, high rates of crime made little difference to Sheinbaum's fortunes at the polls, as she romped to victory in the 2 June election.

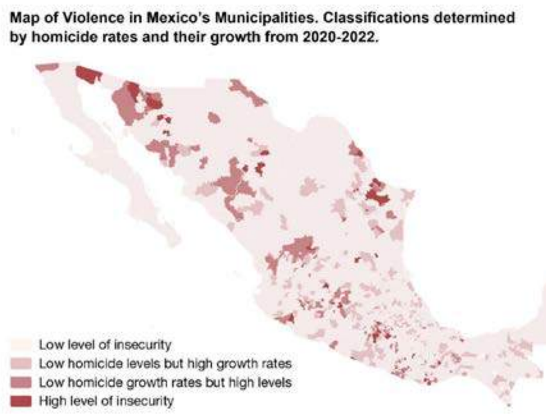
In the states hardest hit by crime, however the reasons behind lulls in fighting appear less flattering to federal authorities. Some security officers and criminal leaders suggest that a modus vivendi between military commanders and illegal outfits has enabled crime groups to profit and expand their hold on communities so long as overt violence is curtailed. Mexico's new president may be unable and unwilling to withdraw troops from public security. One of López Obrador's last deeds in office was to preside over a congressional vote that put the National Guard formally under military command. In her new security strategy, presented days after her inauguration, Sheinbaum continued to show faith with the National Guard, while placing more emphasis on better coordination between layers of the Mexican state and improved intelligence. But until clear boundaries are placed on the military's law enforcement role powers and greater efforts are made to sever state ties to crime, it is hard to see how Mexico can create the conditions for effective civilian law enforcement.

After campaigning in 2018 on a platform promising to pacify Mexico, end the "war on drugs" and return troops to the barracks, López Obrador seemingly underwent a radical conversion. Even before he took office, the president declared that he could not trust the country's various police forces to curb heavily armed criminal groups, opting instead to reinforce the role of the military – whose law enforcement capacities had been an article of faith for the previous two governments. López Obrador boosted troop deployment and created an entirely new security force under military leadership, the National Guard. In addition to expanding the military's role in ensuring public safety, he also handed the armed forces major roles in infrastructure, migration control, and seaport and airport management. According to the 2024 budget, 20% of state spending is now being channelled through the armed forces.

> *"President Sheinbaum will face some hard dilemmas over security policy as she begins her term in office."*

Top government officials insist that the former president's integrity – alongside the military's robust presence and a barrage of social programs – have served to dampen levels of armed conflict. Rates of violent crime, however, remain exceptionally high on a corridor running from the southern and central Pacific coast, through the central western part of the country – including the states of Sinaloa, Guerrero, Michoacán, Colima, Jalisco, Guanajuato and Zacatecas – as well as in the vicinity of the US border, in Baja California, Sonora and Tamaulipas. International drug trafficking – whether involving precursor chemicals, finished synthetic substances (crystal methamphetamine and fentanyl), cocaine or, to a far lesser extent, marijuana and heroin – continue to be a major source of criminal violence, largely because they fuel competition among rival outfits. The unfettered feuds playing out between Mexico's two largest criminal organisations, the Jalisco New Generation Cartel and the Sinaloa Cartel, accounted for an estimated 26% of all organised crime-related murders in 2021. A total of 116,000 people are officially recognised as disappeared in Mexico.

Map of violence in Mexico



Source: Crisis Group

Transnational drug trafficking, as one private security source told Crisis Group, is but the "tip of the mess". Backed by heavily armed units, many of these predominantly small and medium-sized groups – as well as local cells operating under the banner of larger groups – compete for control of both illegal rackets and extortion of legal businesses. Predatory exploitation of agriculture and natural resources have also become prominent sources of criminal income and fighting in some states. The same is true of cargo theft.

On closer inspection, the areas most affected by warring criminal groups have seen large military deployments but limited concrete crime-fighting. Security force insiders and criminal leaders note that a set of largely unspoken rules has been established, encouraging illegal groups to reduce and conceal the violence they perpetrate. In exchange, authorities have turned a blind eye to a degree of illegality, enabling these organisations to diversify their trafficking operations, expand their extortion rackets, branch out into legal business, and assume greater control of communities and local governments.

When these understandings fall apart, or when major criminal syndicates engage in frontal battle with one another, triggering humanitarian emergencies and drawing national media and political attention, the military are prone to take on a more interventionist and offensive role. But even then, they do not always focus on undermining criminal power, and they can be ambivalent toward illicit operations. When the Jalisco New Generation Cartel launched a major offensive in Michoacán in 2021, military commanders are reported to have hatched deals with crime rings to fight the group, including a campaign to kill numerous members of the cartel. Elsewhere, military officers in cahoots with specific crime groups have allegedly abused their authority to shield their illegal partners. As to the current clashes in Sinaloa, Sheinbaum has said she sees no benefit from sending state forces in battles, while military leaders have said the fighting will only stop when the factions involved end it.

The president will face some hard dilemmas over security policy as she begins her term in office. As the candidate for López Obrador's party, Sheinbaum has defended the strategy of the past six years, saying the military should remain at the heart of public security for as long as needed. In her defence, misuse of authority in Mexico is not unique to the military, while a precipitous move to return soldiers to the barracks could destabilise areas plagued by crime groups locked in arms races and trigger serious political risks. US pressure on her government to clamp down hard on criminal organisations and make full use of its armed forces in the process – or face the threat of direct intervention by the US military - could intensify during a second Donald Trump presidency.

That said, the sheer extent of the armed forces' security, political and budgetary powers, combined with the lack of any independent civilian oversight, reinforces the risks that members of the armed forces will engage in corruption and collusion. Furthermore, Sheinbaum's time as Mexico City mayor, in which she presided over a reduction in serious crime across the capital – including a 40% fall in murders from 2019 to 2023 - has shown her that a civilian-led effort, based on identifying criminal hotspots, creating alternatives for young people and strengthening coordination across state and security bodies, can prove a far more effective approach.

> *"The new government should move to strengthen civilian management of public security and ensure that the military collaborates with other state bodies."*

Intersection, Mexico City

Even if an abrupt change from military-led law enforcement is neither possible nor desirable, much more could be done over time to circumscribe soldiers' powers and ensure a greater role for civilian policing. Constitutional limits on military law enforcement should be fully respected. Senior government officials could also offer far clearer guidance as to what is expected from troops, ideally by restricting their involvement to force-based operations against groups that pose a deadly threat, as well as protecting vulnerable communities and essential infrastructure.

At the same time, the new government should move to strengthen civilian management of public security and ensure that the military collaborates with other state bodies. Both main candidates in the June polls identified the same flaws in the current Mexican security strategy, particularly the failure to coordinate layers of state power and an insufficient focus on the most conflict-ridden parts of the country. Both also pointed to the need to better fight corruption, which underpins alarming levels of collusion between public officials and criminal outfits and a rising death toll among candidates in the election as illegal groups battle for state protection and impunity (a total of 39 candidates were killed in the 2023-24 election campaign). A way to make progress on all three goals would be to sponsor inter-institutional task forces focused on bringing peace to Mexico's most violent hotspots.

Even before taking office, López Obrador decided there was no alternative to soldiers policing the streets. But while the modest successes of his policies should not be dismissed, neither should their failings or the reality that sustainable security gains will require deeper reforms to improve security-sector governance, root out corruption and ensure that the parts of the country most plagued by insecurity receive the attention they deserve. By tackling these challenges, President Sheinbaum can help position Mexico's civilian authorities to provide the clean, humane and effective security the country craves.

The Amazon Tri-Border Area

Deep in the Amazon jungle, the tri-border area where Brazil, Colombia and Peru meet has become a hotbed of crime, sending a continuous warning of the threats facing the world's largest rainforest. Emboldened by the patchy hold of state authorities on this vast area, Brazilian criminal groups have struck partnerships with Colombian guerrilla factions and Peruvian drug trafficking outfits. They exploit an array of illegal enterprises, from growing coca and processing it into cocaine, to logging, dredging for gold, and fishing in protected areas. As criminal revenues boom, the environmental harm to the Amazon and the violence inflicted on local people have soared, but so have the material incentives for hard-up locals to enlist in one or another of these groups.

Amazon Tri-Border Area: Peru, Colombia, brazil

Source: Crisis Group

The growing clout of criminal groups on the triple frontier has spurred a high number of killings, many of them linked to feuds over turf or punishment of local people who dare to resist these outfits' encroachment on their land. The murders in 2022 of Dom Phillips, a correspondent for the British newspaper The Guardian, and his local guide, Indigenous rights defender Bruno Pereira, brought the region's high level of violence to international attention. Well before these killings, criminality had been on the upswing across the region. Communities in the area have seen murders, and some of their leaders have been forcibly displaced, while criminal groups have stepped up their recruitment of minors.

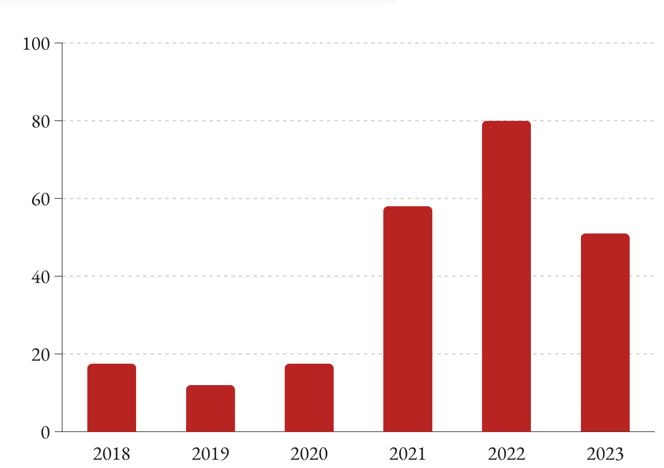
> *"Without greater commitment to protecting the Amazon and its peoples by the three border countries, organised crime will continue to trigger violence, harm the rainforest and disrupt society."*

Violence has intensified in the urban areas of the tri-border region as crime rings vie for control of illicit markets, while armed outfits in the rainforest threaten those suspected of informing state authorities or opposing their operations. A network of sicarios (paid assassins) who evade capture have become notorious in the region. They avoid answering for their crimes not just because state and security institutions are lax, but also because they can easily slip across borders. They may commit a murder in Tabatinga, Brazil, but then pass through an unsupervised crossing into Leticia, Colombia, or take a boat a few hundred metres to Peru.

Organised crime groups have established themselves in the main urban centres in this part of the Amazon, bringing spikes of deadly violence in their wake. In 2022, the border town of Leticia emerged as Colombia's second most violent, while its Brazilian neighbour Tabatinga reported a homicide rate of 80 per 100,000 inhabitants in 2023, ranking among the highest in the Amazon. Targets of planned killings in Tabatinga receive warnings through death lists, disseminated via social media and text messaging groups. In the lists that Crisis Group was shown, individuals had the word decretado (ordered) scrawled across pictures of their faces. The lists included members of rival groups, women involved in drug sales for competing factions and men believed to be vying for the affections of a gang member's girlfriend.

Homicide rates in Amazon borderlands

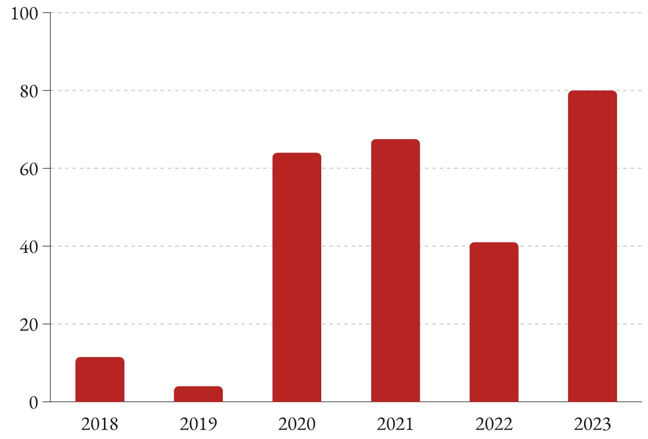
Annual homicide rates in Leticia, Colombia



Source: Crisis Group

CANNING HOUSE

Annual homicide rates in Tabatinga, Brazil



Source: Crisis Group

Across this part of the Amazon, the new illegal overlord is the Brazilian group Comando Vermelho, which has gained the upper hand in battles with two other major criminal outfits: the local band Os Crías and the Primeiro Comando da Capital, an immensely powerful group originally from São Paulo but now active throughout Brazil.

Comando Vermelho's aim now, according to a member, is to assert supremacy in the tri-border region in the hope of expanding into Colombia and Peru. The group wants to control the cocaine supply chain all the way from the coca fields in Peru to the trafficking routes in Colombia and Brazil's Amazon regions. To do so, they offer sweeteners to locals, exploiting the absence of legitimate work opportunities. Criminals give recruits – often men and boys as young as fifteen – payments that include sums ranging from USD $2,000 to USD $2,400 for tasks such as transporting cocaine to Manaus, drawing them into lives of crime and often encouraging them to enlist others. Comando Vermelho also claims to provide financial aid, medication and food to needy families in the areas they control. Their primary objective, as described by a member, is to "conquer everything" – to achieve dominance over local markets and populations.

Law enforcement officials believe Comando Vermelho may be in cahoots with the Colombian guerrilla group Carolina Ramírez, which broke away from the now-demobilised Revolutionary Armed Forces of Colombia (FARC). Intelligence officials warn that deepening relations between the two could potentially convert their combined forces into the first major binational criminal enterprise in the Amazon.

Peru, for its part, has become the engine of cocaine production in the area, causing serious environmental damage. Coca crops, which are grown on razed forest land, have boomed in the Peruvian border province of Mariscal Ramón Castilla, often funded by Colombian or Brazilian investors and drawing on the labour of local villagers to cultivate the plant. The leaf is processed in laboratories that leak contaminants into the soil and water, and then the finished product is transported largely unchecked along the Amazon and its tributaries. An estimated 70% of the cocaine and cocaine base paste produced in Peru is then trafficked into Brazil, where it feeds the largest domestic market for the drug in South America, or is exported to Europe and Africa. About 30% is taken to Ecuador, the country now suffering the worst rates of criminal violence in South America, mainly via the Napo River.

What little resistance state authorities put up to this flow is promptly eliminated by bribes or violence. Illegal outfits frequently reinvest profits from drug trafficking in other environmentally harmful rackets such as illegal logging, dredging and fishing, enabling them to launder their income while generating still more. Indigenous communities have sought to defend their territories from the incursions of criminal groups, but many claim to have received no support from the state or security forces. At particular risk from booming crime are the so-called uncontacted Indigenous tribes. These communities live deep in the jungle, having evaded interaction with Western civilisation for centuries. The unbroken perimeter of their territory, which is protected by law, is on the verge of being breached by encroaching loggers, land grabbers and other racketeers, threatening not only their culture but also their very existence.

The essential role played by the Amazon in regulating the world's climate is universally acknowledged, and has taken centre stage at a major international gathering on the environment that has recently been hosted in Colombia, the Biodiversity COP16 in October 2024, and will most likely do the same in the Climate COP30 in 2025 set for Brazil.

But without greater commitment to protecting the Amazon and its peoples by the three border countries, organised crime will continue to trigger violence, harm the rainforest and disrupt society. The region's immense natural assets can be preserved only if protections are properly enforced and the rules of forest use honoured, instead of subverted by the spread of criminal activity. Strengthening cooperation among the law enforcement agencies of the three border countries as well as their foreign partners is crucial. It is the only viable way to identify, prosecute and – where necessary – sanction the criminal groups and financial backers responsible for the greatest harm to local people and the environment. Aside from greater transnational coordination, security forces will also need to draw on the support and local knowledge of Indigenous communities while increasing the number of law-abiding livelihoods available to them. With the backing of foreign donors, Colombia, Brazil and Peru should act fast before crime causes irreversible damage to the Amazon's heartland.

Looking forward to 2025

The coming year is set to pose serious tests of Latin America's emerging approaches to crime. In Washington, the incoming US president could honour his electoral promise by demanding that Mexican authorities confront criminal organisations – or let US special forces do so – even when similar offensives in the past often made matters worse. Elections in Ecuador (first round in February) and in Chile (first round in November) are likely to be overshadowed by security concerns. The initial success of Argentine President Javier Milei's operations to reduce violence in Rosario is sure to face challenges; likewise, President Gustavo Petro's "Total Peace" strategy in Colombia, which currently features nine sets of negotiations with armed and criminal groups, will come under pressure to show results before his term ends in 2026. Meanwhile, Venezuela's political crisis will continue to raise concerns about the cross-border spillover of criminal violence.

Reducing the impact organised crime has on human security in the region, as well as the threat it poses for respect for the rule of law and peaceful, democratic politics, will remain a critical issue for years to come. 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, should be sought. 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 legitimate livelihoods for impoverished communities.

Whether achieved through dialogue with criminal groups or coercive law enforcement operations, short-term reductions in bloodshed are unlikely to last. 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. Stronger intelligence-led policing is vital for all types of criminal investigation. Systematic information exchange between Latin American governments and their counterparts from outside the region can also bolster law enforcement's effectiveness. 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.

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 target higher-value segments of the supply chains, including interrupting financial flows more effectively.

CECOT confinement centre, El Salvador (Credit: Casa Presidencial)

Notes

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