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LatAm Outlook 2023

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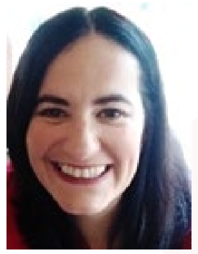

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Introduction

Jeremy Browne, CEO, Canning House

Canning House was formed 80 years ago - in November 1943 - at the mid-point of a century which began with Britain as the foremost global power but came to be defined by the hegemony of the United States. Unsurprisingly, the geopolitics of the early Canning House years (despite its imaginative genesis, with a focus on far-away Latin America) was illustrative of a global order heavily centred around the power and interests of Europe and North America.

Now - almost a quarter of the way into the 'Asian Century' - the concentration of global power has dissipated markedly. India will become the most populous country in 2023, although the extraordinary rise of China continues to be the great phenomena of our era. The traditional West remains important and influential, but with nothing like the exclusivity of the last century. The G20 world top table more naturally reflects the complicated network of international interests than the longer-existing G7 version.

There is, however, a risk that this new, broader ordering of global interests comes with significant blind spots. That the story of the shift from West to East - from 'American Century' to 'Asian Century' - is a very narrowly Northern Hemisphere narrative. That the leaders whose words we hang on are found in Washington DC, Brussels and Beijing. That the 'global' businesses that shape the economic landscape maintain their biggest offices in New York, London and Singapore. That we confuse being less myopic than before with the absence of myopia.

Because there are also many other stories to tell. Of an African continent with an enormous landmass, resources and resourcefulness, and a surging population. Of an extended Middle East, distinct and proud, with both millennia of heritage and a thirst for modernity. And, indeed, of Latin America, the subject of this publication.

Latin America is not, of course, just located in the Southern Hemisphere, but it is typically thought of as part of the 'Global South'. It is conspicuously not part of the Northern Hemisphere global narrative (apart from Mexican trade connections with the United States). So often - it is sad, but surely true to say - Latin America is simply overlooked. Out of sight and out of mind.

And when it does enter the consciousness of people in Britain - and those further afield - it is typically for negative reasons. Crime, corruption, drug smuggling, natural disasters - these are found, admittedly to significantly varying degrees, all across the world, but Latin America is seen through this lens more than elsewhere.

That is a great shame, and a missed opportunity. Latin America does not deserve to be either overlooked or dismissed in simplistically negative terms. With 650 million people, great enterprise and innovation, extraordinary natural wealth, cultural and historical riches, and trade and political significance, Latin America has a compelling claim to be one of the big answers to the multiple questions facing humanity in the twenty-first century.

The task for Canning House is to tell this story. Our audience is people across Britain - curious, internationalist and open-minded - in government, parliament, business, finance, academia, journalism - wanting to understand why they should care about Latin America, and why they should know more about it. Along with our many conferences, articles, networking events and speeches, Canning House's 'LatAm Outlook 2023', in clear and compelling terms, seeks to make this case.

The publication is divided into seven chapters, each of which stand alone and can be read in isolation, but cumulatively add up to a comprehensive portrait of Latin America. This is the fourth annual 'LatAm Outlook' produced by Canning House, and inevitably there is significant continuity from one year to the next, but there are also some new features this time.

The most significant change is the first chapter, which makes the big picture case for Latin America's place in the world. Latin America can lapse into parochialism (as can many other places), or be viewed too narrowly by outsiders, but this perspective, by Michael Stott, the Latin American Editor of the Financial Times, is an expertly informed and cogently argued case for us all lifting our sights.

The second chapter, by Alejandra Soto from specialist analyst firm Control Risks, examines the 2023 domestic political scene across Latin America. The main focus is on the largest countries - Brazil, Mexico, Argentina, Colombia, Chile and Peru - with particular attention warranted for the coming to office of a Brazilian President on 1 January 2023 and the Argentinian presidential election later in the year. Other Latin American countries with stand-out political events are also included.

Chapters three and four have a close connection. Cristina Irving Turner from the British government's Department for International Trade has written the chapter on commercial opportunities. There are so many vital sectors where greater trade between Latin America and Britain would be mutually beneficial, and these are explored in detail. The fourth chapter, by João Pedro Bumachar Resende from major Brazilian bank Itaú, examines the prospects for the largest Latin American economies in 2023, expertly forecasting the prospects for (and threats to) greater prosperity in the year ahead.

Chapters five and six examine the social picture. Chapter five, by Oliver Wack, also from Control Risks, catalogues the negative threats that harm Latin America. Canning House does not want Latin America to be seen disproportionately through this prism, but nor are we interested in sweeping difficult truths under the carpet. Chapter six, meanwhile, by, Jean-Christophe Salles from Ipsos, is a vital representation of life at ground level for everyday Latin Americans. It is the story of standards in education, healthcare and other human well-being indices, and, by extension, also reveals the wider societal and developmental prospects for Latin America.

The final chapter, by David Purkey from the Stockholm Environment Institute, focuses on the environment. Latin America has the greatest biodiversity, and arguably the greatest environmental consciousness, of any part of the world. Protecting our natural world and guarding against artificial distortions to our climate are universal imperatives where Latin America emphatically comes to the fore, with a vital combination of innovative thinking and a zeal for treasuring their biological inheritance.

Canning House has an unapologetically evangelising purpose. We want to persuade people that overlooked Latin America does not deserve to be overlooked. That although it is imperfect in multiple ways, Latin America is a source too of amazing opportunity and life-affirming human progress, and that Britain will benefit from a much closer association. We hope our 'LatAm Outlook 2023' paints an honest, insightful and enticing picture, and thereby makes this case persuasively to you.

Executive Summary

Latin America is a region of great global significance, home to 650 million people and $5.5 trillion of GDP, as well as boasting large reserves of key metals and petroleum. Despite this, it has long been overlooked by Western powers, particularly in terms of trade, as the US, UK and Europe have generally preferred doing business with the emerging markets in Asia, as well as China. Compounding the region's lack of presence on the global stage is the succession of policy failures within the region, including a failure to invest sufficiently in infrastructure and to deliver public education, as well as premature deindustrialisation that has led to a renewed dependence on natural resource exports. The global move towards renewable energy, electrification, and growing concern over food and water security should stand Latin America in good stead for the future, however, as its clean energy matrix is sizeable, and it boasts several world-leading agricultural markets.

The war in Ukraine has highlighted important nuances in Latin America's position towards Russia and the West. While the majority of countries voted for the UN resolution condemning Russia, the region's two largest economies, Brazil and Mexico, both abstained. Their view is that the West needs to press for a ceasefire rather than potentially aggravating a conflict that could become nuclear, which would have profound consequences for the world. Several Latin American nations have also signalled a desire to move away from the traditional model of Western hegemony, especially when China offers an attractive alternative source of trade and investment, while the election of Lula in Brazil will likely mean a greater focus on relations with the developing world. The Summit of the Americas this year was a stark illustration of the limits of US power, as it was marred by diplomatic rows over the US's decision to ban Cuba, Nicaragua and Venezuela from the event, while the propositions put forward by Washington were lacklustre.

There is opportunity for both the EU and the UK to improve relations (both trade and diplomatic) with Latin America, something that has been brought into sharper relief by China's increased presence in the region over the last twenty years. There is no doubt that the UK in particular has much ground to gain in order to enjoy a similar relationship with the region that France, Germany and Spain enjoy.

Recent political events in Latin America have proved that electoral democracy is strong, but democratic institutions are under increasing attack. An anti-incumbent wave is underway, with radical outsiders often ousting sitting presidents. Increasing polarisation has gone hand in hand with increased political participation in the past few years, which, combined with widespread dissatisfaction with governance, has led to social protest. The weak global macroeconomic scenario will only aggravate the challenging situation for many Latin American nations. Inflation, energy prices and the continuing effects of the war in Ukraine will leave little fiscal space for programmes to alleviate economic hardship, which will play into the hands of challengers from outside the political establishment. One potential reason for optimism is increasing stress on global supply chains, and the resulting need for the US to establish more local supply chains. This will make the region's economies attractive for investment, particularly the more modern and sophisticated markets of Mexico, Brazil and Colombia.

The election of Lula in Brazil completes what might appear to be a new 'Pink Tide' in the region, with most countries now governed by left-leaning administrations. However, this should not be read as an endorsement of left-wing politics but rather a rejection of the incumbents' performance in government. Lula will face challenging internal and external scenarios when he takes power, and will be forced to dilute his proposals to appease a hostile congress. Gustavo Petro and Gabriel Boric, of Colombia and Chile respectively, have seen their approval ratings drop dramatically as voters' expectations are met by the reality of the challenging external macroeconomic scenario, and the lack of fiscal space available to their governments for social reforms. The unstable situation in Peru is set to continue, with president Pedro Castillo set to face a third impeachment attempt, while in Argentina the Peronist government has been hamstrung by sky-high inflation and internal political disputes, and is set for defeat in the 2023 election. The outlier is Mexico, where, despite attacks on electoral institutions and perceived poor performance on security and corruption, AMLO enjoys broad support and is likely to choose a successor from his Morena party, who will likely win the presidential election in 2024.

Latin America is an extremely large market with a number of well-developed sectors that present significant opportunities for international businesses. It is well documented that the West has overlooked Latin America in favour of East Asian markets over past decades, and as a result the levels of trade are well below their potential. However, there have been some signals of intent to re-establish a healthy trading

relationship in recent years. The UK is negotiating with Mexico over a free trade agreement, and has recently signed a double taxation treaty with Brazil, while the EU has agreed a free trade agreement with the Mercosur bloc, although it has yet to be ratified. The next step for these countries is to take advantage of the opportunities presented to them in the region. Pharmaceuticals, Infrastructure, Food and Drink, Healthcare, Energy, Finance (especially fintech), Agriculture, Mining, and Education are just some of the sectors with presentable opportunities for companies looking to do business in Latin America, while market sizes range from large (Brazil, Mexico) to small (Costa Rica, Paraguay, Ecuador), ensuring that businesses of all sizes can have success in the region. While the region is not without risks, and often suffers from its reputation of inefficiency and procurement opacity, the fact is that there are a great many ways in which international expertise can meet the needs of Latin American countries, and some of the most outward-facing companies in the world have set up successful operations in the region.

The economic picture for the region is mixed. While the Brazilian real and the Mexican peso have performed well against the USD in 2022, a further strengthening of the USD added to the risk of global recession will weaken currencies across the region. Markets wait to see if the incoming Brazilian government will establish a solid fiscal anchor to replace the federal expenditure cap, while in Mexico disagreements over the USMCA have created doubts over the benefits of nearshoring. In response to the extremely high interest rates globally, Brazil and Chile have ended their hiking cycle, while further hikes are anticipated in Mexico and Colombia. Argentina is on track for triple digit inflation by the end of the year. The outlook is not without positive news: GDP growth for 2022 has surprised positively. In Chile, the newly-elected Gabriel Boric has begun work to get an ambitious pension reform, with provisions for a "social security pillar", through the houses. The Colombian Congress has approved a tax reform, albeit a diluted version projected to collect less than was previously stated. A renewed effort to combat tax evasion is also underway. However, 2023 growth will be well below trend. Latin American economies will ultimately be unable to withstand the challenging global scenario, and a slowdown is expected in 2023, also considering tighter macro policies.

Latin America continues to be a region that carries risks, both in terms of security and corruption, all of which can be managed with careful planning and due diligence. Economic hardship, political instability, social tensions and drug trafficking will be the major drivers of insecurity in the region. In countries like Brazil, political violence has seen an increase due to the polarising nature of the recent election. There is potential for this to spread to Argentina next year as the Peronist government seeks to fend off a centre-right coalition to win re-election. Although it is one of Latin America's safest countries, social protests from the Mapuche communities in the south of Chile have also presented significant challenges for the government, as they have sought to impede the activity of businesses operating in the area. The attempt to negotiate peace settlements with guerrilla and criminal organisations in Colombia could bear positive results, or could be another false dawn in the fight against drug trafficking and paramilitary groups in the country. No such approach can be found in Mexico, where the armed forces continue to be utilised as the primary actor in combating organised crime groups. Theft and cyber crime are the most prevalent threats to business in Peru.

Much fanfare was made of the anti-corruption wave in Latin America over the last ten years. Yet progress has not been linear, with some countries initially making headway before lapsing back into old habits, while others never really got going in the first place. Several governments, such as Argentina's, have sought to extend their control over the country's judiciary in order to suppress investigations into senior officials, while Peru is currently in the process of a third impeachment attempt to topple president Pedro Castillo, having charged four former presidents with corruption already. Brazil, perhaps the country that tackled corruption most fervently in the Car Wash days, has seen a deterioration of its institutions and anti-corruption bodies in recent years. Opaque budgetary allocations in government have not helped this image, though Lula's return to power should see these agencies given some of their powers back. A series of anticorruption reforms in recent years show that some good work has been done in Colombia, namely requiring political candidates to publish their campaign donors, but enforcement has been lacking, in part due to a problem common to the region – weakening of the rule of law for political gain. A similar story can be found in Mexico, where a proposal to give the Public Administration Ministry oversight of procurement will further erode confidence in the anticorruption fight. Chile, on the other hand, is one of the least corrupt countries in Latin America, with a robust investigatory procedure and accountability for corrupt officials.

Whereas last year most Latin Americans were still concerned about COVID-19, there has been a clear shift in citizens' concerns, and in 2022 people are most worried about inflation, as well as social issues: Crime and violence, unemployment, corruption, poverty, and social inequality. By contrast, Latin Americans are less concerned with wider-reaching issues such as climate change, military conflict, and moral decline. Inflation has become a serious concern for citizens and will likely lead to increased poverty. Corruption is also seen as one of the causes of economic struggles, increasing inequality and creating low trust in institutions throughout the region. Only 23% of the region's citizens trust the police compared to 37% globally, while 19% trust judges compared to 35% globally. Latin Americans remain also concerned about education, particularly after the pandemic, during which the region's schools suffered some of the longest closures in the world. Overall consumer sentiment varies widely between countries in Latin America. In general, people in Mexico, Colombia, and Brazil are decidedly positive, whereas those in Chile, Argentina, and Peru are decidedly negative. Lower confidence means pressure on consumer behaviour - which ultimately negatively impacts consumer spending - and potential increased socio-political disruption. Higher confidence means the opposite. Latin American nations have the opportunity to build more inclusive societies, but the planned increase in social expenditure levels should be formed around and based on key social indicators such as citizen perceptions. Citizen perceptions should therefore be tracked regularly to follow the progress of social programmes.

Latin America must be at the centre of any discussion on a post-carbon world. It is the most biodiverse region in the world, and also possesses enormous quantities of fossil fuels and critical minerals, essential resources for the coming energy transition. However, while some progress has been made in the race to Net Zero emissions by 2050, many of the region's largest economies (and thus largest emitters of greenhouse gases) have made uneven progress. Most of the region's six largest economies have indicated a desire to invest further in fossil fuels, although there are renewable energy policies present in all countries. Argentina has an opportunity to support the global move to a zero-carbon energy system through extraction of lithium in the northwest, while Mexico has created a state-owned lithium extraction company, suggesting it is considering lithium as a route to a zero-carbon energy matrix. Brazil has lowered its climate ambitions since the Paris Accord, however it has a fantastic opportunity to provide 83% of its electricity through renewable sources. The incoming president, Lula, has made greater environmental responsibility one of his administration's key policies, so a renewed focus on managing deforestation and increasing renewable energy use is likely. Chile has made positive steps in its commitment to reducing emissions, and has passed the region's first national climate strategy. Colombia has set an absolute cap on its future emissions, although it has not set as ambitious a target relating to year-on-year reductions as had been hoped. Furthermore, the proposal from the new Petro government to end fossil fuel production, while an encouraging narrative, is likely to be diluted in the face of fierce political resistance. Peru has made mixed progress, with investment in renewable energies counteracted by authorisation for fossil fuel production in the Peruvian Amazon. Political instability has hindered a coherent climate strategy in Peru, but there are indications that a commitment to Net Zero 2050 will soon be made.

Octávio Frias de Oliveira Bridge, São Paulo (CENU)

Global Outlook

Latin America's place in the world

By Michael Stott, Latin America Editor, Financial Times

Introduction

Latin America matters. The region's combined GDP totals $5.5 trillion, more than either Germany or Japan, and as much as Russia and India put together. Most of its governments embrace Western concepts of democracy and human rights. Its history of colonisation by Europeans and the cultural affinities deriving from the Spanish and Portuguese languages and the Catholic religion, make Europe and the United States natural points of reference. Its abundant natural resources are crucial to fighting climate change and to powering the global energy transition.

Amongst its 650 million people, the vast majority living in towns and cities, there exists a growing and increasingly prosperous middle class. Latin America's geographic extent is vast. Its 19.2 million square kilometres of territory are almost as big as China and the United States combined. Within them lie at least 23% of the world's forests, 30% of global reserves of fresh water, and 25% of the world's cultivable land.

The region is also blessed with abundant supplies of petroleum and of key metals which are vital for the 21st century. According to the US Geological Survey, Latin America boasts almost 58% of the world's identified resources of lithium, 41% of global copper reserves, 24% of nickel reserves, and 39% of silver reserves. Regional deposits of oil amount to 19% of the global total, exceeded only by those of the Middle East.

The Spanish language is the world's third most widely spoken with 580 million speakers, 483 million of them native speakers, according to the Instituto Cervantes. If the closely related language of Portuguese is added, that total increases to 850 million speakers, a larger number than the world's Hindi speakers and second only to Mandarin and English. Often overlooked is the fact that the United States has 40 to 50 million Spanish speakers, making it a bigger Spanish-speaking country than Spain itself.

Despite these impressive-sounding statistics, the region has been somewhat neglected by the UK, the US and Europe in recent decades, though there are now signs that this may be starting to change. The lack of focus on the region began after the war on terror forced a shift in foreign policy priorities after 2001. China's entry into the World Trade Organisation and the resulting boost to Asia's economic standing came at the expense of a relative decline for Latin America: the region represented 9 per cent of the global economy in 1980 but that had shrunk to 5.7 per cent last year after two decades in which Latin America grew more slowly than other emerging market regions.

That figure underlines the fact that Latin America is now punching below its weight economically. With 8.4 per cent of the world's population and a relatively well-educated workforce, as well as abundant natural resources, stable governments and an absence of conflict in most of the region, its economies ought to be considerably bigger than they are. Brazil, which looked set to be the world's fifth biggest economy in the early 2000s, does not make the top ten nearly two decades later. Its gross domestic product expanded by an average of just 0.15 per cent per year in the decade up to the end of 2021.

Latin America also punches below its weight in terms of soft power. The concept is difficult to measure objectively but Spain's El Cano Institute publishes a Global Presence Index which ranks countries according to three dimensions: economic (43%), soft (36%) and military power (21%). No Latin American nation makes the global top 20, with Brazil highest placed at 23, behind Turkey and Saudi Arabia, and Mexico at 26, below Malaysia.

Some of this relative lack of economic success and global projection is attributable to policy failures within the region and some to external trends and actors. Within the region, Venezuela stands as a monument to lost economic potential, a once-wealthy nation reduced to destitution by years of mismanagement and more recently by US economic sanctions. Its tragic decline has also triggered the region's worst-ever refugee crisis, with more than seven million Venezuelans leaving, according to inter-agency data, and sharply divided the region's governments over how to return the country to full democracy and restore its economy.

The commodity boom in the early years of this century coincided with a wave of left-wing governments in the region, a phenomenon known as the "Pink Tide". High growth rates and plentiful export revenues created an illusion of lasting prosperity and greatly expanded the size of the middle class. Unfortunately, some governments directed the proceeds of the boom years into unsustainable welfare schemes, white elephant construction projects and corrupt procurement rather than delivering lasting improvements in health and education services or improving vital infrastructure such as ports, roads and railways to make economies more competitive. It remains sobering that Latin America's PISA scores, which compare educational attainment internationally, remain generally poor compared with those of South-East Asia in particular.

> *"An ever-stronger political push in the United States for companies to relocate supply chains in closer proximity to the American market, as well as sharply rising shipping costs from Asia and the growing risk of geopolitical turbulence, are all encouraging companies to consider relocating production to the region"*

The region was also the victim of premature deindustrialisation, which set in with a vengeance with trade liberalisation in the 1990s and was reinforced as China began its ascent as a global manufacturing powerhouse. Only Mexico has managed in the last three decades to build a globally competitive manufacturing sector thanks to the advantages of US access afforded by the North America Free Trade Agreement (now the USMCA) and by its proximity to the US. Brazil, Argentina and other South American economies have been forced back into an ever-greater dependence on natural resource exports. At the end of the 1980s, manufacturing still accounted for nearly a third of Brazil's GDP; that figure is now just 10 per cent.

However, given the global shift towards electrification, clean energy and ending carbon emissions, as well as the increasing pressure on global supplies of food and water, new opportunities are emerging and Latin America's relative importance in the world is set to grow in this century. An ever-stronger political push in the United States for companies to relocate supply chains in closer proximity to the American market, as well as sharply rising shipping costs from Asia and the growing risk of geopolitical turbulence, are all encouraging companies to consider relocating production to Mexico, Central America or even South America.

Uyuni Salt Flat, Bolivia

Crucially for the energy transition, Latin America's abundant supplies of lithium (concentrated in Chile, Argentina and Bolivia), of copper (Chile, Peru and Mexico) and of nickel (Brazil and Cuba) give it an outsized importance. Lithium and nickel are needed to make the batteries used in electric cars and mobile devices, while copper is fundamental for wiring. S&P Global recently estimated that global copper demand would double by 2035, largely because of the energy transition.

Here, supportive government policies will be critical. While Argentina has had notable success in drawing private sector investment into lithium mining, Mexico's decision to make lithium a state monopoly echoes the hitherto unsuccessful policies of Bolivia, which nationalised lithium more than a decade ago but has yet to start large-scale commercial production. Chile is steering a middle course, with plans to create a state lithium producer but to continue allowing private sector companies to mine lithium.

In a world which will still need fossil fuels for at least another two or three decades, Latin America's generous share of world oil reserves is an important advantage, though most of that total is located in Venezuela and therefore not accessible as long as US economic sanctions against the country's oil industry are in place. However, the US did relax the embargo slightly at the end of November 2022 to encourage political negotiations between the Venezuelan government and the opposition. Brazil's deep water offshore oilfields and Argentina's shale oil and gas deposits offer large potential alternatives.

China, with an authoritarian system of government focused on long-range strategic planning and a keen sense of global economic and diplomatic priorities untroubled by regular changes of administration, has been far quicker to understand the importance of Latin America for the energy transition and to focus on its potential as a supplier of key inputs, as well as provide supplies of food.

Beijing has steadily built economic power and influence across the region over the past two decades, initially focusing on state-to-state loans and boosting trade and then graduating to broader investment in mining, infrastructure and energy. China is now in a strong position in the region relative to the West in key areas such as copper and lithium mining and electricity generation and transmission and is well placed to argue to governments that it represents a useful alternative partner for trade and investment.

The war in Ukraine, Western policy towards Venezuela and differences over how to deal with China have sharpened divisions over international diplomacy and politics within the region. At a time when nationalists and unconventional populists from the right and left have come to power in many Latin American countries, long-standing support for the West has been eroded and some countries have turned inward.

There are compelling economic, strategic and geopolitical reasons for Western governments and companies to want greater engagement in Latin America. In order to achieve this, they will need a deeper understanding of the region's relationship with the world and how this has changed over the past two decades.

This chapter aims to provide a framework for doing so. It will examine the impact of the Ukraine war and the Venezuela crisis as lenses through which to consider the changed relationship between Latin America, the US and Europe. It will also look at Washington and Brussels' attempts to re-engage with the region and the challenges the West faces following the recent electoral cycle in the region, which has leant heavily towards populist outsiders.

War in Ukraine - A Dividing Line?

Russia's invasion of Ukraine in February 2022 provoked a more nuanced response in Latin America than in the West. The US and Europe saw the conflict in black-and-white terms as an unjustified and unprovoked aggression by Moscow against Kiev which should be defeated by providing military aid to Ukraine and imposing drastic economic sanctions on Russia. Many Latin American capitals preferred to emphasise the need for ceasefire and de–escalation and opposed sweeping economic sanctions on Moscow, though only Russia's closest allies were prepared to endorse the invasion.

Most Latin American nations joined the US and Europe in the initial UN resolution condemning the invasion in early March because of the violation of Ukraine's sovereignty. None voted against while Cuba, Nicaragua, El Salvador and Bolivia abstained. Venezuela did not vote. But the picture was rather different when the UN voted a month later on suspending Russia from the Human Rights Council.

In that vote, the region's two biggest powers, Brazil and Mexico both abstained, while Cuba, Nicaragua and Bolivia voted against. Venezuela again did not vote. This result underlined some of the concerns in Brasilia and Mexico City about the West's response to the Ukraine crisis. For these two powers, Russia erred grievously in invading Ukraine. But they both saw the invasion as having its roots in NATO's expansion up to Russia's borders in the 1990s and the West's overtures towards Ukraine to join the military alliance to move it away from Russia's orbit. Furthermore, Brazilian and Mexican diplomats (as well as many Argentines and other South Americans) were concerned that the West's insistence on arming Ukraine heavily was stoking the conflict and risked escalating it. They would rather have seen a greater focus on peace talks.

In Brazil's case there was also a more prosaic reason for the reticence to condemn Moscow: Brazil is the world's largest importer of fertilisers for its huge agricultural sector and Russia is its biggest supplier.

Finally, the West's drastic imposition of wide-ranging economic sanctions not only on key Russian government officials but also on the wider Russian economy, including cutting it off from international payments systems and freezing reserves held overseas, caused deep unease in Latin America.

For the region's traditionally non-aligned major powers, the West's military interventions in Iraq and Afghanistan over the past two decades cast doubt on its legitimacy in judging Russia's invasion of Ukraine in moral terms.

> *"Many Latin American governments feel the world is being dragged into an increasingly dangerous conflict, with attendant risks of nuclear escalation, over a relatively small territorial dispute"*

As former British diplomat Lord Powell points out, in a 'large part of Latin America... the international liberal order is perceived above all as a system conceived to perpetuate an American hegemony that fundamentally serves its own national interests'.

Latin America's painful experience with US economic sanctions against Cuba and Venezuela, the former lasting six decades, have taught the lesson that such measures do not achieve their aim of regime change but instead exacerbate suffering amongst the civilian population and entrench authoritarian regimes. It is thus unsurprising that the region disliked the drastic economic sanctions imposed on Russia by the West.

Such measures, the reasoning went, politicised parts of the international financial system such as payments systems which should remain apolitical and were being used selectively against a country which had upset the West; they could therefore be used in future against any other nation which was deemed to have transgressed.

This is not to say that Latin American nations supported Russia's invasion of Ukraine (almost all opposed it), nor that they did not consider it illegal under international law. It is merely to underline that for several of the larger powers and many of the smaller ones, the West has itself been guilty of similar interventions itself over the past three decades and therefore has no right to judge other countries on such issues, nor to impose such draconian and wide-ranging economic punishments.

Those divisions were again exposed at the annual OAS assembly in Lima in October 2022. Despite a video appeal from Ukraine's President Volodymyr Zelensky comparing his struggle against Russia to the fight

by Latin Americans for freedom from Spanish colonial rule, a resolution sponsored by Guatemala reaffirming a "renewed and energetic condemnation of the illegal, unjustified and unprovoked invasion of Ukraine" was passed by a majority but was not signed by Latin America's three biggest powers, Brazil, Mexico and Argentina, nor by Bolivia, El Salvador and Honduras. Venezuela, Cuba and Nicaragua were not present.

Any possible escalation in the Ukraine war is only likely to increase the sense of unease in Latin America that the world is being dragged into an increasingly dangerous conflict, with attendant risks of nuclear escalation, over a relatively small territorial dispute and that the West's emphasis on arming Ukraine aggressively is making a ceasefire and peace talks all but impossible. As a result, the diplomatic gap between Latin America and the West is set to widen, particularly at a time when the mood in the region is less receptive to the traditional alliances with Washington and Europe.

Latin America's Shift Away from Pro-Western Incumbents

A strong anti-incumbent wave across the region from 2018 has swept away many centre-right presidents, who tended to be pro-Western, and replaced them with non-traditional figures who are more willing to question historic alliances with Washington in particular. This has led to concern in the Biden administration about a further drift by Latin America away from the United States, something a visit to the region by Secretary of State Antony Blinken in October 2022 was intended to help counter.

In Mexico, President Andrés Manuel López Obrador has pursued a more inward-looking nationalist agenda since winning office in 2018. Under the slogan "The best foreign policy is domestic policy", López Obrador has largely shunned foreign trips, avoiding G20 meetings. He has provided some aid and political support for Cuba, invited Venezuelan President Nicolás Maduro to an international meeting in Mexico and questioned the West's stance in the Ukraine war. He offered his own "peace plan" in a speech made on his behalf in September 2022 at the United Nations which involved a ceasefire and mediation by the Pope, the Indian prime minister Narendra Modi and the United Nations. The idea was condemned by Ukraine as a "Russian plan".

In Brazil, Jair Bolsonaro, a populist of the hard right, formed a strong alliance while president with his ideological soulmate Donald Trump but has not engaged meaningfully with the Biden administration's agenda of environmental protection and liberal social policies. Bolsonaro was shunned by European leaders because of his policy of dismantling environmental enforcement in the Amazon, allowing deforestation to surge, and his outspoken criticisms of sexual minorities, provoking some diplomats to question why he was being treated differently to other leaders from Africa or Asia with similar views. Bolsonaro also made a visit to Moscow to secure fertiliser supplies shortly before Putin invaded Ukraine and expressed "solidarity" with Russia, triggering a rebuke from the White House. "I think Brazil may be on the other side of where the global community stands," US presidential press secretary Jen Psaki said at the time.

> *"Lula has already signalled a desire to pursue good relations with the other BRICS nations and to revive Brazil's ties with the European Union and with African nations"*

However, it is a measure of Brazil's distance from the West on this issue that Bolsonaro's successful challenger in the 2022 presidential election, Luiz Inácio Lula da Silva, supported the president's trip to Russia just before the start of the Ukraine war, saying he would have done the same had he been in office. Behind this unusual cross-party consensus lay not only Brazil's traditionally non-aligned foreign policy stance but also the desire to secure vital fertiliser supplies.

Lula's victory in the October 2022 presidential election is likely to bring a return to that more neutral diplomatic stance. Lula has already signalled a desire to pursue good relations with the other BRICS nations and to revive Brazil's ties with the European Union and with African nations. He has been critical of the Ukraine war, saying Ukraine is equally to blame for it with Russia and has expressed a wish to help in establishing peace talks. He also made a point of speaking by phone with Venezuela president Nicolás Maduro within days of winning the election. It is highly likely that Lula will also wish to pursue long-dormant regional integration and unity projects, particularly with like-minded presidents in Argentina, Chile, Colombia and Mexico.

In Colombia, President Gustavo Petro has signalled in a speech to the UN his desire to move away from Bogotá's traditional stance as a strong US ally in the war on illegal drugs, stating instead his desire to end forced eradication of coca crops and to work towards an international consensus on legalising the drug. Petro has also broken with Colombia's previous strong support for the Venezuelan opposition, deciding to re-establish full diplomatic relations with Maduro, travelling to Caracas to meet the Venezuelan leader and seeking agreements with his revolutionary socialist government. This is partly motivated by the hope of re-establishing once-flourishing bilateral trade but also by a desire to reach a comprehensive peace agreement with the country's remaining guerrillas, some of whom operate from Venezuela.

In Chile, President Gabriel Boric has moved away from his country's previous strong support for new trade pacts since taking office in March 2022, indicating that he will neither promote nor oppose the country's membership of the Trans-Pacific Partnership but at the same time delaying Chile's accession by presenting demands to the bloc's members for a series of side letters to the agreement. The government insists that these will be agreed by the end of 2022 and will not delay accession unduly. Boric has been more moderate in his foreign policy stances than the other leftist leaders mentioned above, notably in his sharp criticism of Venezuela. Boric's UN General Assembly speech in September 2022 offered a progressive, modern vision for his country and the region on topics such as gender equality, environmentalism and social justice which would not have been out of place in today's European left.

President Boric (Gobierno de Chile)

Argentina's Peronist president Alberto Fernández has tried to position himself since taking office in 2019 as a leftist leader keen to offer regional leadership to Washington and to Europe but has been stymied by the weakness of his economy and by constant in-fighting in his coalition. Fernández has tried to balance continued close relations with Washington with greater links with China and Russia, joining Beijing's Belt and Road initiative, renewing a large credit line from China and buying COVID-19 vaccines from Moscow.

Smaller countries in the region including Peru and Bolivia have also moved away from Washington over the past few years, with Peru electing a radical left-wing populist outsider and Bolivia returning to the socialist MAS party in 2020 elections after a brief interim period of government by a right-wing caretaker administration. The exceptions have been Ecuador and Uruguay, which both returned conservative pro-American presidents in recent elections.

The Biden administration's recent policy of naming and shaming allegedly corrupt serving politicians and government officials – a departure from traditional US practice of publicly targeting only former officials – has caused considerable friction in Central America in particular, where relations with traditionally pro-US Guatemala and El Salvador have frayed after unusually sharp public criticism from Washington.

Latin America's Role in Multilateral Fora

Recent changes in foreign policy stances in the region were particularly evident at the Summit of the Americas hosted by the United States in Los Angeles in June 2022. Although this was only the second time in the summit's history that the US had played host, the event was overshadowed by a mini-diplomatic boycott over the issue of invitations to Cuba, Nicaragua and Venezuela.

Washington's refusal to invite these nations triggered a decision by Mexico - the most important US ally in the region - not to attend and four other nations followed suit. Had it not been for an intensive diplomatic effort by the US in the weeks leading up to the event, other nations, particularly in the Caribbean, might also have stayed away.

As it was, the summit's centrepiece declaration on migration was undermined by the absence of the leaders of the key countries sending migrants northwards – Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Venezuela and Cuba – and made the US look weak

relative to China, which has staged successful summits at the foreign minister level and increased diplomatic engagement with the region sharply over the past two decades.

It was a striking demonstration of the diminished status of the US relative to Latin America that Washington felt the need to send a summit envoy around the region in the weeks before the event trying to persuade presidents to show up. The last time the US hosted the event, in Miami in 1994, Bill Clinton had no such problems. Part of the reason was that in 1994 the US was offering a genuinely exciting vision for the hemisphere, a Free Trade Area of the Americas which would stretch from Alaska to Tierra del Fuego. That vision died a death during the protectionist era of the Pink Tide in Latin America in the first decade of this century.

This time around, with the Biden administration set against fresh trade deals and preoccupied with subsidising the energy transition at home, there was no such grand plan. The US offered a focus on dealing with migration, a subject which has traditionally aroused little enthusiasm amongst Latin American nations, and had relatively little to say on the bigger economic issues. Biden launched a Partnership for Economic Prosperity but the plan lacked the kind of large-scale investment in infrastructure and economic development in the region which would have made headlines and created the kind of buzz which Clinton's ambitious free trade plan had done nearly three decades earlier.

President Fernández and President Biden (Casa Rosada)

> *"In recent years, Latin America has punched below its weight diplomatically for lack of effective coordination"*

The US focus on migration was understandable given the domestic political potency of the November 2022 issue and the proximity of the midterm elections, but the topic is not an appealing one for the region as it has historically been associated with American efforts to hold back Latin migrants. This time around, with migration from Venezuela creating a regional crisis, the topic had broader appeal but was still no substitute for an ambitious regional plan to boost trade and investment.

If the Biden-led Summit of the Americas was something of a damp squib, it is also true that Latin America itself in recent years has punched below its weight diplomatically for lack of effective coordination. Political divisions between left and right in the region have undermined efforts to speak with one voice on global issues and to agree joint policies. A good example was the leadership of the Inter-American Development Bank, the region's most important multilateral lender based in Washington. When the Trump Administration proposed in 2020 a US candidate, Mauricio Claver-Carone, to head the bank for the first time in its history, many Latin American nations protested. But the region's inability to unite behind a strong regional candidate meant that the Trump candidate won. (Claver-Carone was subsequently forced to leave his post after allegations of misconduct and in the election for his successor Latin America again failed initially to unite behind a consensus candidate with Brazil prevailing over competing nominees from Chile, Argentina and Mexico.

It is also no accident that intra-regional trade in Latin America is amongst the lowest of any global region. Just 15 per cent of Latin America's trade is with itself, while the equivalent proportion for the European Union is 55 per cent and North America 38 per cent. Africa has forged ahead with plans to create a free trade bloc, ASEAN has gained increasing weight and the Arab world has the Gulf Cooperation Council and the Arab League, but Latin America has been stymied by its inability to agree on a legitimate body to speak for the region.

Latin America does have three members of the G20 (Brazil, Mexico and Argentina) but differences between them have impeded collaboration on a unified regional position on key issues and weakened their voice in the organisation. The absence of Mexico's president from G20 meetings since 2018 because of his lack of interest in foreign policy and the diplomatic isolation of Brazil's president during the Bolsonaro years have further contributed to this problem. At the 2022 G20 meeting in Indonesia, Argentina's Alberto Fernández was the only Latin American attendee.

Latin America's representation in the OECD is likewise less effective than it might be. This time the problem is the absence of two of the region's biggest economies: Brazil, which has applied to join but the accession process is slow – and Argentina, beset by perennial economic crises and scarred by unorthodox economic policies. Mexico, Chile, Colombia, and Costa Rica are all members, though Colombia and Costa Rica only became full members in the last two years.

The Organisation of American States is seen as Washington-led and because of its hemispheric membership, cannot be considered a Latin American body. In addition, its recent abrasive leadership has undermined its credibility as an impartial regional organisation. CELAC, the Community of Caribbean and Latin American States, was a creation of Venezuelan revolutionary leader Hugo Chávez in 2010 and currently lacks credibility because the region's biggest country Brazil has suspended its participation.

Various other bodies such as UNASUR and the São Paulo Forum (both created by left-wing leaders to advance a left agenda in the region) and PROSUR (a right-wing

UNASUR headquarters (Montserrat Boix)

alternative) have been doomed by their ideological bent. Lula's return to power, however, may give fresh impetus to some of these efforts and UNASUR in particular seems set for a comeback.

A particularly sharp dividing line has been the Venezuela issue. The Trump-era strategy of trying to establish opposition leader Juan Guaidó as Venezuela's legitimate leader in order to topple the elected president Nicolás Maduro (whose election was widely considered to have been rigged) caused serious rifts in the region. The right-leaning governments in power at the time Washington recognised Guaidó in January 2019 generally followed the US move, with Brazil, Colombia, Peru and Chile amongst them. But following elections which brought the left to power, most recently in Brazil, this has changed and no major South American nation remains firmly behind the old strategy.

The exceptions in recent years to this otherwise problematic scenario for regional cooperation have been the Pan-American Health Organisation, the WHO's arm in the Americas, which had notable success in coordinating policy during the pandemic, and CEPAL, the UN Economic Commission on Latin America, as well as the OAS's human rights operation. These have all had more success at a technical level in coordinating policy and sharing best practice. None, however, makes up for the absence of effective top-level bodies for coordinating political, economic and trade leadership.

It is thus no accident that for most Latin American economies, trade with China or the US is far more important than trade with each other. Amongst the few exceptions are Brazil and Argentina, whose bilateral trade is relatively large by regional standards. Intraregional exports in 2021 amongst the countries of Latin America and the Caribbean amounted to just 13% of total goods exports, according to the UN Economic Commission on Latin America, far below the historic peak of 21% reached in 1994 and again in 2008.

"Over the last two decades there has been steady progress towards more integrated regional economies in almost every part of the world," wrote Pablo Acosta in a recent World Bank blog. "The levels of regional integration in Latin America, however, pale in comparison to those of other regions. The disproportionately high costs of trading within the region arising from outdated trade policies, poor transportation and logistics infrastructure, as well as inefficient trade facilitation, are significant obstacles to closer integration."

Mercosur, the South American trade bloc established in 1991, has struggled to grow or to consolidate amid sharp political differences in its membership. Traditionally

> *"Mercosur has struggled to grow or to consolidate amid sharp political differences in its membership"*

protectionist economies like Brazil and Argentina have held back more open-minded nations such as Paraguay, while Bolivia's membership has never been fully ratified (Brazil has resisted it) and Venezuela's was suspended. Colombia's new left-wing government has expressed interest in joining but it remains to be seen how realistic this is.

Mercosur reached a trade agreement with the European Union in June 2019 - a highly tortuous process which took almost 20 years to negotiate - but three years later, this has yet to be ratified amid poor diplomatic relations between Brazil and key European nations and concerns over Amazon deforestation. This has thrown the spotlight on a wider problem - Europe and the UK's relative neglect of Latin America in recent years.

Europe and Latin America - An Opportunity to be Seized

The EU's eastern expansion in the 1990s and its preoccupation in the early 2000s with possible Turkish membership and then with accession of nations from the former Yugoslavia led to a loss of focus on Latin America.

Spain and Portugal, the two EU member states with the deepest ties to Latin America, found themselves struggling to win attention for the region at a time when the bloc's diplomatic energy was focused on the war against terror (Middle East/Afghanistan), on Russia (the Georgia war of 2008 and the Crimea occupation of 2014) and on the Mediterranean with the growing migration crisis originating in the Middle East and North Africa.

> *"The EU's insistence on pursuing an agenda which often stresses human rights issues, women's rights and environmental issues has generated a backlash in the region"*

"At this time of geopolitical turmoil, when the international rules-based order and liberal democracy are under threat, the EU needs to re-double its efforts to build strategic partnerships, especially with countries and regions that share its values," said a 2022 paper prepared by the EU's foreign service for the bloc's Foreign Affairs Council.

It noted that there had been no summit between the EU and Latin America since 2015 and that Chinese investment and trade with the region had grown dramatically over the past two decades, displacing Europe. A summit between the EU and CELAC is planned for the second half of next year, during the Spanish presidency.

Yet the bloc's insistence on pursuing an agenda which often stresses human rights issues, women's rights and environmental issues has generated a backlash in the region and created space for China, with its more pragmatic focus on getting deals done and not "lecturing" the region about political or social issues.

Javier Niño, one of the EU's top diplomats in charge of Latin American issues, noted in remarks to the European Parliament that "many European countries show a certain reticence towards organising meetings with a series of Latin American and Caribbean leaders" while taking a different stance on meeting African or Asian leaders, many of whom hold similar views or have similar track records. He suggested "reflecting on whether we should not change these kinds of attitudes".

The story is little different in the UK, where Latin American hopes that Brexit might lead to a greater focus on the region were quickly dashed by London's initial focus on Asia and the Commonwealth. Despite a history of promises and good intentions regarding better links with Latin America, the region has remained near the bottom of the UK government's priority list.

As then-foreign secretary Boris Johnson put it when returning from a trip to the region in 2018: "Think back to 1966, when Labour foreign secretary Michael Stewart was the last of my predecessors to visit Peru. It was only a few years later that Britain began negotiations to join what was then called the Common Market... you know what is coming next. You could argue that over the succeeding decades we became more Eurocentric and less instinctively global than we had been; and we simply lost focus on Latin America.

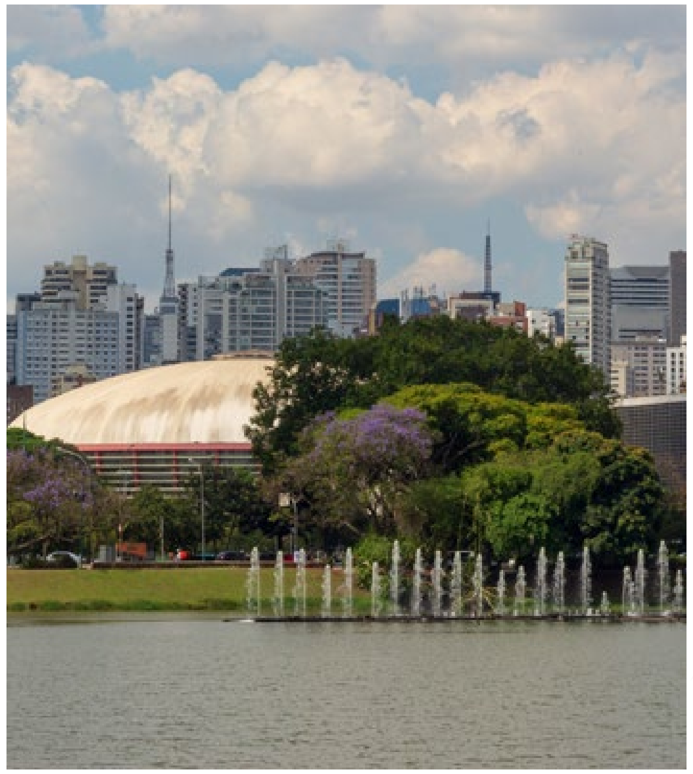
Today, that vast continent – full of countries and peoples whose values are so close to our own – makes up a pitiful share of our trade. In exports we are thrashed by other Europeans – France, Germany and Spain."

William Hague as UK Foreign Secretary used a Canning Lecture in 2010 to set out a vision of greater links and increased trade with Latin America. His initiative did lead to the establishment of a UK Trade Commissioner for the region based in São Paulo and to the reopening of small embassies in Paraguay and El Salvador, partly offsetting the closures of the Labour years, but the results in terms of trade and investment 10 years later were thin.

A review by Canning House a decade later concluded: "There has been a decrease in the UK's share of Latin America's external trade, and there has been a decrease in the bilateral trade in goods which is only partly offset by the increase in the UK's exports of services to the region. In sterling terms, total UK exports to the region in goods, plus exports of services to selected Latin American countries amounted to £8.7bn in 2010 and £10.5bn in 2018, an increase of 21%. In dollar terms, however, the outcome is essentially flat ($13.8bn in 2018 as against $13.5bn in 2010)."

There are some reasons for optimism. Latin American nations remain interested in increasing trade with the UK and pursuing a closer investment relationship. The UK signed a trade continuity agreement with Mexico in 2021.

William Hague delivers the Canning Agenda



Ibirapuera Park, São Paulo (James Conkis)

The UK's pursuit of membership of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) could help it win greater trade access to its Latin American members (Mexico, Chile and Peru).

The UK government's official position on Latin America, as outlined in a response to a Select Committee report, was as follows: "HMG is working together across government on a set of policy priorities based around prosperity, green growth and trade, and strengthening the rules-based international system...We focus our efforts in Latin America towards priority countries Argentina, Brazil, Chile, Colombia, Mexico and Peru based on their regional importance. Panama is emerging as a global business hub, and we focus on the regional impact of the crisis in Venezuela."

"The UK provides an estimated £180m a year of ODA through multilateral organisations to Latin America and will contribute well over £600m through specific bilateral programme funds to the region over the next five years."

But the UK's Integrated Review of Security, Defence and Foreign Policy published in 2021 made only three references to Latin America. In the section dedicated to The UK in the World, mention of Latin America was close to the bottom of the priority list, below every other region but Antarctica. However, as previously noted, the lack of government focus on Latin America should not obscure the real and growing commercial opportunities in the region and its critical importance in the energy transition.

China and Latin America

Meanwhile China's importance in Latin America has steadily grown over the past two decades. In 2000, less than 2 per cent of Latin America's exports were sold to China but growing demand from the East triggered a commodities boom and led to trade growing 26-fold over the next two decades. By 2021, it totalled $450 billion, and economists predict that it could exceed $700 billion by 2035. China is currently South America's top trading partner and the second largest for Latin America after the United States.

"Latin American governments see few drawbacks to awarding Beijing a key role in road, rail or other such infrastructure projects where China has established a strong global position and a reputation for delivering"

Latin America sells mostly raw materials to China - soybeans, copper, oil and metals, while importing manufactured goods. Beijing has formal free trade agreements with Chile, Costa Rica, and Peru, and more than 20 Latin American countries have so far signed up for China's Belt and Road Initiative (BRI), though this has slowed recently as Beijing has fewer resources available.

Two of the region's few remaining right-wing pro-market governments, those in Ecuador and Uruguay, are both pursuing free trade agreements with China amid deep frustration at the difficulties involved in having such talks with Washington.

Chinese regional investment has also been growing. In 2020, Chinese direct investment in Latin America amounted to roughly $17 billion. Most of this has been in South America, with Mexico still much more focused on the North American market.

The state-owned China Development Bank and the Export-Import Bank of China are amongst the leading lenders to Latin America; between 2005 and 2021, they loaned some $138 billion to Latin American governments, often in exchange for oil and to fund energy or infrastructure projects. Venezuela is the biggest borrower, having taken on loans worth $62.5 billion since 2007, though these halted in 2016. Brazil is the second-biggest recipient, with $30.5 billion, and Ecuador follows, with $18.2 billion. It is worth noting that this type of lending has fallen off sharply in recent years, signalling a shift by China towards more conventional M&A activity by its private or state-backed companies to acquire strategic private sector assets.

Because of the long history of US investment in Latin America, even after its recent big push, China's total stock of foreign direct investment in Latin America is still considerably below that of the United States. President Xi Jinping has visited the region eleven times since he took office in 2013, a far greater number than Presidents Obama, Trump and Biden put together. (Trump only visited the region once, for the G20 summit in Buenos Aires, and Biden has yet to visit). In addition to several bilateral agreements with countries in the region, China has signed comprehensive strategic partnerships with Argentina, Brazil, Chile, Ecuador, Mexico, Peru, and Venezuela.

While it is true that Latin Americans are keen to avoid excessive dependence on China (a particular concern in Chile, where nearly 40 per cent of exports go to China), they also see benefits in diversifying away from what used to be a strong dependency on US trade and investment.

Washington has made few friends with strident anti-China rhetoric or, for example, with attempts to stop Latin American nations from using Chinese technology for their 5G phone networks. Latin American governments see few drawbacks to awarding Beijing a key role in road, rail or other such infrastructure projects where China has established a strong global position and a reputation for delivering. China's strategic focus on areas such as high-speed rail and solar technology gives it a powerful advantage. In addition, Beijing offers project finance which is normally free from the environmental or social strings which are often commonly attached to Western money.

That said, Latin American governments are well aware of the risks of allowing China to become too dominant in the relationship and this, coupled with Beijing's recent drawing-in of horns to focus on tackling its domestic slowdown, are likely to mean that the economic, trade and political relationship will develop more slowly over the next decade than it has over the last two. It remains to be seen whether the US and Europe can work to reverse the recent trend of China taking a bigger and bigger share of investment in the region.

Conclusion

This survey of Latin America's place in the world points to an erosion of the region's economic, political and soft power over the past two decades relative to other parts of the world – and to clear opportunities for recovering it.

The changed geopolitics of the world amid increased Western hostility to China and Russia's invasion of Ukraine constitute a major opportunity for Latin America. When added to the key role the region could play in the clean energy transition and in the drive to reach net zero carbon emissions, as well as the long history of shared culture and values, the case for increased engagement by the West with Latin America – commercial, diplomatic and environmental – becomes compelling.

Encouragingly, there are signs that this is being recognised by an ever-greater number of policymakers and experts on the region in Washington, Brussels and London. What remains to be seen is whether Latin America's new crop of left-leaning leaders will make the most of the opportunities for greater engagement.

While the region's two major powers, Brazil and Mexico, have both turned inward over the past few years under nationalist leaders who have given priority to domestic policies, Chile's recently elected leader Gabriel Boric offers a different vision of a modern Latin American left, environmentally aware, socially progressive yet keen to maintain moderation in economic policy and open to engagement with the West around a 21st century agenda.

President Luiz Inácio Lula da Silva (Martin Heinlein)

First China CELAC forum ministerial meeting (Cancillería del Ecuador)

Brazil seems set to return to a central role on the diplomatic stage under the presidency of Lula from 2023 but Latin America's straitened economic circumstances and sharper global conflicts between the US, Russia and China will make it harder for him to play the outsize part he had during his first two terms – except on the issue of the environment, where Lula has clear and credible ambitions for Brazil to return to a central global role.

Mexico, by contrast, will remain domestically focused in the run-up to the 2024 presidential election amid increasing friction with the US triggered by López Obrador's nationalism and statist economic policies, some of which run counter to the US-Mexico-Canada trade agreement.

China has already stolen a lead on the West in the region in securing supplies of crucial transition metals such as lithium and copper and in buying up a large part of the region's food exports, as well as in supplying renewable energy and clean transport solutions. Decisions by governments and businesses over the coming years will go a long way towards defining whether the United States and Europe can revive their historically strong economic and political partnership with Latin America for mutual benefit, whether Latin America's leaders will be able to capitalise on this opportunity or whether rising powers such as China, Russia or Turkey reap an increasing benefit. The stakes are high and the potential rewards for the winners are great.

Political Outlook

The politics within Latin America

By Alejandra Soto, Associate Director, Global Risk Analysis - Control Risks

Palácio do Planalto (Anderson Riedel)

Regional Trends

Resilient, Strained Democracy

Election cycles in the past five years, including the presidential elections in Brazil and Colombia in 2022, are proof that democracy prevails in Latin America. This, however, is underpinned by the citizens' choice to turn out to vote – it by no means guarantees that democracy is safe. While electoral democracy remains strong in the region, other elements of democratic governance face significant threats. These include waning trust in institutions and lack of representation.

Despite political stability prevailing in most Latin American countries, in line with global trends, there is an increasing frustration with the quality of democracy. What has been touted as a "pink tide" is, in fact, the materialisation of citizens channelling this dissatisfaction by voting incumbents out – a trend that will likely result in the ousting of those currently in power, including left-wing politicians, once their mandate comes to term. The beneficiaries of this have been the political "outsiders" and non-traditional political parties, which underscores that credibility in key democratic institutions is significantly undermined. Therefore, more than a left-right political divide, the main dichotomy is democracy vs authoritarianism.

The Return of Social Protest

The current representation crisis has made participation – in different shapes and forms – more appealing. In this context, citizens will keep expressing their dissatisfaction with democracy by taking action (be it through electoral processes or, if these means fall short, through protest).

The high rate of political alternation entails the electorate's appetite for better results. Such demands will persist in 2023 regardless of the ruling party. Governments' capacity to address civil concerns will determine their legitimacy and political prospects in future elections. Over the past five years, most political leaders have fallen short in meeting these demands – a key factor driving alternation in the region.

Authoritarian Temptations

Undemocratic processes and authoritarian decisions are usually effective in achieving rapid change, which is becoming more appealing to growing proportion of voters amid democracy's eroded legitimacy to ensure social progress. The popularity of leaders such as El Salvador's Nayib Bukele are testament to this. His tactics are increasingly attractive to a new wave of politicians, who will use them to reach power. They are likely to succeed if incumbents fail to effectively address the most pressing issues for citizens (such as access to public services, economic wellbeing and healthcare) through democratic processes.

Calls to Reform Government Institutions

Latin American governments are aware of citizens' calls to reform the institutions they feel have failed to improve their living standards. This logic is behind efforts throughout the region to push forward ambitious reforms to institutions perceived to have benefitted political elites. The governments of Brazil, Chile, Colombia and Mexico will attempt to pass some of these reforms in 2023, but it will not be an easy task for any of them to overcome obstacles in the legislative branch for their approval. Similar circumstances have impeded governments across the region from passing such reforms over the past five years.

> *"As long as new waves of reforms fail to address this, the erosion of democracy will continue amid lack of consequences for opaque bureaucratic processes and policymaking, sometimes outside of the legal framework."*

Despite the need for institutional change, not all the aggressive reforms proposed are aimed at strengthening democracy. Some of them, such as Mexico's attempts to shake up electoral institutions, would have the opposite effect and contribute to a concentration of power in the executive branch to the detriment of checks and balances. While it may be popular to alter the status quo, there will continue to be incentives for some leaders to seek initiatives that pose threats to democratic governance.

Weak Rule of Law

A common thread in the region is the weakness of the rule of law. As long as new waves of reforms fail to address this, the erosion of democracy will continue amid lack of consequences for opaque bureaucratic processes and policymaking, sometimes outside of the legal framework. This trend will be evident throughout 2023 in parts of Central America. Government opacity and undemocratic policies in Guatemala and El Salvador risk them following the same path as Nicaragua, where the once democratically elected leftist leader, Daniel Ortega, drove the country into authoritarian rule.

Economic Headwinds

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

A Strong Case for Nearshoring

In the current geopolitical context, however, Latin America is well placed to capitalise on the US-China decoupling and the growing need in the Americas to bring supply chains closer. Despite democratic challenges, prospects for social unrest and macroeconomic complications, this "nearshoring" and "friendshoring" trend will ensure the region remains attractive for foreign investment in 2023. This will be particularly true for countries like Mexico, Brazil and Colombia given their geographical proximity to the US, existing trade agreements, adoption of ESG agendas, rapid growth of the digital economy, and/or their human capital. Companies that understand the scope of the risks and how to navigate them will be best placed to reap the benefits of business opportunities in the region.

Total nearshoring opportunities by country - additional exports of goods (USD)

The Road Ahead

Political stability will prevail in most Latin American countries over the next year and the business environment is unlikely to face significant disruption across the region. That said, the resilience of democracy amid global and domestic complications will be tested. Governments will be faced with both old and new challenges. Those that manage to revamp public institutions and restore trust in them will be better placed to navigate uncertainty in the economic and social arenas. Of the largest economies, Brazil and Colombia are the most likely to achieve this (given some congressional agreements), albeit to a limited extent. Conversely, the inability of democratic institutions to evolve to address civil needs will likely contribute to increased social unrest and the rise of undemocratic political leaders, with dire effects in the long term for citizens and the business environment alike.

> *"Governments will be faced with both old and new challenges. Those that manage to revamp public institutions and restore trust in them will be better placed to navigate uncertainty in the economic and social arenas."*

Country Outlooks

Argentina

President Alberto Fernández's political situation will likely be challenging until the end of his term (in December 2023). Although his Front for All (FDT) coalition has a solid position in Congress (albeit not an absolute majority) and the support of most provincial governors, his governability conditions have deteriorated considerably in the past year. This is mostly a result of high inflation – at 83% year-on-year as of October 2022 – and the periodic conflicts within the ruling coalition. These are best represented by Vice-President Cristina Fernández de Kirchner's frequent (including public) attacks to economic policies aimed at reducing government spending. Economy Minister Sergio Massa – who has retained unprecedented levels of power within the government in the past few months – will likely work to become the centre-left's presidential candidate. As a result of these three leaders' often conflicting agendas, an internal power dispute will likely mark the political dynamics of FDT ahead of the general elections, further hampering governability.

Fernández's re-election bid in 2023 will likely be unsuccessful. In line with the past decade, the election at the national level will most likely be marked by debates around the economic situation and corruption, two areas in which the ruling coalition has only few, if any, positive results to advertise. According to most polls, Fernández's approval ratings stood at around 25% by November 2022 – a record low during his term in office. The reversal of this scenario is unlikely, as it would require economic growth levels higher than those forecast by most economists.

Over the past few years, Argentina has seen the emergence of new political forces, notably far-right Javier Milei, on the back of a growing anti-establishment sentiment among the population. This libertarian economist represents the La Libertad Avanza party, which is famous for emulating the radical views of former US President Donald Trump and Brazilian President Jair Bolsonaro. Milei, who took office as a national deputy in December 2021, has indicated that he will likely run for president in 2023, presenting a new paradigm for Argentina's mainstream politics. However, although Milei has successfully presented himself as a strong contender for the elections, the centre-right Together for Change (JxC) bloc continues to have the highest capacity to defeat the centre-left. The JxC has a well-mobilised political structure and reach in important provinces/cities. Buenos Aires Mayor Horacio Larreta – who espouses centrist views on multiple issues and has a strong pro-business stance – has successfully positioned himself as a solid candidate. The presidential race will likely be marked by a polarised dispute between Larreta and the centre-left candidate (either Fernández or Massa), with Larreta retaining the upper hand to win.

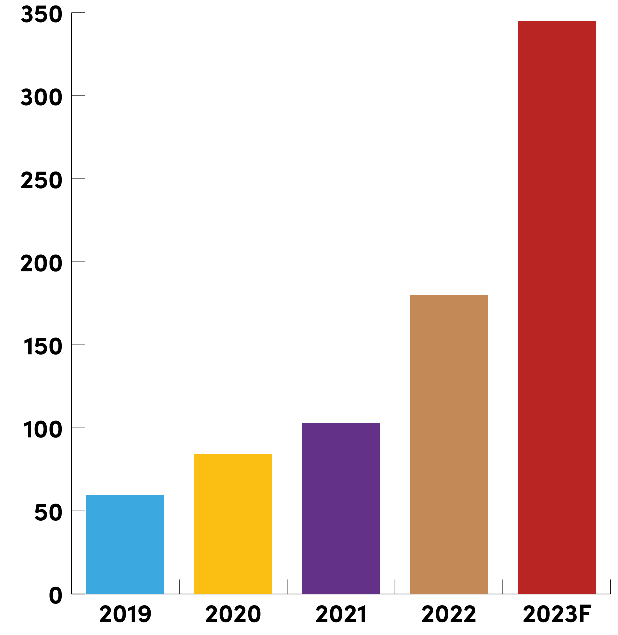
In the meantime, political stability will continue to be threatened by the fragility of the social landscape. Although unrest risks have been mitigated by a proactive approach by the centre-left vis-à-vis social movements, they might increase abruptly in the coming months. Triggers to this include hikes to utilities tariffs, acute developments related to Cristina Fernández de Kirchner's judicial cases and a deterioration of the relationship between the government and the IMF. The unlikely but credible resignation of Massa (if he is unable to deliver quick results) would also significantly hamper governability and, ultimately, political stability.

> *"Much-needed reforms for reducing fiscal spending are unlikely to be introduced during an election year"*

Such a challenging political situation will continue to impact Argentina's economic prospects – both in the short and the long terms. Much-needed reforms for reducing fiscal spending (and ultimately improving the country's financial situation) are unlikely to be introduced during an election year. This will sustain elevated financial volatility in 2023. Likewise, measures to improve the regulatory landscape (currently marked by price, import and capital controls) will continue to take the backseat to more short-term initiatives – including additional state interventions. As a result, businesses and investors will remain exposed to significant macroeconomic risks in Argentina in the coming year.

President Fernández (Casa Rosada)

Exchange rate: Argentine Peso vs US Dollar



Source: Itaú Unibanco

Brazil

Former President Luiz Inácio Lula da Silva (2003-10) was elected for a third term in the run-off on 30 October 2022. He received 60.3m votes or 50.9% of the valid votes (against President Jair Bolsonaro's 58.2m or 49.1%), the smallest victory margin since the re-democratisation of the country in 1985. The results show a divided country and indicate that Lula will likely face opposition on the streets from the onset of his administration.

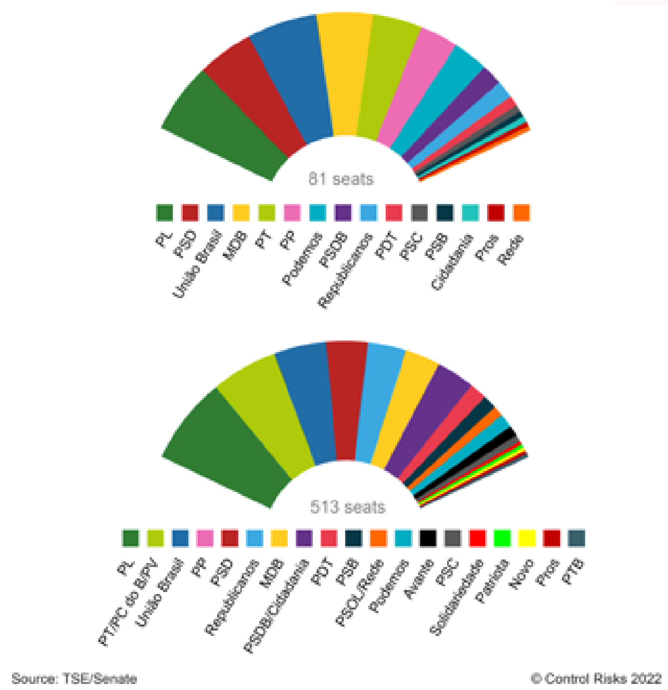
Bolsonaro took 45 hours to make his first public statement after the results were announced. Although he did not explicitly challenge the vote or the integrity of the voting system (as he had been doing for years) he did not concede or congratulate his opponent either. Bolsonaro and his allies will therefore likely seek to question his opponent's legitimacy to keep right-wing supporters energised. This strategy will likely result in occasional protests, mostly over the next few months (and, to a lesser extent, throughout the new administration), such as the several illegal roadblocks countrywide staged by his supporters across the country after the election outcome was announced.

> *"Right-wing legislative wins will require Lula to negotiate ad hoc measures with federal deputies and senators but is unlikely to result in legislative gridlock"*

The blockades caused operational disruption and are a clear display of the far right's mobilisation capacity. That said, protests are unlikely to escalate to widespread violence over the coming years, though occasional small-scale demonstrations will persist and pose instability threats, especially over the coming year. However, it is almost impossible for key domestic political actors – including most members of Congress (legislature), high ranking military officials and the media – to back any sort of democratic rupture. An unconstitutional regime change will remain unlikely over the coming four years.

Right-wing legislative wins will require Lula to negotiate ad hoc measures with federal deputies and senators but is unlikely to result in legislative gridlock. Bolsonaro's Liberal Party (PL) will have the largest representation in the Chamber of Deputies (lower house) and keep Bolsonaro's far-right platform alive at least for the next four years, focusing mostly on moral values and corruption allegations against Lula's Workers' Party (PT). The lack of wide popular and legislative support will likely lead to a moderate and pragmatic approach by the administration, including with regard to businesses.

Senate of Brazil & Chamber of Deputies



Positive results for left-leaning parties in Congress will limit impeachment threats, also reducing significant political instability over the next four years. Lula's victory indicates that Brazilian democratic institutions overcame their biggest challenge since the end of the military dictatorship in 1985. No incidents like the one at the US Capitol in January 2021 materialised, and the incumbent's attempts to circumvent institutional and democratic norms proved insufficient to yield him an electoral victory that would have paved the way for the further deterioration of the country's democracy.

The presidential election of 2026 will be another potential tipping point for the country's institutions. Over the next four years, far-right figures will keep their base energised by resorting mostly to social media and disinformation campaigns. On the other hand, Brazil's civil society, especially NGOs and the media, will remain resilient. Until then, all eyes are on what the new government means for the business environment. The country's challenging socio-economic scenario (marked by declining but still relatively high inflation and unemployment, compounded by modest growth) has created conditions among the political establishment for social spending to remain elevated in 2023. That means that the next administration will be in a relatively comfortable position to invest its political capital in approving structural reforms from the get-go and before the political debate is contaminated by electoral interests ahead of the municipal elections in October 2024.

Fiscal concerns will remain among the main factors driving financial volatility. While most local investors will not give the new government the benefit of the doubt, foreign capital inflows are likely to remain positive amid limited political turmoil coupled with a nod to fiscal discipline and an ESG-oriented rhetoric. Environmental issues will likely be a cornerstone of Brazil's re-emergence in the international arena. Such an environment is likely to position Brazil ahead of other emerging markets, such as Russia or China, when it comes to the investment climate.

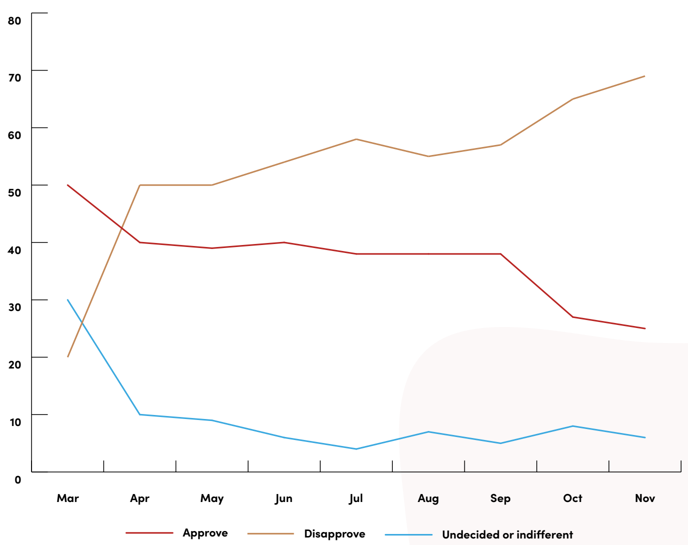
Lula's ESG-friendly approach will starkly contrast with Bolsonaro's disregard for deforestation, Indigenous populations and overall human rights. The new president is also likely to enhance the country's standing before the international community and re-engage in South-South relations, especially through the BRICS (the bloc that comprises Brazil, Russia, India, China and South Africa) and the Southern Common Market (Mercosur) (a trading bloc formed alongside Argentina, Paraguay and Uruguay).

Foreign governments' swift acknowledgement of Lula's electoral win and his participation in the United Nations' Climate Change Conference (COP 27) in Egypt indicate a clear path for a reduction in overall ESG-related reputational and operational risks for companies in Brazil. However, fiscal constraints will continue to undermine the government's oversight capacity, and the burden of ensuring compliance to ESG best international practices will still fall on the private sector.

Chile

President Gabriel Boric has struggled politically due to his decreasing approval since taking office on 11 March 2022: according to pollster Cadem, it fell from 50% to 25% between March and November. Economic issues (such as high inflation) and increasing public security problems (gun violence in the northern regions and in the capital Santiago, and violent Indigenous activism in the southern regions) have significantly eroded Boric's political strength and contributed to rising discontent. Moreover, the challenging environment in Congress has undermined his ability to push the most ambitious elements of the political agenda he presented during his campaign in 2021, which is a reality that will persist throughout 2023. Tax and pension reforms, which are key initiatives for Boric, will likely advance slowly and be watered down in Congress in the coming months.

President Boric's Approval Ratings



Source: Cadem

Boric's political strength was also affected by the constitutional referendum on 4 September 2022. The call to reject the new constitution (Rechazo) prevailed over support for the proposal (Apruebo) with a solid majority of 61.86% of the votes. The results constituted an overwhelming defeat for the constitutional process and for Boric himself. Wariness of disorder (or the perception thereof) undermined support for Boric and also for the new constitution. The president and his core allies endorse the progressive principles proposal for a new constitution, which includes the expansion of Indigenous, social, sexual and reproductive rights. This led voters to associate the constitutional process with the administration itself, so their opinion of the latter influenced their attitude towards the former. This made the referendum a key political test for Boric, which he failed.

Following this defeat, Boric reshuffled his cabinet to curb his declining political capital by replacing unpopular ministers and relaunching his government's relationship with both allies and opponents. The main changes involved the replacement of representatives of Boric's left-wing inner circle with centre-left and more experienced politicians who are likely to be more capable of building connections between the administration and other political leaders. The political recovery of Boric and his allied left-leaning forces will be critical in 2023, as the next test will be their ability to play a role in the discussions about a new constitutional process (whose path forward has yet to be agreed upon).

Although political leaders have not reached an agreement regarding timelines for this new process, the Electoral Service (Servel) recommended Congress to hold a new initial referendum (if needed) and the election of the new constitutional body's members in April 2023. The institution also suggested that the final referendum should happen in December 2023, which would prevent the constitutional process from coinciding with the preparations for the 2024 municipal elections. This (or a similar timeline) is likely to be accepted.

In terms of the new constitutional proposal's content, most left-leaning leaders – including Boric – have admitted that it must be more moderate following the backlash seen in the referendum on the first attempt. The president already said that upcoming advancements must be gradual, which was likely an indication of an ongoing shift towards the centre-left. A new proposal is unlikely to be as disruptive for businesses as the recently rejected draft, given the consolidation of the assessment (including by the Boric administration) that reforms must be gradual. Moreover, recent discussions among party leaders in Congress have led to agreements intended to provide a new constitution-making body with a set of general boundaries the content of the new constitutional proposal must abide by – leaders have agreed on principles seeking to preserve the basic institutional structure of the Chilean state: a democratic and unitary republic, a bicameral Congress, the separation of powers and the autonomy of oversight bodies (such as the Public Prosecutor's Office).

"Most left-leaning leaders – including Boric – have admitted that the new constitution must be more moderate following the backlash seen in the referendum on the first attempt"

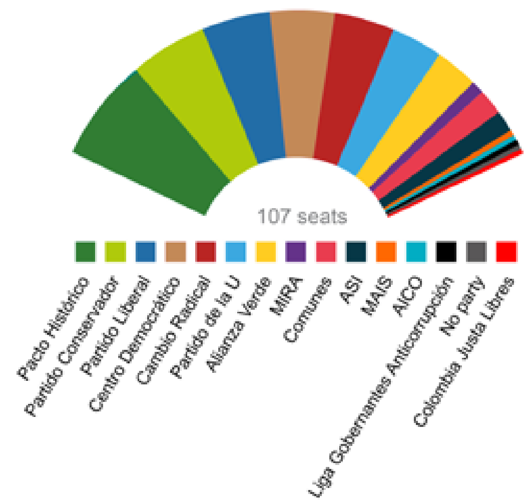
The business environment has been persistently challenging in Chile since 2019. It will likely remain so in 2023 given heightened polarisation amid constitutional talks and the lack of quick, simple solutions for inflation and public security issues.

Colombia

Gustavo Petro became Colombia's first left-wing President following the election of June 2022. His victory reflected widespread rejection of his predecessor – right-wing former President Iván Duque (2018-22) – as well as broad discontent over challenging post-pandemic socioeconomic conditions and elevated corruption. During the campaign, Petro proposed a radical shift from the country's traditional market-friendly policies. He promised to end new oil and gas exploration, increase the social safety net, expand the role of the state in health care and pensions, strengthen protection of firms and farmers and ensure a more equitable distribution of land.

Upon taking office on 7 August 2022, Petro surprised many political insiders (and voters) by assembling a broad coalition in Congress that includes his left-wing Historic Pact as well as centre-left, centrist and centre-right parties. This has allowed the government to notch several legislative victories in its first months in office. Most notably, Congress approved a major fiscal overhaul that increases taxes on the wealthy and on businesses (with the greatest burden falling on extractive industries). The government has also secured approval of judicial and security sector reforms that lay the groundwork for negotiations with organised armed groups. Outside of Congress, the government brokered a deal to purchase 11,500 sq miles (30,000 sq km) of land from large landowners to distribute among poor farmers.

Senate of Colombia 2022-26



Source: Control Risks

However, governability will likely decline in 2023 as Petro pursues ambitious reforms to the health system, pensions, and labour laws. Traditional, centrist parties in the government's coalition (which are generally pro-business) will resist radical changes in these areas, forcing Petro to modify (or abandon) proposals to eliminate private health insurers or ramp up worker protections. These challenges will create tensions with more radical factions of the Historic Pact.

"Policy uncertainty, greater regulatory scrutiny, and a more contentious relationship with the private sector will likely contribute to economic headwinds in 2023"

Petro will also face mounting challenges on the economic front in 2023. Itaú Unibanco projects economic growth will decelerate sharply in 2023 to 0.1%, after an expected growth of 7.7% in 2022. Inflation stood at 12% annually in October 2022 and will likely remain well above the central bank's target of 2-4% throughout 2023. In response, the Bank of the Republic (Colombia's central bank) has increased its policy interest rate from 1.75% in September 2021 to 11% in October 2022. Tighter monetary policy, combined with a gloomy global outlook, will depress growth in 2023.

Policy uncertainty, greater regulatory scrutiny, and a more contentious relationship with the private sector will likely contribute to economic headwinds in 2023. Lack of clarity over the government's economic policy – exacerbated by conflicting statements from different members of the administration – will persist over the next year. Growing regulatory scrutiny and likely rule changes – especially in the hydrocarbons and mining sectors, which account for nearly half of Colombia's exports – will likely depress investment and business confidence. That said, a radical turn away from macroeconomic orthodoxy is unlikely. The government will avoid disruptive policies such as capital or price controls, and the independence of the central bank will be preserved. The economy will suffer a downturn in 2023 but will not go off the rails.

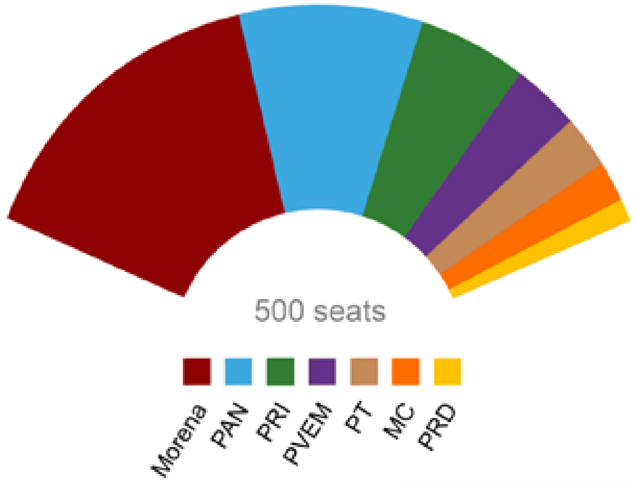
Still, the deteriorating economic outlook will make it difficult for Petro to meet high expectations among his supporters. The first months of his administration have seen street protests, road blockages and land occupations by informal miners, landless farmers, indigenous communities and other groups seeking to draw the government's attention to their demands. Social unrest will likely continue over 2023 as economic conditions worsen. Petro's approval rating fell from 56% in August to 46% in October 2022 according to pollster Invamer. Declining popularity will further weaken Petro's ability to push through his legislative agenda.

Political polarisation will increase, and tensions between the executive and the other branches of government will likely arise over some of the administration's regulatory measures. However, a serious deterioration of political stability is unlikely over the course of Petro's term and the risk of an unscheduled change of government is very low. The administration will broadly respect democratic checks and balances and govern within the boundaries of the Constitution. Petro is unlikely to change the Constitution to allow for re-election.

Mexico

The political environment in Mexico will remain stable in 2023. President Andrés Manuel López Obrador (AMLO) continues to enjoy broad institutional support. His National Regeneration Movement (Morena) party has consolidated its position as the country's preeminent political party by

Chamber of Deputies, Mexico 2022



Source: Congress of the Union

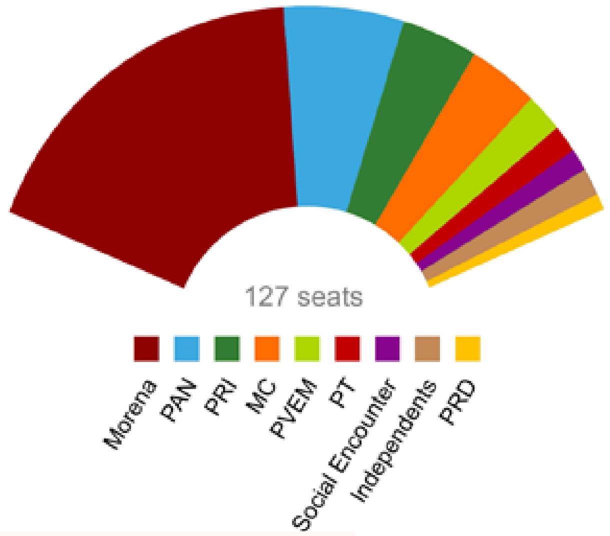
> *"AMLO has largely avoided the fallout of the government's shortcomings by blaming them on his political rivals, former officials, the COVID-19 pandemic and conflict in Europe"*

winning key gubernatorial elections in 2019, 2021 and 2022. To date, the party and its political allies govern 22 out of 32 states.

Despite these wins, Morena lost its supermajority (necessary for constitutional amendments) in the lower house of Congress in the mid-term elections of 6 June 2021, hindering the party and the executive's ability to approve his most controversial reforms (such as changes to independent institutions). For instance, on 17 April 2022, the Chamber of Deputies rejected AMLO's constitutional reform of the electricity sector, which sought to increase the state-owned Federal Electricity Commission (CFE)'s control over the electricity market. So far, the opposition has prevented the approval of an electoral reform that would weaken the independence of electoral authorities and benefit the ruling party, but the AMLO administration's attempts to undermine the legitimacy of the National Electoral Institute (INE) and the Federal Electoral Tribunal will persist in 2023. Despite not having supermajorities in Congress, AMLO holds simple majorities in both chambers, which allows him to pass secondary legislation.

Since the beginning of his administration, AMLO has also held cohesion within his cabinet, which has supported his ability to enact public policy. Those whose positions differ

Senate of Mexico 2022

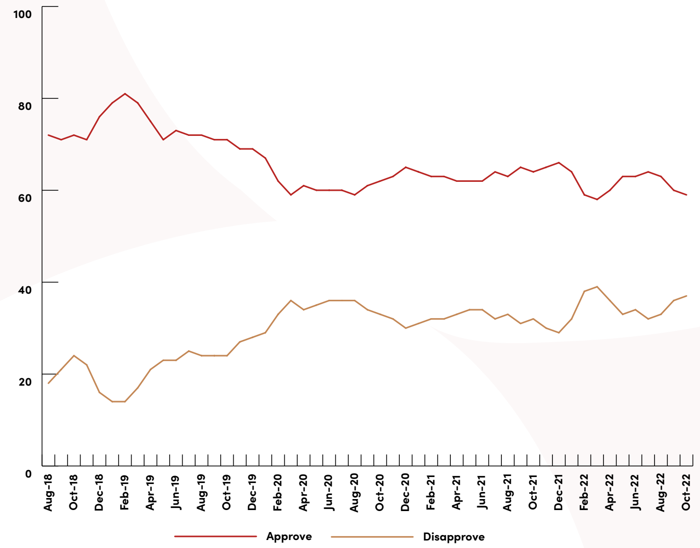


Source: Congress of the Union

from his have chosen to resign; this was the case of former Economy Minister Tatiana Clouthier (2021-22), who left her position on 6 October 2022. Previous disagreements between her and other high-ranking members of the AMLO government were a likely trigger for her resignation. AMLO appointed Raquel Buenrostro – former head of the tax collection service (SAT) – as Clouthier's replacement. Buenrostro is a close ally of AMLO, spearheading his efforts to raise revenue by cracking down on tax evasion; her resignation further fostered cohesion within the cabinet. Therefore, AMLO is highly unlikely to face any institutional challenges to his administration during the remainder of his term (until 2024).

Moreover, AMLO has remained popular despite a mostly negative perception in key policy areas such as security, the economy and corruption. According to polling aggregator Oraculus, his approval rating stood at a healthy 61% in

President López Obrador's approval ratings



Source: Oraculus

November 2022. He has largely avoided the fallout of the government's shortcomings by blaming them on his political rivals, former officials, the COVID-19 pandemic and conflict in Europe. However, there is growing dissatisfaction with the administration, particularly in Mexico City and among the middle class. These groups are likely to head social protests, which will become more frequent in 2023 as civil society continues to be discredited by the president.

The political opposition – headed by the Institutional Revolutionary Party (PRI), the National Action Party (PAN) and the Party of the Democratic Revolution (PRD) – has not been able to capitalise on this growing discontent. They have engaged in negotiations to run as a coalition in the 2024 election, but there is no obvious candidate or political platform able to defeat the ruling party. Moreover, differences in policy platforms will likely hinder co-operation as 2024 approaches.

AMLO has favoured Mexico City Governor Claudia Sheinbaum as his successor, though her approval rating (at 50% by October 2022, according to newspaper El Financiero) is more likely to fall than that of other hopeful nominees given the heightened scrutiny inherent to her current role, which has the potential to undermine her prospects ahead of the election. The other prominent figure seeking the nomination of Morena and AMLO's support is Foreign Minister Marcelo Ebrard, who has a less compromising role at the helm of Mexico's diplomatic corps.

Morena's co-ordinator in the Senate, Ricardo Monreal, has also expressed his intentions to run for the presidency, but AMLO's support for him has been less clear. Given the opposition's lack of a robust platform, combined with public support for AMLO and Morena, whomever AMLO chooses to endorse as the party's candidate will likely win the next presidential election.

In addition to political stability, Mexico's membership of the United States-Mexico-Canada Agreement (USMCA) will provide certainty for the private sector, especially companies in sectors with highly integrated value chains across North America (such as the automotive industry). Despite the disagreement between the three signatories, they have all expressed their willingness to continue respecting their commitments and work within its framework to settle disputes.

Nonetheless, in 2023, the global economic downturn – induced by the COVID-19 pandemic and the conflict in Ukraine – will likely dampen Mexico's growth outlook. Rising inflation will continue to increase costs of living, increasing the likelihood of social tensions triggering disruptive unrest throughout 2023. To face this, AMLO will likely continue to use fuel subsidies to preclude inflation from sliding higher. This will likely strain public finances, leaving the government with little room to continue its social programmes and subsidies to avoid increasing discontent.

Peru

Instability and uncertainty will remain key features of Peru's political environment in 2023. The threat of a third impeachment process increased following a constitutional complaint filed in Congress on 11 October 2022 by Attorney General Patricia Benavides against President Pedro Castillo. She accuses him of leading a criminal organisation, influence peddling and fraud, for the purpose of profiting illegally from the awarding of public contracts. Castillo is already under five criminal investigations (mostly over alleged corruption) and accuses the Attorney General's Office of seeking to topple him in a "coup". There are several steps Congress will need to follow to assess the constitutional complaint against Castillo, though the process is surrounded by uncertainties and legal challenges are likely.

While the approval of Benavides's complaint would not automatically remove Castillo, it would make him significantly weaker and give more ammunition to the opposition to seek his impeachment or suspension from office. The latter is a likely scenario, not only because it requires a lower voting threshold than impeachment but because it would not trigger snap general elections. This means legislators would remain in power (they are banned from re-election, so their terms would immediately end in the event of such elections). The removal of Vice-President Dina Boluarte, who faces an impeachment process in Congress, would increase the possibility of Castillo's ousting as it would enable the president of Congress (currently an opposition ally) to be next in the succession line.

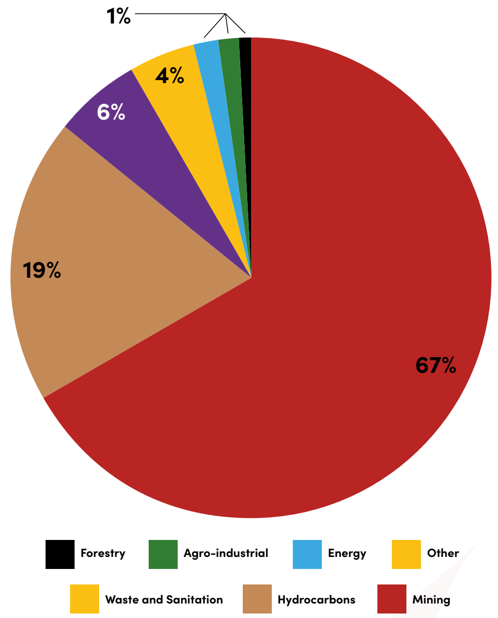
However, the opposition is weak and Congress in general is even more unpopular than Castillo, according to most opinion polls. Prime Minister Aníbal Torres's request on 9 November 2022 to the president of Congress, José Williams Zapata, to table a confidence vote in Castillo's government signals are more defiant attitude from the executive towards the legislative and more institutional clashes. Castillo's impeachment or ousting is likely to aggravate the political crisis – its resolution remains uncertain, with the latent risk of a populist autocratic leader capitalising on Peruvians' strong frustration towards the political system.

Meanwhile, social anxiety will be exacerbated in 2023 amid the political crisis and the government's failure to address social demands. Anti-government protests in Lima and in other regions on 6 November 2022 demanding Castillo's resignation or impeachment signals increased political unrest, and the risk of excessive use of force by the police risks intensifying public anger. While Lima will remain a key hotspot of such demonstrations, other cities such as Cusco, Arequipa, La Libertad and Piura will experience an uptick in unrest.

> *"Although political instability will continue to weigh on private investment perspectives, the economy will prove to be resilient"*

Furthermore, socioenvironmental issues and anti-mining protests will continue an upward trend as the Castillo administration struggles to tackle crisis on multiple fronts. Mining firms, which account for 67% of such conflicts in the country according to the Ombudsman's Office, will continue to face ESG-related reputational and operational risks; so too will oil and gas companies, as the government pushes to ramp up production to offset declines in mining productivity due to protests. Deficiencies in oil infrastructure and sabotage leading to oil spills will exacerbate environmental activism and opposition from Indigenous groups.

Socio-Environmental conflicts by type of activity, September 2022



Source: Ombudsman's Office of Peru

Although political instability will continue to weigh on private investment perspectives, the economy will prove to be resilient. Peru's economic growth will continue to outpace that of its regional peers as the country's strong macroeconomic and pro-business fundamentals remain untouched despite Castillo's promise to change them radically. Peru's fiscal position will remain strong, though easing on fiscal conditions via temporary cash transfers, subsidies to energy tariffs, and a boost to public investment will test the government's fiscal balance and the country's ability to smooth inflationary pressures in early 2023.

Other Countries to Monitor

Paraguay

Presidential primaries are scheduled for 18 December 2022. The ruling Colorado Party (ANR) will decide between the representatives of its two major internal factions. Although there are no clear ideological differences between them, they dispute influence within the party, the government and Congress. Opposition parties formed the Concertación alliance and will choose a single candidate to

oppose the ANR. The victorious candidates will compete in the general election on 30 April 2023. Allegations of widespread corruption and the rift within the ruling party will likely play in favour of the Concertación alliance. Political clashes and instability have increased following a fire at the headquarters of the Supreme Electoral Justice Court (TSJE) on 29 September, which destroyed electronic voting machines and raised the hypothesis of an arson attack – currently under investigation. The country's political forces will remain focused in politicking and policymaking will therefore not be a priority for them in the run up to the election.

Guatemala

Electoral uncertainty and political polarisation will persist ahead of the general election in June 2023 and shape the political environment. No official candidates have been announced yet as the electoral cycle starts in January 2023. Regardless of the nominees, the dissatisfaction with mainstream politics seen over the past decade will remain a feature of the Guatemalan election. The weak mandate and continuous corruption allegations against the administration of right-leaning Alejandro Giammattei (2020-24) will further contribute to this trend of frustration with mainstream politics. This will test the ability of left-wing parties to capitalise on the situation. While the rise of an outsider espousing a strong anti-establishment message (promising to eradicate corruption, for example) is likely, the election will still be very competitive. Moreover, social discontent will fuel bouts of unrest ahead of the vote. This will likely result in roadblocks and traffic disruptions, but the probability of escalation to widespread violence is low.

Venezuela

Venezuela will encounter heightened political tensions and uncertainty in 2023, as the government of President Nicolás Maduro and the opposition gear up for presidential elections scheduled for 2024. The opposition will hold primaries next year aimed at selecting a unity candidate and avoiding the internal divisions that hampered its performance in last year's regional elections. This will also provide an opportunity to promote new leaders and turn the page on Juan Guaidó's interim government, which has lost international and domestic support and whose formal mandate will likely end in 2023. The conditions for the elections will be the subject of intense debate (and conflict) in 2023. The opposition and the international community hope the negotiations with the government in late 2022 will produce an agreement that allows for reasonably fair elections in 2024. However, Maduro has other ideas. He has already floated the possibility of pushing the vote up to 2023 to catch the opposition unprepared. More fundamentally, he is unlikely to make reforms on key issues such as improving judicial independence, strengthening electoral authorities, and guaranteeing equal media access, which were flagged by European Union observers during the 2021 regional elections. The government will likely look to make small concessions in return for sanctions relief and humanitarian aid, which it will try to capitalise on politically. As things stand, Maduro is likely to retain power beyond his current term. The key question is whether he can do so while maintaining a veneer of respect for democratic norms.

President Maduro (Eneas De Troya)

Commercial Outlook

The business landscape in Latin America

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

Puerto Madero (Maximiliano Buono)

Introduction

Latin America is a region with huge commercial potential. With a combined GDP of $5.5 trillion, it is rich in natural resources, containing over 40% of world copper reserves, two thirds of global lithium reserves, as well as around a quarter of nickel reserves . Renewable energy sources make up 29% of the current energy matrix in the region, with capacity for significant expansion in hydroelectricity and wind power . Non-renewable sources therefore make up around 70% of the energy matrix, with around 20% of world oil resources found in Latin America.

Opportunities in Latin America go well beyond extractive industries, however. It has thriving fintech and financial services sectors, with fintech in the region growing by 112% between 2018 and 2021 . There is a large and well-developed pharmaceutical industry, particularly in countries such as Brazil, Mexico and Uruguay, with great potential for health technology and biotechnology companies seeking expansion.

Equally, there are several sectors which need greater investment and focus, both from state and private actors. There is a general lack of infrastructure throughout the region, particularly in terms of domestic transport links. KPMG estimates the infrastructure deficit to stand at around 2.5% of regional GDP . Although the infrastructure and construction industries of the region suffered from a series of corruption schemes in the early 2010s, there have been a number of success stories, such as the government-to-government (G2G) scheme between the UK and Peru to build key infrastructure for the Pan-American Games in 2019. Transparency in the tender process has also greatly improved in the intervening years, and there are considerable opportunities for engineering, construction and specialised sub-contracting firms seeking to enter the Latin American market.

Similarly, there is demand for educational products, particularly digital education tools to improve access. This need was brought into even sharper focus following the pandemic, during which millions of students fell behind in their studies in a region in which four in five 11-year-olds cannot read and understand a simple text . The poor quality of education can negatively affect the ability of companies in the region to employ skilled labour later on. Companies that can provide digital education tools, particularly English language tools, will enjoy widespread demand.

Current UK-LatAm Trade

The United Kingdom has a long history of working with Latin America and the Caribbean (LATAC). From the early days of the region's independence, the UK was a supplier of capital, technology and goods, which helped to build much of the region's early infrastructure. Over the past decade, with many countries celebrating their 200th anniversary, the UK has renewed its commitment to increasing trade & investment with the more than 25 markets in this part of the world and hopes to see this grow even further as the region continues to develop.

> *"The UK has trade agreements with 26 Latin American countries that enable continued collaboration to improve conditions for mutually beneficial trade"*

In the four quarters leading to the end of Q1 2022, the UK exported £17.5bn to the LATAC region, a 13.9% increase (or £2.1bn) over the four quarters leading to the end of Q2 2021 . With a population of 650 million people and a collective GDP approaching $11.8tn (international dollars, adjusted for purchasing power parity - PPP), this region presents a vast array of opportunities for UK businesses. We expect the percentage of more affluent middle-class people to increase , and it is this significant segment of the population that the UK is ideally placed to serve in terms of goods and services. Despite global challenges, governments continue to invest in infrastructure and public services, in which the UK has world-class expertise.

The UK has trade agreements with 26 Latin American countries that provide favourable market access conditions, as well as commercial dialogues with markets such as

Kicking off UK-Mexico FTA negotiations in London in May 2022. Anne-Marie Trevelyan and Tatiana Clouthier (Open Government License)

Argentina, Brazil, Colombia, Mexico, Peru and Uruguay, and a range of association and economic partnership agreements, with countries such as Chile and CARIFORUM members. These agreements enable continued collaboration to improve conditions for mutually beneficial trade. The UK has recently launched trade negotiations with Mexico to secure an updated trade agreement, while at the same time working with Mexico, Peru and Chile on UK accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) .

In addition to trade agreements, the UK has a network of Double Taxation Agreements with most countries in the LATAC region, including Mexico and Colombia (both also OECD members). Negotiations are expected to conclude soon with Brazil and Peru, which will provide additional certainty over cross-border investment flows between the UK and these markets .

Finally, DIT has been working to ensure that Non-Tariff Barriers (NTBs), which prevent additional trade & investment, are removed swiftly. Working in partnership with governments and the business community, we have secured improved regulatory frameworks for financial services in Brazil and Colombia (open banking & finance), supported new regulations for offshore wind projects (Colombia), and helped Uruguay to set-up its Health Technology Assessment (HTA) agency, making it easier for UK life-sciences companies to provide innovative treatments there. We have opened up trade opportunities for over 20 agri-food products in Chile alone (including pork) and are working to do the same in the Caribbean and Mexico. In Central America, we have supported development of PPPs and other infrastructure mechanisms, helping create the right environment for UK companies to bring their expertise to.

Below are further highlights of key opportunities across the five sub-regions in LATAC that we would be delighted to share more information on, as well as help UK companies consider if these opportunities could be for them.

Central America and Spanish-Speaking Caribbean

The majority of opportunities – particularly in infrastructure, healthcare, security and education –, are concentrated in five countries (Costa Rica, Dominican Republic, El Salvador, Guatemala and Panama). These markets have a combined GDP of over $801bn (international dollars, PPP) and 45.5 million people.

These countries have been some of the most responsive to the risks posed by climate change, with plans to develop green economies and an eagerness to collaborate with international partners to make these a reality. Companies with expertise in project management and delivery of infrastructure projects can take advantage of several opportunities. A snapshot of these includes the following:

- Costa Rica will receive a US$700mn loan from the International Monetary Fund's (IMF) Resilience and Sustainability Trust for infrastructure projects;

- Through the region's development banks, such as the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI) and Corporation Adina de Fomento (CAF), there are projects to fund a green transition of thousands of commuter buses as well as large taxi fleets to cleaner versions; developing renewable energy projects (solar and biomass, and potentially hydrogen too); and supporting wider infrastructure for sustainable growth – including water and sanitation;

- Rail opportunities in Costa Rica, the Dominican Republic, El Salvador and Guatemala;

- Water and sanitation projects in the Dominican Upgrades to road infrastructure and port connectivity in El Salvador (La Union & Acajutla ports) and Panama (Bocas del Toro);

- Panama's continuous investment in upgrades to its transport and logistics infrastructure, with the Panama Canal, international airport (a major connectivity hub) and the world's second-largest Free Trade Zone at Colon;

- Sports infrastructure opportunities linked to the Central American and Caribbean games taking place typically every 4 years – next to be hosted by El Salvador in 2023, followed by the Dominican Republic in 2026. The region is also investing in healthcare facilities and private sector hospitals are interested in advanced technologies and best practices to help improve health outcomes and position themselves for potential medical tourism. Companies such as GSK, Haleon, Vernacare, AstraZeneca, Reckitt Benckiser and Smith & Nephew are active in the region due to local market needs, but also as they use their Central American locations as hubs for the region.

In the security sector, technologies such as CCTVs, scanners for port terminals and airports, cargo monitoring and cybersecurity are in high demand.

Education services, too, present opportunities for those able to support bilingual education programmes, training for local industries and university exchange programmes.

While this region tends not to offer the mega contracts seen in some of the world's larger economies, companies have found a welcoming environment that values the quality international partners can bring and customers that value long- term stable relationships.

Mexico

With a population of over 130m, and a young population with a growing middle class, Mexico is too large a market to ignore. One factor that has supported Mexico's growth is its extensive range of trade agreements – 14, including CPTPP and USMCA, covering 50 markets and approximately 60% of the world's GDP . Negotiations for an updated Free Trade Agreement with the UK are underway.

Many Mexican businesses such as Cemex and Grupo Bimbo have become global leaders in their sectors, with turnover reaching the tens of billions of dollars. These and several other Mexican multinational corporations are seeking opportunities for growth, and international companies are in a strong position to provide services that will help accelerate their growth. Given many already have international operations (often employing thousands of workers), exporters are able to work their in-country entities for business opportunities and then grow business with these groups' subsidiaries around the world.

"International companies use Mexico as a base to do business with USMCA markets, while also targeting Mexican customers"

In Mexico, companies are best placed to succeed where they have unique or highly competitive value propositions. Cyber security for Mexico's growing cadre of multinationals, for example, is one such area of focus, as are security opportunities around new infrastructure, such as airports, and supporting Mexico's states update their police and security infrastructure. Companies with innovative or durable solutions compete well.

Machinery, equipment, and information services form a major component of what Mexico imports. Mexico's access to the US and Canadian markets has grown a multibillion-dollar industry of companies doing cross-border trade. International companies therefore also use Mexico as a base to do business with USMCA markets, while also targeting Mexican customers. Advanced engineering suppliers are supporting companies with this cross-border trade and there continue to be opportunities for companies that can help Mexico advance its manufacturing capabilities in auto and aerospace. Mexican companies are open to technology partnerships or distribution in these areas.

Clean energy supply chain companies continue to look at opportunities to advance the efforts to reduce emissions in Mexico even further. Opportunities are primarily at state level and smaller projects directly with the private sector (combined heat and power, solar, wind and biomass as well as energy efficiency advisory services).

A number of Mexican private companies have signed up to UN Sustainability Goals or are taking action to demonstrate their commitment to it. A major potential opportunity for companies is in helping Mexican corporations explore how to decarbonise their vehicle fleets. Given Mexico's status as one of the leading producers of vehicles and auto parts in Latin America , companies can explore partnerships for components and technology for clean growth transition, including manufacturing and testing electric vehicles, among others.

Mexico will host the 2026 World Cup with Canada and the United States, and there are opportunities to help upgrade a number of football and other sports facilities. The growth of the leisure/tourism industry more generally is worth the attention of international companies, be they associated with greening facilities or transportation or helping to improve product and customer service levels.

Mexico is one of the leading destinations for food and drink products in Latin America. Beverage consumers in Mexico are very welcoming of the premium products offered by international companies, given this is one of the top markets in the region for whisky imports, having imported US$146.8m in 2021 alone . Additionally, Mexico is the 5th biggest global consumer of meat, with strong consumer interest in new cuts. Since the opening of the pork market for new meat exporters in 2021, the access to it is estimated to be worth hundreds of millions of dollars to UK pork producers over the first five years of trade . Mexican consumers are also increasingly health-conscious, so high-income consumers are hungry for sugar-, dairy- and gluten-free products, and for protein and food supplements supporting a healthy lifestyle.

Government and private sector investment in education (English language and university education) offers major opportunities to international companies. A number of foreign private schools operate in Mexico and there is interest in the latest EdTech that raise their standards and set them apart from the competition.

Mexico has a growing health market that presents significant opportunities for equipment, diagnostics and pharmaceutical companies. It has some of the best hospitals in Latin America eager to deliver services in line with health centres north of the border, which can mean an open door to companies that have innovative technologies. There are also opportunities in hospitals adapting to needs from supporting COVID-19, such as enhanced cleaning and waste management services or testing or emergency care.

In infrastructure, international companies will find they are well positioned in project management, master planning, Building Information Modelling (BIM), sustainable technologies and advisory studies, if they are interested in entering the Mexican market.

Finally, there are excellent opportunities in the technology sector. FinTechs are entering the market in areas such as payments, internal process management and customer assurance and security. Software-as-a-Service (SaaS) companies and telecommunications solutions that can help adapt infrastructure (sensors, cloud services and data management/analysis), for example, are of high interest to buyers and to Mexican Venture Capital and Corporate Venture Capital Funds.

Andean

This region of nearly 136 million people spanning Bolivia, Chile, Colombia, Ecuador and Peru, currently boasts some of the most attractive opportunities in Latin America for exporters.

One sector to highlight is sports infrastructure - a major opportunity in Chile (PanAm Games 2023) and Colombia (PanAm Games 2027). A good example here is that of the UK helping to deliver the PanAm Games in Peru in 2019 through a government-to-government (G2G) agreement. Peru, Chile, Colombia and Bolivia are building a number of new metro and railway lines and with crowded metropolitan areas are considering how to alleviate transport challenges, as well as meet clean growth ambitions. Countries with a reputation for building railways and infrastructure – such as the UK - in some of these markets, plus support from Export Finance schemes can put their exporters in a much stronger position than they might expect.

Countries with a reputation in defence and security can help open doors in markets such as Chile, Colombia and Peru – each of which will need support to secure logistics, borders and business. Cyber security for government, businesses and critical national infrastructure has become increasingly important, with many international companies now offering services in the Andean region.

There are also opportunities in agriculture and food & drink. In agriculture, strong performance in markets such as Bolivia and Colombia requires machinery, yield, irrigation and seed improvement solutions; precision agriculture technologies; water treatment solutions, pest and disease control; and training with a focus on sustainability. In Colombia, technologies that help reduce deforestation, apply big data analytics to farming or forecast weather, as well as for production modellers and insurers is in high demand.

In food and drink, there are significant opportunities for traditional products such as biscuits, spirit and tea, especially in markets such as Chile where there is a growing trend for gourmet and wellness products.

"Companies that support responsible mining through better use of water, clean transport, greener energy sources and engineering capabilities to reduce the footprint of mining are highly sought by mining companies and their partners"

There are plenty of opportunities for international companies operating in the education sector in most Andean markets, supplying curriculum or exam services. There are opportunities from programmes building new schools in Peru, as well as with private sector schools with overseas connections. The interest in education is matched by interest in science and innovation. Approaches to assessing new medical technologies, for example, has been a focus of collaboration across several countries with international partners, and this should help enable more foreign companies to enter these markets. A recent example of international technology being well received in the region is that of the UK-based company PAXMAN, which now provides its hair loss prevention technologies in Colombia to cancer patients going through chemotherapy . Where companies have innovative technologies, local partners will be eager to secure the solutions and often will want to help with market entry.

Mining is a major part of economies in Peru and Chile, with investments from overseas companies such as Anglo American, as well as strong participation from international exporters in supply chains. Companies that support responsible mining through better use of water, clean transport, greener energy sources and engineering capabilities to reduce the footprint of mining are highly sought by mining companies and their partners.

Chile and Colombia have advanced plans to develop hydrogen-based economies with which international suppliers are already engaging. These developments could create opportunities beyond the technology to generate hydrogen to associated ports infrastructure, logistics and secondary use of hydrogen, such as transport and heating. Colombia is developing offshore wind (OSW) with almost 50 gigawatts planned in 2023 . International companies are exploring how to support the development of this new industry in Colombia, from the initial mapping of concession sites, to ground level infrastructure to the above-sea transportation, engineering and technology requirements. The regulatory framework for OSW was supported by the UK government to help accelerate the development of this industry, as was the framework for open finance, which presents opportunities for fin-techs to help improve financial inclusion, reduce transaction costs and improve business competitiveness. The UK also supported the development of similar frameworks now in place in Brazil and Mexico – markets that are also already seeing active participation from UK companies.

The retail sector also brings opportunities, with niches of the population willing to spend on premium products. Chile, Peru and Colombia are the main markets for cosmetics, with Colombia enjoying an advantage as logistics hub for the Andean region and Central America thanks to its geographical position. The usage of Colombian subsidiaries by large multinationals to re-export their products to the rest of the region also explains the surplus that can be found in Colombia within this sub-sector.

Brazil

With an economy worth over $3.8tn (international dollars, PPP) and 214 million people, Brazil is one of the world's largest markets.

There are opportunities in clean energy, with Brazil launching offshore wind and hydrogen projects, following close collaboration with international partners. Decommissioning of oil and gas infrastructure is another growth area, with an expected investment in oil and gas decommissioning over the next 5 years (2022-26) of approximately £8.6bn . Another focus area is related to wider opportunities for companies in the marine sector. Brazil's coastline of 7,941km and major ports infrastructure and leisure industries offer great opportunities for maritime companies that specialise in leisure vessel exports, shipbuilding, inland transport and cabotage.

Brazil needs continued investment in infrastructure. Fifteen airports are being privatised which should see new expenditure, and over US$50bn of capital investment is needed to upgrade electricity facilities . Engineering consultancies have been prioritising private sector property/commercial projects but there is strong interest in future infrastructure programmes. Niche technology companies in the water sector have made good progress in supplying products that are not manufactured in Brazil, which can carry a premium price due to their unique added value. In water infrastructure, it is estimated about 100 million Brazilians do not have access to sewage collection and 35 million are not supplied with drinking water . The expectations are that, to supply this demand, Brazil would require circa £65bn and £97bn in investments until 2033.

"Advanced engineering firms with innovative technologies or products that will still be competitive, despite import tariffs, should consider the Brazilian market"

Brazil is a significant market for beverage exports. There is active interest in new brands or segment growers – heritage brands in snacks and condiments are popular and

Airport privatisation will create plenty of opportunities for investment in Brazilian infrastructure (Diego Baravelli)

we expect new healthy "free-from" products to see major opportunities in coming years.

Brazil is a significant industrial player, with major primes such as the airplane manufacturer Embraer and automotive original equipment manufacturers (OEMs). Advanced engineering firms with innovative technologies or products that will still be competitive, despite import tariffs, should consider this major market. Brazil has ambitions to be a leader in developing clean growth transport of the future. Engineering firms concerned about competing on price can also consider the value of using Brazil as an assembly location for the Latin American market – state governments in Brazil and neighbouring Mercosur offer a range of incentives for local assembly/production for regional supply.

During the pandemic, Brazil and its state governments, like many in region, explored how to help improve education standards in the face of significant interruption to teaching. A number of Brazilian states are rolling out bilingual education, following active promotion of UK education models by DIT and Embassy partners, and there is interest in expertise in technical and vocational education. Brazil is a major market for university places and, with a growing community of technology entrepreneurs, a potential market for Ed-tech collaboration.

Brazilian institutions collaborate with international partners in areas such as life sciences, due to a growing need for medicinal and pharmaceutical

products. For the pharmaceutical sector, there are notable opportunities for innovative drugs and raw ingredients. Like in many parts of Latin America, international companies can consider collaborating with local pharma companies through licensing and distribution arrangements. Companies may also wish to consider partnerships with local industries for the assembling or manufacturing of medical products in Brazil, to reduce import duties. Other opportunities for Brazilian healthcare are around harnessing the potential power of its data to drive quality and to harness the potential of digital services to reach remote and poor communities and encourage people to manage their own health .

While exporters must consider significant market entry costs and the need for local partners, a country like the UK exported £3.5bn of goods and services to Brazil in the four quarters leading to the end of Q2 2022, which illustrates the potential of this G-20 market.

Spanish-Speaking Mercosur

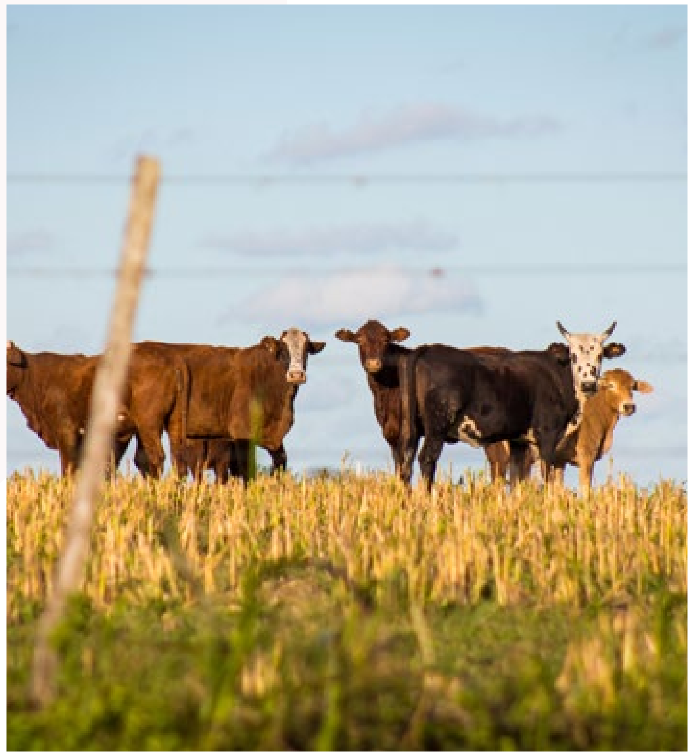
Argentina, Paraguay and Uruguay, together with Brazil, make up the largest trading block in South America, with a market of over 270 million people. These markets share a Common External Tariff and duties range from 0 to 35%, with an average of 14%.

Each of these countries can ffer something different to attract international exporters. For example, Argentina, the largest of the three, is the eighth largest country in the world in terms of geography, and ranks 2nd in South America when it comes to its GDP . Uruguay is an agile and business-friendly market that positions itself as a potential gateway to Mercosur and the region. Paraguay has a stable economy and a series of incentives for foreign businesses to use the country as a regional hub in Mercosur and beyond. The key to success in this region lies in integrating exports in local businesses' value chains – such as fitting Argentine satellites with solar panels made overseas, or providing electronic components purchased from international partners to Buenos Aires' electric bus fleets.

Renewable energy plays an important part of the energy mix in this region with Uruguay already boosting 97% power generation from renewable sources. Paraguay and Uruguay are focused on developing hydrogen projects, which offer opportunities for international expertise and potentially opportunities for companies supplying hydrogen related products such as clean transport.

These three markets are also agriculture powerhouses with capital and technology intensive large farms, for which technology provided by international partners can provide solutions to improve efficiency, better use of natural resources, and enhanced production to satisfy both internal and external demands. There are opportunities for foreign companies mainly in the areas of plant science, animal science and precision agriculture. There is also an openness to international Agri-tech companies with technologies aligned to current agri-production. Companies with bovine genetic capabilities have recently been granted access to Argentina and Paraguay's markets with more to come in ovine genetics too.

Life Sciences, medical devices and pharmaceuticals are also sectors where international companies can find opportunities in these markets. Argentina offers a sophisticated market with an appetite for top end solutions, from orphan drugs and raw material for pharma to sophisticated ophthalmological technology. Uruguay is also a key importer of medical devices.



Openness to international Agri-tech companies presents plenty of opportunities in the Mercosur block

"Companies with bovine genetic capabilities have recently been granted access to Argentina and Paraguay's markets with more to come in ovine genetics too"

Final Thoughts

The dazzling growth and promise of Asian markets often overshadows the opportunities that LatAm has to offer. Yet many of the world's most export-orientated companies have still developed highly successful business with LatAm countries. The fundamentals of over 650m consumers, growing middle classes and acute needs for investment in infrastructure and pubic services have and will continue to offer an abundance of opportunities. These pull factors, and a genuine openness to international expertise, are increasingly convincing companies that business growth in LatAm is worth the effort despite the macro-outlook. Just like in other regions of the world, companies monitor risks of protectionism, increases in the costs of doing business and corruption but they find these are manageable risks in LatAm despite media headlines.

Some existing investors in the region report that negative perceptions about the region can reduce competition and increase customer loyalty as competitors are deterred from entering these markets. Winning business can take longer in LatAm, slowed by the need to build strong and lasting relationships, but the effort pays off for those willing to invest their time. When global growth resumes, we can expect LatAm to experience higher levels of investment and offer new opportunities for international companies as well. Interested companies should invest time in building relationships with customers and partners now. Those who wait for higher growth numbers will find they are too late: existing players will have developed dominant market positions and competitors who fail to enter early will fall behind companies that invested in relationships when prizes were smaller. Business travel to LatAm in 2022 is expected to be 45% higher than the global average , which suggests those interested in LatAm, but who have yet to explore it, may have to make up some lost ground.

Economic Outlook

The macroeconomic forecast in Latin America

By João Pedro Bumachar Resende, Senior Latin America Economist, Itaú Unibanco

Regional Trends

Exchange rates in Latin America have shown mixed trends this year. Despite the strengthening of the USD globally, the Mexican peso and the Brazilian real have recorded gains against the USD year to date. High carry and a comfortable balance-of-payments position (including moderate current account deficits and low net external debt) are key factors behind the performance of the two currencies. Besides, structural themes such as nearshoring (and friend-shoring) and commodity wealth that could be benefiting the two currencies (the former more in the case of Mexico, and the latter more in the case of Brazil). Stable public finances are also an asset for Mexico. On the other hand, the Colombian peso has depreciated sharply against the USD. In Colombia, the current account deficit remains too wide (6.5% of GDP expected for this year) despite favourable terms of trade, while fiscal deficit corrections are too gradual at a time when public debt already sits at uncomfortable levels and there is a strong demand for more social spending. In this context, tighter external financial conditions and uncertainty over domestic policy direction (including decarbonisation, pensions and labour) have triggered a sharp deterioration in asset prices (besides currency weakness, sovereign spreads have also widened more than peers). Political uncertainty and a wide current account deficit have also played against the Chilean peso, which is also hurt by worse terms of trade.

The expectation of a further strengthening of the USD combined with global recession risks will likely lead to weaker currencies everywhere. Idiosyncratic factors may also contribute to foreign exchange weakening. In Brazil, the primary fiscal balance will likely return to a deficit in 2023, which combined with high real interest rates and weaker growth, will put the already-high level of public debt back on an upward trend. If a credible fiscal anchor replacing the cap on federal expenditures is implemented by the recently elected administration, the currency would benefit markedly. In Mexico, disputes within the USMCA may lead markets to question the extent to which the country can benefit from the nearshoring narrative. Finally, in Colombia and Chile, political uncertainty is set to continue, as a long list of reforms are in the pipeline.

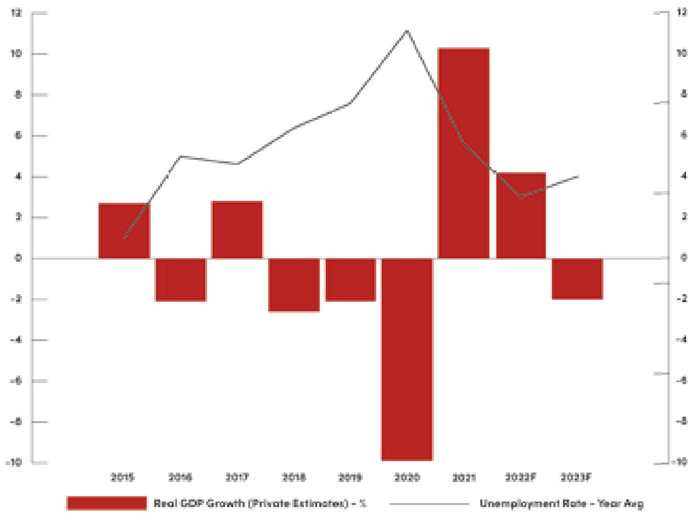
As real interest rates reach levels far above the estimated neutral rates, some central banks in the region are indicating an end to the tightening cycle (though also suggesting that there is no room for rate cuts in the short term, given the still-challenging inflation outlook). Besides Brazil, the central bank of Chile has also called an end to the hiking cycle. In Mexico and Colombia, further rate hikes are likely. In fact, the policy rate in Mexico is likely to peak at 11.5% (from 11.0% in the previous scenario), given the new forecast for the Fed Fund rate, while in Colombia the deterioration of financial conditions will likely lead to a higher terminal rate than expected (now with a peak of 12.5%, to be reached in 1Q23, from 11.5% previously).

Despite a deterioration in the outlook for global growth, economic activity in LatAm keeps posting upside surprises. GDP forecasts have been revised upward for this year for Brazil (to 2.8%, from 2.5%), Chile (2.3%, from 2%), Colombia (7.7%, from 7.3%), Mexico (2.6%, from 2.1%) and Peru (2.5%, from 2%). Still, a sharp deceleration to far-below trend is likely in 2023. For next year, expected GDP growth for Colombia has been reduced (to 0.1%, from 0.3%), while Brazil's GDP is edging up by 0.7% (from 0.5%), considering a better outlook for agricultural output.

Argentina

The central bank had to resume interventions in the exchange rate market in October despite tighter controls and a faster pace of official exchange rate depreciation. Following the temporary weaker exchange rate offered to soybean producers that allowed USD 5 billion net purchases in September, the central bank accelerated the pace of depreciation of the peso to 6.5% month-on-month in October from 6.2% in the previous month and tightened controls to tame the loss of reserves. The government and the central bank enlarged the list of imports that needs prior authorisation and tightened imports monitoring system. Last but not least, the central bank ordered companies to take more trade financing and extended the restriction of access the official exchange rate to pay financial foreign debt until December 2023. Despite these efforts, the central

Real GDP Growth and Unemployment Rate



bank sold USD 0.5 billion in the month. Net international reserves stood at USD 5 billion by the end of October, boosted by net disbursements from the IMF of USD 1.3 billion and from a USD 0.7 billion loan from the IDB.

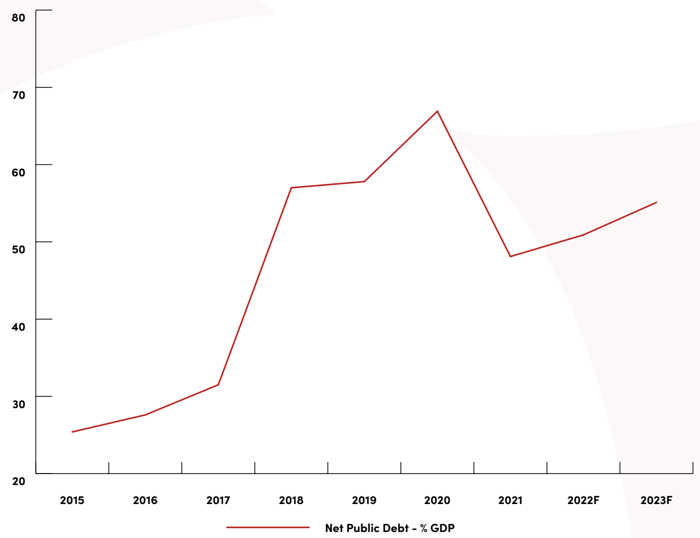
Looking ahead, pressure on international reserves will likely continue. The government faces payments of USD 4 billion in January, mostly due to obligations to the IMF and interest payments on the restructured external bonds, which will more than exhaust the expected IMF net disbursement for November- December 2022 (USD 2.5 billion, assuming targets agreed upon with the fund are met). While the gap between the blue-chip swaps and the official exchange rate narrowed recently, it remains close to an uncomfortable 95%.

The authorities seem committed to avoiding a sharp depreciation of the peso in the short run, so a new round of tightening controls on dollar purchases, to curtail demand, and offering of weaker peso for certain exports and sectors, to boost supply, are likely even if temporary. Recently, the government allowed the use of the weaker blue-chip swap (instead of the official exchange rate) in credit card payments made by foreign tourists. The forecast of an exchange rate of 180 Argentine pesos (ARS) to the USD by December assumes an official foreign exchange adjustment following the pace of inflation, approximately 7% per month. However, the drought affecting the agricultural sector (45% year-on-year drop for the expected wheat harvest) may jeopardise the official foreign exchange strategy.

The treasury will likely meet the fiscal deficit target agreed upon with the IMF for 3Q22. It is estimated that the primary deficit accumulated over 12 months decreased to 2.8% of GDP in September, from 3% in August. Tax revenue growth

accelerated in 3Q22 (6.8% year-on-year in real terms, up from 6% in 2Q22) due to higher export taxes associated to the strong soybean export liquidation made in September. Primary expenditures fell in real terms in 3Q22 (-3.6% year-on-year in real terms in the period, after increasing by 11% in 2Q22). The high inflation environment makes room for the country to meet the target of a deficit of 2.5% of GDP for this year despite the announcement of monetary assistance to vulnerable sectors (pensioners, very low-income bracket) and the increase in the minimum non-taxable income level.

Net Public Debt in Argentina



The Lower House already approved the 2023 budget with a primary deficit of 1.9% of GDP, also in line with the IMF-agreed target for next year. Argentina seems to be facing a well-known phenomenon, in that government revenues often track inflation closer than expenditures do, and the mere postponement of certain outlays provides savings, in inflation-adjusted terms.

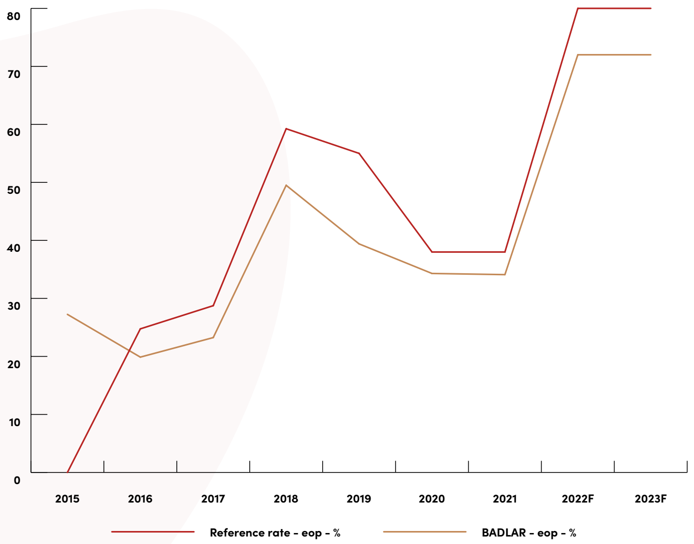
Still, financing the fiscal deficit in the domestic market has been challenging despite financial repression. The Treasury barely got net financing of ARS 35 billion in October when ARS 1.023 billion (1.4% of GDP) is needed to cover the primary deficit for 4Q22. The reduced appetite for debt is evident in the widening of the yield curve, a new round of central bank purchases of treasury bonds to sustain prices (indirect financing to the treasury estimated at ARS 150 billion in October) and withdrawals from mutual funds invested in CPI-linked treasury bonds. The forecast for the Leliq rate by the end of the year remains unchanged, at 80%.

In particular, the Treasury faces difficulties as it seeks to extend the maturity of bonds beyond the presidential election (October 2023). The peso liquidity was redirected from treasury bonds to money market funds and bank deposits, which resulted in an increase in holdings of Leliqs – central bank bills.

The inflation outlook remains challenging. Core inflation declined to 5.5% in September (from 6.8% in August), still driven by prices for food and non-alcoholic beverages. Annualised core inflation rose to 113.7% in the quarter ended in September, from 110.1% in the previous month.

> *"Inflation forecast for December stands at 100% and a similar figure for 2023, with an upward bias"*

Inflation in Argentina



As a result, the headline inflation rose by 6.2% month-on-month from 7% in August. The 12-month inflation reading came in at 83%. According to price tracker firm Eco Go, monthly inflation rose to 7% in October. More unions have reopened the wage negotiations and got new adjustments that took the average YTD increase to 83% for 2022. The latter coupled with import restrictions and a faster exchange rate depreciation will likely put further pressure on costs. The official response seems limited to enforce more price controls in agreement with companies. The inflation forecast for December stands at 100% and a similar figure for 2023, with an upward bias.

Activity keeps up its momentum in 3Q22. Activity gained 0.4% month-on-month/seasonally adjusted in August (6.4% year-on-year), following a 0.1% increase in July according to the EMAE (official monthly GDP proxy). Activity is likely to contract in the remainder of the year due to fiscal and monetary adjustments as well as tighter import controls. Due to a strong statistical carryover, GDP will likely grow 4.2% this year. However, a 2% contraction is expected in 2023.

Argentina Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth (Private Estimates) - %	2.7	-2.1	2.8	-2.6	-2.1	-9.9	10.3	4.2	-2.0
Nominal GDP - USD bn	642.4	556.8	643.0	517.7	444.6	382.8	487.3	596.9	640.1
Population	43.1	43.6	44.0	44.5	44.9	45.4	45.8	46.2	46.6
Per Capita GDP - USD	14,894	12,506	14,458	11,665	9,893	8,558	10,640	12,913	13,722
Unemployment Rate - year avg	6.5	8.5	8.3	9.2	9.8	11.6	8.8	7.5	8.0
Inflation									
CPI % (*)	26.9	41.0	24.8	47.6	53.8	36.1	50.9	100.00	100.00
Interest Rate									
BADLAR rate - eop - %	27.25	19.88	23.25	49.50	39.40	34.30	34.10	72.00	72.00
Reference rate - eop - % (****)	-	24.75	28.75	59.25	55.00	38.00	38.00	80.00	80.00
Balance of Payments									
ARS / USD - eop	13.01	15.85	18.77	37.81	59.90	84.15	102.75	180.00	345.00
Trade Balance - USD bn	-3.0	2.0	-8.5	-3.7	16.0	12.5	14.8	8.5	12.0
Current Account - % GDP	-2.7	-2.7	-4.9	-5.2	-0.9	0.8	0.0	0.0	0.4
Foreign Direct Investment - % GDP	1.8	0.6	1.8	2.3	1.5	1.1	1.0	1.0	1.0
Gross International Reserves - USD bn	25.6	38.8	55.1	65.8	44.8	39.3	39.6	39.6	39.6
Net International Reserves - USD bn	-1.0	12.2	31.2	22.7	13.6	5.2	4.3	6.0	9.0
Public Finances									
Primary Balance - % GDP (**)	-4.0	-4.2	-3.8	-2.6	-0.4	-6.5	-3.0	-2.5	-2.8
Nominal Balance - % GDP (**)	-3.9	-5.8	-5.9	-5.2	-3.8	-8.5	-4.5	-4.0	-4.4
Gross Public Debt - % GDP	55.5	55.6	58.9	89.8	93.8	108.7	82.8	84.8	89.6
Net Public Debt - % GDP (****)	25.4	27.6	31.5	57.0	57.8	66.9	48.1	50.9	55.1

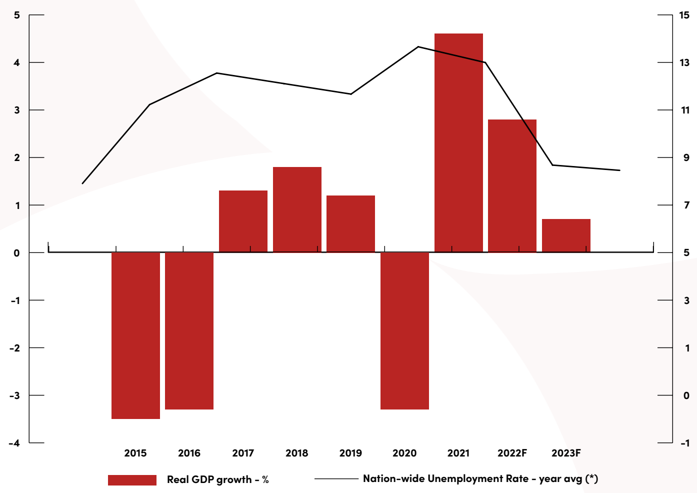
(*) National CPI for 2017 and 2018. (**) Excludes central bank transfer of profits from 2016. (***) Excludes central bank and social security holding.
(****) Lebac 35-day for 2016, 7-day Repo rate for 2017 and 7-day Leliq rate for 2018 and 2019
Sources: Central Bank, INDEC and Itaú

Brazil

Gross public debt is expected to end 2022 at 74% of GDP, down from 78% anticipated previously. The improvement arises mainly from the revision of the historical GDP series by census bureau IBGE, as well as lower interest expenses and a positive result with foreign exchange swap transactions.

Nevertheless, this improved starting point will not prevent a significant challenge ahead. The primary budget result is expected to flip from a surplus of 1.1% of GDP, equivalent to 105 billion Brazilian reals (BRL), revised from the previous scenario of a 1% of GDP or BRL 100 billion surplus, to a deficit of 1.5% of GDP (BRL 155 billion) in 2023, while gross debt should widen by 4 p.p. to 78% of GDP. Measures adopted in the current year (namely the elimination of federal taxes on fuel, the lower ICMS tax rate on goods considered essential, and the BRL 600 monthly pay-out under the Auxílio Brasil program) will likely become permanent, but without compensation in the form of increased revenues and/or spending cuts, which was the case in 2022 (with extraordinary revenues from dividends paid by state-owned companies and the Eletrobras privatisation). Of note, pressures for additional spending may lead to the restoration, at least partially, of the tax rates that were reduced in 2022, which would impact short-term inflation. While, on the one hand, recurring revenues may continue to surprise positively, on the other hand, early discussions by the new administration suggest risks of a fiscal waiver against the constitutional spending ceiling beyond the BRL 100 billion (0.9% of GDP) currently assumed in the scenario.

Real GDP Growth and Unemployment Rate



Year-end exchange rate forecasts maintained at 5.25 BRL/USD in 2022 and 5.50 BRL/USD in 2023. However, the external scenario of tightening global financial conditions (with the Fed Funds Rate heading to 5.5%) and a strong USD across the board, as well as fluctuations in local risk premia, still represent upward risks and should prevent lasting currency appreciation. Despite the recent depreciation, the Brazilian real remains at stronger levels than at the beginning of the year, partially decoupling from the global USD appreciation observed during the year. A few reasons explain the decoupling, especially the higher Selic rate and upward revisions in growth estimates (and consequently in fiscal dynamics) for this year. These components may lose momentum going forward, as rising global interest rates and their effects on economic growth become more intense.

External accounts remain at a relatively comfortable level, but with a recent deterioration in the current account and foreign direct investment dynamics. The call for the current account deficit has been revised to USD 50 billion in 2022 (from USD 42 billion) and to USD 34 billion in 2023 (from USD 22 billion). The revision was mostly due to changes in the trade balance estimates for 2022 and 2023, to USD 60 billion surpluses in both years. The estimate for transportation expenditures, related to a still-strong trade flow has also been revised (with expected outflows near USD 8 billion this year and the next). This scenario assumes profit and dividend outflows of USD 49 billion this year. Foreign direct investment (FDI) remains at a high level, although very influenced at the margin by intercompany loans from subsidiary to headquarters (probably explained by the internalisation of local companies' cash for dividend payments). FDI related to equity and intercompany loans from headquarters to subsidiary declined until September. Hence, the breathing room in external accounts — the difference between the current account deficit and this FDI component — decreased in the margin.

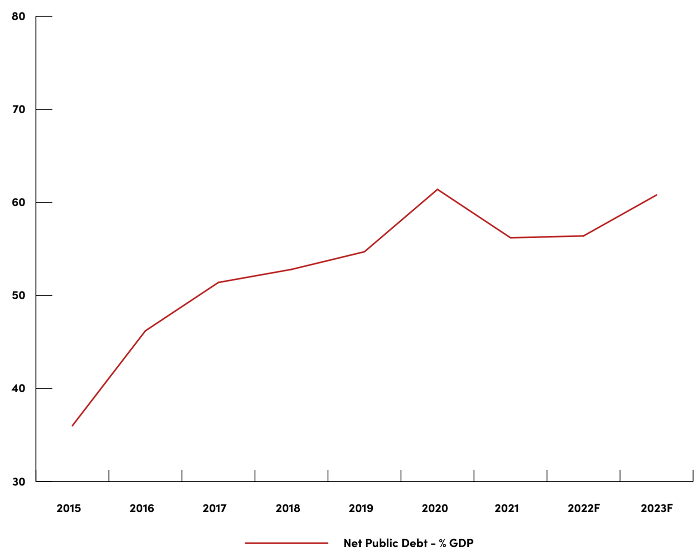
> *"For 2023, the growth forecast has been revised from 0.5% to 0.7%, given the outlook of a better agricultural crop"*

Economic activity growth has likely lost momentum in 3Q22. A modest 0.5% quarter-on-quarter/seasonally adjusted growth is expected, decelerating from 1.2% in 2Q22. At the margin, only agricultural GDP is likely to experience stronger growth than in the previous quarter. The industrial sector could be dragged down by extractive and construction components, while the service sector might be negatively affected by lower retail sales.

This deceleration process is expected to continue in 4Q22. Growth of 0.1% is forecast in 4Q22, leading to a 2.8% growth in the full year (from 2.5% previously).

For 2023, the growth forecast has been revised from 0.5% to 0.7%, given the outlook of a better agricultural crop. Still, lagged monetary policy effects combined with weaker global GDP growth reaffirm the expectation of lower growth next year. As upside risks, an even better performance of the agricultural sector and the recent increase in investments as a share of GDP are factors that can contribute positively in 2023.

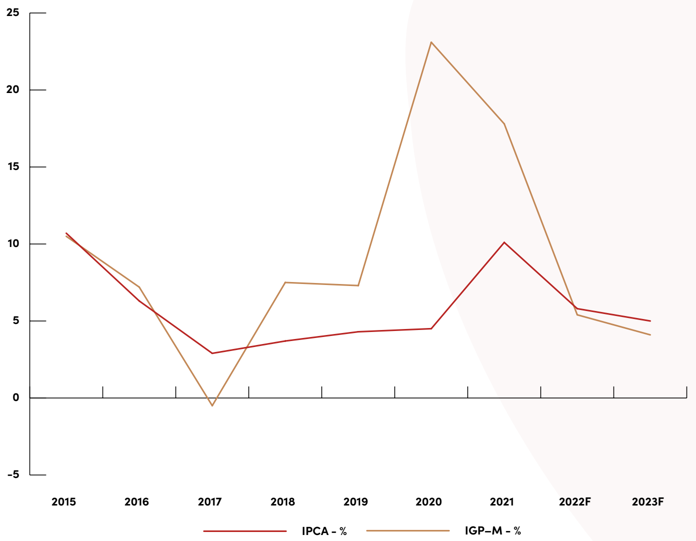
Net Public Debt in Brazil



Regarding the labour market, the recovery has been a positive surprise and actually decoupled from the economic performance. Hence, the revised year-end unemployment rate forecasts to 8.6% (from 9.1%) in 2022 and to 9.3% (from 10.1%) in 2023. However, recent data, referring to September and October — such as employment growth, the monthly unemployment rate according to the PNAD survey, as well as the proprietary IDAT-Employment and leading employment indicators by FGV — suggest that the labour market recovery will lose steam in the coming months.

The forecast for the consumer price index IPCA in 2022 has been revised to 5.8% from 5.5%. In the short term, greater pressure on fresh produce prices and some increase in fuel prices (gasoline and ethanol) have been incorporated. As a result, the forecast for regulated prices in 2022 indicates deflation close to 4%. Meanwhile, inflation in market-set prices should remain under pressure. It is estimated that there will be an increase close to 9% for the full year. Among different components, increases of 13% in food prices, 9% in industrial items and 8% in services are expected. Significant downside asymmetry is no longer seen. On the contrary, given the recent increase in oil prices and exchange rate depreciation, the comparison between domestic and foreign gasoline prices suggests further price hikes at the refinery before year-end. Additionally, taxes that were temporarily reduced recently may be increased again, adding further risks to inflationary pressures at the beginning of the year.

Inflation in Brazil



At its October 25-26 meeting, the Copom kept the Selic rate unchanged and did not make any changes in communication, reinforcing expectations that the committee will stick to the strategy of stable interest rates for a long time. The post-meeting statement and the meeting's minutes provided updates on the authorities' assessment of the global and Brazilian economies, highlighting expectations of a slowdown in both. Externally, the committee drew attention to the markets' increasing sensitivity to fiscal issues, which suggests caution for emerging market economies. Domestically, due to monetary tightening already undertaken, the committee anticipated an increase in economic slack over the monetary policy horizon, mentioning that the economic recovery seems to be losing momentum, with perceptible impacts on credit and economic activity data. The authorities continued to call for vigilance and perseverance and paid special attention to the evolution of service inflation until disinflation is consolidated and expectations are anchored.

Inflation dynamics, forecasts throughout the relevant horizon, and the level of economic slack will prevent an easing cycle in 1H23. Comparing the current scenario with five rate cut episodes (in 2005, 2009, 2011, 2016, and 2019), the necessary conditions for a successful cut — that is, inflation returning to target and with anchored expectations — are only likely to emerge in 3Q23.

São Paulo, Brazil

Brazil Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth - %	-3.5	-3.3	1.3	1.8	1.2	-3.3	4.6	2.8	0.7
Nominal GDP - BRL bn	5,996	6,269	6,585	7,004	7,389	7,610	8,844	9,939	10,655
Nominal GDP - USD bn	1,800	1,798	2,063	1,916	1,872	1,475	1,639	1,930	1,978
Population	203.5	205.2	206.8	208.5	210.1	211.8	213.3	214.8	216.3
Per Capita GDP - USD	8,847	8,764	9,977	9,189	8,910	6,964	7,684	8,984	9,147
Nation-wide Unemployment - year avg (*)	8.6	11.6	12.8	12.4	12.0	13.8	13.2	9.3	9.1
Nation-wide Unemployment - year end (*)	9.7	12.8	12.5	12.4	11.7	14.9	11.8	8.6	9.2
Inflation									
IPCA - %	10.7	6.3	2.9	3.7	4.3	4.5	10.1	5.8	5.0
IGP-M - %	10.5	7.2	-0.5	7.5	7.3	23.1	17.8	5.4	4.1
Interest Rate									
Selic - eop - %	14.25	13.75	7.0	6.5	4.5	2.0	9.25	13.75	11.00
Balance of Payments									
BRL / USD - eop	3.96	3.26	3.31	3.88	4.03	5.19	5.57	5.25	5.50
Trade Balance - USD bn	14	40	56	47	35	50	61	57	61
Current Account - % GDP	-3.0	-1.4	-1.1	-2.7	-3.5	-1.7	-1.7	-2.6	-1.7
Direct Investmen (Liabilities) - % GDP	3.6	4.1	3.3	4.1	3.7	3.0	2.8	3.6	3.0
International Reserves - USD bn	369	372	382	387	367	356	362	330	330
Public Finances									
NFSP Nominal Balance - % GDP	-1.9	-2.5	-1.7	-1.5	-0.8	-9.2	0.7	1.1	-1.5
NFSP Debt - % GDP	-10.2	-9.0	-7.8	-7.0	-5.8	-13.3	-4.3	-5.5	-8.8
NFSP Nominal Balance - % GDP	65.5	69.9	73.7	75.3	74.4	86.9	78.8	74.3	78.2
NFSP Debt - % GDP	36.0	46.2	51.4	52.8	54.7	61.4	56.2	56.4	60.8

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

Chile

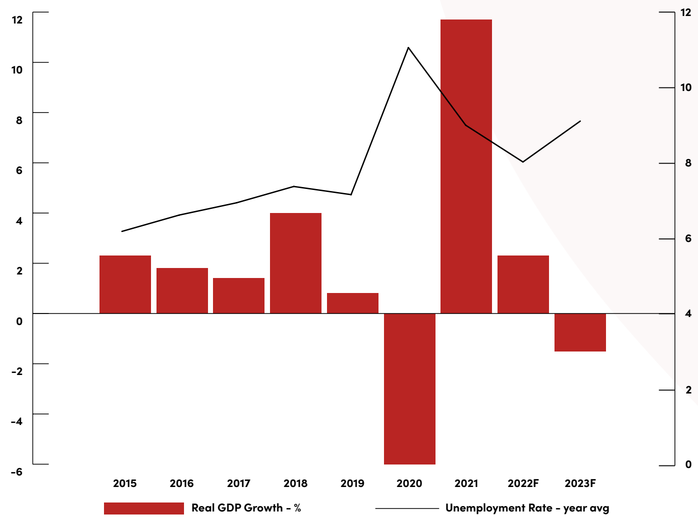
President Boric presented the long-awaited structural reform of the pension system. The main change proposed by the bill is the creation of a new "social security pillar" financed by new contributions of 6% of workers' salaries – to be paid entirely by the employer – with contributions to increase gradually at a rate of 1% per year. Of this 6% increase, 1.8% (30%) would finance higher pensions for the most vulnerable, and the remaining 4.2% (70%) would go to an individual notional account (different from the current individual capitalisation fund). In addition, contributions to the social security pillar would be administered by a new public entity, which would also, by default, receive the future flows of the mandatory 10% contributions to individual capitalisation accounts. However, workers may decide for the 10% contributions to be managed by a private investment firm. The outstanding stock of savings in individual capitalisation accounts managed by AFPs – roughly USD 154 billion (~51% of GDP) by the end of October – would be managed by private investment managers, by default (AFPs, which currently perform other services linked to pensions besides managing funds, would cease to exist and would have the option of transitioning into a private investment manager). Savers may request for their stock of savings to be managed by the public entity. The current administration does not have a majority in either house and hence will have to negotiate in order to reach the quorum needed for approval of the reform.

The pension reform will be submitted to an already busy Congress, where several key economic projects are already under discussion. Voting and discussions on amendments to the Tax Reform continue in the Finance Committee of the Lower Chamber. The bill initially aimed to raise fiscal revenue by 4.1% of GDP per year but has since been somewhat watered down to 3.6% of GDP. New amendments were introduced to the Mining Royalty bill, increasing the likelihood of approval of the bill, which seeks to raise revenue by 0.6% of GDP per year (already included in the overall 3.6% of GDP reform target). Separately, the labour bill that reduces hours worked per week is being discussed in the Senate, after being approved in the Lower Chamber. Finally, more than two months since the Constitutional Plebiscite, members of Congress continue negotiations on a new process, which would likely extend well into next year, although the mechanism and timeline have yet to be established.

Declining approval of the Boric administration will likely lead to further policy concessions to ensure reform advancements. According to the Cadem poll, President Boric's approval fell to 25% during the first week of November, down 8 pp from the first week of October and from 38% at the start of September.

The fiscal drag continued in September, as expected. Real fiscal expenditures declined by 28.4% in September, accumulating a 21.1% fall in the year. The contraction in fiscal spending stretches beyond the base effects of cash transfers in 2021, as capital expenditures through September contracted by 2.7%. The fiscal drag is expected to deepen until the end of the year, mainly due to base effects, yet it should reverse in 2023 along with an expansionary fiscal budget (+4.2% increase in real spending).

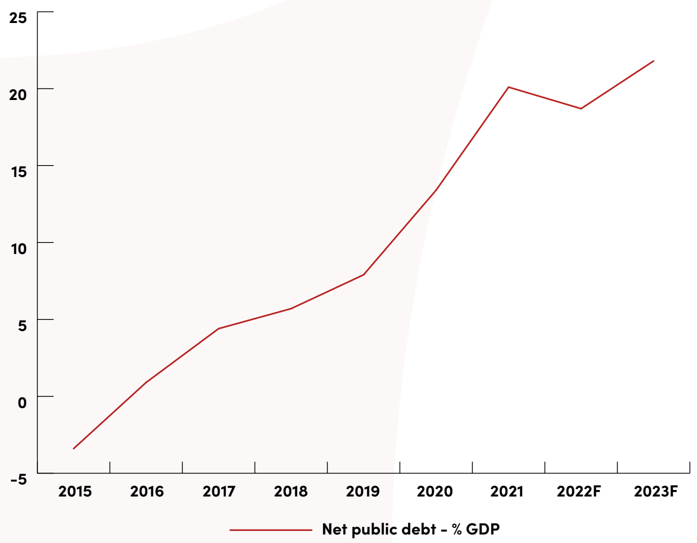
Real GDP Growth and Unemployment Rate



The central bank is signalling high rates. The board assessed two options in its latest policy meeting, a 25-bp rate hike or a 50-bp hike, before deciding unanimously on the latter option, taking rates to 11.25% pa. The minutes showed the board agreeing that data since the September IPoM outlined a central scenario in which medium-term inflationary pressures would gradually ease, in line with expectations. This was a change from earlier meetings when new information had reinforced the need for a more contractionary policy stance to ensure inflation converged to the 3% target over the relevant two-year horizon. With inflation high and persistent, and medium-term inflation expectations still well above target, the board agreed on maintaining the policy rate at the current level for the time required to guarantee inflation converges to the target, indicating cuts in the short-term are unlikely.

Central bank's business perception report shows firms are preparing for the economic downturn, prioritising cost reductions and efficiency gains. Most companies expect the economy to deteriorate, with several indicating that they are already adjusting their budgets, reviewing payrolls, and supporting cost reduction and improved efficiency. On a positive note for the inflation outlook, companies reported that cost pressures experienced in previous quarters have begun to ease.

Net Public Debt in Chile

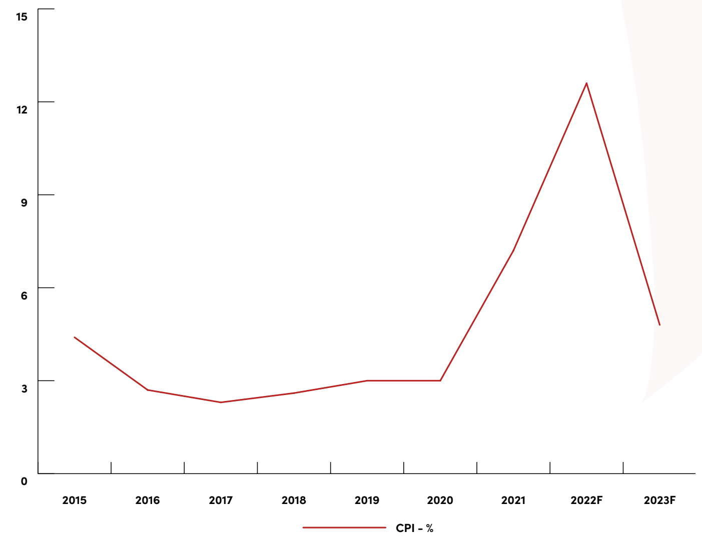


External accounts are improving, in line with the ongoing domestic demand slowdown and weaker exchange rate. Despite weak exports, falling consumer and capital goods imports led to a trade surplus in October. The USD 457 million trade surplus in October comes after two consecutive months of deficits. Exports remain weak, contracting 2.2% year-on-year in October (0.9% drop in September), dragged down by double-digit declines in copper exports. External accounts are improving, in line with the ongoing domestic

demand slowdown and weaker exchange rate. Despite weak exports, falling consumer and capital goods imports led to a trade surplus in October. The USD 457 million trade surplus in October comes after two consecutive months of deficits. Exports remain weak, contracting 2.2% year-on-year in October (0.9% drop in September), dragged down by double-digit declines in copper exports. Meanwhile, total imports contracted 13% year-on-year, the first negative print since January 2021. As a result, the 12-month rolling trade surplus increased to USD 2.2 billion from USD 1.2 billion as of September, but it is still well below recent levels (USD 10.5 billion during 2021). At the margin, the seasonal adjustment shows a trade surplus of USD 2.8 billion in the quarter (annualised; USD 1.4 billion surplus in 3Q22).

"Recent activity dynamics suggest the economy will likely grow this year by 2.3%, 30 bps above the previous forecast, but expectations for a pronounced 1.5% decline next year remain"

Inflation in Chile



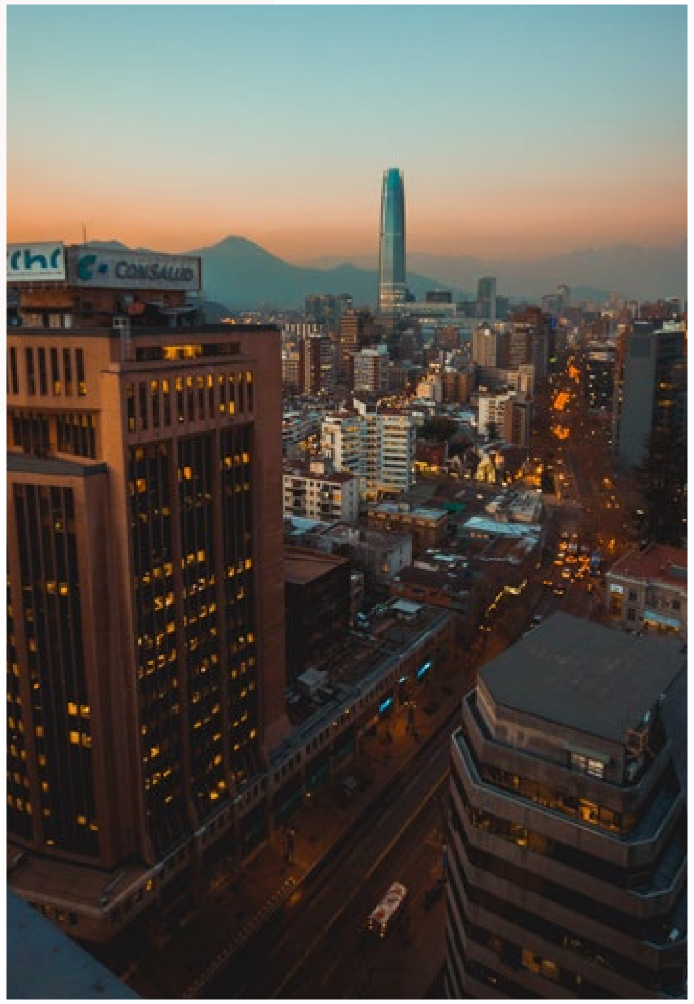
Inflation fell more swiftly in October. After rising to 14.1% year-on-year in August, inflation fell to 13.6% in September and to 12.8% in October. Food and transportation prices remain the key pulls. Inflation excluding volatile items dipped 30bps to 10.8%. At the margin, inflation accumulated in the third quarter was 8.9% (seasonally adjusted and annualised), while core inflation was at 8.4% (annualised), from cycle peaks of 18.4% and 13%, respectively (during the May quarter).

Recent activity dynamics suggest the economy will likely grow this year by 2.3% (11.7% last year), 30 bps above the previous forecast, but expectations for a pronounced 1.5% decline next year remain.

The weakening of domestic demand will support the narrowing of the current account deficit. The CAD is expected to correct from the 7.7% of GDP expected for this year (+20bps) to 3.4% in 2023. The more aggressive policy stance from the Fed favours a weakening of EM currencies. The Chilean peso (CLP) is expected to end next year at 980 per USD.

Inflation of 12.6% is now expected this year (40bps below the previous scenario) and 4.8% for 2023 (-20bps) given less inertia.

Rates are expected to remain at 11.25% for a sustained period. The ex-ante one-year real rate stands roughly at 5%. The opportunity to cut rates will likely only materialise after 1Q, given the high level of inflation (including items with more persistence) and inflation expectations. Furthermore, the more aggressive policy stance from the Fed means rates at 7% are likely to be seen by the end of next year.



Santiago, Chile

Chile Economic Chart

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth - %	2.3	1.8	1.4	4.0	0.8	-6.0	11.7	2.3	-1.5
Nominal GDP - USD bn	239	253	278	295	274	253	313	312	307
Population	18.0	18.2	18.4	18.8	19.1	19.5	19.7	19.8	20.0
Per Capita GDP - USD	13,283	13,954	15,105	15,736	14,333	13,009	15,881	15,758	15,398
Unemployment - year avg	6.3	6.7	7.0	7.4	7.2	10.8	8.9	8.0	9.0
Inflation									
CPI - %	4.4	2.7	2.3	2.6	3.0	3.0	7.2	12.6	4.8
Interest Rate									
Monetary Policy Rate - eop - %	3.50	3.50	2.50	2.75	1.75	0.50	4.00	11.25	7.00
Balance of Payments									
CLP / USD - eop	709	670	615	694	753	711	851	920	980
Trade Balance - USD bn	3.4	5.0	7.5	4.4	3.0	19.0	10.5	3.5	12.0
Current Account - % GDP	-2.4	-2.6	-2.7	-4.5	-5.3	-1.7	-6.6	-7.7	-3.4
Foreign Direct Investment - % GDP	8.7	4.5	1.9	2.7	5.0	3.6	4.9	6.4	2.9
International Reserves - USD bn	38.6	40.5	39.0	39.9	40.7	39.2	51.3	38.0	42.0
Public Finances									
Nominal Balance - % GDP	-2.2	-2.7	-2.8	-1.7	-2.9	-7.3	-7.6	1.5	-3.1
Net Public Debt - % GDP	-3.4	0.9	4.4	5.7	7.9	13.4	20.1	18.7	21.8

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

Colombia

The tax reform was approved by Congress. After several changes, the tax reform plans for collecting 20 trillion Colombian pesos (COP) next year, representing 1.4% of GDP, falls below the COP 25 trillion proposed in the initial draft (1.8% GDP). Separately, the government expects to collect another COP 25 trillion by combating tax evasion over the next four years. The final version of the reform maintains its focus on extractive activities, with measures including the non-deducibility of royalties from income taxes and a surcharge tax on coal and oil companies. The initiative includes tax increases for high-income earners and a wealth and dividend tax, it but does not levy pensions following pushback from some lawmakers. The project also maintained the surcharge for the financial sector and electricity companies.

The 2023 budget approved by Congress does not consider the additional revenue from the tax reform. With Finance Minister Ocampo signalling a preference to spend the additional revenue, a congressional discussion early next year to incorporate additional spending is expected. However, the budget considers a central government nominal deficit of 4% of GDP next year.

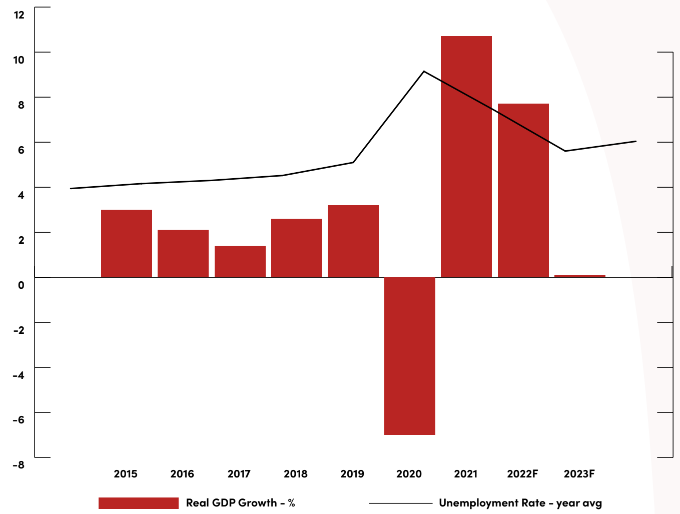
Minimum wage discussions will get underway at the end of the month. With inflation soaring, an agreement between unions and businesses is once more unlikely and the increase will ultimately be set by a government decree. The productivity calculation by DNP would be a key driver in the decision. With the December deadline looming, a rise of between 14%-16% (10.7% this year) is expected, exerting more pressure on public finances and refuelling inflationary trends.

Conflicting signals over policy direction contributed to greater domestic financial market volatility. Statements, that were then backtracked, on a possible temporary tax on capital outflows, on issuing more debt to buy land and sell it at discounted rates to farmers, combined with open criticism of the central bank's September monetary policy

decision contributed to increase premia on Colombian assets. The five-year CDS surged beyond the levels of peers with lower credit rating and above the highs at the start of the pandemic; interest rates on long-term government bonds peaked above 15% (from around 12.5% prior to domestic political noise); and the COP broke the 5,000 COP/USD threshold.

President Petro's approval rating is falling fast, similar to the trend observed among regional peers. The latest Invamer poll showed Petro's approval rating fell 10 pp from August to 46% in October. With the tax reform secured, the economic policy discussion is likely to shift to reforms of the pension system and labour relations. Prudence in economic policy management will be tested further.

Real GDP Growth and Unemployment Rate

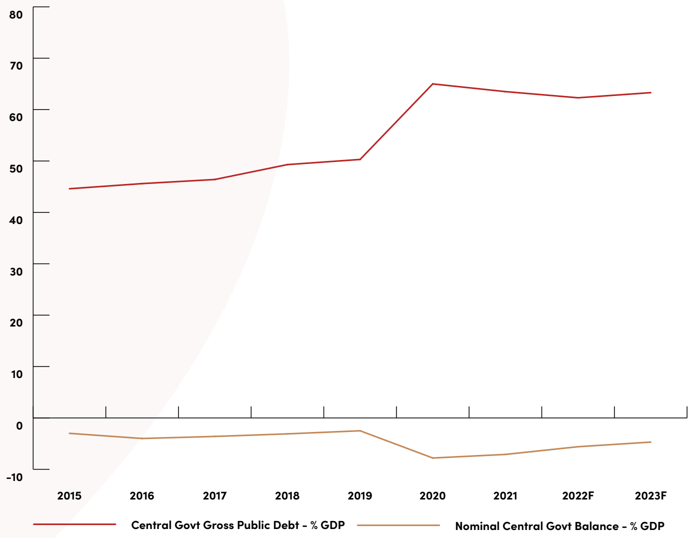


Activity's resilience persisted in August. The coincident activity indicator (ISE) rose by 1.4% (seasonally adjusted) from July to August, consistent with an 8.6% year-on-year increase. For the rolling quarter, activity expanded 7.9% year-on-year, moderating from 12.6% in 2Q22 (8.4% in 1Q22). The monthly sequential increase was led by agriculture and manufacturing. In the quarter ending in August, activity decelerated to 1.2% quarter-on-quarter/seasonally adjusted from 8.3% in 2Q22 and 5.2% in 1Q22.

Despite favourable terms of trade, strong imports support a large trade deficit. The trade deficit in August came in at USD 2.17 billion. The deficit was USD 0.7 billion wider than in August last year. As a result, the rolling 12-month trade deficit sits at USD 15.3 billion, up from USD 14.6 billion as of July. Imports increased 36.6% year-on-year (+43.6% previously), lifted by capital goods (44.8% year-on-year) and intermediate goods (38.3% year-on-year), while consumer goods rose 21.9%. Meanwhile, exports increased 32.2% year-on-year.

Inflation remained widespread in October. Inflation came in somewhat above market expectations in October, with food prices remaining a key driver. Consumer prices increased 0.72% from September to October (0.02% one year ago), while core prices for goods increased 0.53% from September (-0.23% in October last year). In annual terms, inflation rose to 12.22% in October from 11.44% in September, while core inflation rose 82 bps to 8.24%. At the margin, it is estimated that inflation accumulated in the quarter was 13.4% (annualised), up from 13% in 3Q22, 11.5% in 2Q22. Meanwhile, core inflation sits at 9.6% (annualised), accelerating from 8.9% in 3Q22.

Public Finances in Colombia



In a unanimous decision, the central bank's board delivered a 100-bp rate hike to 11%, in line with market expectations. This time the 100-bp hike (same as September) had the full support of the board (with one board member adjusting his stance from 50 bps last month likely due to the recent financial market strain). From the minutes, it can be inferred that even though the monetary policy rate is in contractionary territory, several factors could lead to further tightening, including strong domestic demand, fiscal imbalances, public debt market vulnerabilities and current account financing needs amid rising foreign interest rates.

The central bank's quarterly monetary policy report revised the inflation and policy rate path higher. The central bank's technical staff revised its 2022 GDP growth forecast up by 1.0 pp to 7.9% and cut the 2023 GDP growth forecast by 0.6 pp to 0.5%. The 2022 year-end inflation estimate was revised upward by 1.6 pp to 11.3% and to 7.1% for 2023. Faster growth this year will mean a positive output gap for

"The economy is forecasted to expand by 7.7% in 2022. However, growth is expected to slow to 0.1% in 2023"

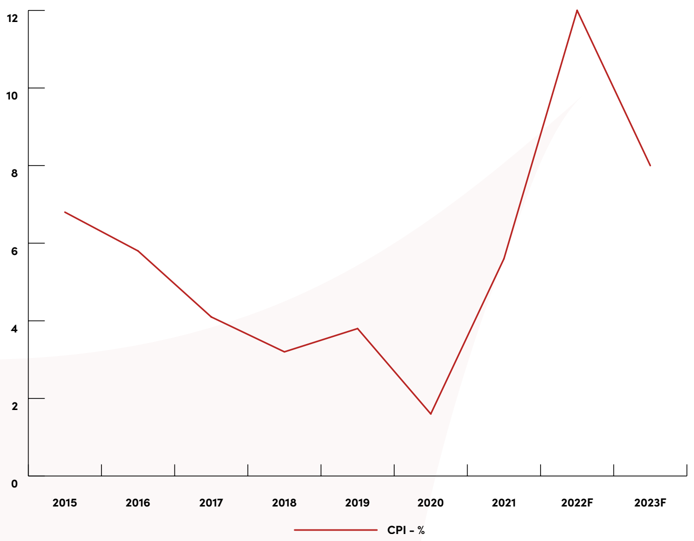
Bogota, Colombia

longer. Finally, the monetary policy path expected by the technical staff is, on average, higher than that expected by analysts, according to the most recent central bank survey (11.5% year-end; 8.5% in 2023).

A tightening macro policy mix and weaker global growth will likely dent consumption ahead. The economy is forecasted to expand by 7.7% in 2022 (+40 bps from the previous scenario). However, growth is expected to slow to 0.1% in 2023 (down 20 bps from previously).

The current account deficit is likely to end the year at a higher level, given still-strong imports. A current account deficit of 6.4% of GDP is expected for 2022 (+20 bps from previously). The expected slowdown of domestic demand and COP weakness would result in a CAD moderation to 4.6% of GDP next year.

Inflation in Colombia



The year-end exchange rate expectation has been revised to 5,000 COP/USD (4,700 previously), given a strengthening USD, wide twin deficits and policy uncertainty. Further weakening to 5,200 COP/USD by the end of 2023 is the new baseline scenario (4,800 previously), amid higher risk premia, a strong global dollar, an oil price correction and structural reform discussions.

Inflation is expected to reach 12.0% by year-end (11.8% previously). The 2023 inflation estimate has also been revised upward, to 8% in 2023 (7.2% previously), lifted by indexation, additional COP weakness and tax reform effects.

Colombia Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth - %	3.0	2.1	1.4	2.6	3.2	-7.0	10.7	7.7	0.1
Nominal GDP - USD bn	294	282	311	334	323	270	318	334	323
Population	48.2	48.7	49.3	49.8	50.4	50.9	51.4	51.8	52.2
Per Capita GDP - USD	6,098	5,791	6,308	6,704	6,411	5,313	6,188	6,451	6,191
Unemployment - year avg	8.9	9.2	9.4	9.7	10.5	16.1	13.7	11.2	11.8
Inflation									
CPI - %	6.8	5.8	4.1	3.2	3.8	1.6	5.6	12.0	8.0
Interest Rate									
Monetary Policy Rate - eop - %	5.75	7.50	4.75	4.25	4.25	1.75	3.00	12.00	10.00
Balance of Payments									
COP / USD - eop	3175	3002	2932	3254	3287	3428	4070	5000	5200
Trade Balance - USD bn	-15.6	-11.1	-6.0	-7.0	-10.8	-10.1	-15.4	-11.0	-7.5
Current Account - % GDP	-6.6	-4.5	-3.5	-4.2	-4.6	-3.4	-5.7	-6.5	-4.8
Foreign Direct Investment - % GDP	4.0	4.9	4.4	3.4	4.3	2.8	3.0	4.6	3.8
International Reserves - USD bn	46.7	46.7	47.6	48.4	53.2	59.0	58.0	57.0	56.0
Public Finances									
Nominal Central Govt Balance - % GDP	-3.0	-4.0	-3.6	-3.1	-2.5	-7.8	-7.1	-5.6	-4.7
Central Govt Gross Public Debt - % GDP	44.6	45.6	46.4	49.3	50.3	65.0	63.5	62.3	63.3

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

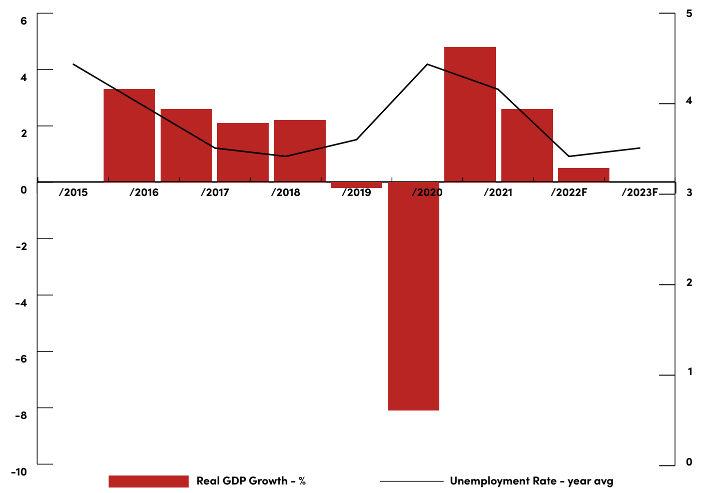
Mexico

A change of the key negotiator of the USMCA-Mexico energy conflict increases the odds of referral to a resolution panel. The U.S. and Canada are complaining mainly of Mexico's energy policy, which prioritises the state-controlled power utility company over the electricity generated by the private sector. While the U.S. recently extended the consultations over the conflict (despite passing the deadline established by the treaty), the dismissal of Mexico's key technical negotiator (Undersecretary of the Economy) and her replacement with a name with a political profile suggests a tougher stance from Mexico. Other senior public government officials involved in the negotiation were also asked to resign. Referral of the dispute to a resolution panel is becoming a more likely scenario, meaning that Mexico could eventually face retaliatory tariffs.

Activity is likely to post its third consecutive strong expansion in 3Q22. The flash estimate of GDP growth for 3Q22, published by Mexico's statistics institute (INEGI), posted 1% quarter-on-quarter in 3Q22 (after 0.9% and 1.1% growth in 2Q22 and 1Q22, respectively). The strong growth in 3Q22 reflects a strong sequential expansion in the monthly GDP for August (1%) and implies another expansion in September. The quarterly figure was supported by solid growth in the services sector of 1.2% quarter-on-quarter, while industrial production expanded a decent 0.9%. On the demand side, activity has been supported by private consumption, given solid formal job creation of 3.5% quarter-on-quarter/seasonally adjusted in 3Q22 and strong remittances.

Headline inflation fell to 8.41% year-on-year in October (from 8.7% in September), but core inflation kept increasing (8.42%, from 8.28%). The slowdown in headline inflation is explained by the non-core CPI, aided by reduced volatility in agricultural prices recently and lower LP gas prices. However, core inflation continues to be pressured by food prices, which reached an all-time high of 13.95% year-on-year in October, while the non-food goods CPI and services CPI stood at 8.03% and 5.3%, respectively.

Real GDP Growth and Unemployment Rate

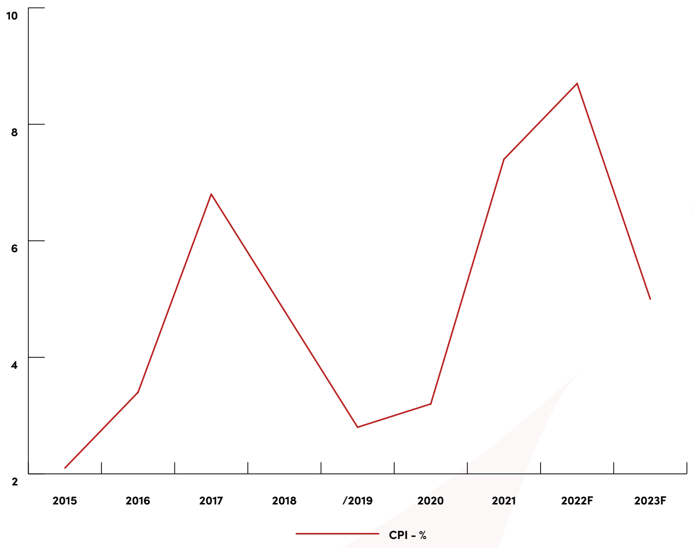


> *"Stronger-than-expected activity in 3Q22 led to a revision of the GDP growth forecast for this year to 2.6%. However, the solid GDP performance is unlikely to last during the rest of the year and throughout 2023"*

Banco de Mexico (Banxico) raised the policy rate by 75-bp in a split decision (to 10%). Deputy governor, Gerardo Esquivel, was the dissenter voter with a 50-bp rate hike. The forward guidance, in the concluding remarks was unchanged relative to the August and September statements, suggesting the magnitude of future rate hikes will be data dependent: "the Board will assess the magnitude of the upward adjustments to the reference rate based on the prevailing conditions". Balance of risks for inflation continues tilted to the upside (but not significantly tilted to the upside as in the previous statement), while inflation forecast remained broadly unchanged. The quarterly annual headline inflation is expected to reach 8.3% in 4Q22 (from a previous estimate of 8.6%) and 4.1% in 4Q23 (previously at 4%). Quarterly annual core inflation forecasts for 4Q22 and 4Q23 stood at 8.3% (from 8.2%) and 4.1% (unchanged from the previous estimate), respectively.

Using 12-month rolling figures, the nominal fiscal deficit stood at 2.8% of GDP in September (from a deficit of 2.6% of GDP in June and a deficit of 2.9% of GDP in 2021), while the primary balance stood at a surplus of 0.1% of GDP (practically unchanged from June and from a deficit of 0.3% of GDP in 2021). Total fiscal revenues increased 4.8% year-on-year in real terms as of September (YTD), supported mainly by high oil prices and one-off revenues, but mitigated by the subsidy for the gasoline excise tax to contain fuel price increases. However, the policy to contain gasoline prices resulted in negative gasoline excise tax revenues of 85.7 billion Mexican pesos (YTD) in September (some 0.3% of GDP). Total fiscal expenditure grew 3.5% year-on-year in real terms as of September (YTD), pressured by the financial cost in a high-interest rate environment.

Inflation in Mexico



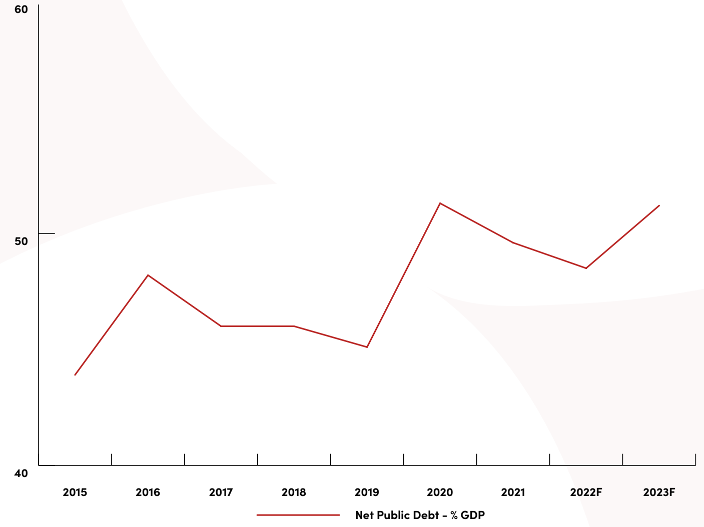
Stronger-than-expected activity in 3Q22 led to a revision of the GDP growth forecast for this year to 2.6% (from the previous scenario of 2.1%). However, the solid GDP performance is unlikely to last during the rest of the year and throughout 2023 given a deteriorated global scenario. For next year, GDP growth of 0.5% is expected.

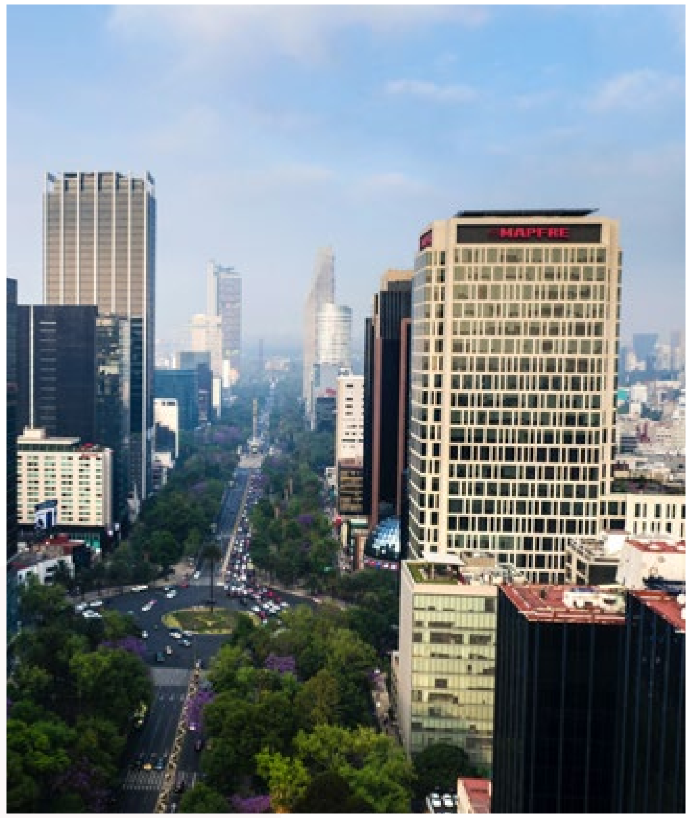
Inflation of 8.7% is forecast for end of this year. While headline inflation continued to trend down, aided by well-behaved non-core CPI food and energy prices, core inflation remains stubborn, and has not yet reached a peak.

The policy rate is expected to end this year at 10.5%, which would imply an additional 50-bp rate hike in the December meeting. Next year a higher terminal policy rate of 11.5% (compared with the previous scenario of 11%) is expected, which would imply an unchanged policy rate differential with the U.S. by the end of the cycle (with the Fed Fund rate peaking in range of 5.25%-5.5%).

The nominal fiscal deficit estimate is 3.4% of GDP for this year (MoF target of 3% of GDP), while for next year it stands at 4.1% of GDP (MoF target of 3.6% of GDP). The nominal fiscal deficit estimates used are wider than those of the MoF, so there is less optimism regarding GDP growth (particularly for next year: MoF's estimate is 3%) and oil production, and also due to pressures from AMLO's priority projects and programs. As a result, the net debt estimates for 2022 and 2023 are 48.5% of GDP and 51.2% of GDP, respectively.

Net Public Debt in Mexico





Avenida Paseo de la Reforma, Mexico City

Mexico Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth - %	3.3	2.6	2.1	2.2	-0.2	-8.1	4.8	2.6	0.5
Nominal GDP - USD bn	1,171	1,077	1,163	1,222	1,242	1,099	1,293	1,490	1,564
Population	121.5	122.7	124.0	125.2	125.6	127.7	129.0	130.1	131.2
Per Capita GDP - USD	9,636	8,774	9,384	9,765	9,891	8,603	10,029	11,452	11,915
Unemployment - year avg	4.4	3.9	3.4	3.3	3.5	4.4	4.1	3.3	3.4
Inflation									
CPI - %	2.1	3.4	6.8	4.8	2.8	3.2	7.4	8.7	5.0
Interest Rate									
Monetary Policy Rate - eop - %	3.25	5.75	7.25	8.25	7.25	4.25	5.50	10.50	11.50
Balance of Payments									
MXN / USD - eop	17.21	20.73	19.66	19.65	18.93	19.91	20.53	20.00	21.00
Trade Balance - USD bn	-14.7	-13.1	-11.0	-13.6	5.4	34.2	-10.9	-25.0	-29.0
Current Account - % GDP	-6.6	-4.5	-3.5	-4.2	-4.6	-3.4	-5.7	-1.3	-1.5
Foreign Direct Investment - % GDP	4.0	4.9	4.4	3.4	4.3	2.8	3.0	2.8	3.1
International Reserves - USD bn	176.4	176.5	172.8	175.0	180.8	195.7	202.3	203.0	205.0
Public Finances									
Nominal Balance - % GDP	-3.4	-2.0	-1.1	-2.1	-1.6	-2.9	-2.9	-3.4	-4.1
Net Public Debt - % GDP	43.9	48.2	46.0	46.0	45.1	51.3	49.6	48.5	51.2

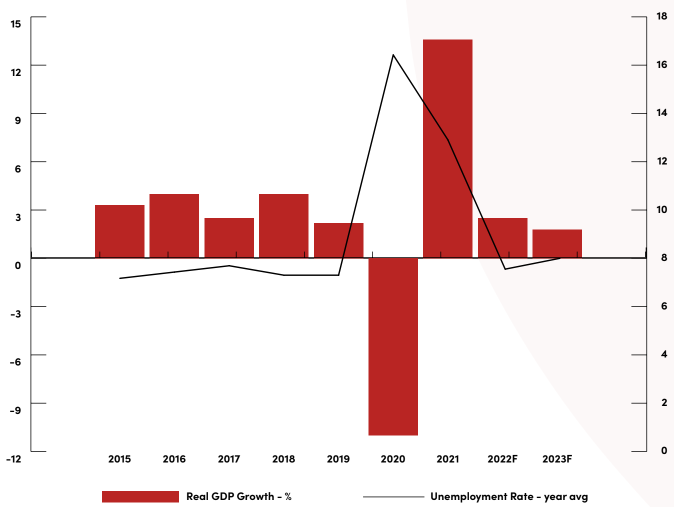
Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

Peru

Peru's Attorney General (AG) filed a constitutional complaint against President Castillo for allegedly leading a criminal organisation, awarding public contracts. However, the accusation doesn't seem to have the legal grounds to oust Castillo, as it is not in the list of permissible reasons to accuse a sitting President (Constitution Art. 117). The AG asked the constitutional tribunal to reinterpret the article and, since this was denied by the court, is now appealing to an international treaty (UN convention against corruption) signed by Peru to bring Castillo to Justice. However, it will be up to Congress to invoke the convention. While Peru's solid macro fundamentals mitigate the uncertainty derived from political instability, recently Fitch ratings affirmed its credit rating |at BBB but with a negative outlook, citing a weakening of Peru's political governance.

> *"GDP growth forecast for 2022 has been increased to 2.5%. Still, weaker global growth, a tighter monetary-policy stance, lower terms of trade and persistent uncertainty from the political scenario are strong headwinds for domestic activity"*

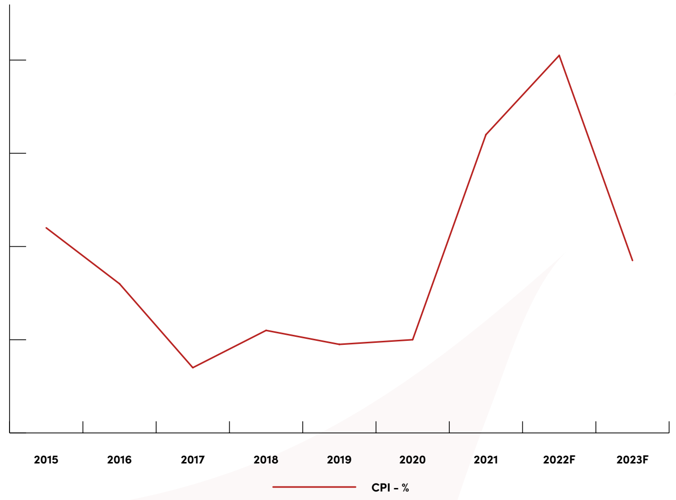
Real GDP Growth and Unemployment Rate



Activity expanded in August supported by the primary sector. Using a seasonally adjusted series (published by the BCRP), monthly GDP rebounded in August, increasing 1.9% month-on-month (after falling by 1.9% in July). Activity in August was supported mainly by the primary sector (1.6%), while non-primary activity grew at a soft 0.2%. The quarter-over-quarter (non-annualised) growth rate of the monthly GDP stood at 1.9%, while the statistical carryover in August for this year was 2.4%.

The CPI posted a monthly rate of 0.35% in October (from 0.58% a year ago), below the market consensus of 0.47% (as per Bloomberg). Upside pressure to headline inflation came mainly from transportation associated with a seasonal increase

Inflation in Peru



in bus tariffs due to holidays and increased prices for fuel and restaurants & hotels. On the other hand, food prices, which had been one of the main sources of pressures in the past CPI figures, fell by 0.15% month-on-month. On an annual basis, headline inflation fell to 8.28% in October (from 8.53% in September), but with core inflation (excluding energy and food items) still increasing to 5.72% (from 5.51%).

In its November's meeting, the Central Bank of Peru (BCRP) increased its policy rate by 25-bp (reaching a level of 7.25%). The monetary policy stance went further into restrictive territory as the real ex-ante policy rate stood at 2.47%, from 2.11% in October and compared to the neutral real rate of 1.5% estimated by the central bank. Monetary policy forward guidance remained unchanged (compared to the previous statement), leaving the door open for additional rate hikes dependent on data. Future rate adjustments will be dependent on inflation and its expectations and the evolution of the economy.

Canning House

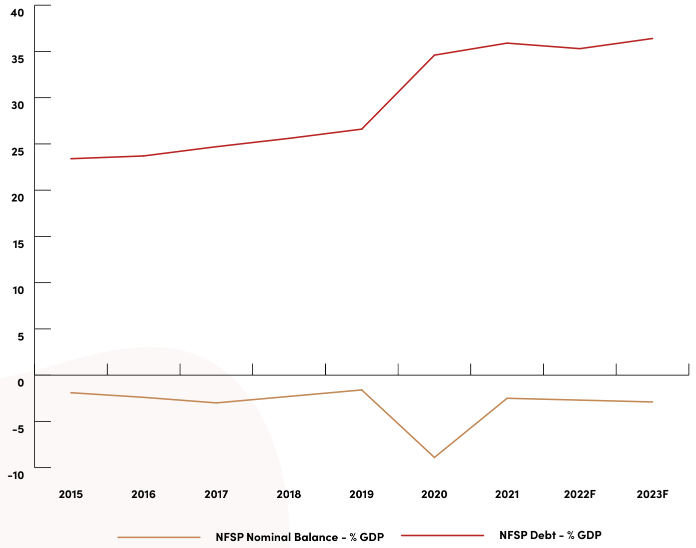
GDP growth forecast for 2022 has been increased to 2.5% (compared with the previous scenario of 2.0%) due to a better-than-expected evolution of data. Still, weaker global growth, a tighter monetary-policy stance, lower terms of trade and persistent uncertainty from the political scenario are strong headwinds for domestic activity.

Inflation will likely continue to slow down, reaching 8.1% for the end of 2022. For end of next year, inflation is estimated to reach 3.7% amid lower commodity prices and a tighter monetary policy stance.

Also considering higher interest rates in the U.S., a rate cut in not expected next year. The policy rate forecast for the end of 2023 stands at 7.25%.

A nominal fiscal deficit of 2.7% of GDP is expected for 2022 and 2.9% of GDP for 2023. In line with this expectation, gross public debt is estimated at 35.3% of GDP for 2022 and 36.4% of GDP for 2023.

Public Finances in Peru



Peru Economic Table

	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
Economic Activity									
Real GDP growth - %	3.3	4.0	2.5	4.0	2.2	-11.0	13.6	2.5	1.8
Nominal GDP - USD bn	191	196	216	227	232	206	226	249	261
Population	30.0	30.4	31.0	31.6	33.2	33.5	33.8	34.2	34.5
Per Capita GDP - USD	6,385	6,434	6,970	7,188	7,010	6,137	6,677	7,275	7,551
Unemployment - year avg	6.5	6.7	6.9	6.6	6.6	13.6	10.9	7.7	8.0
Inflation									
CPI - %	4.4	3.2	1.4	2.2	1.9	2.0	6.4	8.1	3.7
Interest Rate									
Monetary Policy Rate - eop - %	3.75	4.25	3.25	2.75	2.25	0.25	2.50	7.25	7.25
Balance of Payments									
PEN / USD - eop	3.41	3.36	3.24	3.37	3.31	3.62	4.00	4.00	4.00
Trade Balance - USD bn	-2.9	2.0	6.7	7.2	6.9	8.2	14.8	9.0	6.0
Current Account - % GDP	-5.0	-2.3	-0.9	-1.3	-0.7	1.2	-2.3	-4.0	-2.0
Foreign Direct Investment - % GDP	4.3	3.5	3.4	2.6	2.0	0.4	3.3	4.5	3.5
International Reserves - USD bn	61.5	61.7	63.7	60.3	68.4	74.9	78.5	76.0	77.0
Public Finances									
NFSP Nominal Balance - % GDP	-1.9	-2.4	-3.0	-231	-1.6	-8.9	-2.5	-2.7	-2.9
NFSP Debt - % GDP	23.4	23.7	24.7	25.6	26.6	34.6	35.9	35.3	36.4

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

Canning House

Risk Outlook

Instability and threats in Latin America

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

Regional Outlook

Despite its plethora of investment and business opportunities, Latin America is not a risk-free operating environment. Security risk and corruption risk in particular will continue to pose important challenges for companies looking to succeed in the region.

On the security side, the imposition and subsequent relaxation of severe mobility restrictions implemented by governments in the first year of the COVID-19 pandemic led to a sudden drop in crime in 2020 - followed by a sharp spike in 2021/2022. This yo-yo effect has given way to a more gradual and sustained shift in security dynamics across the region. Violent crime statistics have at least partially declined in several of the region's major economies, while petty and property crimes have been on the rise. In several cases, this is related primarily to a shift in attention by governments and the public security forces, and reshuffling of public security budgets, and other factors, rather than a structural reduction in opportunities for illicit enrichment for organised crime. In parallel, across much of the region social unrest has been on the rise, as living standards have come under stress, initially caused by the pandemic and then by global macroeconomic trends such as the rise in the cost of living. Combined, challenges related to physical insecurity and operational disruption stemming from violent unrest remain aplenty, and companies looking to do business in the region continue to be well advised to take a proactive approach to identifying and managing these risks.

On the corruption side, only a few years ago, off the back of the Odebrecht scandal, many observers had hailed the beginning of a renewed and concerted regional anti-corruption drive. This has gradually given way to a far more limited effort and ambition to address a phenomenon that continues to be a significant scourge on economies and societies in the region. On the one hand, the need to focus on economic recovery after the pandemic has meant that in many countries, public attention (and by extension politicians' attention) has shifted to other, purportedly more pressing issues. At the same time, where the fight against corruption has remained on government's agendas, in Argentina and Mexico for example, it has often been re-imagined as a political tool to protect political allies, and undermine political enemies and the opposition, rather than to attempt to systemically root out fraud, bribery and graft.

For companies, the above backdrop means that much of the onus for successfully managing risks related to insecurity and corruption remains on them, rather than being able to rely on governments to fill the void. At the same time, both risks remain inherently manageable. With sufficient understanding of local nuance in the relevant dynamics, and the right focus on effective tools to manage related risks, companies can successfully invest and thrive, in whichever part of the region they decide to invest or conduct business.

Country Trends

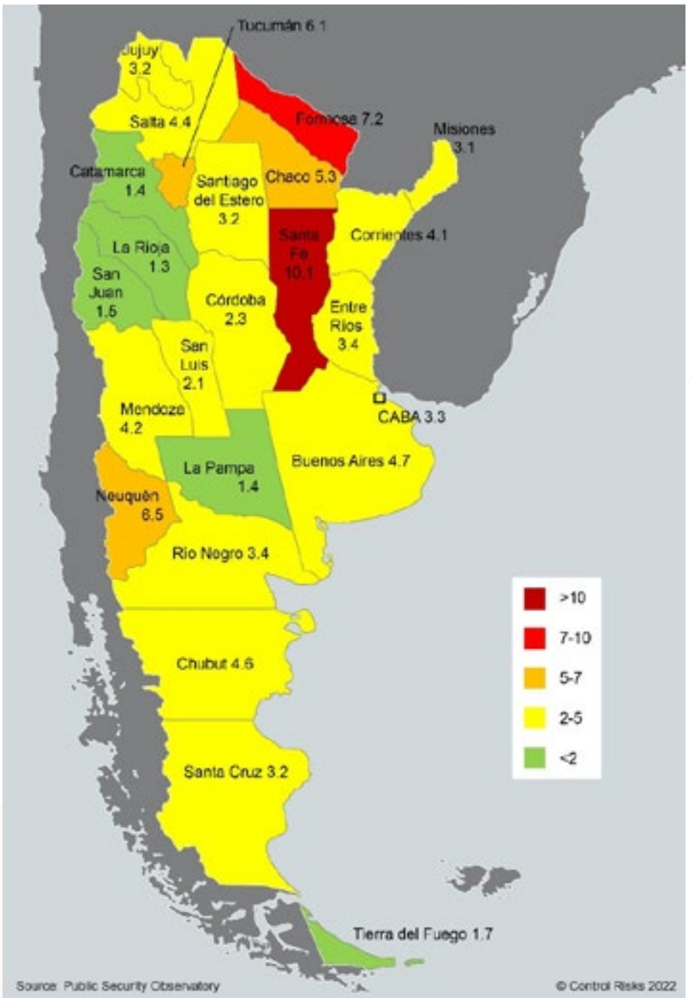
Argentina

Security

Argentina will likely remain one of the safest countries in Latin America in the coming years. The homicide rate, for example, stood at around 4.6 cases per 100,000 inhabitants in 2021, which is low compared with Brazil's (22.3) and Uruguay's (8.5). The provinces of Santa Fe, Formosa, Neuquén and Tucumán recorded the highest crime rates nationwide. Overall, most security threats are related to opportunistic crimes – particularly street robbery and vehicle theft – and are disproportionately concentrated in the main urban centres, such as the capital Buenos Aires and Rosario (Santa Fe province). The deterioration of Argentina's socioeconomic situation (the national poverty rate stands at 36.5% of the total population, for instance) will remain a driver of property crime over the next few years, given the direct causal link between poverty and crime in Argentina and elsewhere.

The presence of organised crime groups (primarily drug- and arms-trafficking gangs) will continue to pose latent threats to businesses and personnel. In addition to organised criminal groups (OCG) from Brazil, Colombia and Mexico, there are local drug-trafficking groups operating in Argentina – particularly in Rosario – which will keep driving violent crime in the country. These groups will continue to engage in score-settling armed conflicts and turf wars to secure traffic routes and markets.

Homicide Rates in Argentina per 100,000 inhabitants, by province, 2021



Social unrest risks will remain elevated in the coming year due to persistent political polarisation and increasing inflation rates. Over the past year, labour unions have mobilised periodic protests, demanding salary increases and the protection of labour rights. Centre-right movements, on the other hand, have taken to the streets to protest President Alberto Fernández's handling of the economy – amid persistent, distortive interventions – and Vice-President Cristina Fernández de Kirchner's alleged involvement in corruption schemes. Pro-government demonstrators also mobilised multiple protests in support of Fernández de Kirchner following her assassination attempt on 1 September. These demonstrators, furthermore, perceive the corruption allegations against the vice-president to be part of a political persecution. Demonstrations will remain largely peaceful, frequent and well-attended. However, the rapid escalation of inflation (to a three-digit figure), the acute deterioration of the relationship with the IMF (if Argentina fails to meet the quarterly targets) and any abrupt development in Fernández de Kirchner's corruption cases are potential triggers for greater instability and social discontent.

Indigenous activism will also continue to pose security threats to businesses. In particular, the Mapuche community (in the Río Negro province) will keep trying to reclaim lands they consider part of their ancestral heritage. This includes occasional roadblocks and arson attacks against public infrastructure and company assets. The situation is exacerbated by the government's dubious approach vis-à-vis Indigenous activism. While maintaining a pro-Indigenous rhetoric, the administration has increasingly resorted to heavy-handed tactics when conflicts arise. These measures threaten further escalation. Cybercriminal groups present a low-level but persistent threat to companies operating in Argentina. These groups likely view private firms as an attractive target under the perception they have immature cyber security practices. Cybercriminal operations targeting companies in Argentina primarily involve phishing campaigns, financial fraud and extortion. Threat actors with more sophisticated capabilities have begun targeting public institutions through ransomware attacks against regional and national bodies, leveraging operational disruption and stolen data to secure payments. Large companies in the financial, energy, telecommunications and other critical sectors – as well as their IT supply chains and third-party vendors – will likely continue to face the highest threat from this type of crime.

> *"Communication channels among the different corruption enforcement agencies are scarce, so co-operation is limited and relatively ineffective. As a result, the country's ability to tackle corruption is inadequate"*

Corruption

Argentina displays poor levels of enforcement overall, with most watchdog agencies lacking the financial resources, personnel and expertise to conduct investigations and undertake prosecution. Additionally, communication channels among the different enforcement agencies are scarce, so co-operation is limited and relatively ineffective. As a result, the country's ability to tackle corruption is inadequate. This is compounded by reduced political will towards the issue. As Fernández de Kirchner is a defendant in multiple corruption investigations, the administration has not promoted an anti-corruption agenda.

On the contrary, the government has increased its influence over the judiciary in the past two years – notably by appointing allies to key positions in law enforcement agencies and other relevant institutions, reducing their reliability. This politicisation will persist for the remainder of Fernández's term. That said, corruption will remain a hot topic among civil society. The press, still largely independent, will keep reporting on corruption cases regardless of whether they involve a top-ranking politician.

Most integrity risks to businesses in Argentina continue to involve bribe requests from public officials at both the national and local levels. These cases have occasionally been reported by local media and law enforcement agencies over the past few years. More bureaucratic procedures, like the issuance of licenses and permits, pose even higher risks. Since these processes are typically lengthy, they provide an environment ripe for corrupt agents to request benefits – including, but not limited to, cash – to expedite them or to favour specific companies.

Brazil

Security

In 2022, Brazil's security environment experienced a decline in violent crime, while petty and property crime increased. In the lead-up to the general election in October, sporadic episodes of political violence also became more frequent, posing indirect security risks across the country. Homicides fell by 5% (20,126) in the first half of 2022 compared with the same period of 2021, according to official data. The most significant reductions of violent crime were recorded in Roraima (34%), Brasília (21%), Rio Grande do Norte (18%) and Rio de Janeiro (16%).

> *"Criminal organisations based in São Paulo and Rio de Janeiro will increasingly focus on illegal mining, logging and poaching in the Amazon region"*

This trend started in 2018 and was triggered by multiple factors, including spontaneous changes to organised crime dynamics in certain states (notably a reduction in turf wars in the north-east) and government efforts to coordinate different security agencies. That said, violent crime will remain a threat over the next three to five years given the expansion of organised criminal groups (OCGs). Criminal organisations based in São Paulo and Rio de Janeiro will increasingly focus on illegal mining, logging and poaching in the Amazon region. Occasional disputes over these activities and drug and arms trafficking routes – to connect supply coming from other South American countries to markets in the US and Europe – will result in sporadic clashes over the coming years.

As mobility changes brought by the COVID-19 pandemic and other restrictions have been lifted, common crime has gradually increased. For instance, São Paulo city recorded 20,662 thefts in August. That is the highest level for the month since records began in 2001. Property crime – including robbery and cargo theft – will remain the main security threat for businesses operating in Brazil.

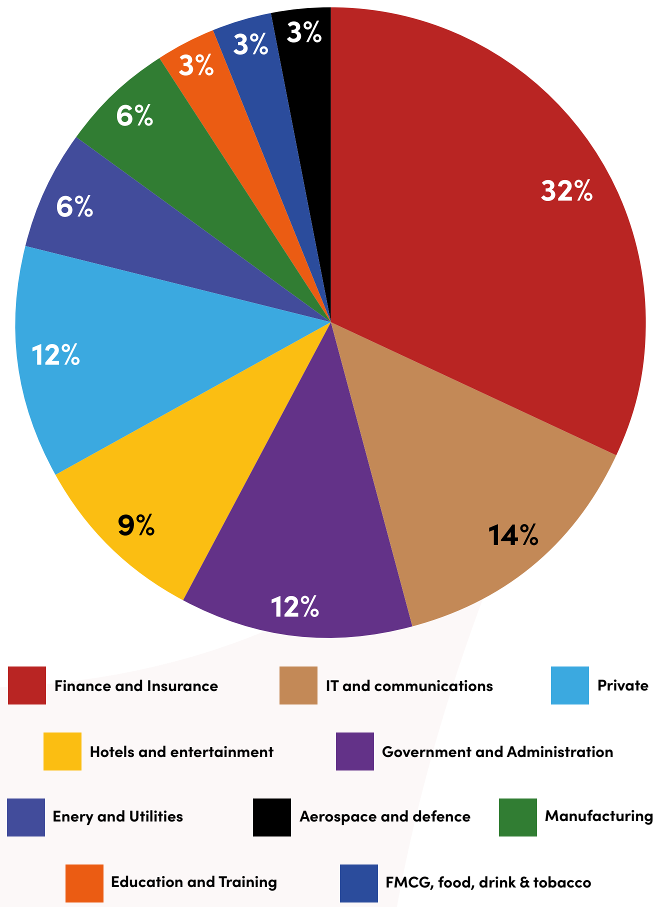
Even with the aforementioned reductions, crime in Brazil will remain high compared to other countries in the region as the persistent underlying factors behind violence are not going away in the next three to five years. These drivers include high levels of poverty and income inequality, the increased availability of firearms, well-structured OCGs and inefficient policing.

Understaffed and undertrained police departments will likely remain unable to prevent or investigate petty crime – at least for the coming year. Even if new federal and state governments change public policies upon taking office in January, these strategies would take time to yield results.

Furthermore, police brutality (especially in Rio de Janeiro) will keep being a source of social discontent in the coming years. The relaxation of gun control since 2019 and the increased availability of firearms that resulted will remain a challenge in the fight against OCGs. More guns in circulation will also raise security risks posed by sporadic episodes of political violence. These episodes will continue to be indirect security threats for business personnel.

Brazil has a significant cybercriminal ecosystem with a relatively open community operating on social media sites. Most domestic cybercriminal attacks focus on financial institutions and Brazilian cybercriminals have specialised in developing banking Trojans, which are often updated and sold on criminal forums. The increasing sophistication of Brazil-based cybercriminal groups exacerbates the threat to companies in Latin America and beyond. Private firms operating in Brazil – especially those with e-commerce platforms – will remain exposed to heightened threats from cybercrime and online fraud. Moreover, sophisticated foreign-based ransomware and data extortion groups continue to present a high threat to the private sector in Brazil. A string of high-profile attacks against government, aerospace and defence institutions in the past 12 months has showcased this threat.

Cybercriminal Targeting of Companies in Brazil 2018-22



Source: Control Risks

Corruption

The integrity landscape kept deteriorating in 2022 under President Jair Bolsonaro. He sought to consolidate control over bodies investigating alleged corruption involving him and his inner circle and appointed perceived loyalists to key positions. These appointments include positions in the General-Prosecutor's Office and the Justice Ministry (which oversees the Federal Police). Independent anti-corruption agencies like the Council for Financial Activities Control (Coaf) have faced budget cuts, limiting their investigative and oversight abilities. Overall, anti-corruption agencies' independence and efficiency continued to decline.

Opaque negotiations over federal budget allocations to the president's allies in Congress and limited interest from lawmakers in approving anti-corruption legislation have remained an issue in Brazil. However, setbacks over the past years have not fully reversed decades of institutional strengthening. Despite its limited resources, the office of the Controller General (CGU) is taking a more prominent role in promoting enforcement and negotiating agreements and resolutions in corruption-related matters.

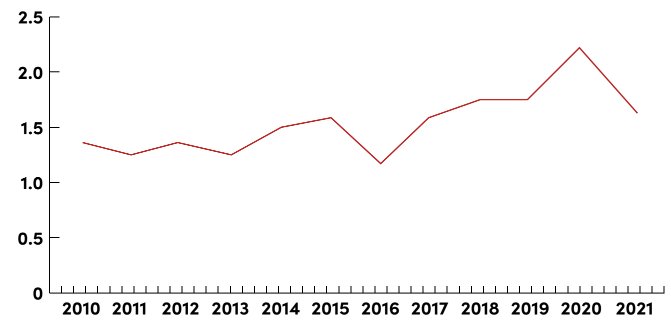
Under President-elect Luiz Inácio Lula da Silva (previously president from 2003-2010), anti-corruption agencies will regain some of their lost autonomy – although a degree of political interference is likely to persist. High courts will maintain their independence from the government over the next three to five years. The same goes for the resiliency of the country's civil society and press, which will likely continue to uncover corruption scandals at the federal, state and local levels.

Chile

Security

Chile will remain one of the safest countries in Latin America in the next three to five years. Police forces will continue to be broadly efficient and transnational crime does not have the capacity and strength it has in most of the other countries in the region. However, crime rates have increased since last year. Data from the Interior Ministry shows that homicide rates rose significantly from mid-2021 to early-2022, peaking in the first quarter of 2022 (increasing from 0.7 to 1.3 per 100,000 people). This 85.7% rise reflects higher levels of gun violence and organised crime, particularly in the suburban parts of the Santiago Metropolitan Region and in northern border areas.

Homicides rates per 100,000 people in the first six months of the year, 2010-21



Source: Ministry of Interior and Public Security

The Public Prosecutor's regional office in Tarapacá region (northern Chile) on 30 December reported that homicides in Arica y Parinacota, Tarapacá and Antofagasta regions increased by 125%, 240% and 179% (respectively) from 2016 to 2021. These regions all have a porous border with Bolivia, Peru or both. Most of the drugs that enter Chile cross these borders, fuelling criminal activity as gangs that traffic drugs, arms and other illegal goods engage in extortion, turf wars and score-settling disputes. Security concerns in the north will persist given the country's limited resources to patrol those porous desert borders.

Common crime will remain the most prevalent security issue in Chile, and it has also increased with the destabilisation of the security environment since mid-2021 and the suspension of pandemic-related mobility restrictions. This is the case with robbery rates, which rose from 49.3 per 100,000 people in the first quarter of 2021 to 99.1 in the second quarter of 2022 (an increase of 101%). In the same period, theft and burglary rose by 67.2% (from 85.3 to 142.6) and 73.9% (from 33 to 57.4), respectively. The threat of opportunistic crime is largely concentrated around major urban centres. Armed carjackings in Santiago (locally called encerronas) will remain a concern, particularly on urban highways surrounding the metropolitan area.

> *"Protest-related security issues will persist in the largest cities as the government's increasing inability to pass the most ambitious elements of its social reforms in Congress will trigger sporadic demonstrations in the largest cities"*

Protest-related security issues will persist in the largest cities as President Gabriel Boric's increasing levels of political moderation and inability to pass the most ambitious elements of his social reforms in Congress will fuel anti-government sentiment and trigger sporadic demonstrations in the largest cities. Assets in the financial, retail, transport and business sectors, as well as government buildings, are the most vulnerable. Moreover, violent Indigenous activism will challenge businesses significantly in the southern Biobío, La Araucanía and Los Ríos regions as radical groups perceive private firms to have illegitimately exploited their ancestral lands. Forestry and agribusiness companies will remain preferred targets.

Financially motivated cybercriminals present the highest cyber threat to companies operating in Chile (especially financial sector institutions), as do low-level cybercriminal outfits that carry out mobile-enabled fraud targeting individuals and firms. Furthermore, a range of advanced ransomware groups poses an increasing threat to high-profile companies in the country. These groups have increasingly targeted government and financial sector firms across Latin America. Ransomware groups are likely to increasingly target companies in Chile due to the perception that they have relatively immature cyber security.

Santiago de Chile, Chile

Corruption

Corruption in Chile remains relatively rare and does not represent a major barrier to businesses or foreign investors in general. International corruption surveys indicate that Chile is one of the least corrupt nations in Latin America. Recent investigations have targeted high-ranking officials such as former commanders-in-chief of the Army Humberto Oviedo and Juan Miguel Fuente-Alba, who were formally accused of money laundering. Other military officials were also investigated, and one was imprisoned; investigations and legal procedures against them have accelerated in 2022.

Fairly independent investigations are likely to persist, as Chile's anti-corruption institutions will remain relatively solid. In response to unyielding social tensions, the anti-corruption agenda in Congress is likely to continue to advance in 2023 despite priority being given to socioeconomic issues. The legislative agenda includes measures to protect whistleblowers, toughen penalties and strengthen anti-corruption capabilities in municipal and regional governments. The Boric administration is also engaged in strengthening the country's anti-corruption credentials: as in May, the Under-secretariat of International Economic Relations (Subrei) joined the Anticorruption Alliance of the United Nations Convention against Corruption. Moreover, the new constitutional process that will be undertaken in 2023 is very unlikely to weaken anti-corruption and transparency institutions as citizen oversight of policymakers will remain significant.

Colombia

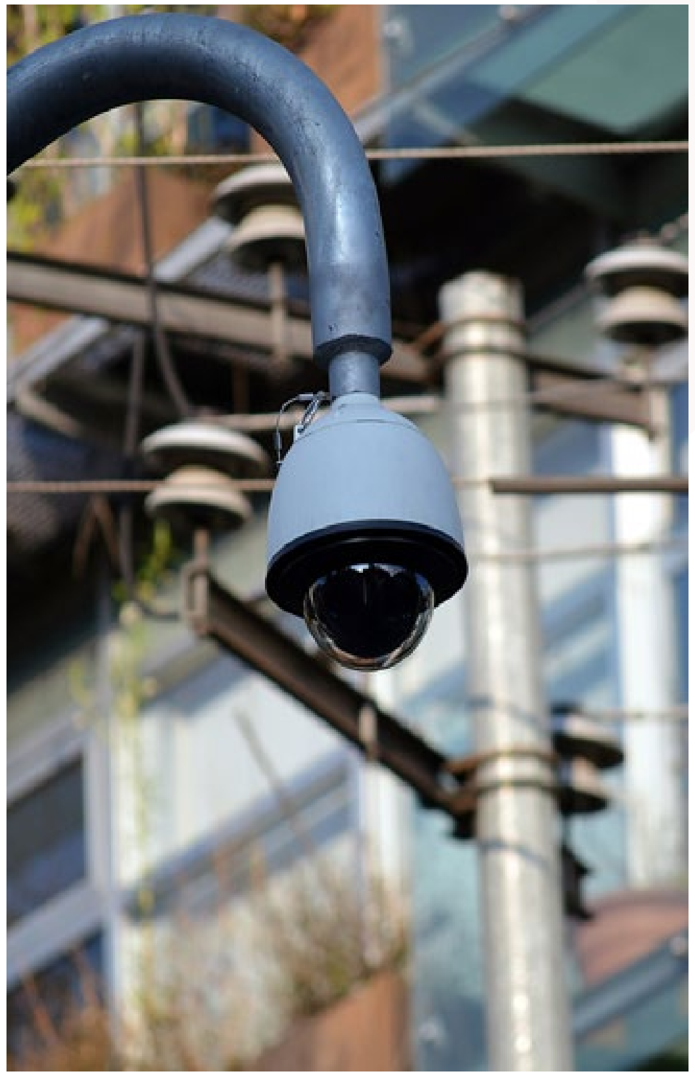
Security

The security environment in Colombia will continue to be challenging due to the entrenched presence of organised armed groups (GAOs) in parts of the country. Violence in many regions has increased since the signing of the peace agreement of 2016 with the Revolutionary Armed Forces of Colombia (FARC). Rival groups such as the National Liberation Army (ELN), the Gulf Clan and dissident factions of the FARC that did not participate in the 2016 agreement strengthened their presence in zones previously controlled by the FARC. These dynamics have led to increased violence against local communities and confrontations among GAOs. The security policy of former president Iván Duque (2018-22), which emphasised heavy-handed tactics such as the aerial eradication of coca crops and military operations against GAOs, failed to curtail violence or drug trafficking.

President Gustavo Petro, who took office on 7 August as Colombia's first left-wing president, has promised a radical reorientation of security policy. His "total peace" strategy envisions negotiations with a diverse range of GAOs and criminal organisations, a less militarised anti-narcotics strategy and a doctrinal shift within the security forces towards a preventative and human rights-oriented approach and away from combat operations against GAOs.

The first two months of the new government have seen a flurry of announcements and measures aimed at realising this new vision. The administration suspended extradition orders for guerrilla leaders and proposed halting that of drug traffickers who participate in negotiations with the government and renounce illicit activities. Petro also presented a reform to the criminal code to establish a legal basis to give judicial benefits to members of OCGs who negotiate with the government. Lastly, the director of the National Police, Henry Sanabria, announced new guidelines in late September limiting the use of force by the police during protests.

The new strategy has received a positive response from GAOs. More than 30 – including guerrilla groups such



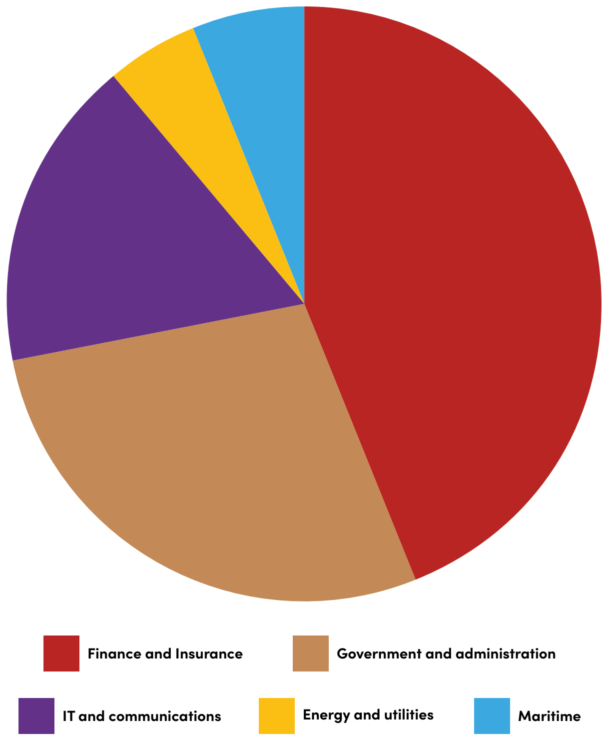
> *"Police reforms and new protocols for using force entail a risk of reducing the effectiveness of security forces' response – especially to violence surrounding protests"*

as the National Liberation Army (ELN) and other OCGs – have voiced their intent to participate in talks with the government. Representatives of the Petro administration have communicated with the major GAOs to explore peace negotiations. The process with the ELN is the most advanced: on 4 October the administration announced that talks with the group, which had begun in 2017 but were suspended in 2019 after an ELN attack on a police academy in Bogotá, would restart in November. The timelines for negotiations with FARC dissidents and the Gulf Clan remain unclear.

Petro's security strategy aims to correct shortcomings in the security policy of past governments, but it also creates new risks. Pursuing simultaneous negotiations with diverse guerrillas and OCGs will prove challenging. The main GAOs (including the ELN, FARC dissidents and the Gulf Clan) are all highly decentralised, and regional commanders have a great deal of financial and operational autonomy. Some factions of these groups are very likely to continue their illicit activities and expand their territorial control even as negotiations proceed – or abandon the talks altogether. The priority the government is placing on negotiations with the ELN will also likely cause resentment among other groups, whose commitment to the process may diminish as a result. Clashes among factions of the main armed groups – the ELN, FARC dissidents and the Gulf Clan – are likely to continue despite peace negotiations with the government, especially in areas of strategic importance for the drug trade. In addition, police reforms and new protocols for using force entail a risk of reducing the effectiveness of security forces' response – especially to violence surrounding protests.

Cybercriminal attacks targeting companies in Colombia primarily facilitate financial fraud, identity theft and data breaches. These low-level attacks have coincided with a rise in more sophisticated attacks of advanced cybercriminal groups across Latin America. These include ransomware operations, often enabled by spear phishing campaigns aimed at compromising target systems. SMEs are typically the victims of such campaigns, though government institutions are also increasingly appealing. The financial sector in Colombia remains particularly attractive for cybercriminals who engage in business email compromise and attacks leveraging ATM malware.

Cybercriminal Targeting of Companies in Colombia 2018-22



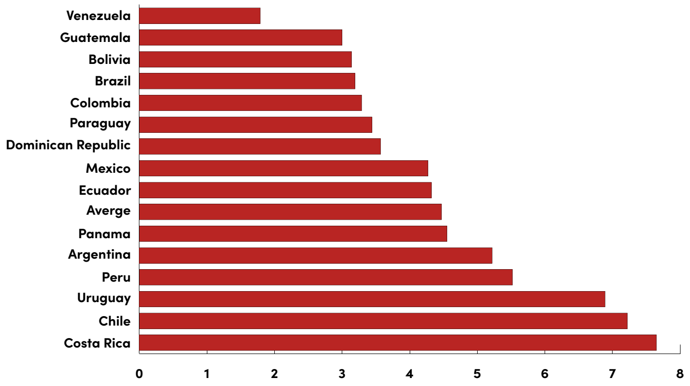
Source: Control Risks

Corruption

Both the general public and the business sector perceive corruption to be high in Colombia. The country received a score of 39 out of 100 on Transparency International's Corruption Perceptions Index in 2021 (higher scores indicate less corruption), thus ranking 87th out of 180 countries. Its performance on the index has not improved significantly since 2014, despite numerous anti-corruption reforms. Over the past several years, successive governments have passed measures to ensure transparency and competition in public procurement, publish candidates' campaign donors and require conflict of interest and asset disclosure for elected officials.

Enforcement of these new rules has been lacking. A major reason is that the judicial system (including the courts, the Public Prosecutor's Office and the Inspector General's Office) has been weakened by internal corruption, politicisation and limited technical capacity. Impunity for corruption is high. A second key reason for the ineffectiveness of many legal reforms is that private interests (including OCGs and drug traffickers) continue to use campaign finance to gain influence over the decisions of elected officials – especially in legislative and local elections.

Quality and Enforcement of Campaign Finance Laws, 2022



Source: Control Risks

The Petro administration has proposed a significant political reform that seeks to address several key underlying causes of corruption in Colombia. The government's plan would require parties to present single, closed lists of candidates in legislative elections. Under the current open-list system, parties nominate multiple candidates for legislative seats who then compete against each other. This raises the costs of campaigns and increases dependence on private financing. In a similar vein, Petro's proposal also seeks to limit the influence of private money by establishing full public financing of campaigns (private donations to parties will still be allowed).

While these reforms align with recommendations of academic experts and international organisations, the immediate impact on corruption will be limited. The requirement for closed legislative lists would only take effect in 2026 legislative elections. Full public financing of campaigns will be difficult to enforce, as candidates will have strong incentives to receive donations under the table – especially given the limited capacity of the National Electoral Council (CNE) to enforce campaign finance rules. In addition, the proposal will likely be watered down as it passes through Congress.

As a result, corruption is likely to remain high in Colombia over the next year, though integrity risks will be concentrated in certain areas and regions. Sectors such as infrastructure, construction and public procurement will be especially exposed, and corruption risks will be higher in regions such as the Caribbean coast.

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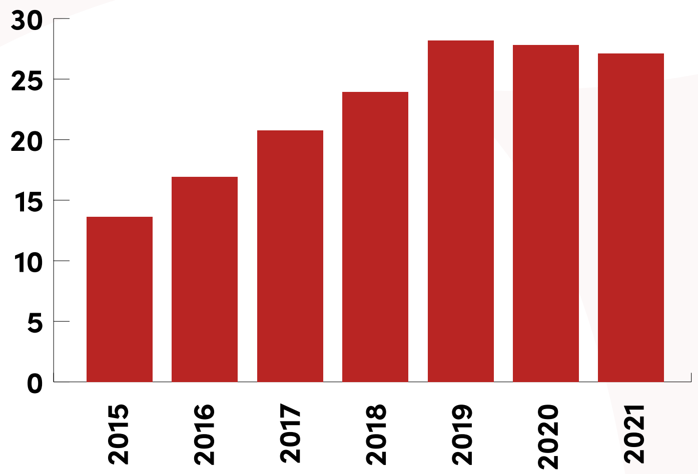
Mexico

Security

The security situation across Mexico remains challenging in 2022. Total crime increased from 159,026 cases in January to 180,493 in September. The homicide rate – which stood at 26.6 per 100,000 inhabitants in 2021 – has followed the same upward trend. These increases are driven by dynamic crime patterns as criminals adapt to post-pandemic conditions.

Homicides per 100,000 inhabitants



Source: National System of Public Security (SNSP)

Opportunistic common crime continues to pose security threats to corporate assets and personnel across the country. Over the coming year, a steep increase in the cost of living driven by record-breaking inflation will likely create conditions conducive to high levels of opportunistic common crime. Moreover, data from the Public Security Ministry shows an increase in extortion. This crime disproportionately targets small and medium businesses, but it impacts companies across the board.

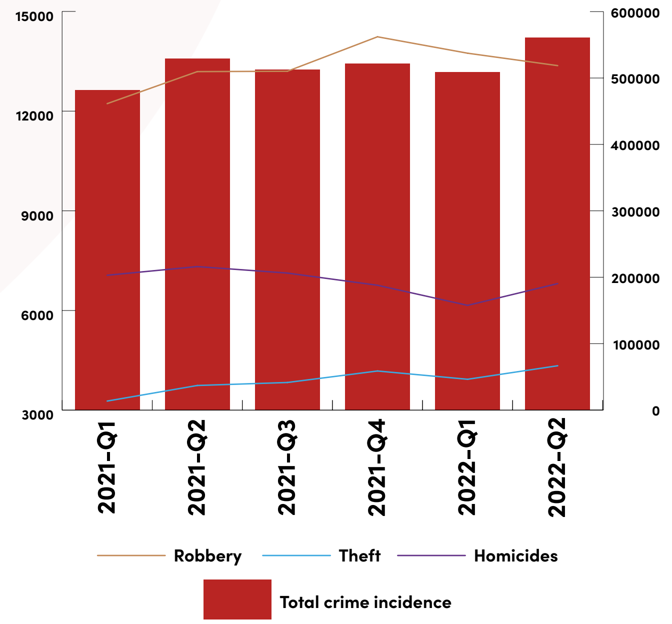
Local elections in six states in June will likely underpin high levels of criminality and violence in these localities as governments adjust or overhaul their security strategies. In this context, organised criminal groups will continue to seek territorial control over illicit markets, leading to turf wars that will drive high levels of violence.

> *"Over the course of 2022, the federal government has not adjusted its security strategy, which is focused on the implementation of the armed forces in public security tasks"*

Consequently, the main drivers of organised crime-related violence in 2022 and 2023 will be the persistent confrontation between three of the main OCGs operating across the country, the Sinaloa Cartel, the Jalisco New Generation Cartel and the Gulf Cartel. These large groups have historically splintered into smaller cells that contend control over the drug trafficking and other illicit activities, including human trafficking, illegal logging, and fuel and gas theft. Moreover, OCGs continue to expand into legitimate businesses. By way of example, armed attacks against chicken producers in June in the state of Guerrero caused shortages of the product and highlighted the continued expansion of criminal groups into legal markets.

Over the course of 2022, the federal government has not adjusted its security strategy, which is focused on the implementation of the armed forces in public security tasks. The growing importance of the armed forces is illustrated by the continued increase in the proposed budget for the Defence Ministry for 2023, which amounts to 7.45% of GDP before accounting for the USD 1.7 billion designated for the operation of the National Guard, now under the control of the ministry.

Crime Incidence in Mexico



Source: National Public Security System (SNSP)

Moreover, on 13 October Congress approved a constitutional reform that will extend the presence of the armed forces (mainly from the Ministry of Defence) in public security tasks. The document was withdrawn from the floor of the Chamber of Deputies as a vote would have resulted in the rejection of the bill. The initiative includes provisions for

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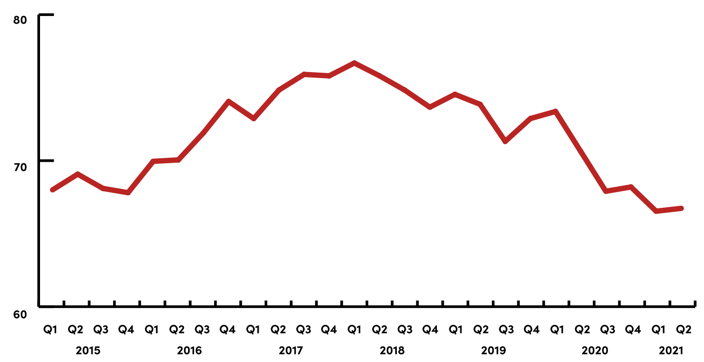
greater oversight of the armed forces performing public security tasks, as well as a fund to increase resources to local police forces to strengthen their capacity. Despite these modifications, the bill did not include a mechanism to monitor the performance of local police or facilitate their coordination with federal security forces. Therefore, it is unlikely that the provisions will improve the institutional response to violence.

Social Perception of Public Insecurity Nationwide 2015-June 2021

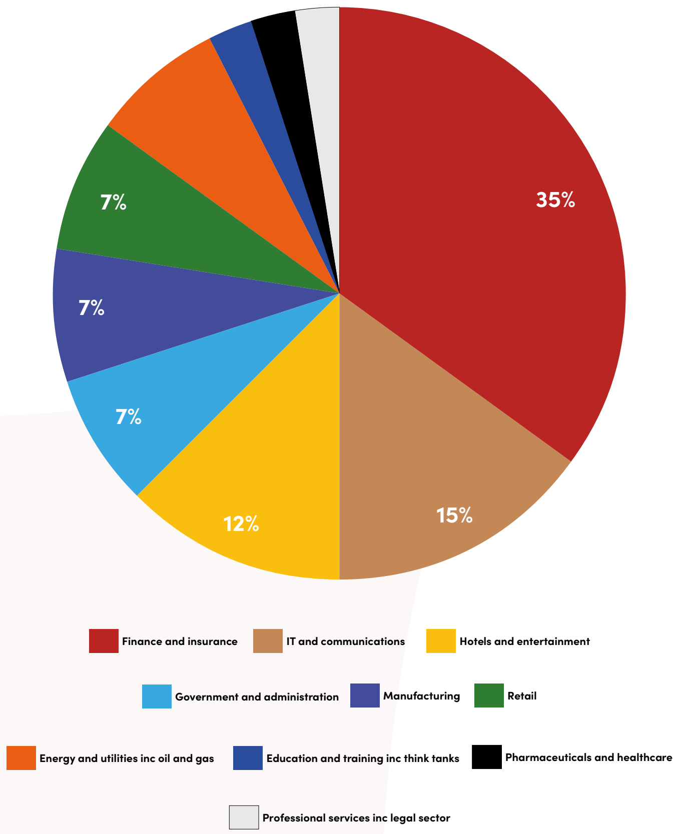


Source: National Institute of Statistics and Geography (INEGI)

Police in Mexico City

Companies in Mexico are susceptible to cyber attacks due to poorly configured systems, outdated versions of software, application vulnerabilities and an overall immature cyber security posture. This, combined with threat actors' perceptions of a low awareness of cyber threats in Latin America at large, likely make Mexico an attractive target for cybercriminal operations. Campaigns targeting private firms in the country primarily focus on financial fraud. The financial sector in Mexico has been targeted by regional cybercriminals, leveraging malware and banking Trojans to compromise credentials and steal sensitive and financial information. Further, critical sectors in Mexico, such as manufacturing, oil and gas, IT and telecommunications, face a growing threat from disruptive ransomware attacks, as demonstrated by the one against Foxconn in June.

Cybercriminal Targeting of Companies in Mexico, by sector (2018-22)



Source: Control Risks

Corruption

Despite President Andrés Manuel López Obrador (AMLO)'s rhetoric against it, Mexico's institutional capacity to curb corruption remains limited. Over the course of last year, the perceived political and biased use of anti-corruption institutions, such as the Attorney General's Office (FGR) and the Financial Intelligence Unit (UIF), have undermined their efficacy and independence, precluding an improvement in Mexico's corruption environment.

> *"AMLO has been highly critical of anti-corruption NGOs that point out the shortcomings of his anti-corruption strategy. This attitude towards such allegations will likely continue to weigh on the public's perception of the government's ability and willingness to address corruption"*

Moreover, authorities have yet to conclude the investigations of high-profile corruption cases, such as the one involving former Pemex director Emilio Lozoya. AMLO has dismissed any allegations of wrongdoing by his close allies and members of his government. Moreover, he has been highly critical of anti-corruption NGOs that point out the shortcomings of his anti-corruption strategy. This attitude towards such allegations will likely continue to weigh on the public's perception of the government's ability and willingness to address corruption.

In terms of public procurement, the federal government continues to prioritise directly awarded contracts rather than public tenders. According to the AMLO administration, this is to avoid any instance of corruption in public tender procedures. However, it has negatively impacted the accountability of public purchases. Moreover, the armed forces – which are not subject to the same scrutiny and transparency standards as civil agencies – are increasingly participating in key infrastructure projects.

Looking ahead, AMLO's proposal to remove the Executive Secretariat of the National Anti-corruption System (SNA) and an initiative to task the Public Administration Ministry (SFP) with overseeing government procurement and spending will likely weaken these institutions, undermining transparency and accountability.

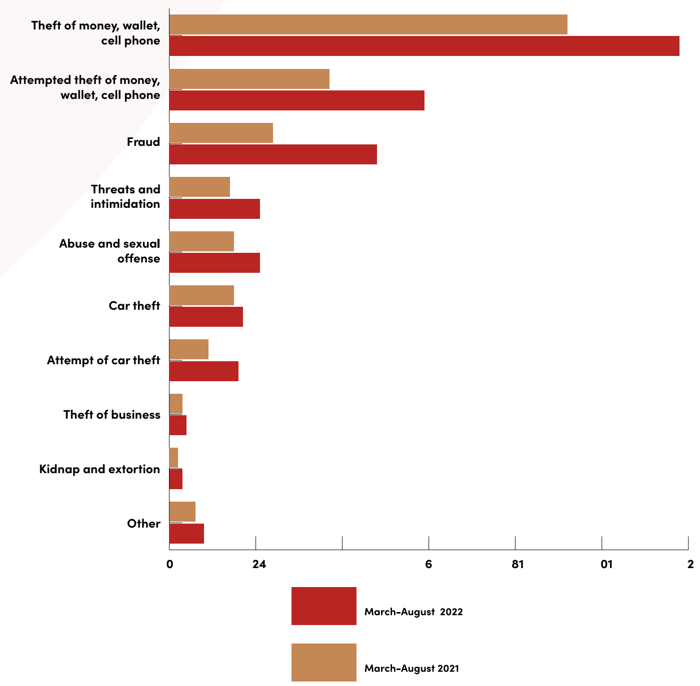
Peru

Security

Since 2020 Peru has experienced a broad deterioration of the security environment amid increased levels of common and violent crime – a trend that is unlikely to be reverted in 2023. While high unemployment and job informality levels (exacerbated by COVID-19-related restrictions) explain the increase, other factors have also come into play. These include frequent changes in police leadership introduced by President Pedro Castillo (which led to a stagnation in security policy) and criminal organisations' increased footprint in the country (showcased by sporadic incidents of targeted killings and growing records of extortion). While this is a general trend, the capital Lima and port cities Callao and Trujillo will continue to be more prominently affected. That said, security conditions in Peru will remain broadly favourable compared to its neighbours Colombia and Ecuador.

Theft will remain the most prevalent threat to businesses operating in Peru, as the crime has recorded a spike in 2022. Pickpocketing and cell phone snatching will continue to be a regular nuisance. Armed robberies – mostly opportunistic in nature – are sporadically reported, reflecting criminals' increased intent and capabilities and further deteriorating the public perception of insecurity. Meanwhile, recent security operations against remnants of the Shining Path (SL) guerrilla group suggest that the terrorist threat in Peru will remain limited to the Apurímac, Ene and Mantaro River Valley (VRAEM) region. The SL's operational capabilities to commit terrorist attacks (in the VRAEM or elsewhere) are weak. However, government efforts to curb the growing

Crime victims in the urban area, by type of crime (rate per 100 inhabitants aged 15 and above)



Source: INEI

number of coca crops in the VRAEM will be critical to undermine the SL's capabilities to finance its activities from drug trafficking. (The government escalated coca eradication efforts in 2022 after a poor performance in 2020 and 2021, partly due to COVID-19 related restrictions).

Companies in Peru will continue to face a high threat from local and regional cybercriminals, focusing on distributing mobile malware to smartphones by leveraging malicious applications. Foreign ransomware groups present a persistent threat to government institutions in combined data leak extortion attacks, while regional cybercriminal gangs, including Brazilian ones, continue to dominate across Latin America. Cybercriminal groups have also targeted mobile banking apps using Trojans or SIM card swapping for financial fraud, identity theft and other malicious activity. Continued collaboration between the Brazilian cybercrime community and those of other Latin American countries (including Peru) will reinforce threats to companies, particularly in the government and the financial sector.

Corruption

Corruption will continue to be a key driver of political instability and integrity risks for businesses operating in the country. Castillo is subject to six investigations by the Attorney General's office, most related to corruption (including alleged granting of state contracts in backroom deals with business representatives and lobbyists). Following the Attorney General's Office's constitutional complaint against Castillo on 11 October – accusing him of leading a criminal organisation and engaging in influence peddling and fraud – the president is on the verge of a third impeachment attempt by Congress.

"Peru's anti-corruption system continues to present deficiencies. Dozens of processes are ongoing, and hundreds of individuals are under investigation for corruption – but very few cases have reached trial"

The Attorney General's investigation into the president's affairs suggests that corruption remains pervasive. The case also shows that Peru's anti-corruption reforms over the last five years continue to yield results. These efforts have looked into four former presidents: Oyanta Humala (2011-16), whose trial for alleged money laundering is ongoing; Alan García (2006-11), who committed suicide in 2019 when facing imminent arrest; Pedro Pablo Kuczynski (2016-18), who is under investigation since 2019; and Alejandro Toledo (2001-06), who is currently detained in the US on corruption charges (Peruvian authorities are seeking his extradition). Opposition leader Keiko Fujimori, of the right-wing Popular Force (FP), is also awaiting trial for alleged illegal donations from Odebrecht towards her failed presidential bids in 2011 and 2016.

Peru's anti-corruption system continues to present deficiencies. Dozens of processes are ongoing, and hundreds of individuals are under investigation for corruption – but very few cases have reached trial while almost no sentences have been dictated. Compared to its regional counterparts, however, Peru's anti-corruption system shows progress. Still, even though corruption ranks as a top concern for large swathes of the population, it is unlikely anti-corruption reforms will be passed in Congress amid the current political crisis.

Corruption will remain prevalent when interacting with central government officials as well as with local administrations. Out of the 25 governors elected in the 2018 regional elections, 21 are facing corruption investigations in the Public Ministry, according to the Liber Center of the Lima-based Press and Society Institute. Meanwhile, 13 (out of 25) governors-elect who won in the October regional polls have a history of corruption. Facilitation payments, influence peddling and marred procurements processes will sustain integrity risks for businesses operating in Peru. Police corruption is also widespread, which further undermines citizen's confidence in the authorities to enforce the law. Corruption will therefore continue to erode democracy and citizens' trust in the political system.

Cercado de Lima Peru

Social Outlook

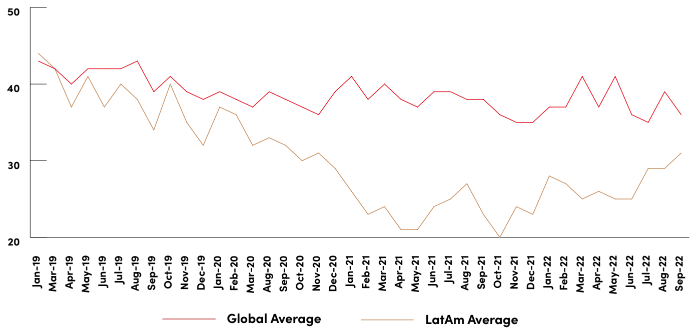
The social condition of Latin America

By Jean-Christophe Salles, CEO Latin America, Ipsos

Overview

In the first decade of the twenty-first century, fuelled by a commodity super-cycle and high demand for primary products and natural resources, Latin America made unprecedented economic gains, helping to reduce poverty across the region. The boom that lasted well over ten years was followed by a cycle of economic stagnation between 2015 and 2019, and, further adding to the region's woes, Latin America was disproportionately affected by the COVID-19 pandemic that started in 2020. However, over the past year, the region has shown positive signs of recovery, leading to an increase in Latin American citizens feeling that their country is moving in the right direction. Using data gathered from Ipsos, the World Bank, the Organisation for Economic Cooperation and Development (OECD), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), this chapter uses macro social data and citizen perceptions gathered form extensive surveys to analyse and understand the current social condition of Latin America.

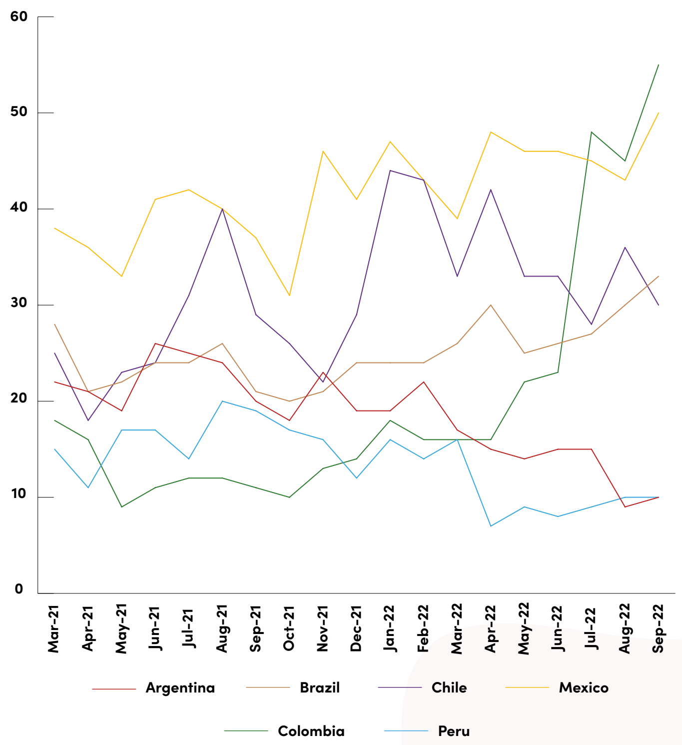
% of citizens that believe their country is moving in the right direction



Source: Ipsos Global Advisor

The overall sentiment that one's country is moving in the right direction varies wildly between countries in the region. This is particularly true in Mexico and Colombia, where optimism is much higher than both the regional and global average. Chile and Brazil remain in line with the global average, whilst optimism amongst citizens in Argentina and Peru remains very low, with 90% of citizens feeling their country is moving in the wrong direction.

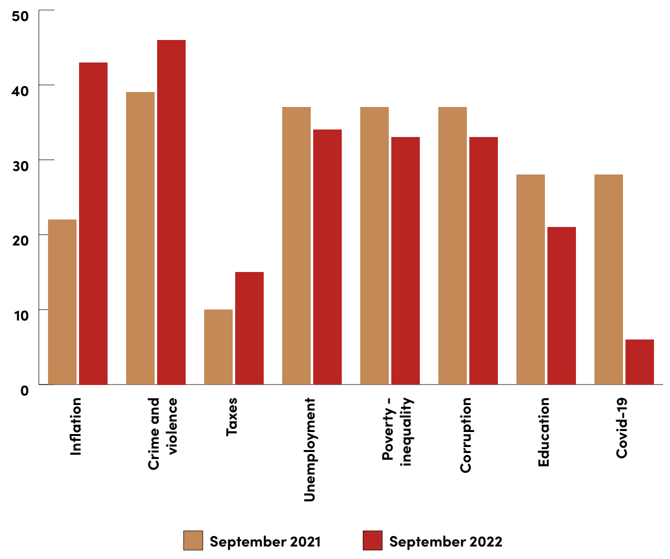
% of citizens that believe their country is moving in the right direction



Source: Ipsos Global Advisor

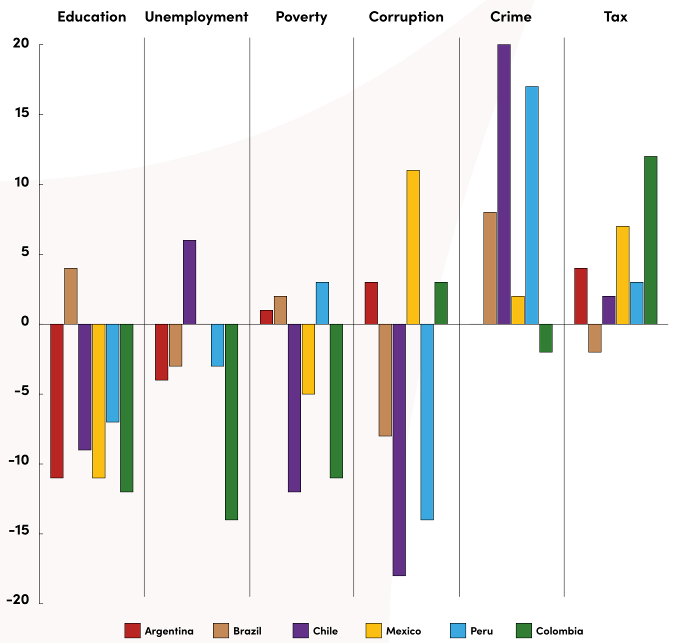
Looking at the main citizen concerns, versus last year, there is a clear switch between COVID-19 concerns decreasing significantly and worries regarding rising inflation increasing meaningfully. It is apparent that there is less concern about education, reflecting the return to school across the region from the end of last year. This is particularly acute in Argentina, Mexico and Colombia. Concerns regarding unemployment are significantly lower in Colombia this year, whilst anxieties regarding poverty also decreased significantly in Colombia and in Chile too. Similarly, worries about corruption also dropped in Chile and Colombia, but concerns regarding crime and violence increased dramatically in the same two countries. Apprehensions around taxes also generally increased amongst citizens, particularly in Mexico and Colombia.

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



Source: Ipsos Global Advisor

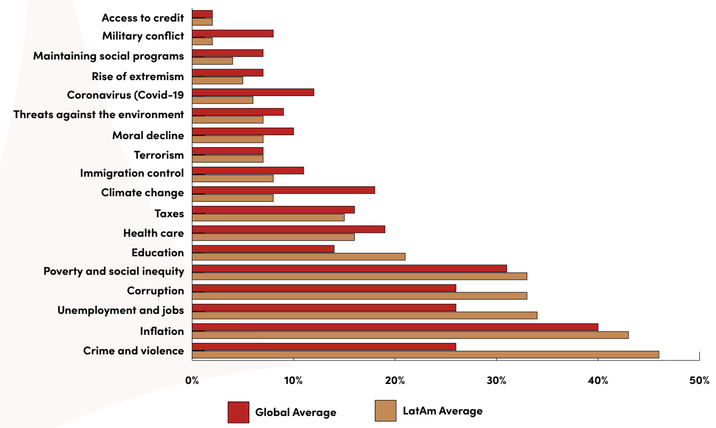
% of citizens that said this item was one of their top three concerns



Source: Ipsos Global Advisor

The main worries for Latin American citizens continue to be mostly driven by social issues impacting their day to day lives. Compared with the global average, these are significantly higher in Latin America. Concerns mainly centre around crime and violence, inflation, unemployment, corruption, poverty and social inequality, education, and healthcare. At the opposite end, compared with the global average, Latin Americans are much less concerned by climate change, moral decline, and military conflict.

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



Source: Ipsos Global Advisor

Each of the main concerns worrying Latin Americans are reviewed in the following section one by one, analysing the trends over the past year and assessing macro social data for each of them.

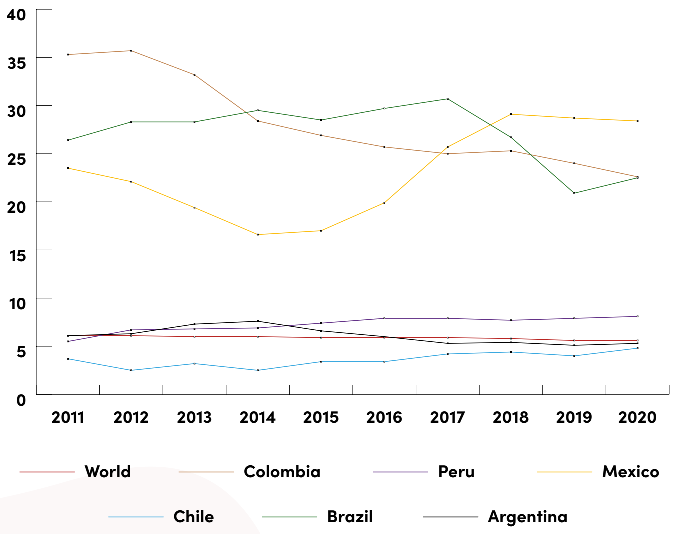
Crime and Violence

Crime and violence are some of the most pressing problems affecting Latin American society. More than 40 of the 50 most dangerous cities in the world are located in the region, as well as two countries, Venezuela and Colombia, out of the twenty countries ranked the 'least peaceful' in the world according to the Global Peace Index (2021). Despite large spending on security and high imprisonment rates, drug and weapon trafficking, organised crime, and gangs have turned violence into an epidemic that affects the whole region, with a solution to this issue seemingly unattainable anytime soon in the near future.

However, not all countries are blighted by the same issues, nor to the same degree. In 2020, the highest homicide rate surveyed was in Mexico, with around 28 murders committed per 100,000 inhabitants having increased progressively over time. Homicide levels in Brazil and Colombia although still high, have been decreasing steadily in recent years, whilst other countries such as Chile, Peru and Argentina remain at a low level and in line with the global average.

In countries where the homicide rates are low, such as Chile and Peru, there was still an extremely high level of concern regarding crime and violence, whilst for Brazil and Colombia this concern remains at a low level, even decreasing, perhaps because citizens become more accustomed to growing levels of insecurity on a daily basis.

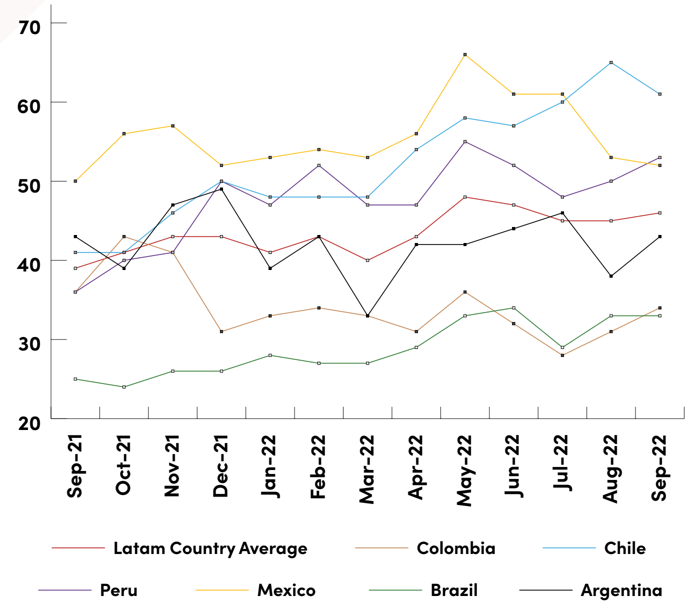
Intentional homicides per 100,000 people



Source: United Nations Office on Drugs and Crime's International Homicide Statistics database

The high level of concern in Chile and Peru could be explained by a recent increase in homicides, despite the overall numbers remaining at a very low level compared to other countries. In Chile, it could also be linked to the high level of concern regarding immigration, with 28% of Chileans putting immigration control in their top three worries. Immigration was their third main concern, and Chile was the only Latin American country where it was deemed to be a significant worry.

% of citizens that said crime & violence was one of their top three concerns



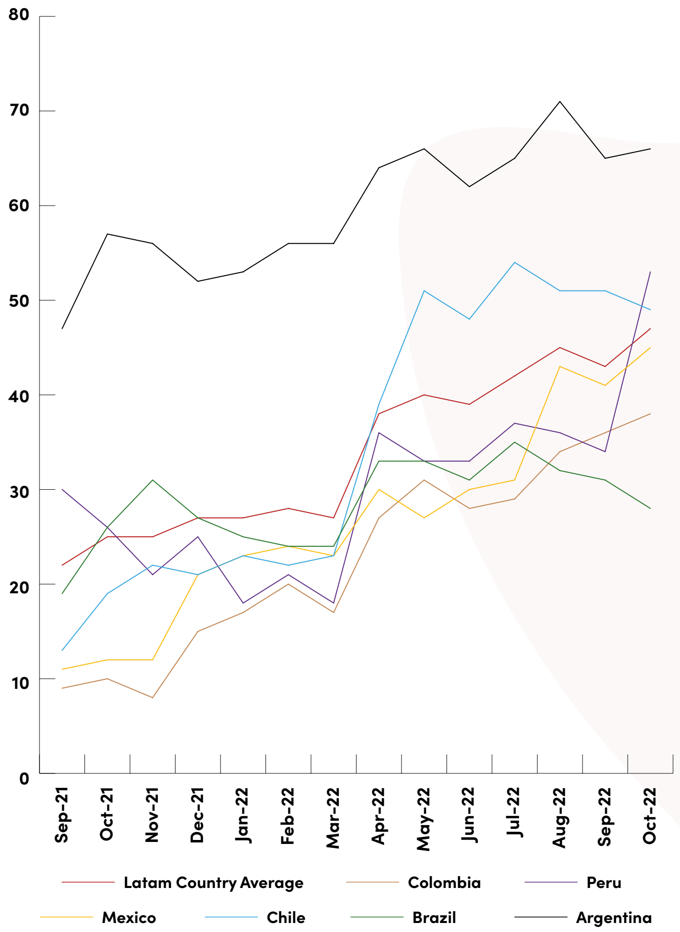
Source: Ipsos Global Advisor

Inflation

Latin America has a long history of high inflation, particularly during 1980s and 1990s, when inflation was around 15% per year in most of the major Latin American economies. Some countries in the early 1990s, notably Argentina, Brazil and Peru, had to also contend with hyperinflation, in some cases over 1000% per annum. However, over the last 20 years, inflation in most countries has remained between 5% and 10%, with the notable exception of Argentina.

Like many countries around the world, from the end of 2021, inflation has increased again in Latin America, mainly driven by higher food and energy prices. For example, 66% of the inflation in Brazil and 60% in Colombia can be explained by food and energy price increases. This is putting significant pressure on households' disposable incomes, especially for the poorest and most vulnerable households in urban areas, which spend a large proportion of their total income on food and other basic commodities. As is often the case, it is the most vulnerable in society that suffer the harshest effects of rising prices, aggravating inequality and adding fuel to ongoing social tensions.

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



Source: Ipsos Global Advisor

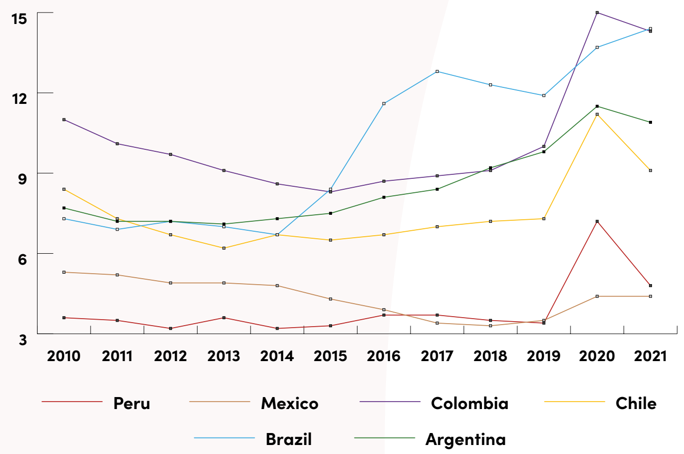
According to ECLAC, as a consequence of the current inflation rates, poverty is likely to increase from 30% in 2019 to 34% by the end of 2022, implying that an extra 7.8 million people in the region will be at risk of food insecurity, adding to the 86.4 million people already in that situation in Latin America.

Inflation is also becoming the second main concern for Latin American citizens. In September 2022, this concern was almost as great as that of crime and violence. This concern is particularly strong in Argentina and Chile, and is growing in Peru, Mexico and Colombia, but tends to decrease in Brazil. Concerns about inflation very much mirror the current inflation rates in each country. I.e. The higher the level of inflation, the greater the concern.

Unemployment

Labour market indicators have shown adverse trends in the region since 2015, with an increase in unemployment and a deterioration in the quality of jobs. The crisis caused by the pandemic exacerbated this situation, hitting women, young people, informal workers and low-income individuals especially hard.

Unemployment in Latin America as a % of total labour force



Source: World Bank

The overwhelming departure of women from the labour market represents an 18-year setback in their levels of participation in the labour force. According to ECLAC, the recovery of the female participation rate during 2021 was expected to reach 50%—a figure similar to that recorded for 2016—while for men, participation rates were forecast to reach 73.5%.

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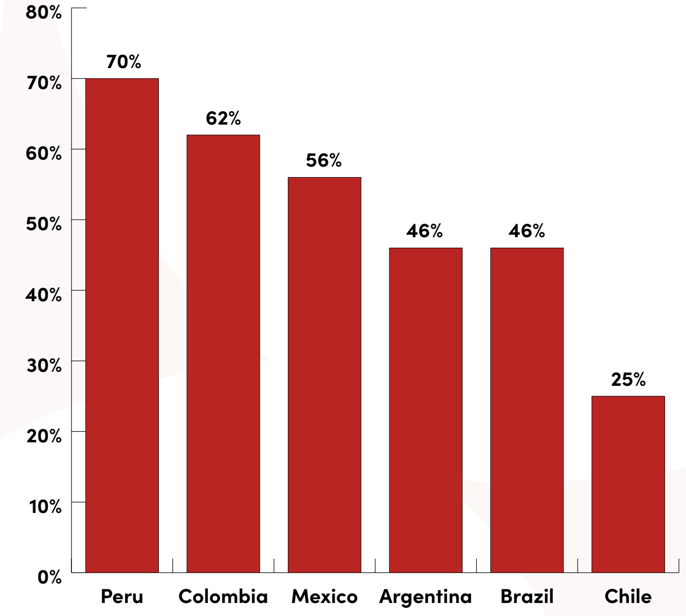
Informal employment as % of total employment in 2021

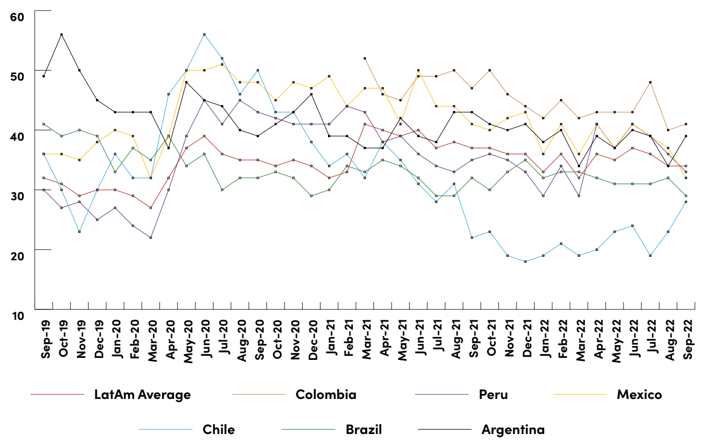


Source: Statista 2022

Among the big six economies, Peru has the highest share of employment informality, amounting to almost 70 percent of the total employed population in 2020. This means that approximately three out of every four workers in Peru were informally employed that year. Chile was one of the countries with the lowest share of informal employment in the region, with around only 25 percent of the employed population being informally employed.

Unemployment became an increasing concern during the pandemic, but as a worry, is now back to 2019 levels. This apprehension remains relatively high in Colombia and Argentina, but tends to decrease in Brazil, whilst remaining low in Chile, the country in the region with the highest level of formal employment.

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



Source: Ipsos Global Advisor

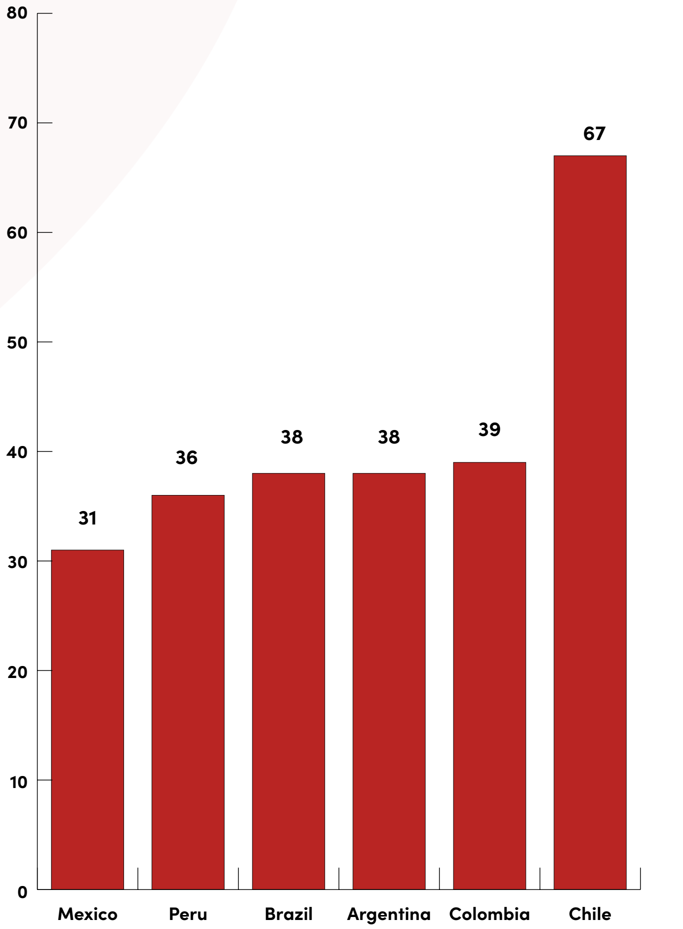
Corruption

The disparity of wealth in Latin America is among the largest in the world. In at least eight countries, the richest twenty percent of the population hold over half of the country's wealth. Corruption plays a significant role in perpetuating economic inequality across the region at both a national and local level. From everyday encounters with the police and civil servants, to large-scale governmental scandals – the Odebrecht case being one of the most high-profile in recent years – corruption is considered one of the most pressing issues in Latin America by a large proportion of the public and the media.

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

Corruption Perception Index

Higher Score = Less Corruption



Source: Transparency International

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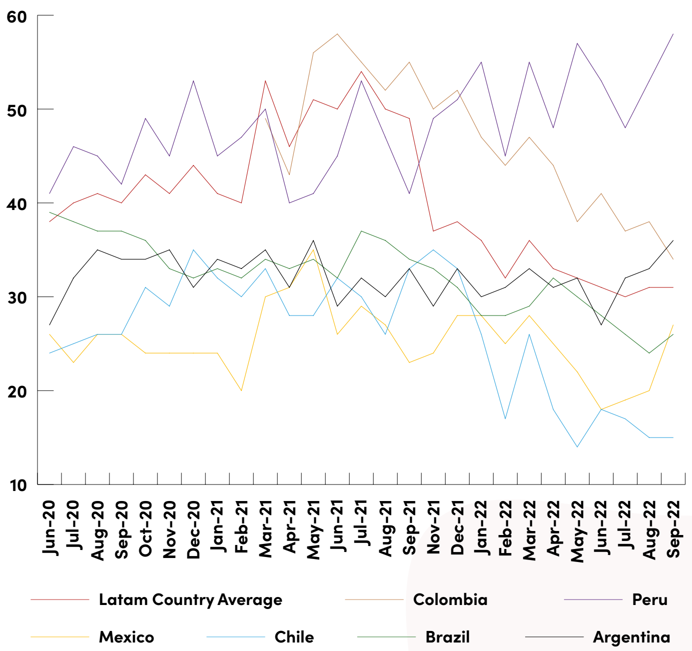
Peru's relatively low CPI score comes as President Pedro Castillo faces corruption allegations that have led to impeachment proceedings, whilst in Argentina, instances of corruption among judicial authorities have created the impression of impunity amongst many.

From a citizen's perspective, corruption is a critical issue in Peru, while concern has been steadily decreasing in Colombia over the past year, to a level similar to that of Argentine citizens. Chile remains the country where corruption is the lowest concern, with Brazil and Mexico being in line with global average.

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

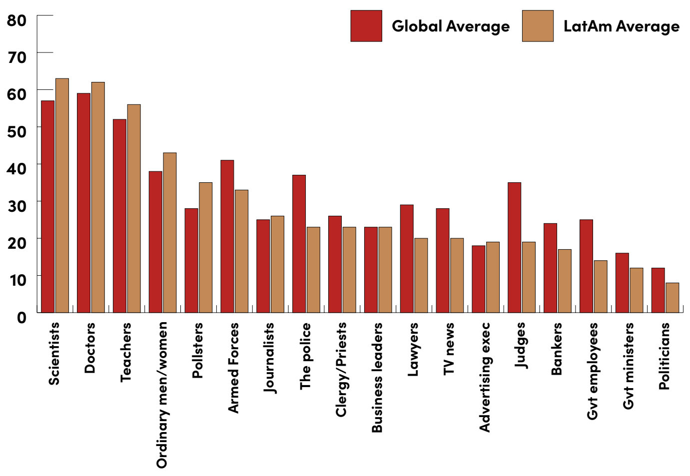


Source: Ipsos Global Advisor

Linked to corruption, as in previous years, trust in institutions continues to be low, and Latin America is the region with the lowest trust levels in institutions globally. As a snapshot of Latin American citizen's opinions:

- Only 33% trust members of the armed forces, compared to 41% globally
- Only 23% trust the police, compared to 37% globally
- Only 19% trust judges, compared to 35% globally
- Only 14% trust government employees/civil servants, compared to 25% globally
- Only 8% trust politicians, compared to 12% globally

% of citizens that believe the following groups are trustworthy

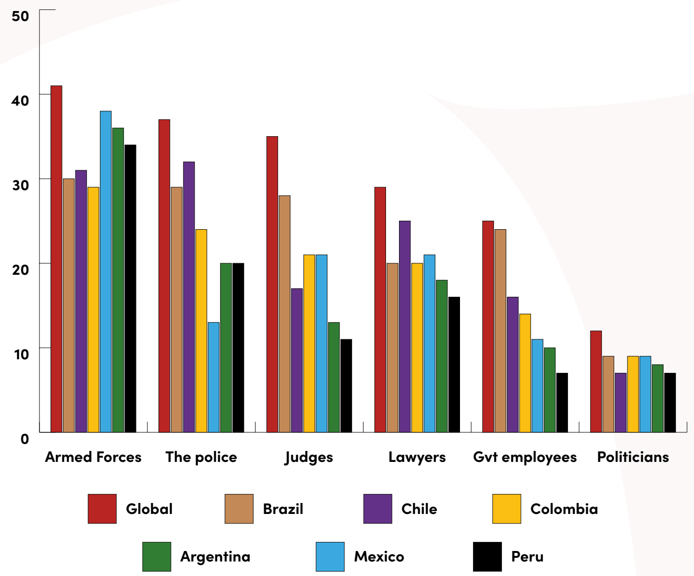


Source: Ipsos Trustworthiness Index

Marcha de Coraje Mexico

Out of the six main Latin American countries, levels of trust in the above five institutions is particularly low in Argentina and Peru, with only 13% of Argentinians and 11% Peruvians trusting their judges, while only 13% 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 remains high.

% of citizens that believe the following groups are trustworthy



Source: Ipsos Trustworthiness Index

Poverty & Inequality

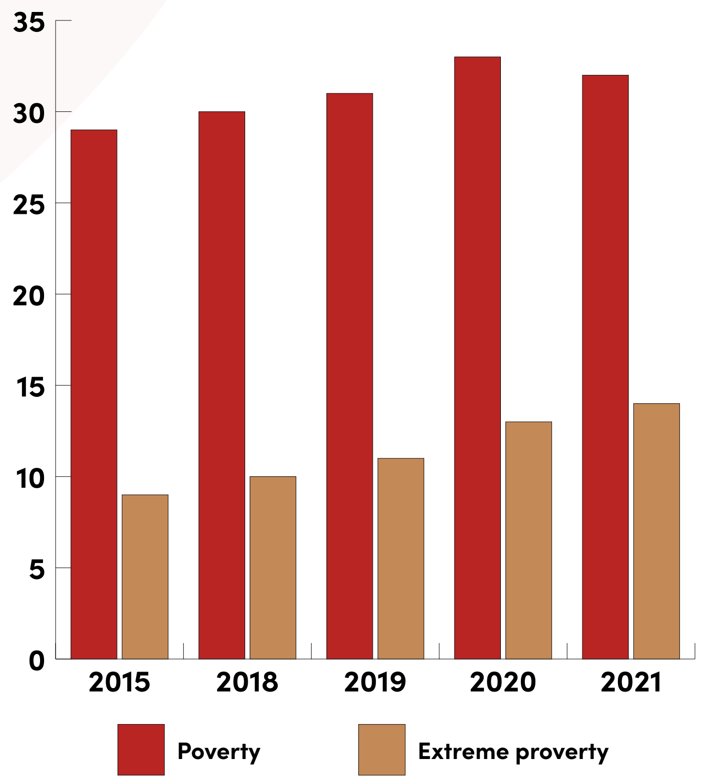
According to the Gini coefficient, Latin America is the most unequal region in the world. The costs associated with inequality impact not only the lives of the individuals, but society as a whole.

The notable drop in the poverty rate observed between 2002 and 2014 was followed by a cycle of stagnation and setback beginning in 2015. Between 2015 and 2019, prior to the pandemic, the poverty rate increased to a high of 30.5%. In 2020, 17 million more people fell into poverty due to the pandemic—compared to the previous year—bringing the total regional number of people living in poverty to 204 million. This brought the poverty rate to 33%, and the extreme poverty rate to 13.1%. As a consequence, the Gini coefficient increased by a regional average of 0.7 between 2019 and 2020.

People living under $5.5 USD per day in Latin America

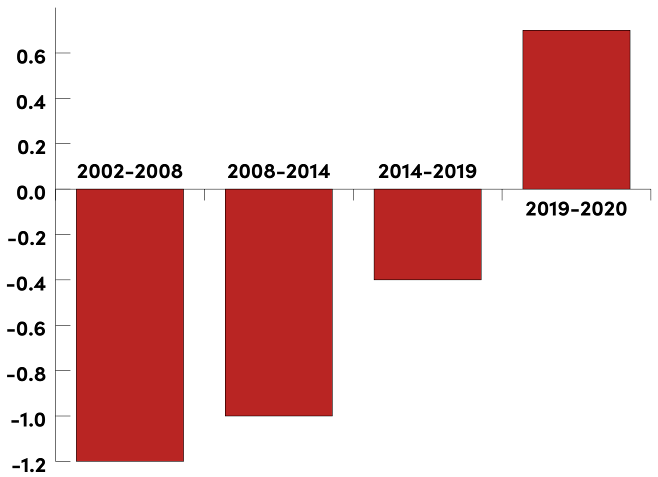
Source: World Bank

Rates of poverty and extreme poverty in Latin America



Source: Economic Commission for Latin America and the Caribbean

Gini Variation



Source: World Bank

In 2021, the levels of poverty and extreme poverty remained higher than those of 2019, at 32.1% and 13.8% respectively, both in relative and absolute terms, despite the economic rebound.

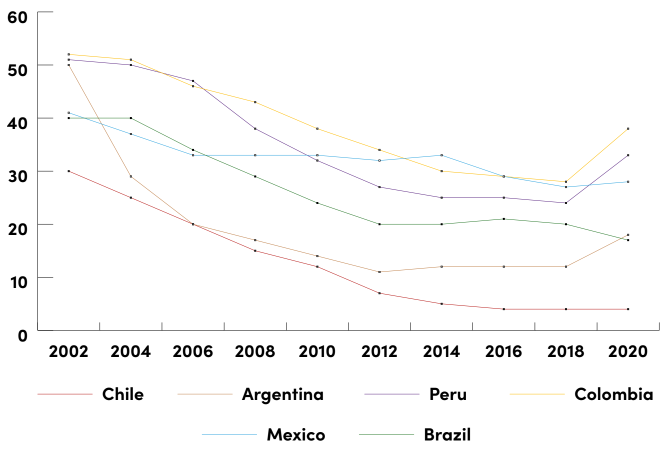
During the pandemic, cash transfers, particularly those implemented by governments to address the emergency, played a critical role in preventing a further increase in inequality. Total public expenditure by central governments in Latin America reached 24.7% of GDP in 2020, its highest level on record. According to ECLAC, public expenditure increased over 10% in most countries, and over 20% in Argentina and Brazil.

Brazil's emergency income support program reduced extreme poverty during the pandemic to the lowest level in 40 years, changing the way people perceive the welfare safety net and taking the discussion of inequality to another level. However, this expansion was generally insufficient to compensate the inability to work among the poorest segments of the population and particularly among informal workers who are at a high risk of poverty.

This reveals that, in social terms, the crisis is ongoing, and highlights the vulnerability of a significant proportion of the middle-income population, which has a low, non-contributory social protection coverage.

With regards to reducing poverty, all main countries in Latin America follow a similar trend: significant poverty reduction from the early 21st Century until 2014, a plateau from 2015 to 2019, followed by an increase in 2020. Chile had the lowest rates in 2019, with less than 5% of population living on less than $5.50 a day, followed by Argentina at 12%, Brazil at 20%, Peru at 24%, Mexico at 27%, and Colombia at 28%.

% of population living on less than $5.50 USD per day

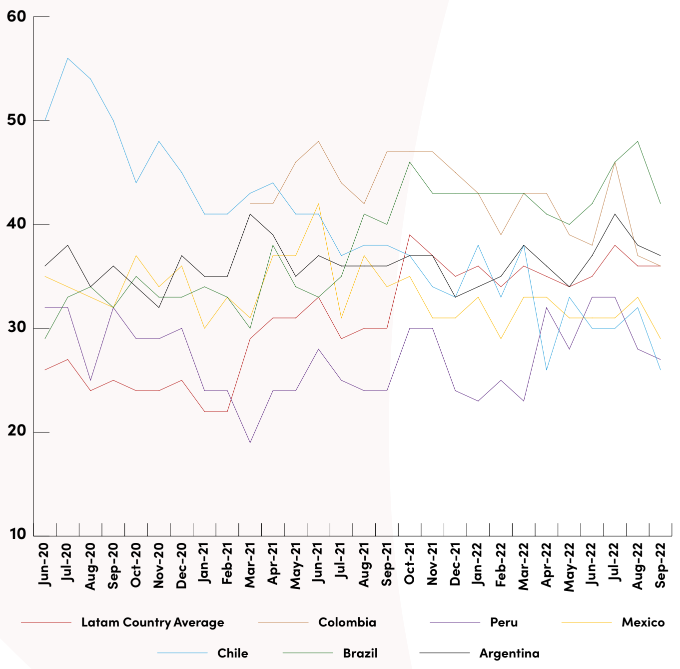


Source: World Bank

For 2023, the World Bank is forecasting a higher level of poverty in Colombia, Peru and Chile, compared with 2019 statistics, but a reduction in Brazil and Mexico, with Argentina remaining flat.

Poverty and social inequality are significant citizen concerns, particularly in Brazil, which has increased over the last few months, and in Colombia and Argentina too. However, it is deemed less of a concern in Mexico, Peru and Chile compared to other worries.

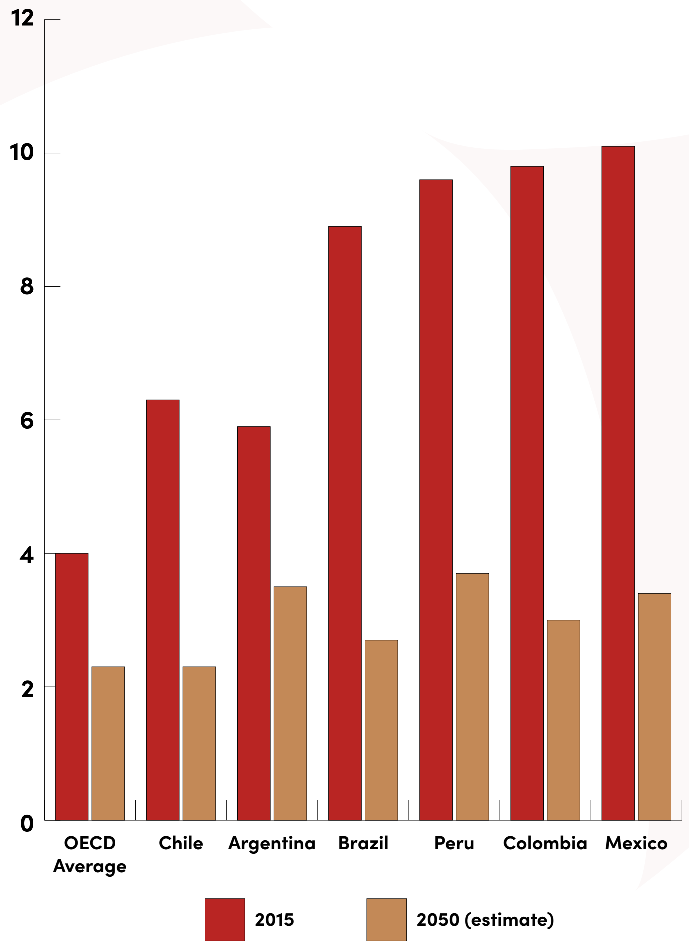
% of citizens that said poverty & inequality was one of their top three concerns



Source: Ipsos Global Advisor

With demographic aging expected to be relatively fast in the region over the coming years, this could further exacerbate poverty and social inequality. In most countries in Latin America, the proportion of older persons aged 65 and older is estimated to have more than doubled from 8% to 18% or is expected to double over a period of 20–30 years. By contrast, France and Sweden experienced similar growth over a much longer period, 115 years and 85 years respectively.

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

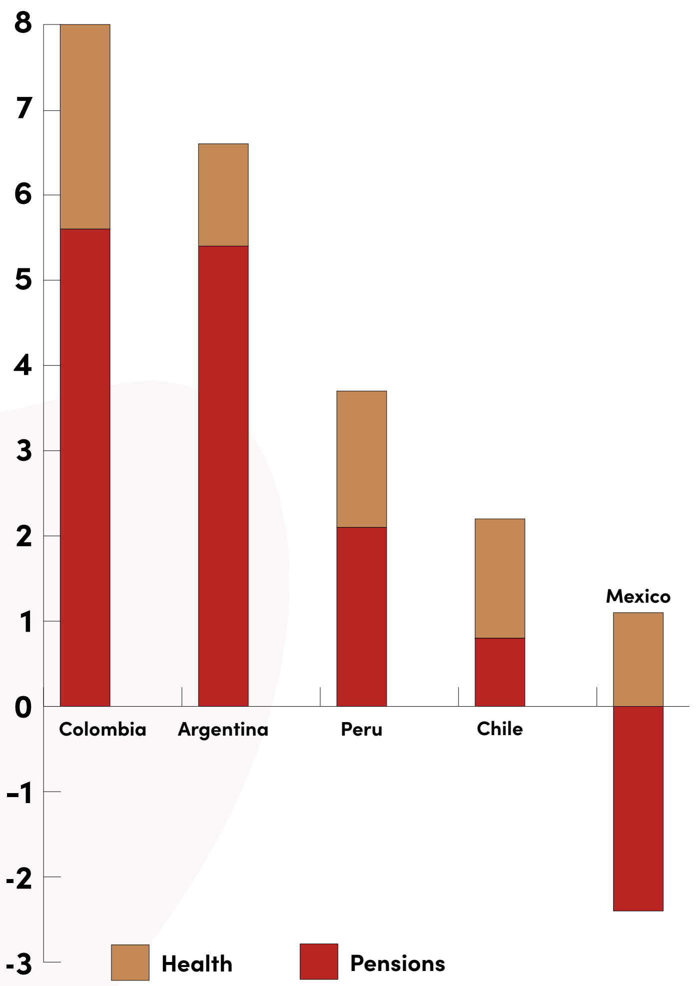


Source: United Nations

Demographic trends, particularly aging, have major implications for social protection systems and t heir funding. The most significant challenge in terms of funding is related to the increase in public expenditure on social protection schemes targeting older persons, due to the increase in these systems' target population.

In some countries, including Colombia and Argentina, the increase in expenditure on pensions and healthcare over the next 40 years is projected to surpass 6% of GDP. The pension component is generally the largest increase, except in countries like Chile and Mexico, that have implemented capitalisation schemes.

Projected change in expenditure on pensions and health as a proportion of GDP 2015-2065

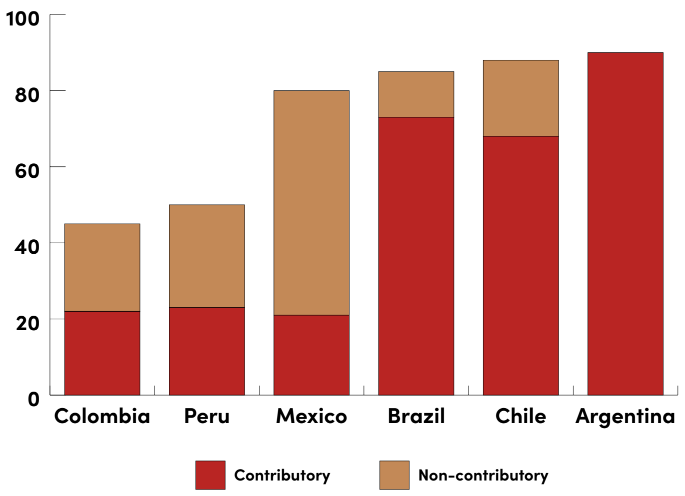


Sources: IERAL, WHO, United Nations

Latin American countries structure their pension systems in very different ways, and there is a wide variation of the percentage of over-65s in each country receiving pensions across the region, with countries like Colombia attaining 45% coverage, whilst Argentina has attained 90% coverage.

Some countries have contributory systems, such as Argentina, whilst others have a mixture of contributory and non-contributory systems. For contributory systems, these can either can be funded through a pay-as-you-go system, as in Brazil and Argentina, or through capitalisation systems, as in Chile and Mexico. In pay-as-you-go systems, current pensions are funded with the contributions made by active workers. In capitalisation systems, each pension is funded with the accumulated contributions made by the beneficiary throughout their working life. Colombia and Peru have hybrid systems comprised of elements of both.

Proportion of individuals aged 65 or older who receive a pension by country



Source: Arenas de Mesa

There is great heterogeneity in the proportion of older persons receiving contributory and/or non-contributory pensions. Mexico has attained major coverage with broad-based non-contributory pensions and with a capitalisation component in its contributory pensions. Argentina and Brazil have achieved broad coverage with pay-as-you-go systems and smaller non-contributory components. Chile has attained high coverage for its capitalisation-based contributory pensions, supplemented with non-contributory pensions received by around one fifth of all individuals over the age of 65.

Among workers with lower education and income levels, high informality rates imply that contributory pensions are difficult to access, so having an income during old age requires access to non-contributory pensions.

Aging and informality are in fact similar phenomena, in the sense that both erode the contribution base of social protection systems relative to the number of beneficiaries. Calculations conducted suggest that informality worsens the contributor base by margins that are comparable to those expected to result from aging over the next 40 years.

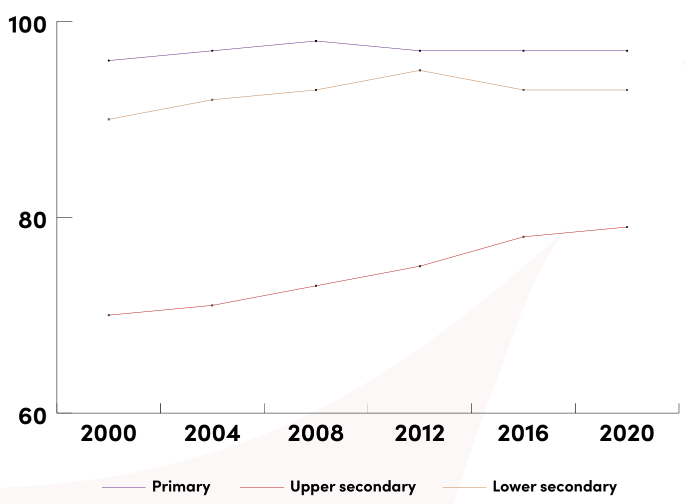
Education

Over the last 20 years, Latin America has made remarkable progress increasing educational levels of the population, as is evident by the increase in adult literacy levels and the highest educational level achieved by the population.

However, between 2015 and 2019 - a period marked by economic difficulties and political discontinuity - education spending as a percentage of total public spending fell from 16.1% to 15.4% in the region. Furthermore, the devastating impact of the COVID-19 pandemic, in which nearly 170 million children and adolescents were affected by a massive suspension of in-person teaching, resulted in some of the longest school closures in the world across the region.

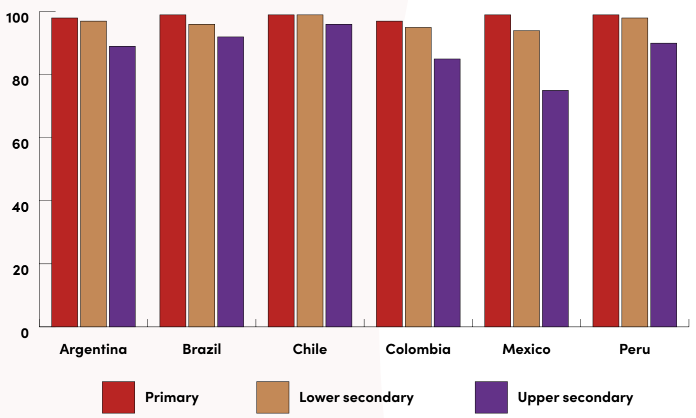
Nonetheless, overall education attendance in Latin America is high, and continues to improve in terms of access to pre-primary education, especially in rural areas and in the lowest income quintile of the population. Completion of secondary education has also improved, especially among the most vulnerable groups.

School attendance per level over time



Sources: UNESCO, ECLAC

% of children attending school



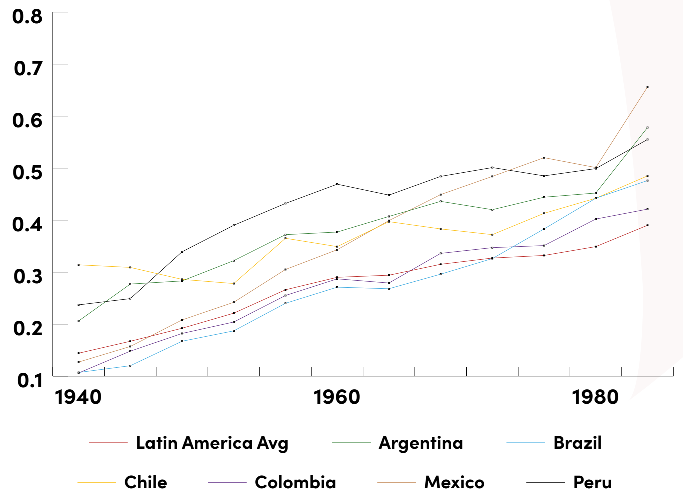
Sources: UNESCO, ECLAC

Universal access to quality pre-school education can have a positive impact in the long-term, by building children's capacities and enhancing their future performance, and in the short-term, by allowing mothers to complete their formal education or to acquire job training or facilitating their insertion into the job market. The region is ranked third in terms of funding efforts in this area, with 8.1% of all educational resources being directed to pre-primary education. According to UNICEF, this figure is only outpaced by Europe and Central Asia, 11.3% in both cases.

There is also a positive association between intergenerational social mobility – the socio-economic status of parents compared with the status their children will attain as adults - and public spending on education, especially when it comes to spending on primary education.

Furthermore, social mobility has increased over the last two decades in most countries in the region. This has been driven by an increase in access to education for children from poor families. The mobility of younger generations of Latin Americans is similar to that of their peers in developed countries such as the United States, in some countries like Brazil and Mexico it has tripled.

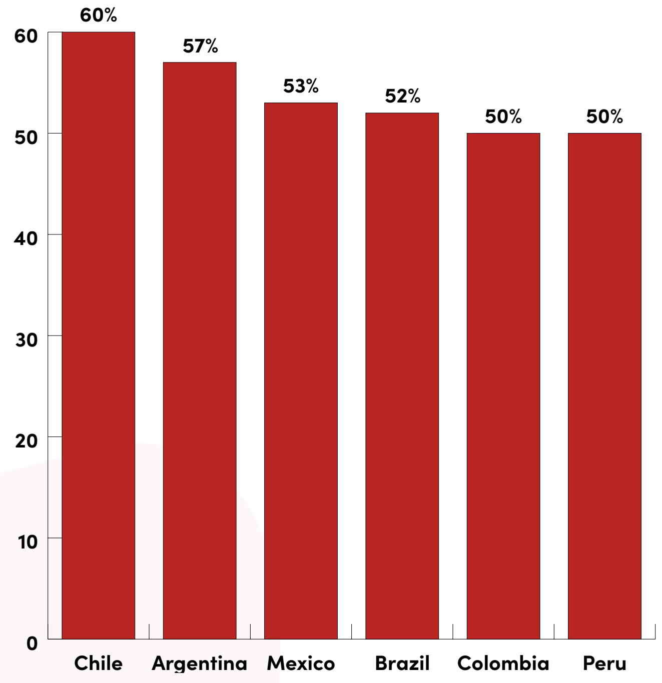
Evolution of social intergenerational mobility in Latin America



Source: Journal of Development Economics

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

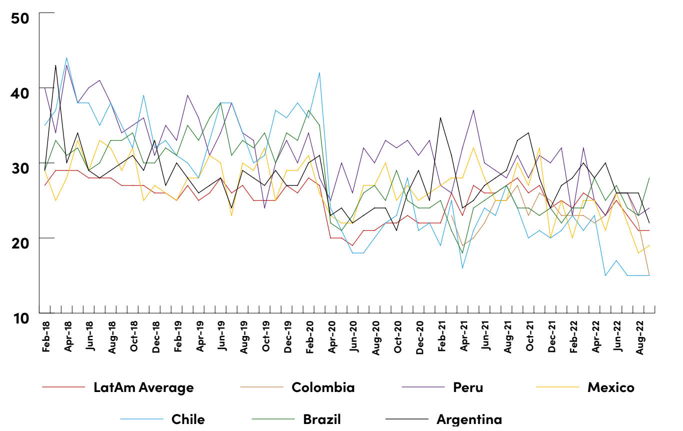
Global social mobility index score in 2020



Source: World Economic Forum

Over the past four years, 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 worries in September 2022, much higher than the global average of 14%, and the highest region in the world, closely followed by the Middle East and Africa on 19%.

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



Source: Ipsos Global Advisor

Linked to education, gender equality has also shown significant progress across the region in recent years. Every year, the OECD publishes its Social Institutions and Gender

Scores of LAC countries in the SIGI and in each dimension										
	SIGI		Discrimination in the family		Restricted physical integrity		Restricted access to productive and financial resources		Restricted civil liberties	
	Score	Cat.	Score	Cat.	Score	Cat.	Score	Cat.	Score	Cat.
Colombia	15.0	Very low	9.6	Very low	14.9	Low	14.5	Low	20.6	Low
Brazil	21.2	Low	28.0	Medium	14.8	Low	17.5	Low	23.9	Low
Peru	24.5	Low	47.7	Medium	26.6	Medium	5.5	Very low	12.9	Low
Mexico	29.0	Low	60.4	High	15.6	Low	17.5	Low	14.6	Low
Chile	36.1	Medium	36.4	Medium	18.8	Low	64.8	High	16.6	Low
Argentina			23.1	Low			23.0	Low	7.1	Very low

Note: Scores range from 0 to 100, with 0 indicating no discrimination and 100 indicating absolute discrimination. Countries are ranked by their SIGI score.

Source: OECD

Index (SIGI), targeting gender equality and empowerment for females, based on four dimensions: discrimination in the family, restricted physical integrity, restricted access to productive and financial resources, and restricted civil liberties.

Results indicate that although things are certainly moving in the right direction, there is still a long way to go in achieving gender equality and women's empowerment across the region. Nonetheless, Latin America does fare much better compared with Africa and Asia.

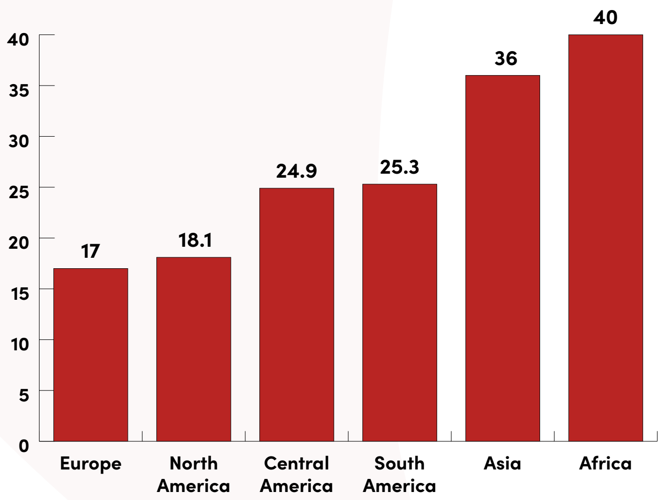
Latin American governments have taken steps to update their legal frameworks to cover all forms of violence against women to include domestic violence, harassment, rape and honour crimes. Alongside these legislative changes, countries across the region have developed national strategies, action plans and protocols to ensure inter-institutional co-ordination, and have started to provide a wide range of support services for victims and survivors.

Overall, the SIGI report shows that discrimination in the family is the most challenging dimension for the region, underscoring the presence of deep social discrimination governing intra-household dynamics between men and women.

Discrimination may also be cumulative. For example, a black woman may be subject to labour market discrimination because she is both a woman, therefore a victim of gender discrimination, and because she is black, therefore a victim of racial discrimination too.

However, amongst the six main Latin American countries classified in the OECD SIGI report, five of them exhibit low to very-low levels of gender-based discrimination in social institutions, and no country is classified as having high or very-high levels of discrimination.

Social Institutions and Gender Index (SIGI) score by region



Source: OECD

Colombia is Latin America's top performer, with a very low level of discrimination in social institutions and an overall SIGI score of 15, which ranks the country 13th at the global level. Colombia's good performance is primarily the result of scoring well in the discrimination in the family dimension, in which it ranks 3rd globally. With overall SIGI scores ranging from 21 in Brazil, to 29 in Mexico, and 24 in Peru, these are part of a group of countries with low levels of discrimination. Trailing slightly behind this group with a SIGI score of 36 is Chile, which displays medium levels of discrimination, whereas Argentina did not have enough data to compute SIGI scores in three of the four SIGI dimensions.

Healthcare

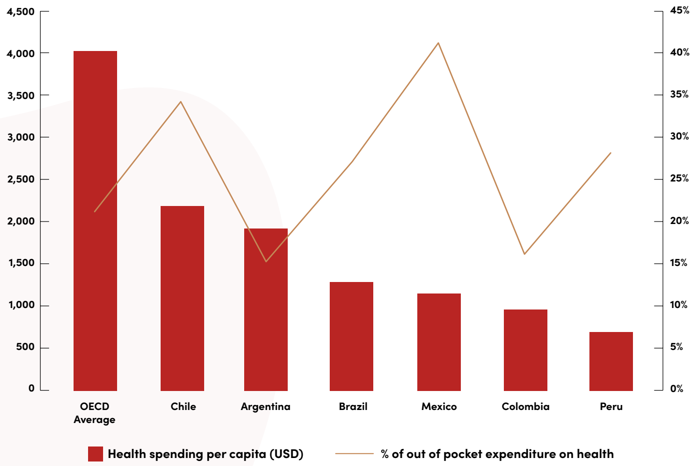
Overall population health status in Latin America has improved in recent decades, but progress remains unequal across countries. Life expectancy across the region increased by almost four years between 2000 and 2017. Given these trends, the share of the population above 65 and 80 years old is expected to reach over 18% and 5%, respectively, by 2050. Infant mortality fell by 35% between 2000 and 2017, and under age 5 mortality also declined by 46%. Maternal mortality has fallen by 26% during the same period, although the reduction is lower than the 40% decrease seen in OECD countries.

	Life expectancy at birth		Under age 5 mortality rate	Under age 5 mortality rate
	F in years	M in years	per 1000 live births	per 100,000 live births
OCDE Average	83	78	5	8
LatAm Average	77	72	19	83
Chile	83	77	7	13
Argentina	80	73	10	39
Mexico	78	73	13	33
Brazil	79	72	15	60
Colombia	78	71	15	83
Peru	78	73	15	88

Source: OECD, International Bank for Reconstruction and Development, The World Bank

A main barrier for accessing health services arises from out-of-pocket health expenditures, which represent on average 34% of total health spending in Latin America, well above the 21% average in OECD countries. The high level of out-of-pocket expenditures in the region are an indication of weaker health systems, lower levels of health service coverage and, overall, a worse baseline scenario to confront the pandemic when compared to most OECD countries. Progress in reducing out-of-pocket health expenditures across Latin America has been slow, decreasing by just 1.5 percentage points between 2010 and 2017.

Health Expenditure in 2020



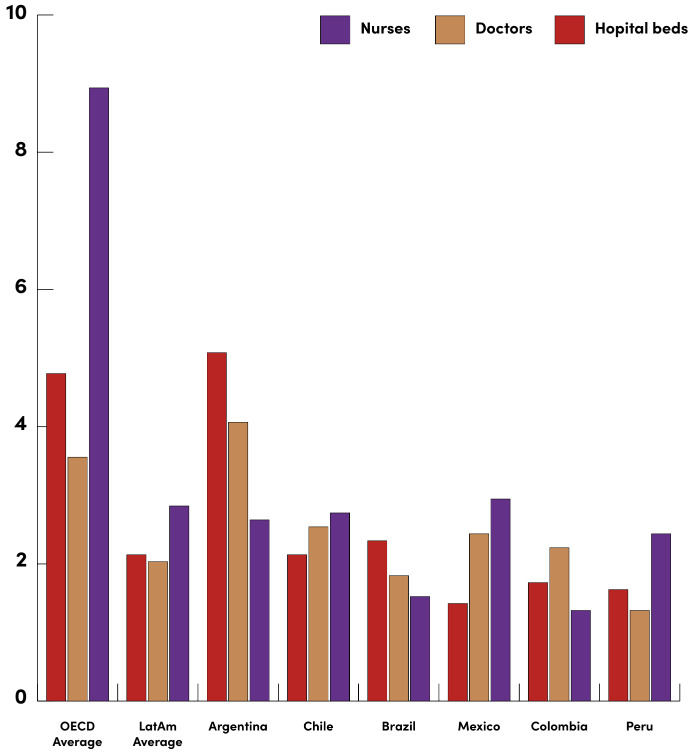
Source: WHO, OECD

On average, Latin America has two doctors per 1 000 population. However, several countries stand well below the OECD average of 3.5, with only Argentina being above this number. The average number of hospital beds across the region is 2.1 per 1 000 population, less than half of the OECD average of 4.7.

Public expenditure on health across the region of 3.8% of GDP is much lower than the OECD average of 6.6% of GDP. Moreover, the share of total health expenditure covered by government and compulsory insurance in Latin America of 54.3%, is much lower compared to the OECD average of 73.6%. A switch to a greater emphasis on public spending, rather than private, may help increase the equity and efficiency of health spending across the region.

An expansion in expenditure levels must also come with a reduction in wasteful spending, that is, spending that does not deliver any kind of improvement in health outcomes. Such wasteful spending means that Latin America is achieving sub-optimal results – in terms of quality of people's lives, safety and effectiveness of care – given the resources it devotes to health systems.In terms of citizen's concerns, in Brazil, healthcare is today one of the major worries, with 37% of

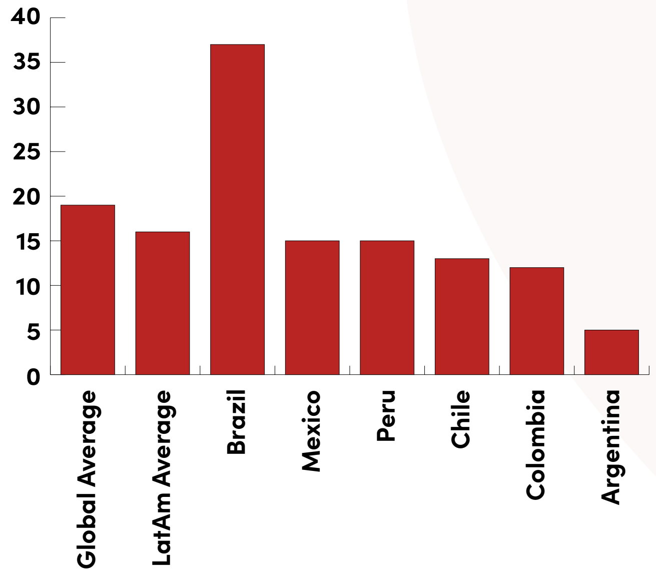
Hopital beds, doctors and nurses per 1000 citizens



Sources: OECD, The International Bank for Reconstruction and Development, World Bank

Brazilians putting healthcare within the top 3 of their main concerns, just after poverty and social inequality. In the other main Latin American countries, it is relatively low, averaging around 13%, and particularly in Argentina where it was only 5%.

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



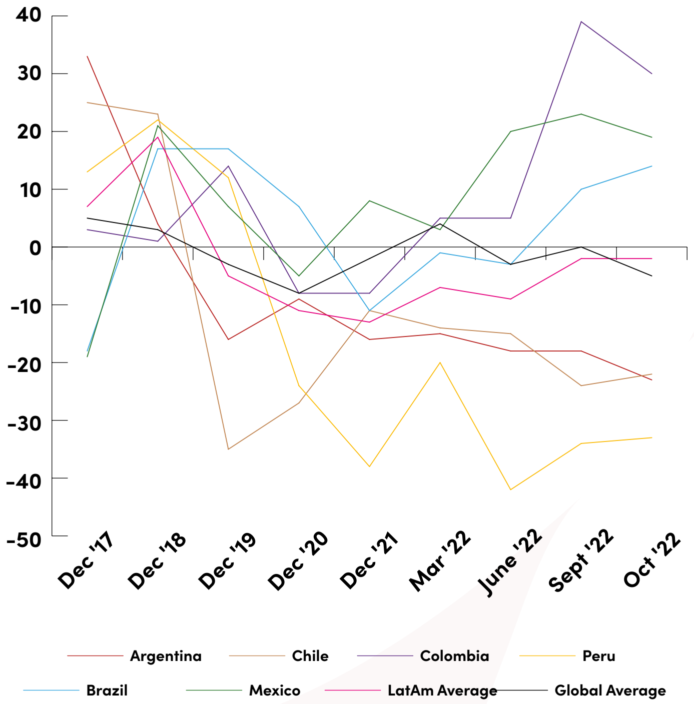
Sources: OECD, The International Bank for Reconstruction and Development, World Bank

Conclusion

Over the last year, the Latin American region has shown positive signs of rapid recovery, and the social sentiment is overall better than it was pre-pandemic.

Consumer Sentiment

Note: The higher the score, the more positive the consumer sentiment.



Source: Ipsos Disruption Barometer

Overall consumer sentiment varies widely between countries in Latin America. In general, people in Mexico, Colombia, and Brazil are decidedly positive, whereas those in Chile, Argentina, and Peru are decidedly negative. Lower confidence means pressure on consumer behaviour - which ultimately negatively impacts consumer spending - and potential increased socio-political disruption. Higher confidence means the opposite.

Significant political changes have also been seen, with most countries moving to the left in recent presidential elections. This could be interpreted as citizens rejecting status quo of the previous right-leaning governments, but could also reflect their desire for greater social equality.

In general, the world is becoming increasingly unstable. The War in Ukraine, high inflation hitting the most vulnerable, tighter financial conditions and monetary policy in the United States that could accelerate capital outflow and currency devaluations, economic decelerations of key trading partners such as China, low expected GDP growth, and social discontent, all form a backdrop to which Latin America and other regions around the world have to contend with.

The main structural social concerns have not been resolved, while concerns about crime and violence, poverty and social inequality, and corruption have not decreased. Most countries continue to display low trust in institutions as well.

The high expectation placed on new presidents and governments could generate disappointment and significant social tension. In Chile and Colombia, where elections recently took place, citizen confidence initially showed good improvement but has been rapidly deteriorating.

On the other hand, during previous periods of significant tension in Europe and in the United States, such as World War II or the 2008 financial crisis, Latin America performed relatively well across many metrics. These moments arguably help provide an opportunity for Latin American nations to build more inclusive societies, but the planned increase in social expenditure levels should be formed around and based on key social indicators such as citizen perceptions. Citizen perceptions should therefore be tracked on a monthly basis to follow the progress of social programmes.

Latin American citizens are optimistic and resilient by nature. However, they have generally been disappointed by the lack of progress in their countries over the last 5 years. That said, the region has previously enjoyed periods of consistent progress across economic, political and social fronts, and these must serve as a blueprint for recapturing the sense of progress and advancement in years to come.

Technical Note: Ipsos Global Advisor survey is conducted in 28 countries monthly via the Ipsos Online Panel system among 20,012 adults aged 18-74. The "Global Country Average" reflects the average result for all the countries where the survey was conducted. It has not been adjusted to the population size of each country and is not intended to suggest a total result. The sample consists of approximately 1000+ individuals in each of Australia, Belgium, Brazil, Canada, France, Germany, Great Britain, Italy, Israel, Japan, Mexico, Spain, Sweden, and the US, and approximately 500+ individuals in each of Argentina, Chile, Colombia, Hungary, India, Malaysia, the Netherlands, Peru, Poland, Russia, Saudi Arabia, South Africa, South Korea, and Turkey. The samples in Argentina, Brazil, Chile, Colombia, India, Malaysia, Mexico, Peru, Russia, Saudi Arabia, South Africa, and Turkey are more urban, more educated, and/or more affluent than the general population. The survey results for these markets should be viewed as reflecting the views of the more "connected" segment of these populations. Weighting has been employed to balance demographics and ensure that the sample's composition reflects that of the adult population according to the most recent census data. The precision of Ipsos online polls is calculated using a credibility interval with a poll of 1,000 accurate to +/- 3.5 percentage points and of 500 accurate to +/- 5.0 percentage points. For more information on the Ipsos use of credibility intervals, please visit the Ipsos website. The publication of these findings abides by local rules and regulations. Ipsos Context Advantage survey is conducted along the same lines as the Global Advisor survey. Ipsos Global Trustworthiness Index is conducted along the same lines as the global advisor survey in April-May 2022.

Environmental Outlook

Latin America's environment and climate change

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

Introduction

As a region, Latin America is not immune to the two great global environmental challenges of our day, the seemingly unrelenting increase in the concentration of atmospheric greenhouse gases and the progressive loss of our planet's biodiversity. The region is unique, however, in terms of its contributions to these problems and the opportunities available to redress them. This uniqueness is defined in part by one of Latin America's defining features: its environmental richness and diversity. Two elements of this richness, Latin America's biodiversity and its geology, are the focus of this year's Environmental Outlook.

In terms of biodiversity, five of the ten most biodiverse countries in the world, including the top two Brazil and Colombia, are located in Latin America, offering enormous opportunity in terms of emerging bioresource based economic models and enormous challenges in terms of conserving this invaluable endowment. In terms of geology, Latin America possesses rich endowments of both fossil fuels and the strategic minerals, including copper and lithium, that will support a necessary global transition to a zero-carbon energy system, and the associated post-carbon economy. This offers important commercial opportunities for the region as the world seeks to implement emerging Net Zero commitments. Application of the same economic models that characterised past extractive activity in the region, however, will surely create environmental and social harm, further complicating efforts to conserve the region's singular biodiversity.

Setting the global context regarding these challenges, before diving into the on-the-ground realities in the Outlook's six featured countries, can provide a frame for this year's Latin America Environmental Outlook. In terms of biodiversity, since 1970 there has been a 68% decrease in the abundance of 5230 species monitored on a global level . While the annual loss of global primary forest cover declined from a peak in 2016, figures from 2021 show that deforestation has reached a plateau that remains higher than the average rate over the past two decades . The global biodiversity challenge remains of concern with no sign that recent negative trends have been reversed. Unfortunately, in terms of the global climate crisis, we are also not on a promising path. In spite of the optimism created by the 2015 Paris Climate Agreement, under which the nations of the world agreed to progressively increase their commitments to reduce their greenhouse gas emissions through their Nationally Determined Contributions (NDCs), an honest assessment is that most nations have not increased their climate ambitions since Paris, nor have the commitments taken us off of the path towards greater than 2°C warming by century's end.

This less than optimistic global context raises questions about what is happening in Latin America. While they are not amongst the largest emitters, have Latin American countries demonstrated leadership in terms of moving towards the required Net Zero future? Digging into the details, we will see that many countries of in the region are counting on reducing emissions related to land use. Are the countries of the region making sufficient progress towards halting deforestation and improving agricultural practices to realise their commitments? Are there any demonstrable novel and innovative bioresource-based economic models that capitalise on the region's singular biodiversity ? Where countries are also committing to increase the percentage of renewables in their national energy mix, are they on track in terms of capitalising on the full wind and solar potential in the region?

Even though countries in the region are not amongst the largest emitters, some of them are significant producers and exporters of fossil fuels. While the consumption of these fossil fuels exports does not count directly against a country's commitments to reduce greenhouse gas emissions, are the region's fossil fuel producers demonstrating leadership in winding down production as required to realise the zero-carbon energy transition at a global level? Moreover, are the countries of the region endowed with reserves of the strategic minerals required to complete this zero-carbon energy transition taking the steps to ensure that the production of these minerals will not generate the same environmental and social harm caused by previous extractive economic activity?

Answers to these questions will provide a vista upon the 2023 Environmental Outlook for Argentina, Brazil, Chile, Colombia, Mexico and Peru.

> *"Latin America possesses rich endowments of both fossil fuels and the strategic minerals, including copper and lithium, that will support a necessary global transition to a zero-carbon energy system, and the associated post-carbon economy."*

Argentina

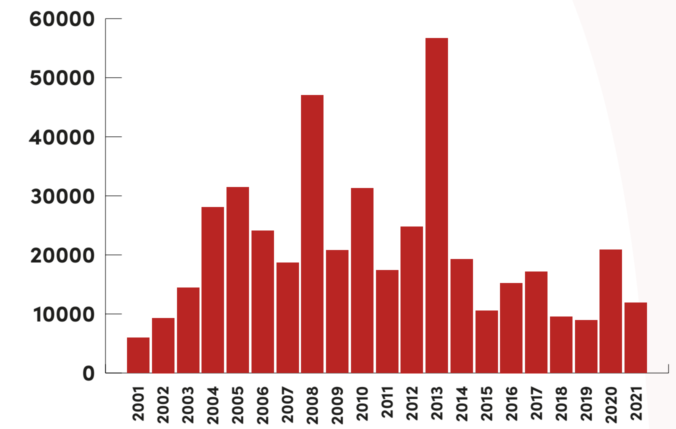
According to the Climate Action Tracker , Argentina's commitment to reduce climate emissions has been deemed highly insufficient. This is due in large part to the country's investment in fossil fuel production. Production levels are now higher than they have been since 2011, primarily based on expanding the ability to transport oil and gas from the Vaca Muerte field. In addition, Argentina also plans to expand offshore oil exploration, and potentially production. Amongst the countries in Latin America, Argentina has perhaps demonstrated the greatest potential for carbon lock-in. While the internal economic and political rational behind this increased lock-in are perhaps understandable, they also put Argentina at risk of substantial stranded assets should the global transition to a zero-carbon energy system accelerate in the years ahead.

In addition, while Argentina had previously expressed greater commitments to expanded renewable energy generation, based on substantial wind potential in southern Patagonia and solar potential in the arid north-western altiplano, recent commitments to expanded electricity production have focused on expanded nuclear energy production.

Another important source of greenhouse gas emissions in Argentina is methane emissions from the livestock sector, and the associated deforestation caused by expanded cattle production and soy production . These pressures are concentrated in the Gran Chaco Americano ecoregion in the north of the country. While overall deforestation rates have decreased since peaking around 2010, almost all of current deforestation is associated with the expanded production of agricultural commodities. In aggregate, since 2000 Argentina has lost 10% of its total forest cover. This represents a real opportunity for Argentina to improve its commitments to greenhouse gas reduction as land use has accounted for 20% of the country's overall emissions since 2020. Strategies focused on reducing emissions through improved land use will likely be prominent in the action plan related to the Net-Zero commitment which Argentina recently made, which as of yet lacks any detail in terms of how this commitment would be achieved.

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

Annual Primary Forest Loss in Argentina (Ha)



Source: Global Forest Watch

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

Environmental Focus: Gran Chaco Americano

While the neighboring Amazon region to the north certainly receives more attention in terms of forest protection and biodiversity concentration, to the south lies South America's most expansive dry tropical forest, the Gran Chaco Americano. Shared by Bolivia, Paraguay with its largest percentage located in the extreme north of Argentina, the 647,500 km^2 located in the upper basin of the Rio de la Plata are gently sloping in a southeastern direction away for the Andean Cordillera, the ecoregion contains high biodiversity with 3,400 plant species, 500 birds, 150 mammals, 220 reptiles and amphibians and an important indigenous culture related to the historically nomadic Guaycuru ethnic groups. The Gran Chaco, however, is undergoing a transformation with important ecological and social implications as over recent decades conversion to industrial agriculture has led to significant deforestation and biodiversity loss as well as weakening of indigenous culture as indigenous land rights give way to agribusiness investment in production of soy and palm. Since 2007 Argentina has had specific laws in place to control deforestation in its portion of the Gran Chaco, but significant deforestation continues. Recent efforts to coordinate development planning for the ecoregion between Argentina and its neighbors are promising.

Libro del Árbol, Tome II (Celulosa Argentina S. A., Buenos Aires, Argentina, October 1975)

Brazil

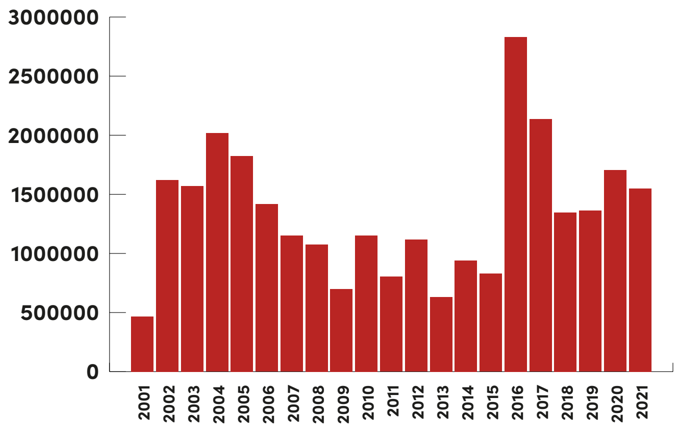
Similar to Argentina, Brazil is demonstrating an increased reliance on the production and consumption of fossil fuels, primarily through the expansion of gas-fired powerplants, partially in response to uncertainty within the country's extensive hydropower generation system. As a result, according to the Climate Action Tracker , the country's commitments to the reduce greenhouse gas emissions are considered insufficient. Actually, it appears that Brazil's climate ambition has decreased in the years since the release of its first NDC issued after signing on to the Paris Accord, despite the agreement itself calling for no backsliding. According to some experts, the growing commitment to natural gas is limiting the potential expansion of projects that can tap into Brazil's renewable energy potential.

> *"A third Lula mandate, however, has given signs of wanting to shift energy policy towards greater reliance on renewables."*

Some estimates suggest that Brazil has the potential to satisfy 83% of its internal electricity demand using renewable sources, including hydropower, wind, biogas, and solar energy, with the potential to be amongst the world's leaders in terms of the creation of new jobs in the renewable energy sector. As such, it does seem that Brazil could do more to seize this opportunity. A third Lula mandate, however, has given signs of wanting to shift energy policy towards greater reliance on renewables. While Brazil has committed to carbon neutrality by 2050, plans to actually achieve this goal have been deemed incomplete and inadequate.

Different from Argentina, Brazil possesses the ability to either dramatically reduce or increase its carbon emissions as a result of its land use and forest management decisions and practices. Brazil ranks second globally in term of total forest area, behind only Russia, with forests currently accounting for 61% of the country's territory, much of this located in the singular Amazon Rainforest. Unfortunately, after a few years of decline after peaking in 2016, deforestation rates have begun to climb again, coincident with what some consider to be lax implementation of existing forest protection laws during the Bolsonaro administration. This has contributed to a total loss of 12% of Brazil's existing forest cover since 2000. By far the biggest driver of this deforestation has been the expansion in the production of agricultural commodities, principally beef and soy. This forest loss makes up nearly 40% of total greenhouse gas emissions in Brazil, meaning that any plausible effort to increase climate ambition will require increased commitments to forest protection.

Annual Primary Forest Loss in Brazil (Ha)



Source: Global Forest Watch

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

In terms of strategic minerals, Brazil is comparatively well endowed with rare earth metals and is an important producer of steel, which is a component of most windmill technology. There is an opportunity to develop more responsible extraction policies and practices as part of the effort to respond to a transition to the emerging global zero-carbon energy system.

Environmental Focus: Pantanal

Brazil's Pantanal is recognised as the world's largest wetland, with an area estimated between 140,000 and 195,000 km2, of which 80% can be flooded during the wettest years. This flooding is associated with peak runoff in the tributaries to the Paraguay river which drain slowly due to the gently sloping and densely vegetated terrain. In the heart of the wetland system water levels can rise and fall by around 5m on an annual basis. The unique hydrodynamics of this area, located to the east of the Gran Chaco Americano ecoregion, generates enormous biodiversity including 2000 different plants, 462 species of birds, 269 species of fishes, 236 species of mammals, 141 specifies of reptiles and amphibians and over 9000 species of invertebrates. The wetland ecosystem is, however, under pressure related to expanding cattle production and chemical intensive soy cultivation as well as plans for extensive dredging to allow for the passage of large ships. The former threat is leading to changes in the hydrodynamics of the wetland and water quality degradation. The later threat would directly alter flooding dynamics of the wetlands, negatively impacting the incredible biodiversity that has evolved in response to the annual patterns of flooding and drying. Protected areas within the heart of the wetland complex have been registered under the Ramsar Convention, but in a system as complex as the Pantanal, conservation strategies must apply to the entire contributing drainage basin, which has proven difficult to accomplish.

The Patanal - a Flooded Grassland (Alicia Yo)

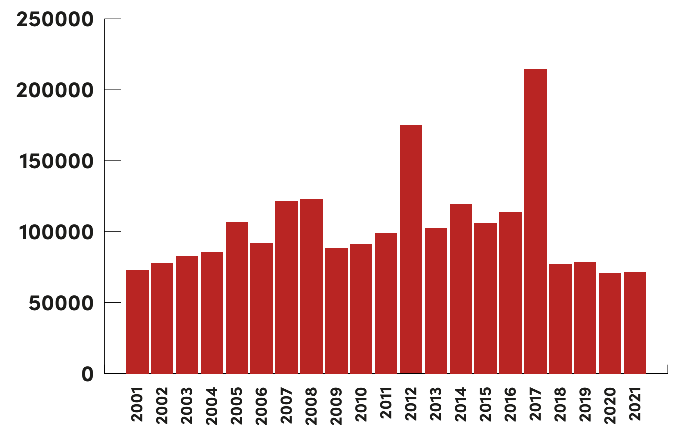
Chile

In terms of commitments to climate action, Chile has emerged as a regional, and perhaps even a global leader. The country is on track to reach peak emissions in 2023, largely due to shutting down coal-fired power plants. Eight have already been shut down and plans are in place to shut down or retrofit ten more, which would represent 65% of the country's recent fleet. It is the retrofitting proposal, to either gas or biomass, that generates some concern, leading to narrowly missing out on a sufficient evaluation from the Climate Action Tracker in terms of its climate ambitions. The concern is that a decision to retrofit could undercut commitments to expanding renewable energy generation based on the country's extensive wind and solar potential.

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

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

Annual Primary Forest Loss in Chile (Ha)



Source: Global Forest Watch

Chile's climate commitments also consider that the country's forest will continue to act as a carbon sink, with increases in this carbon sequestration service representing as much as

50% of the country's 2050 Net-Zero commitment, which has been evaluated as acceptable. This means that Chile will need to pay particular attention to forest management and practice. Over recent decades forest loss and new forests have roughly cancelled each other out so that since 2020 Chile has lost less than 1% of historical forest cover. Any small loss in forest cover has been largely driven by the forestry/wood products sector which is generally more committed to reforestation than actors associated with the expansion of agricultural commodity production, the key deforestation driver in much of Latin America. To keep this balance Chile should likely be pursuing new value-added circular economy and bioeconomy innovations in its forest sector so as to avoid any accelerating losses in forest cover, which would make its Net-Zero commitment impossible to achieve. In terms of strategic mineral production, Chile is a globally important producer of both copper and lithium. While some companies operating in both sectors have been accused of environmentally and socially irresponsible extraction practices, there are suggestions that conditions may be improving. By far the most dramatic environmental impact from mining in Chile is on water resources, as much mining activity takes place in the arid north. In the past, water allocations to mining have been decided project by project through assessments carried out within Chile's private property water rights system. A new integrated watershed planning process recently initiated in Chile has the potential to allocate water for these extractive activities within a more socially, economically and environmentally holistic framework. Cooperation with neighbours Argentina and Bolivia may also create the potential for a responsible lithium strategy to capitalise on rapidly growing international markets.

In addition, the unique hydrology of the basin, specifically the interaction between heavier briny groundwater below the salt flat and fresher groundwater descending from the surrounding mountains, creates a ring of salt lakes around the salt flat itself which provide nesting grounds for vast populations of pink flamingos. The most significant threat to the emblematic flamingo population is from lithium production in response to growing demand for batteries as part of the global energy transition. There are concerns that pumping of briny groundwater and subsequent evaporation to concentrate the lithium salts will alter the salinity of the ring of lakes around the salt flat, and thus impact the food chain that supports nesting flamingos. This represents a general threat from expanding lithium production from across the Andean Altiplano.

The Atacama Dry lake, in Chile. At the horizon, the Tumisa, Lejía and Miñiques volcanoes (Francesco Mocellin)

Environmental Focus: Salar de Atacama

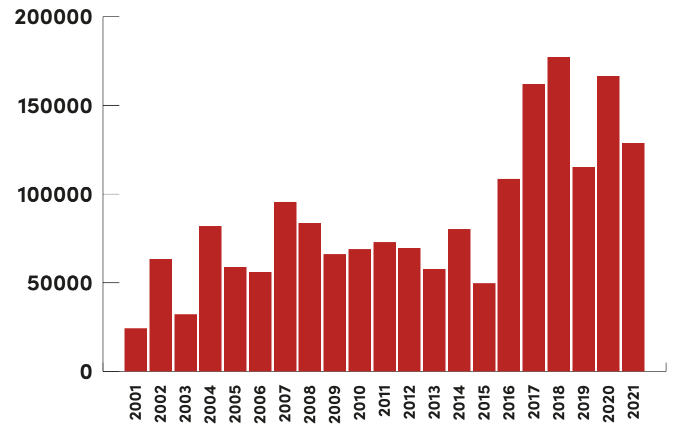
The Salar de Atacama is one of Chile's most important tourist resources. The primary town servicing the tourism sector, San Pedro de Atacama, receives approximately 180,000 visitors annually which, outside of Santiago/Viña del Mar, ranks as the country's second most visited tourist destination. This sector is one of the primary economic activities of the local indigenous community that lives within the closed watershed that drains towards the third largest salt flat in the Andean Altiplano, shared by Chile, Argentina and Bolivia. What draws tourists to the region are the dramatic landscapes of the basin created by a chain of active volcanos and other worldly erosional landscapes.

Colombia

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

"In Latin America, Colombia is also one of the few countries to adopt the approach of setting an absolute cap on future emissions rather than simply committing to some percentage reduction in increasing emissions"

Annual Primary Forest Loss in Colombia (Ha)



Source: Global Forest Watch

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

As such, it is problematic that Colombia has not set clearer and more ambitious targets related to reducing emissions from other sectors such as transport and energy generation, which account for 40% of current emissions. Colombia has made some steps to increase the percentage of renewables, primarily wind and solar in the north of the country, and has set some goals in terms of electric vehicles, but there is still not a firm, actionable plan for a zero-carbon energy transition in the country. Equally problematic is the proposal from the new Petro administration to wind down Colombia's production of fossil fuels, including coals where it occupies the fifth spot in terms of global coal exports. While narratives around a just energy transition are increasingly common, much resistance exists from across the political spectrum regarding such a dramatic transformation of the Colombian economy, causing the administration to soften its public commitment to a rapid energy transition.

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

Environmental Focus: Monposina Depression

At the confluence of the Magdalena and Cauca rivers which drain the Colombian Andes lies the Monposina Depression, an interior deltaic landscape covering approximately 24,650 km2 on the Caribbean Plain. The seasonal variation of flow in the contributing rivers produces natural fluctuation in flooding within the depression, where some areas are permanently flooded while others deal with flooding and draining on an annual basis. As the region is characterised by shifting patterns of sedimentation and erosion, the mosaic of flooding is very dynamic. This creates a unique set of conditions which are vital to important migratory fisheries within the Magdalena-Cauca basin, including for most of the important freshwater fish species consumed in Colombia. The pre-Colombian cultures that populated adapted their dwelling and communities to the shifting water, with minimal attempts to control flooding. This pattern was followed somewhat by early Spanish settlers, resulting in several emblematic towns with interesting connections to adjacent water. Over time, however, efforts to construct more substantial flood protection works increased and now the region is plagued by significant food risk and flood damage when this infrastructure fails during extremely wet years, such as 2022. Climate change, with its expectation of increasing extreme events in this region, is prompting a debate as to the wisdom of continuing to build flood protections and raising the profile of nature-based solutions, echoing earlier indigenous practices.

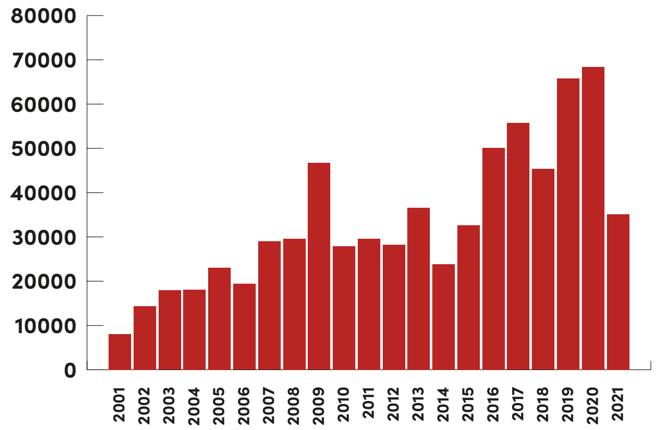
Rio Magdalena River in Colombia (Burkhard Mücke)

Mexico

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

While the most recent NDC does suggest that under the BAU scenario emissions will decrease in sectors such as transport and oil and gas, the BAU scenario suggests that emissions from agriculture and industry will increase. Emissions from other land use related categories are also projected to increase. This is perhaps because Mexico's deforestation rates have been historically high for the past five or six years, with the exception of the 2021 pandemic year . Most of this deforestation has been linked to shifting agricultural practices. Since 2020, Mexico has lost almost 8%

Annual Primary Forest Loss in Mexico (Ha)



Source: Global Forest Watch

of its historical forest cover. As such, vague commitments to achieve net-zero deforestation by 2030 lack credibility.

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

Environmental Focus: Riviera Maya

The Caribbean Coast of the Mexican State of Quintana Roo has become known as the Rivera Maya. This coastline running 130 km from Cancun in the north to Tulum in the south annually receives over 2 million visitors. The expansive, and expanding, infrastructure built to receive these visitors both contributes to local environmental degradation and suffer from larger environmental challenges. The way that most hotels are constructed within the dunes backing the beaches

has weakened the natural beach regeneration process resulting in annual beach erosion of greater than 1 meter in places. In addition, inadequate wastewater management has led to contamination of the karst aquifers below the Yucatan Peninsula that are the only source of fresh water for the region and major tourist attraction when accessed through open cenotes. These impacts can be linked directly to inadequate commitments to ecological tourism. Unfortunately, the region also suffers from the impacts of global climate change induced sea level rise and the proliferation of macroalgae linked to changes in ocean biogeochemistry that now foul the regions beaches between April and August. In response, hoteliers are spending thousands of dollars per day hauling away rotting seagrass to unimproved dumps which further imperils aquifer water quality. Some entrepreneurs are, however, looking for a way to actually derive value from the abundant biomass.

Beach in Tulum, Mexico (Daniel Lepoittevin)

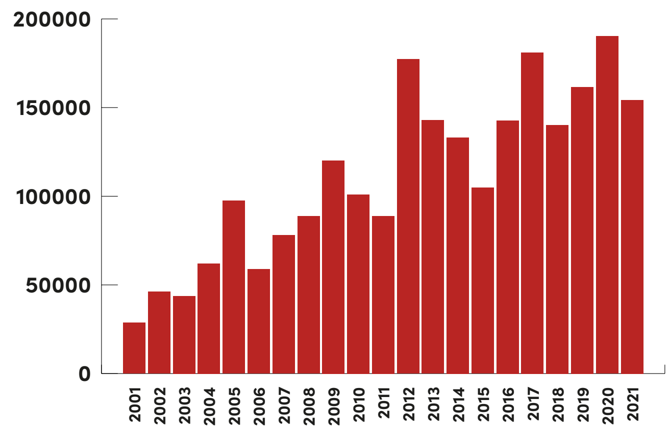
Peru

The situation with respect to climate ambition in Peru is mixed. While the Climate Action Tracker has assessed the country's climate commitments to be insufficient to limit temperature increases to 1.5°C by the year 2100, the commitments made roughly align with 2°C warming future. This assessment is based primarily on Peru's commitments to expanded renewable energy generation, which has actually begun to materialise on terms of on the ground investment. Unfortunately, at the same time, Peru is moving forward with plans to open fossil fuel production in its Amazon region, where reserves of 127 million barrels have been identified. The lack of a coherent narrative related to climate ambition is consistent with the political instability that has plagued the Castillo administration since its election in 2021 in the form of attempted impeachments and cabinet reshuffles. It has also meant that Peru has not updated its NDC as expected under the Paris Agreement, meaning that the country's climate ambition has not increased as was agreed to in Glasgow.

The government has suggested, however, that Peru will soon promulgate a Climate Change National Strategy that will commit the country to a 2050 Net-Zero target. Given that the largest current sources of emissions in Peru are associated with land use factors, it is very likely that such a strategy will rely heavily on reducing rates of deforestation. This will be challenging to achieve as recent annual levels of deforestation have been comparatively high, reaching a historic peak of 190kha in 2020 . This means that the loss of 3.3% of the country's primary humid forest cover since the year 2000 will not soon reverse absent real action to slow deforestation rates, which are being driven to a large extent by shifting agricultural production systems and the expansion of commodity based agricultural production. This means that Peru's efforts to increase its climate ambition and to protect forests and biodiversity are inextricably linked, perhaps more so than any other Latin American country. This makes plans to develop fossil fuel production in the Amazon particularly worrisome given that such activity in the heart of the humid forest will surely serve as a kernel of expanded deforestation, compounding both the climate and the biodiversity challenges in the country.

> *"As a useful input to the anticipated Climate Change National Strategy….. Peru could derive fully 85% of its national energy from renewable sources by 2050, including 35% provided by wind and solar."*

Annual Primary Forest Loss in Peru (Ha)



Source: Global Forest Watch

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

Environmental Focus: Tacna

The city of Tacna, with a population of roughly 325,000 residents, lies in the extreme south of Peru. Due to the extremely dry climate, with an annual precipitation of only 26mm per year, water management is the most pressing environmental challenge facing this city and its surrounding area. The Caplina River, along with the adjacent Sama and Locumba Rivers, provide extremely limited water supply for such a significant population. The Caplina river has an average annual flow of less than 0.5 m/sec. In spite of this limited flow, and supplemented by groundwater pumping along the Coastal Plain, an important irrigated agriculture sector has developed over the decades. Mining activity in the region also generates water demand, creating a very stressed water management landscape. Part of the solution has been the construction of inter-basin transfers that bring similar quantities of water, roughly 0.5 m/sec, into the region from watersheds that drain towards the Lake Titicaca Basin, and the creation of a water management governance system that manages infrastructure is required to manage the extremely limited water supplies. Still, shortages, and associated protests organised by key water user communities are common, as are ambitious plans to increase the amount of water conveyed into the region via additional inter-basin transfers. These plans, however, provoke resistance on the part of both Peruvian and Bolivian water managers within the Titicaca Basin. A newly updated water management plan for the region, however, based on very sophisticated water modeling technology, is attempting to change the dynamic in favor of more sustainable water management future.

Caplina River Water Reservoir (Jedve)

Conclusion

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

Perhaps the biggest challenge facing the region is how land use practices serve as a substantial source of greenhouse gas emissions, particularly in the form of deforestation. Therefore, it is difficult to imagine the region making progress towards more substantial emissions reductions without bringing down annual deforestation rates, perhaps even requiring the achievement of net reafforestation in the region. In this regard, it is important to note that all six countries evaluated here signed on to the global deforestation accord discussed prior to COP 26 in Glasgow. In addition, all of the newly elected left-wing presidents in Latin America have made public commitments to reduce deforestation in their respective countries. Whether these lofty ambitions translate to a real reduction in deforestation and eventual net afforestation, however, remains to be seen.

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

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