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Seizing the moment:

Latin America's productivity opportunity

December 2025

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Felipe Child is a partner in McKinsey's Bogotá office; **Javier Valenzuela** is a partner in the Santiago office, where **Bautista Gall** is a consultant; **Nelson Ferreira** is a senior partner in the São Paulo office, where **Tracy Francis** is a senior partner; and **Kevin Russell** is a McKinsey Global Institute senior fellow in the Raleigh-Durham office.

The authors wish to thank Andrés Cadena, Arjita Bhan, Aryan Kumar, Camillo Lamanna, Carolina Flórez Rey, Henrique Sosa, Martin Baily, Mekala Krishnan, Mikael Djanian, Olivia White, Pablo Parodi, Rafael Krausz, Rodrigo Ignacio Sapunar Bernabé, and TJ Radigan for their contributions to this report.

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Table of contents

	At a glance	1
	Introduction	2
01	**The growth challenge: Latin America's productivity and investment gaps**	4
02	**The time is now: Unlocking Latin America's growth potential amid global shifts**	18
03	**Seven sectors for transformative investment**	27
	Next-gen manufacturing: Riding the wave of industry innovation	32
	Power-to-X: Harnessing renewable-energy potential	37
	Digital services: Unlocking Latin America's technology potential	41
	Data centers: Sustainably powering the world's data	45
	Agri-food: Feeding the world	49
	Oil and gas: Powering the present and the transition	58
	Critical minerals: Enabling the energy transition	62
04	**Strategic accelerators: Unlocking growth in Latin America**	67
	Appendix	76
	Endnotes	83

At a glance

Latin America could attract more investment and boost productivity by working along three themes. First, to revitalize industry, the region could accelerate technology adoption and expand its export opportunities in North America. Second, targeted innovation and upskilling could increase higher-productivity jobs in digital services. Third, the region's natural endowments in critical minerals and agriculture could be harnessed to meet rapidly growing global demand.

The productivity imperative in Latin America has reached a critical juncture. Over the past 25 years, the region's annual economic growth has averaged 2.3 percent, lagging behind the global average of 3.0 percent, and its pace of labor force expansion is slowing. If the region maintains its rate of productivity growth since 2003, GDP would increase 30 percent by 2050. This rate would be insufficient to cover rising social costs, including a potential 90 percent jump in social security spending per capita.

Latin America's productivity challenge is tied to low investment. Over the past 25 years, a rise in capital per worker added just 0.9 percentage points annually to productivity growth in Latin America, half the contribution seen in peer economies during the same period.

Pursuing investment opportunities in the most promising areas could reignite economic growth. A scenario in which productivity growth rises to levels demonstrated in other countries could help Latin America reach GDP of $8.9 trillion to $10.3 trillion by 2040—20 to 40 percent above baseline projections. Such a scenario, which includes outsize growth in the three investment themes, would translate to overall productivity growth of up to 2.6 percent per year.

Four strategic accelerators of trade and investment can help Latin America overcome global and regional challenges. The region faces heightened geopolitical tensions, evolving trade relationships, a challenging global economic climate, and structural and macroeconomic issues at the regional level. To foster sustained long-term growth, Latin America may benefit from four strategic accelerators: diversifying by proactively opening new trade corridors, enhancing intraregional collaboration and investment, streamlining regulatory frameworks in key sectors, and upskilling and reskilling its workforce.

Introduction

The world is entering a new era characterized by significant changes. The global order is in the midst of shifting from a unipolar to a multipolar structure, with recent developments in trade policies reshaping global dynamics. The green transition is spurring increased demand for key commodities and final goods, while the expanding middle class and global population growth are putting pressure on land use systems and raising concerns about food security. In addition, the rapid advancement of new technological platforms is transforming production and the competitive landscape across industries.

These global trends present challenges and opportunities for all countries. But Latin America's competitive strengths make the region particularly well positioned to meet the moment. Its abundant and cost-competitive renewable energy and talented workforce could enable Latin America to benefit from an ever more digital and compute-intensive global economy. Further, its rich, diverse natural resources put the region at an advantage amid rising demand for food, energy, and critical minerals. Meanwhile, its production capabilities, geographic location, and relatively neutral geopolitical stance could offer its advanced-manufacturing sector a competitive edge.

Of course, we recognize that Latin America is made up of a diverse mix of economies, peoples, and histories. Indeed, the notion of "Latin America" as a single entity may resonate more outside the region than within it. Nevertheless, this report grapples with the idea that Latin America has been a land of unrealized potential for more than 50 years.[1] As we see it, the current global shifts present a once-in-a-generation chance to change course. The region's investment levels and productivity output have struggled to keep pace in a rapidly shifting global economy, and the expansion of its labor force is losing steam. Moreover, about 60 percent of the population today lives below the empowerment line,[2] and it faces the prospect of "getting old before getting rich" due to demographic pressures and a weak growth outlook.[3]

If GDP growth per capita persists at recent rates, it will rise only 19 percent by 2040—just one-third of Emerging Asia's growth over the same period.[4] Therefore, growth will be critical to enable more households to meet their basic needs and start to save.

Increased investment and more effective capital allocation are essential to achieve higher productivity growth in Latin America and unlock the region's full potential. Historically, low investment has hindered productivity in the region. Over the past 25 years, additional capital per worker boosted the region's productivity growth by just 0.9 percentage points a year, half that of its peers.[5] If Latin America had achieved productivity growth in line with countries that had comparable metrics (productivity and population size) during this period, it could have doubled its GDP per capita and qualified as a high-income economy.[6]

Our work seeks to offer new insights into areas of the Latin American economy that could spur economic growth. We recognize that attracting more investment does not happen evenly across companies, sectors, or countries. Given this pattern, our report highlights sectors with the potential to be the engine for sustained growth through 2040, especially specific sectors in which global trends present openings. Small successes over time can extend growth across sectors and the broader economy.

This report seeks to shed fresh light on the possibilities for the most promising opportunities to expand into widespread growth. It is organized into the following sections:

01 Chapter 1 presents a historical analysis of Latin America's economic performance, with a focus on growth, productivity, and investment. It examines the factors behind the region's poor economic performance and calculates the potential economic impact of achieving productivity growth similar to that of comparable countries.

02 Chapter 2 describes global trends and assesses the region's key capabilities and natural resources. This analysis highlights three strategic themes—revitalizing Latin America's industrial base, thriving in the age of global digitalization, and leveraging Latin America's natural endowments—that could drive investment and economic growth in Latin America, and estimates their potential GDP contribution.

03 Chapter 3 takes a bottom-up approach to evaluate seven high-potential sectors within these three strategic themes. For each sector, we estimate the size of the opportunity in additional revenues by 2040 and the investment required to fully capture them, identify the drivers behind each opportunity, and examine the countries with the strongest positions. Last, we lay out the enabling factors needed to scale.

04 Chapter 4 outlines four strategic accelerators that are essential given the global and regional context. These accelerators could enable the region to prepare for the next decade and increase productivity at an economy-wide level.

Increased investment and more effective capital allocation are essential to achieve higher productivity growth in Latin America.

01

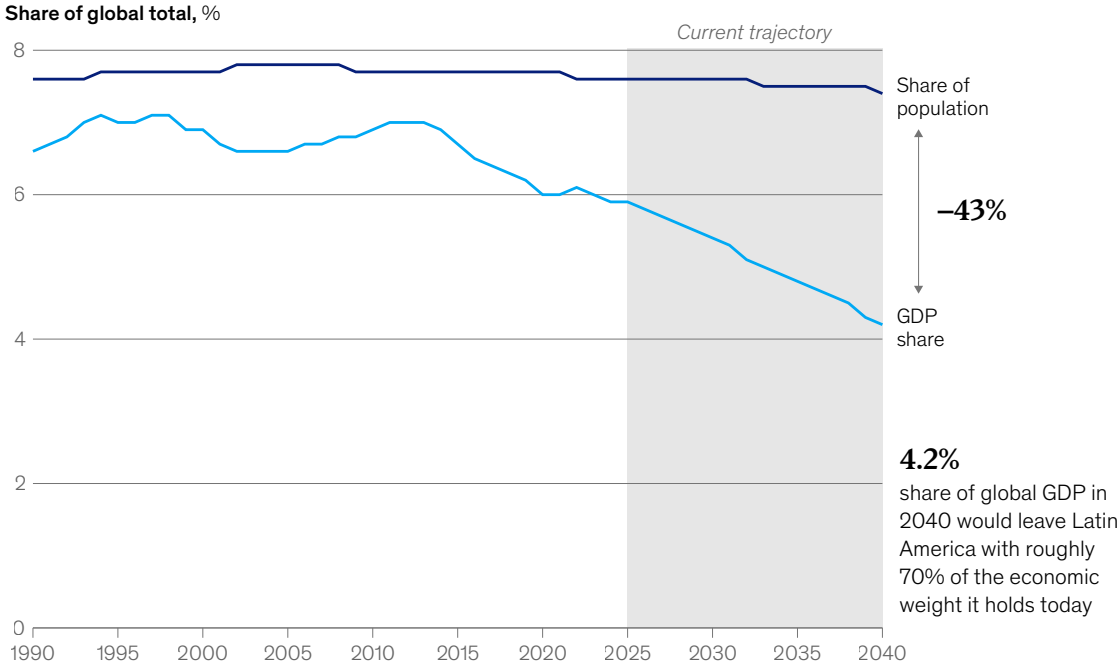
The growth challenge: Latin America's productivity and investment gaps

Latin America currently punches below its weight in the global economy as measured by its productivity and investment levels, and the region's sluggish growth is eroding its relevance. Although Latin America began the 21st century on strong footing, this momentum faded. The early 2000s commodity boom, which drove robust growth of 3.7 percent CAGR from 2003 to 2013 and accounted for more than half of the region's GDP growth during that decade, pushed the region's share of global GDP to a peak of 7.1 percent in 2011. But as global conditions shifted, growth slowed sharply, and by 2023, Latin America's global share had fallen back to 6 percent (Exhibit 1). Latin America's stable share of the world's population (approximately 7.6 percent) underscores the region's relative economic stagnation.[7] Under the current trajectory, Latin America's share of global GDP could be 58 percent of its share of global population by 2040.

EXHIBIT 1

If Latin America doesn't increase its productivity, its GDP share could fall 43 percent below its population share by 2040.

Evolution of Latin American share of global GDP and population at momentum[1]



Note: World Bank population estimates were used to project GDP. GDP was adjusted with US Consumer Price Index.
[1]Each curve represents Latin America's share over the world. Momentum GDP growth is modeled by taking expected population growth and the momentum productivity of the past 20 years of the region.
Source: World Bank; McKinsey analysis

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A look at Latin America's performance versus its peers over the past 25 years highlights its divergent trajectory. During that period, the region grew at 2.3 percent annually, below the global average of 3.0 percent.[8] The gap widened further in the past decade, with the region growing at just 1.2 percent a year compared with 2.7 percent globally. Countries such as Egypt, Malaysia, Poland, and Türkiye had comparable income levels with Latin America 25 years ago but grew nearly twice as fast, averaging 4.5 percent over the full period and 3.8 percent in the past ten years.

Latin America's low economic growth has had profound implications for poverty reduction and standards of living

Historically, economic growth has served as one of the most powerful engine for societies to enhance opportunities.[9] A sustained increase in GDP per capita translates into not just higher incomes but also better access to education and healthcare and broader opportunities for individuals to improve their quality of life.

For example, Latin America's commodity boom generated relatively strong growth as well as substantial improvements in several social indicators. From 2002 to 2012, poverty and extreme poverty decreased by 16 percentage points, half of which was a reduction in extreme poverty.[10] In contrast, the subsequent decade saw more modest progress in all these areas.

Reigniting growth is critical to improve economic inclusion. In Latin America, just 40 percent of people live above the empowerment line,[11] compared with more than 75 percent in high-income countries and regions such as Australia, the European Union, and the United States.[12] Growth that can bring more households above this threshold and into the global middle class can lift quality of life as well as create a more stable source of consumer demand.[13]

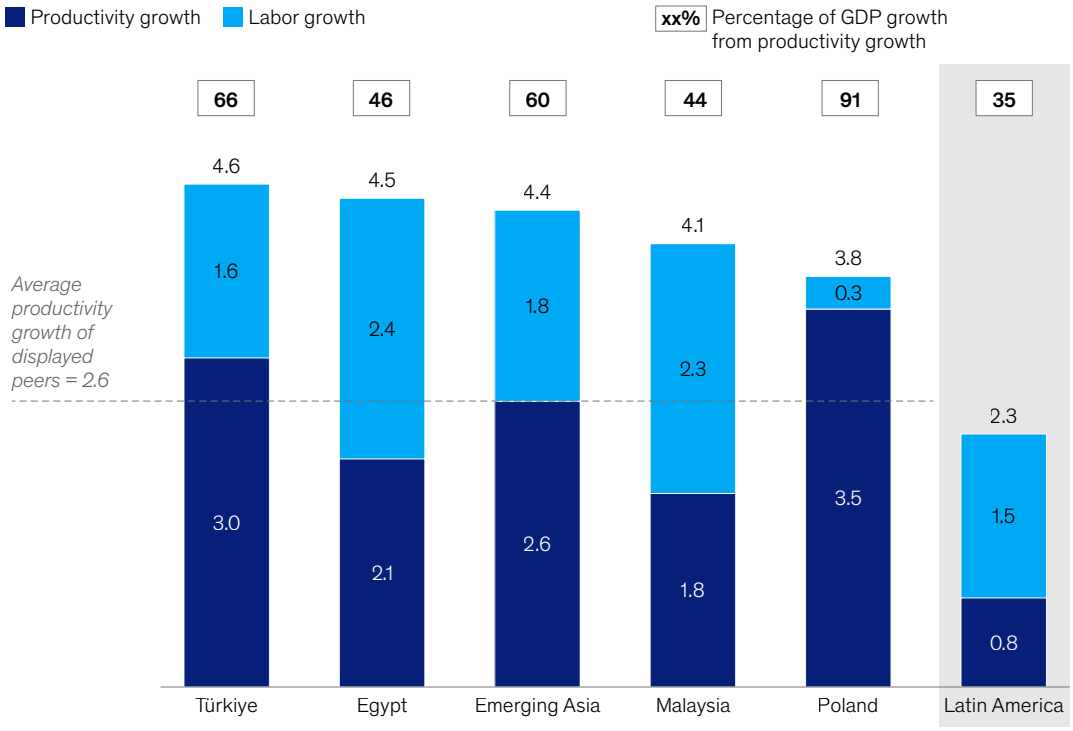
Stagnant productivity has been the main contributor to Latin America's low GDP growth

From 1997 to 2022, productivity accounted for 35 percent of Latin America's GDP growth (0.8 percentage points of the total 2.3 percentage points of growth), reflecting the region's persistent underinvestment in capital-deepening sectors. This is significantly lower than the contribution seen in comparable countries (Exhibit 2), which achieved at least double or triple Latin America's rate. For example, Poland and Türkiye achieved 3.5 and 3.0 percentage points, respectively.[14]

EXHIBIT 2

Labor expansion has been the main driver of Latin America's growth, while its productivity has lagged behind peers.

GDP growth by contributing factors,[1] CAGR 1997–2022, %



Note: Figures may not sum, because of rounding.
[1]Criteria for comparable countries selection: average productivity (at some point between 2003 and 2023) above 75% of the lowest and below the highest productivity among Latin America's 6 largest economies (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) in 2023; classified as "top third" or "middle third" in the *Investing in Productivity* report; excluded countries with populations below 75% of the smallest of Latin America's 6 largest economies, which left us with a list of 21 countries, 14 of which had data.
Source: The Conference Board Total Economy Database; McKinsey Global Institute analysis

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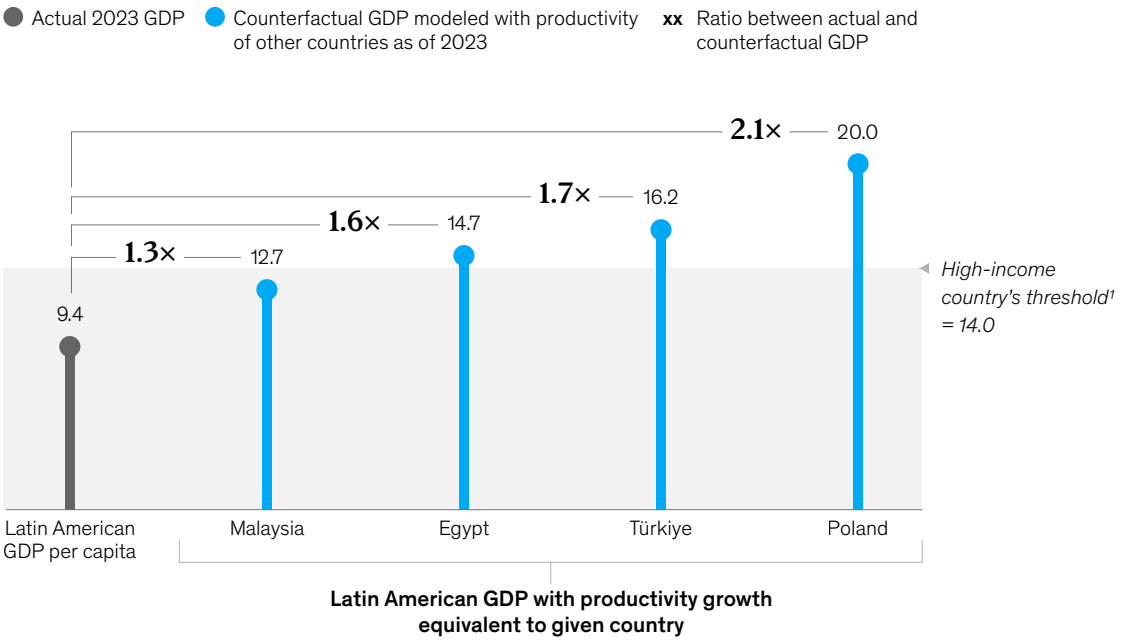
If Latin America had matched the productivity growth of peers such as Egypt, Poland, and Türkiye over this period, its GDP in 2023 would have been 60 to 110 percent higher and the region could have reached high-income status,[15] on average (Exhibit 3).[16]

EXHIBIT 3

If Latin America had matched the productivity growth of its peers, its GDP in 2023 would be enough for the region to reach high-income status.

Latin American GDP per capita in 2023, actual value and counterfactual (modeled applying productivity growth in comparable countries, 1997–2023), $ thousand



[1]Gross National Income (GNI) per capita of $13,935 or more.
Source: World Bank's World Development Indicators; McKinsey analysis

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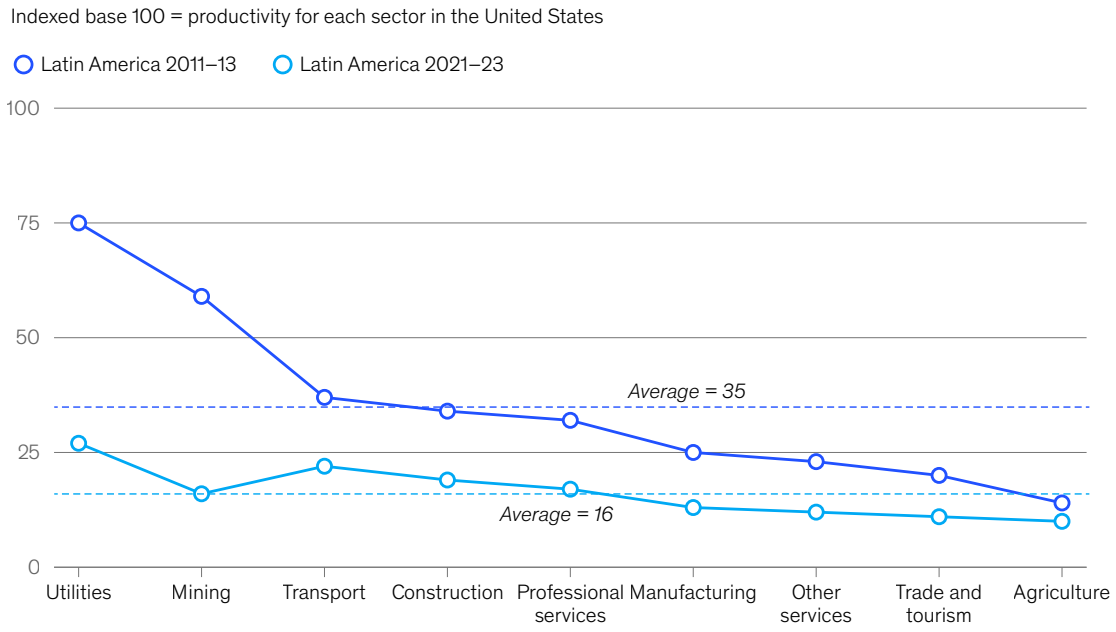
The causes of Latin America's productivity shortfall are structural and span the economy. Examining the 2011–13 and 2021–23 periods, for example, its productivity grew more slowly across all sectors compared with the United States. The region's productivity fell during this period from 35 percent of the US level to 16 percent. That decline means it takes six Latin American employees to match one US employee's GDP output and about ten employees in areas such as trade and tourism and agriculture (Exhibit 4).[17]

EXHIBIT 4

The productivity gap between Latin America and the United States has grown significantly in the past decade.

2011–13 vs 2021–23 Latin American productivity (GDP per employee), indexed to US productivity



Source: The Conference Board; McKinsey analysis

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Stagnating labor force participation makes productivity growth even more relevant in the years ahead

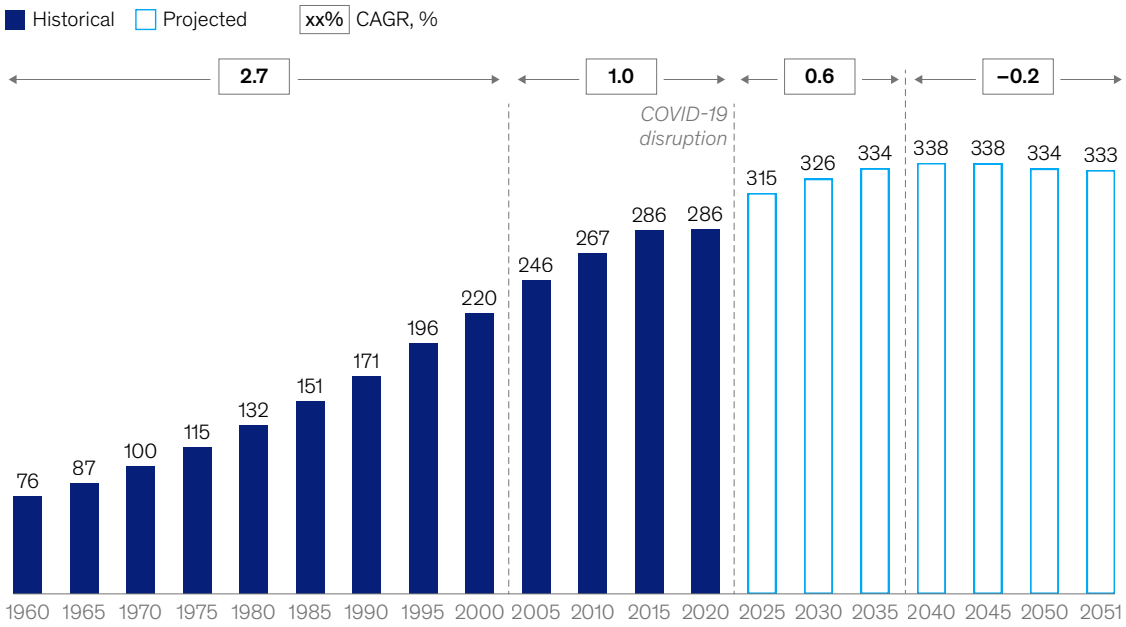
Over the past 25 years, 65 percent of Latin America's GDP growth was driven primarily by an increase in the size of the labor force. This demographic tailwind fueled economic growth, with labor force expansion exceeding 2.7 percent annually from 1960 to 2000 and 1.0 percent from 2005 to 2020.[18]

However, labor force growth is projected at a CAGR of 0.6 percent in the 2025–35 period, eventually turning negative by 2040 (Exhibit 5). Given this dynamic, boosting productivity is no longer an opportunity; it's a necessity for sustaining growth.

EXHIBIT 5

The region's population bonus is nearing its end, making productivity more crucial than ever.

Labor force[1] in Latin America, millions of people



[1]Based on United Nations World Population Prospects data (1960–2050F), we estimate labor force participation using 1990 age-specific rates for the 1960–90 period, year-specific rates from 1990 to 2023, and constant 2023 age-specific rates (modeled ILO estimates from ILOSTAT) for 2023 onward.
Source: 2023 ILO labor force breakdown; 2023 UN population projections

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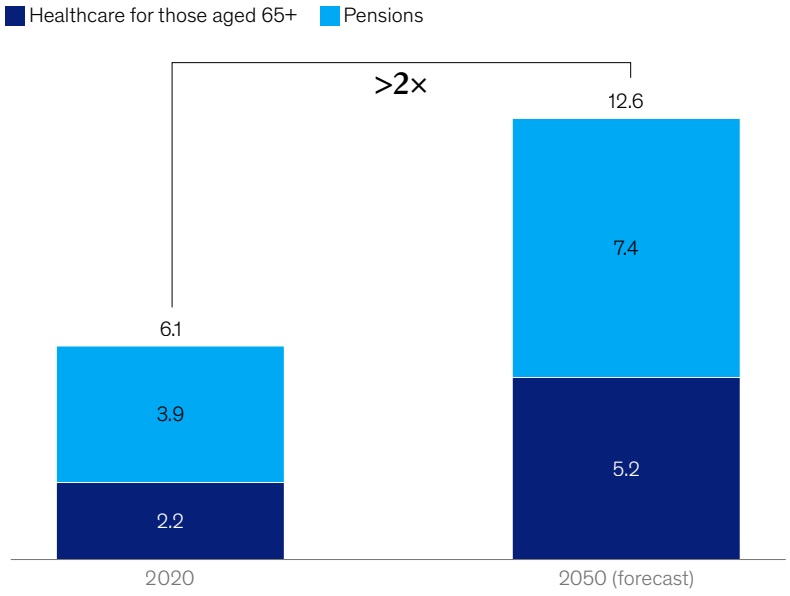
If the region records the same productivity growth levels as its 1997–2023 period, annual GDP growth will likely fall below 1 percent from 2025 to 2050.[19] At the same time, demographic shifts will heighten fiscal pressures. By 2040, 15 percent of Latin America's population will be over the age of 65, a share expected to reach 20 percent by 2050.[20] Social security spending for the elderly population as a share of GDP is projected to more than double from 2020 to 2050 (Exhibit 6). Growing pension obligations and healthcare costs for older adults will account for the bulk of this increase (around 85 percent).[21] Without economic growth or structural reforms, this mounting fiscal burden could pose a serious threat to the region's long-term financial stability.

EXHIBIT 6

Increasing social security costs for the elderly reinforce the region's need to get rich before it gets old.

Latin America social security spending for population aged 65+,[1] share of GDP, %



[1]Based on "Trends in spending on pensions and healthcare as a share of GDP (%), 2020-2050," Inter-American Development Bank (IDB), accessed November 2025.
Source: IHS Markit; The Conference Board Total Economy Database; UN population projections; World Bank World Development Indicators; McKinsey analysis

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A high-income scenario by 2040 would require accelerating productivity growth to match the rate of faster-growing peers

What would Latin America's productivity look like with higher growth? We conducted an analysis of 14 comparable economies that produced two scenarios[22] (see sidebar "About the productivity growth methodology"). The high-case scenario represents the median of the yearly average productivity growth of these 14 countries during the past two decades, while the low-case scenario represents the average of the lowest quartile.

If Latin America's productivity growth matched the low- and high-case scenarios of these reference economies, it would achieve a jump of 1.1 and 2.0 percentage points, respectively, beyond the region's yearly average productivity growth of 0.6 percentage points over the past 20 years. An annual average productivity growth rate of 1.7 to 2.6 percent would enable Latin America to reach a GDP range of $8.9 trillion to $10.3 trillion (in 2023 dollars) by 2040. If the region consistently grows at the upper end of this range, it could reach the current high-income status by 2040.

Growth of 2.6 percent annually could be achievable for Latin America, given that half the countries in the sample exceeded this level. Although a jump in productivity growth from 0.8 percent to 2.6 percent might seem ambitious, more than a third of the countries we analyzed have recorded even larger increases over the past two decades. This precedent suggests that with the right strategies, Latin America could achieve these growth rates, paving the way for significant economic expansion.

A sustained increase in GDP per capita translates into not just higher incomes but also better access to education and healthcare.

About the productivity growth methodology

To develop feasible productivity growth scenarios, we selected a group of emerging economies that were at a similar level 20 years ago and compared them with the six largest Latin American economies: Argentina, Brazil, Chile, Colombia, Mexico, and Peru. We identified the relevant benchmark countries through a structured approach using data from 2003 to 2022. We began by filtering countries based on size, excluding those with populations less than 75 percent of the smallest country among our Latin American sample. This lens ensured our benchmarks reflected economies of meaningful scale.

Next, we defined a productivity range with a lower bound at 75 percent of the 2023 productivity level of the lowest-performing country among our regional sample and an upper bound of 1.25 times the 2023 productivity level of the highest-performing country. We then segmented all the countries that, at any point from 2003 to 2023, had a productivity level within that range. This step ensured the selected emerging countries had productivity levels broadly comparable to those in Latin America. Advanced countries that made this list were not included.[1]

Last, we excluded countries that were not classified as part of the "mid" and "fast" productivity lanes in McKinsey Global Institute's *Investing in productivity growth* report to focus on the countries that grew in productivity.[2]

Applying these filters produced 16 potential benchmark countries. Of this group, 14 had complete productivity data available for the full 2003–23 period.[3] For these 14 countries, we calculated the CAGR of productivity over the two-decade period (exhibit). The resulting average and median productivity growth rates across these benchmark countries were 3.2 and 2.6 percent a year, respectively.

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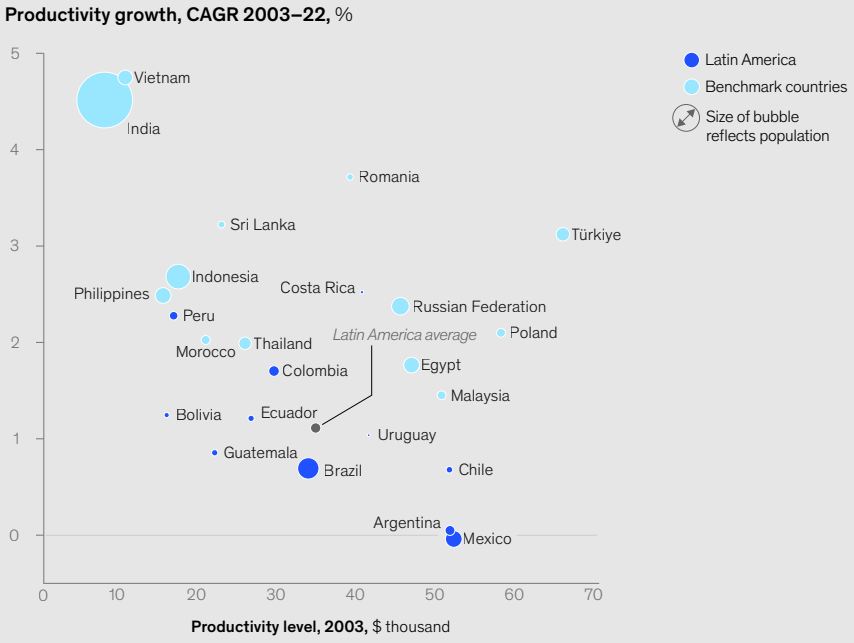
1 South Korea.
2 Algeria, Angola, Iran, South Africa, Sudan, and Ukraine; see *Investing in productivity growth*, McKinsey Global Institute, March 27, 2024.
3 Kazakhstan and Uzbekistan did not have complete data for the full period.

EXHIBIT

To analyze Latin America's performance, we selected benchmark countries that grew faster but had a similar initial productivity.



Note: China as an outlier is not shown in chart (productivity level: $9.1 thousand; productivity growth: 8.5%; population: 1.41 billion).
Source: World Bank World Development Indicators

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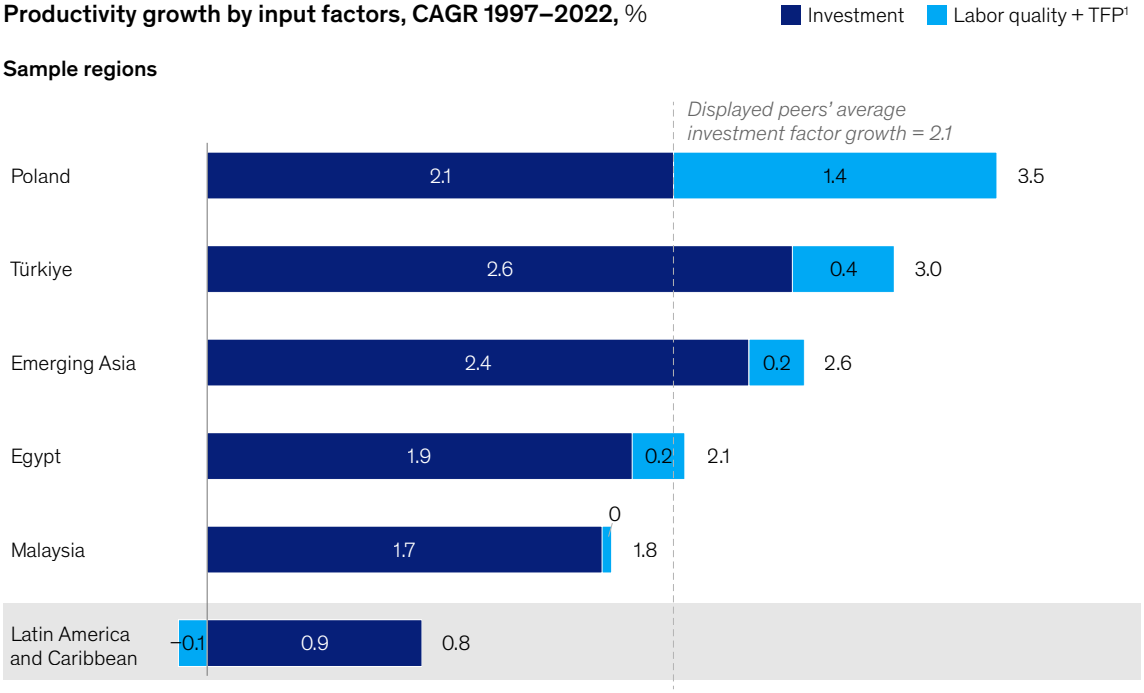
Achieving higher productivity growth would mean increasing investment levels

Investment has been the major differentiator in countries with rapid productivity growth. However, its contribution in Latin America has been approximately half that in fast-growing countries (Exhibit 7).

EXHIBIT 7

Low investment has played a major role in holding back productivity growth in Latin America.

Productivity growth by input factors, CAGR 1997–2022, %



Note: Figures may not sum, because of rounding.
[1]Total factor productivity. TFP is the portion of output not explained by the amount of inputs used in production.
Source: The Conference Board Total Economy Database; World Bank World Development Indicators; McKinsey analysis

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Latin America's gross domestic savings rate, 18 percent of GDP, is among the lowest in the peer set as well as the world.[23] Chile and Ecuador have the highest savings rate in the region, at 27 and 22 percent, respectively, compared with the regional averages of Emerging Asia (28 percent) and Central and Eastern Europe (24 percent).

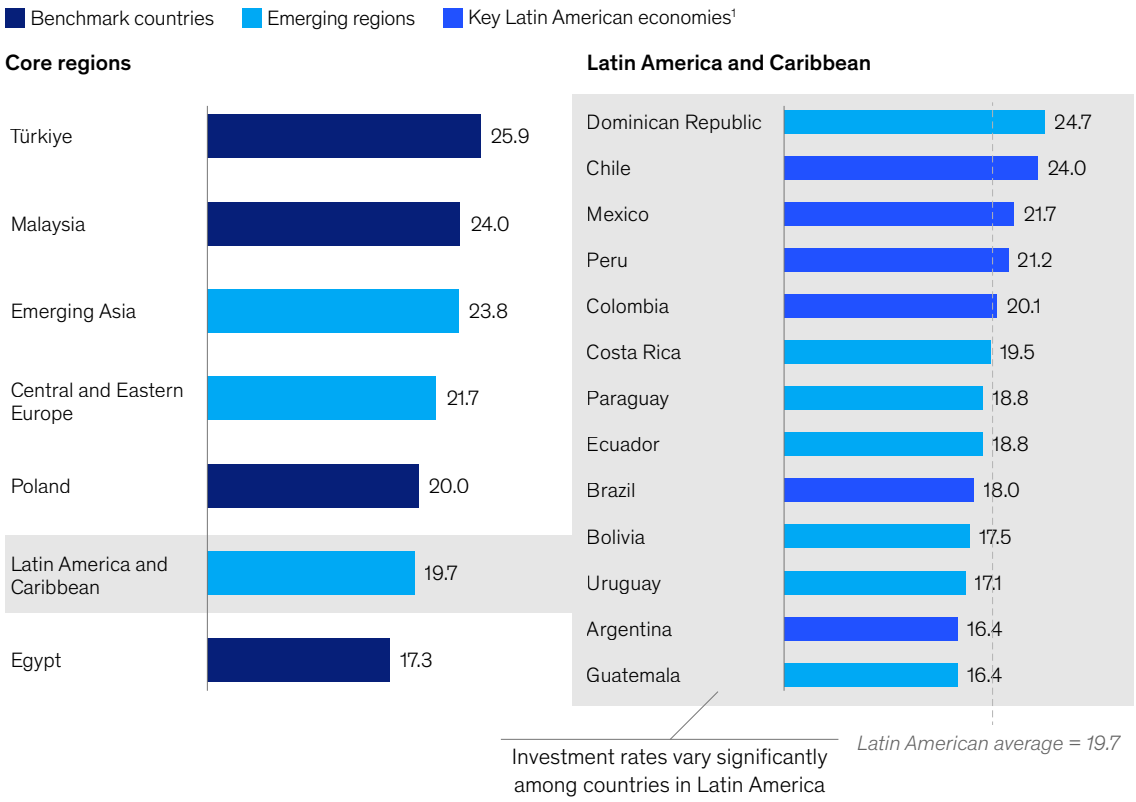
The result is weak local investment. In Latin America, gross fixed capital formation, a metric for total investment in an economy's stock of assets, is approximately 20 percent of GDP, on average, trailing comparable regions (Emerging Asia and Central and Eastern Europe) and countries such as Türkiye and Malaysia (Exhibit 8).[24] From 1997 to 2019, Latin America's capital stock per worker grew by only 30 percent, while countries such as Poland and Türkiye experienced a twofold jump in this metric and achieved productivity growth rates two to three times higher than that of Latin America.[25]

What set these countries apart was not just their level of investment but how and where they invested. In Poland, for example, EU accession triggered a wave of infrastructure projects, industrial upgrades, and institutional reforms.[26]

EXHIBIT 8

Latin America has one of the lowest overall investment rates among emerging regions.

Gross fixed capital formation (investment), % of GDP on average over 1997–2022



[1]Representing 80% of Latin America's global GDP.
Source: World Bank's World Development Indicators

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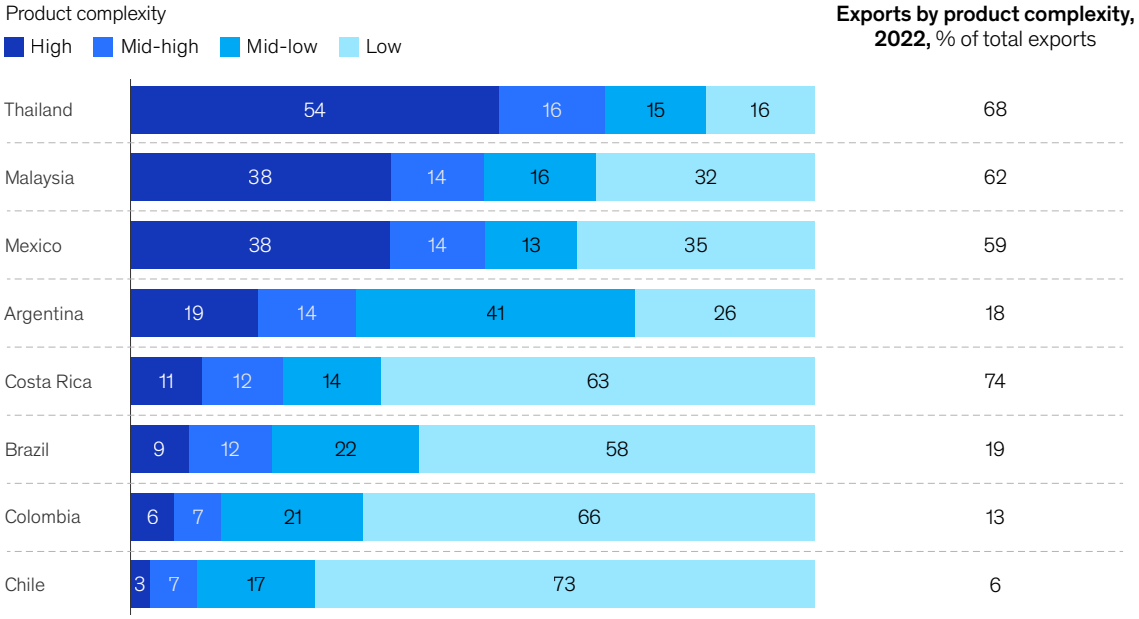
In contrast, investment in Latin America is concentrated in lower-complexity sectors.[27] Across countries, around 80 percent of investment flows to sectors such as agriculture, mining, and textiles (Exhibit 9). This figure excludes Mexico, which has higher economic complexity. Sectors associated with natural resources have the capacity to benefit considerably: Australia, for example, has developed a robust mining-equipment sector that generated $17 billion of exports[28] in 2020[29] (about 5 percent of the country's total). Nonetheless, more-complex sectors tend to have greater potential to support innovation, skills development, and competitiveness across the economy.

EXHIBIT 9

The region's low investment levels are focused on lower-complexity sectors with decreased likelihood to generate technological spillovers.

Capital expenditures invested on sectors in Latin America and Emerging Asia, average 2019–22, % of total capital expenditures by product complexity



Note: Figures may not sum to 100%, because of rounding.
Source: IHS Markit; McKinsey analysis

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Foreign direct investment (FDI) follows a similar pattern[30]: In countries such as Argentina and Chile, more than 60 percent of FDI flows into resource extraction. This level stands in contrast with countries such as Malaysia and Thailand, where a greater share of both domestic and foreign capital is directed to high-complexity sectors such as advanced manufacturing, electronics, and pharmaceuticals. Diversifying into more-complex sectors does not mean abandoning traditional strengths; rather, it involves integrating higher-value activities alongside established resource industries to unlock the productivity gains needed for sustainable, long-term growth.

Investment volume and allocation are not the only factors affecting productivity; the technology that investment brings also matters. The AI revolution has the potential to substantially boost Latin American productivity by improving decision-making, automating tasks, and enabling new production models. While a comprehensive assessment of AI's potential in the region is beyond the scope of our analysis and involves major uncertainties, some challenges are already apparent. The region currently trails in AI adoption, scoring an average of 41.5 out of 100 in the Global AI Index,[31] below leaders such as the United States and Canada.

Key challenges to widespread AI adoption in Latin America include limited access to high-performance computing, quality data sets, and a skilled workforce.[32] Strategic investments in digital infrastructure, AI, R&D, and public policies to bring best-in-class technology and foster AI adoption could help prevent the expansion of existing productivity differences.[33]

Average annual investment of $1.9 trillion to $2.3 trillion through 2040 could enable Latin America's GDP growth

The growth of middle-income economies depends on sufficient levels of investment, among other variables. Based on the correlation between capital per worker and productivity as countries develop economically, achieving a GDP of $8.9 trillion to $10.3 trillion in Latin America by 2040 would likely require average annual total investment in the range of $1.9 trillion to $2.3 trillion.[34]

Assuming the region's GDP reaches the high-case scenario of $10.3 trillion, this ramp-up of investment could reach approximately 28 percent of GDP by 2040, up from 20 percent today and aligned with other fast-growing regions such as China (around 40 percent), Türkiye (31 percent), and India (30 percent) over the past 20 years.[35]

Where might this investment go, and how will it translate to higher productivity? In chapter 2, we analyze three themes where Latin America's distinctive assets and capabilities are well positioned to match the global shifts in trade and demand, making them attractive opportunities to create a new investment dynamic.

The time is now: Unlocking Latin America's growth potential amid global shifts

The world is in the midst of significant change. Four trends, from changing global power dynamics and technological advancements to demographic shifts and evolving resource and energy systems, are influencing the course of the global economy. Latin America has a window to spur growth in certain parts of its economy by harnessing its unique strengths and assets. Yet these opportunities will not materialize automatically; instead, fully seizing this moment will require decisive action.

Four global trends are reshaping growth opportunities

Countries and regions around the world are confronted by several trends with far-reaching impact.[36] Together, these trends could usher in a new era of economic opportunity, but they also bring specific challenges.

01

Multipolar world

The global order is evolving from a unipolar to a multipolar structure, marked by notable shifts in global power dynamics. The current gap between the share of global material capability (the capacity to extract, process, and use materials to meet economic demand) held by US-aligned powers and China is smaller than the gap between US-aligned powers and the Soviet Union during the Cold War.[37] Events such as Russia's invasion of Ukraine have increased this complexity. Meanwhile, the rapid ascent of China and India is one clear sign of major shifts in the global economy. Consider that in 2022, China surpassed the European Union in GDP and India overtook the United Kingdom, becoming the fifth-largest economy globally.[38]

Global integration still shapes trade, migration, capital flows, and intangibles (such as knowledge transfer), but underlying trends are evolving. Recently, trade has been reconfiguring along geopolitical lines. Since 2017, the average geopolitical distance of goods trade has fallen by 4 to 10 percent for economies such as China, Germany, the United Kingdom, and the United States.[39] Meanwhile, economies such as Brazil and India have achieved high trading volumes across the geopolitical spectrum. As countries seek to mitigate risks, supply chains could become more regionally concentrated or aligned with countries with similar geopolitical goals. This pattern is even more striking in announcements of FDI, which can offer strategic insight into the evolution of trade routes and national competitiveness. Since 2017, the average geopolitical distance of greenfield FDI announcements has decreased twice as fast as that of trade.[40]

Although this trend poses economic challenges, it also creates opportunities. Regions or countries with strategic geographic locations, neutral geopolitical stances, or significant reserves of resources (such as those critical to the energy transition) could strengthen their position in new supply chains and address emerging demand.

02

Technological advancements

Rapid technological advances, particularly in AI, cloud computing, and digital services, are reshaping the global economy as a whole, and these shifts could open a $100 billion export opportunity for Latin America in knowledge-based services.[41] To convey the magnitude of the opportunity, total global revenues for AI software and services and cloud could rise to as much as $8 trillion by 2040.[42] Together, they could be two of the most dynamic and mutually reinforcing arenas of growth in the decades ahead, with multitrillion-dollar revenue opportunities and significant productivity impact on the rest of the economy.[43]

This growth is fueling demand for IT services, business process outsourcing (BPO), and digital infrastructure, especially in areas such as cybersecurity, data analytics, cloud platforms, and AI engineering. Infrastructure capacity in advanced markets could struggle to keep up. Global

data center IT load, for example, is projected to quadruple from 55 gigawatts (GW) in 2023 to 219 GW by 2030,[44] creating an opportunity for certain regions to both supply services and cover the infrastructure gap.

03

Demographic transitions

The world is undergoing a profound demographic transformation. Fertility rates are declining, leading to aging populations in many regions. This trend increases pressure on healthcare and social security systems and could result in labor shortages, widening regional inequalities, and the erosion of intergenerational wealth.[45] Nevertheless, these patterns are not equal across countries: The global population is still expanding, and Africa could contribute more than half of the world's population growth in the coming decades.[46]

The world's rural population reached a peak in 2020 and has since started to shrink.[47] This urban expansion will predominantly occur outside the Western world. While Africa and Asia are expected to gain approximately 50 and 100 new large cities (urban centers with more than one million people) by 2030, respectively, Europe and North America are projected to add just 13 of them.[48]

As these developments raise new challenges around the world, they also bring evolving consumption patterns that could create new opportunities. Overall population growth, rising incomes, and urbanization will increase demand for manufactured goods, energy, and food. Indeed, global demand for food is projected to rise more than 40 percent by 2040,[49] which will create an opening for producers across sectors.

04

Resource and energy systems

The global shift toward cleaner energy sources is underway, guided by ambitions to reach net-zero emissions and reduce dependence on fossil fuel. Yet this transition is complex and requires a balance among energy security, affordability, industrial competitiveness, and decarbonization.

On the supply side, geopolitical shifts have further exposed vulnerabilities in energy and materials supply chains. The conflict in Ukraine is just one example of developments that have significantly affected gas supply and prices. Geopolitical factors are also relevant to the adoption of clean energy technologies—for instance, as countries seek to secure required minerals such as lithium and copper.

On the demand side, the transition could increase the need for products and intermediate goods. For example, electric vehicles (EVs) are projected to account for 50 percent of car sales by 2040.[50] Intermediate goods include green steel and cement, which are critical in lowering emissions in construction and certain manufacturing processes.[51] Moreover, the growth of data centers and AI is expected to spur demand of energy, particularly sustainable energy.[52]

Despite record volume in renewable and electrification investments, project deployment remains below the level required to meet 2030 and 2050 targets set by countries and companies in line with the Paris Agreement.[53] In Europe and the United States, for instance, less than 20 percent of announced solar capacity and 15 percent of hydrogen projects have reached the final investment decision (FID) stage, creating a high risk of cancellation or delay. This persistent gap means fossil fuels are unlikely to disappear quickly but instead could remain a central part of the energy mix beyond 2050 (even under accelerated transition scenarios). Natural gas, in particular, is poised to play a critical bridging role: Thanks to its lower carbon intensity compared with coal and oil, gas is expected to support energy security and affordability while renewable and low-carbon alternatives continue to scale.[54]

Latin America is well positioned to respond to global trends

The four global trends will alter demand across sectors. Latin America's distinctive strengths and assets could offer new sources of growth and competitiveness, but it would need to develop new capabilities and unlock more potential from existing ones. Focusing investment on sectors and countries where capabilities and new sources of demand could align offers a micro-level strategy for beginning to advance the region's possibilities. Where such investments succeed, the possibilities for broader-based growth across companies and sectors expand.

Our research examined the region's sectors and identified three themes with the greatest potential to help the region attract investment and enhance economic growth: revitalizing Latin America's industrial base, thriving in the age of global digitalization, and leveraging Latin America's natural endowments.

Investing in these themes has the potential to substantially boost productivity growth through two pathways. For each theme, there is an opportunity to raise sector productivity through the addition of capital, skills, and better technology. Opportunities also exist to expand the number of workers in sectors that already have higher productivity compared with the rest of the economy, thus lifting the economy's average. This pattern is especially relevant in advanced manufacturing and digital services. Jobs in natural resources are also very high in productivity, though low labor intensity can limit the overall impact of this pathway in this area.

Countries and regions around the world are confronted by several trends with far-reaching impact. Together, these trends could usher in a new era of economic opportunity.

Revitalizing Latin America's industrial base

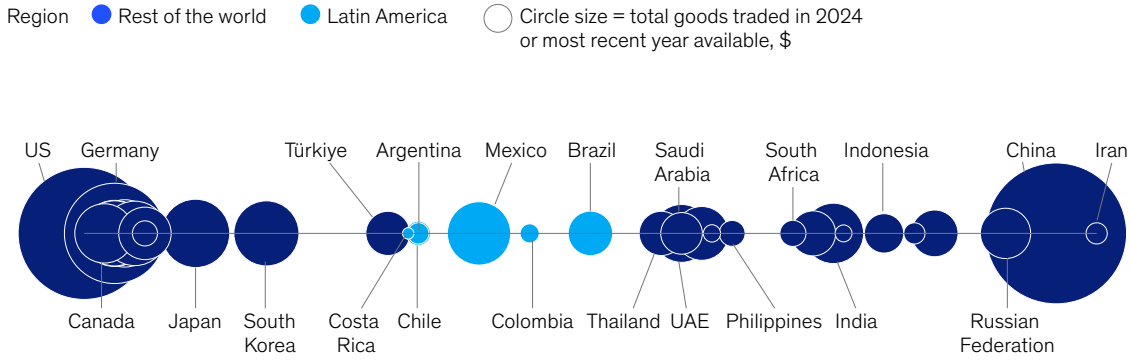
The changing global order presents Latin America with an opportunity to capitalize on the ongoing restructuring of global supply chains, especially for export-oriented industries such as manufacturing. The region's location, particularly its proximity to the North American market, offers a significant advantage in global trade. Its shipping times are roughly half those of Asia, enabling faster delivery, reducing logistics costs, and enhancing supply chain responsiveness.[55] Costa Rica's medical-devices cluster and Mexico's EV corridor show that the region can compete in high-tech manufacturing.

Further, at a time of shifting global supply chains and trade realignments, Latin America's relative proximity to global extremes on the geopolitical spectrum could enable the region to deepen trade ties across diverse blocs, expanding exports to other countries and extending trade partnerships. Most of the region's major economies lie in the middle of the geopolitical spectrum (Exhibit 10). This distribution could allow Latin America to open new trade corridors and increase total exports.

EXHIBIT 10

Economies hold different geopolitical positions.

UN General Assembly voting patterns, 2005–22



Note: McKinsey Global Institute measures geopolitical distance by proxy, based on the trading partners' voting patterns in the UN General Assembly.
Source: McKinsey Global Institute analysis

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In addition, Latin America's manufacturing sectors are well placed to take advantage of the global energy transition. The region is home to some of the world's most abundant and competitive renewable energy resources, including hydro, wind, and solar power. For instance, the region has one-third of the world's water, the Atacama Desert is among the top locations for solar irradiation, and Argentina has substantial onshore wind potential.[56] Brazil, in particular, offers opportunities in renewables given the sector's scale, cost competitiveness for solar and wind (especially in the northeast), and a large hydropower base that can help mitigate curtailment problems.

By harnessing these endowments and building on existing industrial capabilities, Latin America has the potential to emerge as a key energy carrier for decarbonizing hard-to-abate sectors. The region could gain a competitive edge in exporting energy-intensive goods produced with low-carbon energy, aligning with global sustainability goals and increasing its attractiveness as a trade partner.

Capturing this potential will require accelerating technology adoption, building knowledge, strengthening supply chain integration, and deepening international openness. Together, such efforts would make Latin America a more competitive player in the global economy. Manufacturing sectors already rank among the top five in productivity in Latin America, behind mining and financial activities.[57] A new wave of investment will increase their productivity and also expand their workforces, which would be directly reflected in the region's overall productivity.

Thriving in the age of global digitalization

The rapid acceleration of digital technologies is increasing global demand for digital services. Latin America is well positioned to capture this opportunity: Its advantages include strong know-how from leading IT companies along with competitive labor costs, solid English proficiency, and highly competitive internet speeds.[58] On the latter attribute, Chile ranks among the world's top five in median fixed broadband download speed.[59] In addition, the region's time zones align with North America's, representing a valuable asset for services requiring quick responsiveness and continuous communication.

Further, the growing need for data centers represents another opportunity for Latin America. The region's connectivity, competitive operating costs, and abundant renewable energy resources make it an excellent location for energy-intensive data center development. These advantages could allow Latin America to offer a sustainable and cost-effective solution to meet the rising global need for digital infrastructure.

Achieving this goal will require closing gaps in digital access and infrastructure and strengthening technical training. Given that digital services and data centers are high-productivity sectors—their productivity levels exceed the regional average by more than 1.5 times[60]—capitalizing on these opportunities will enhance their contribution to Latin America's economy, thereby boosting the region's overall productivity.

Leveraging Latin America's natural endowments

The global energy transition and AI race are driving a surge in demand for critical minerals, which are essential for renewable energy technologies and battery production. Latin America holds a significant share of the world's reserves of materials such as lithium and copper.[61] In addition, the region's central geopolitical positioning could enable it to be seen as a reliable source of minerals for different trade partners.

Latin America could be not only a leader in the resources of the future but also a reliable energy supplier during the transition. It is home to 20 percent of global oil reserves and 5 percent of natural gas, which will remain vital bridging fuels through the 2030s.[62] Again, renewables come into play: Brazil has the capacity to produce 9.1 billion cubic meters of biomethane from diverse feedstocks, enough to replace 34 percent of its natural gas demand by 2030.[63] Mining and oil and gas rank first and third, respectively, in productivity levels across the region.[64] Adding employment as new mines come online, for example, could lift average productivity in the region, while technology adoption can amplify the impact.

Shifting demographics are projected to increase global food demand by more than 40 percent by 2040,[65] presenting another opportunity for Latin America, which has 14 percent of the world's arable land.[66] Most Latin American and Caribbean countries could double agricultural productivity by modernizing just 25 percent of small farms with improved input application and cultivation practices.[67] Further, its ranks include major global agriculture producers; Brazil by itself accounts for more than 50 percent of soybeans exports,[68] making the region a key player in meeting rising food demand. As previously noted, Latin America's strategic location and strong connectivity enable faster shipping times, an important advantage when exporting perishable and high-demand food products.

Agriculture is the lowest-productivity sector but employs more than 10 percent of the region's workforce, making it one of the largest sectors by number of workers.[69] However, its labor productivity varies widely and depends on the scale and type of crops, from manual farming to large-scale industrial production. Capturing agriculture's potential will require Latin American growers to embrace more-productive practices (such as farm equipment and automation) and reallocate resources from less- to more-productive subsectors (for example, fruits and industrial crops). Lifting labor productivity in agriculture would increase incomes for farmers while reducing overall employment share, with workers moving to higher-productivity jobs in other sectors.

While the region has distinctive competitive advantages in each of these three themes, it still needs to address critical gaps, from human capital development, infrastructure enhancement, and macroeconomic stability to the creation of new trade corridors and expansion of current ones. Moreover, attracting investment will require coordinated action from both the public and private sectors. Nonetheless, sectors and companies are primed to build on the region's advantages.

Latin America's distinctive strengths and assets could present new sources of growth and competitiveness.

These themes could add $1.1 trillion to $2.3 trillion to Latin America's GDP by 2040

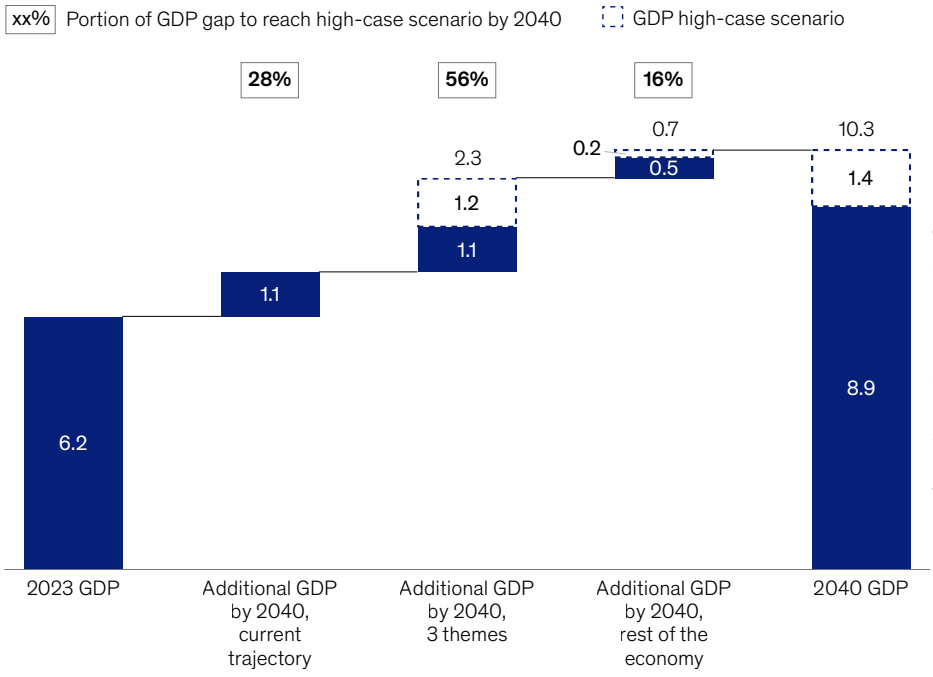
To understand a plausible growth scenario for Latin America, we divided the economy into two parts: sectors associated with the three themes, which currently account for 29 percent of the region's GDP, and the rest of the economy. One potential path is for the three themes to increase by 3.0 to 5.0 percent annually, the range of productivity growth levels of benchmark countries in comparable sectors, while the rest of the economy grows 1.1 to 1.3 percent a year, a level in line with the lower-end performance of comparable economies.[70] This rate of growth would generate an additional $1.1 trillion to $2.3 trillion to regional GDP above the current trajectory by 2040 (Exhibit 11).

This two-speed option is just one of many the region could follow to exceed $10 trillion in GDP by 2040, but it offers high-level validation of how building on strengths in certain areas could address the productivity imperative.

EXHIBIT 11

Capitalizing on three themes could bridge roughly 60 percent of the gap to reach $8.9 trillion to $10.3 trillion in GDP by 2040.

Latin America GDP growth by scenario, $ trillion



84% of the 2023–40 GDP gap to reach $10.3 trillion is explained by a combination of productivity growth and productivity gains from the three themes

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The three strategic themes encompass a multitude of growth opportunities for Latin America. In the next chapter, we present a detailed analysis of seven high-potential sectors that exemplify the impact these themes could have on the region:

— *Revitalizing the industrial base.* This includes next-gen manufacturing and power-to-X solutions.

— *Thriving in the age of global digitalization.* This includes digital services and data centers.

— *Extracting the potential of natural resources.* This includes agri-foods, oil and gas, and critical minerals.

While these sectors are not a comprehensive list of the opportunities within the themes, they represent the region's strengths and potential dynamism.

02

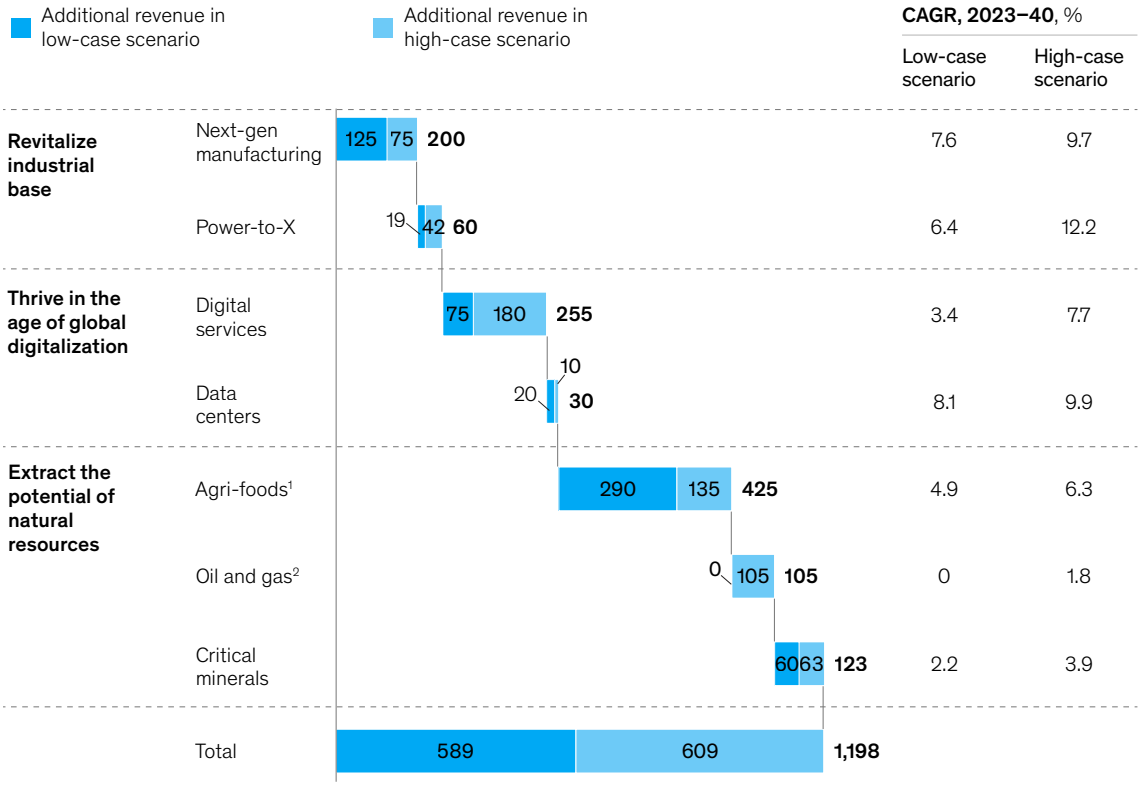
Seven sectors for transformative investment

Latin America has an opportunity to transform its productivity through investments in high-potential sectors. In this chapter, we analyze seven sectors selected from the three strategic themes to highlight the region's growth potential. By 2040, these sectors could generate combined additional annual revenues of approximately $590 billion to $1.2 trillion, depending on the pace of investment, degree of policy alignment, and global demand (Exhibit 12). Achieving this growth would require cumulative investment of $1.7 trillion to $2.8 trillion through 2040.

EXHIBIT 12

Seven high-potential sectors could generate a total of $0.6 trillion to $1.2 trillion in additional revenue by 2040.

Potential additional revenue by sector by 2040, $ billion



Note: Figures may not sum, because of rounding.
[1]Includes agri-food production, agri-food processing, and bio-to-X.
[2]In a sustainable transformation, oil and gas revenues go down, while revenues in other sectors go up. In a continued momentum, it will remain fairly constant. For oil and gas, we used slow evolution for the high case.
Source: FAO; Gartner; INEGI Registro Administrativo de la Industria Automotriz de Vehículos Ligeros; McKinsey Energy Solutions; McKinsey Fusion Solution; McKinsey Global Energy Perspective model; McKinsey MineSpans; McKinsey Value Intelligence Platform; Midrex Technologies; Rystad Energy UCube, accessed Aug 2025; S&P Global Market Intelligence; Statista; The Ministry of Economy of Mexico; TradeMap; UN Comtrade; UN population projections; US Energy Information Administration; World Bank World Development Indicators; McKinsey analysis

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Our analysis seeks to be ambitious and feasible while presenting a consistent view across sectors. Since the potential revenues of several sectors—next-gen manufacturing (including EVs and batteries), critical minerals, oil and gas, and power-to-X—depend on the pace of the energy transition, we incorporated the potential impact of that transition on revenue calculations across sectors. We based the estimation of outputs for these sectors on two energy transition scenarios: continued momentum and sustainable transformation.[71] For six of the seven sectors, continued

momentum represents the low output, while sustainable transformation is the high output. Oil and gas is the exception: Continued momentum is the low case, and slow evolution is the high case. When aggregating opportunities across sectors, we combined the range for oil and gas inversely with those of the others. Each sector scenario includes specific factors that are explained in the methodology section in the appendix.

Our analysis of the region highlights countries with strengths in specific sectors as well as opportunities for those still developing their capabilities (Exhibit 13). We defined four archetypes of opportunities for sectors across six major Latin American economies (see sidebar "About the sector analysis"), listed in order of total opportunities:

Brazil counts critical minerals, crops, meat, and animal feed as global champions. Oil, IT services, data centers, and oils and waxes are strong competitors, while EVs, semiconductors, lithium, copper, and beverages are promising contenders. Brazil's e-fuels and methanol, batteries, and green steel industries are emerging frontiers.

About the sector analysis

The figures in this chapter are not forecasts but potential revenues shaped by the trajectory of current global trends and each country's capacity to seize them. For each sector, we assessed its competitive position, key country players, and enabling factors; identified the countries with the strongest opportunities; and segmented countries based on overall sector maturity and readiness to scale. We estimated revenue potential for each sector independently but did not consider interdependencies. In addition, we explored the capabilities and investments required to fully realize these opportunities, providing a structured view of potential by country.

Our analysis focused on six Latin American economies—Argentina, Brazil, Chile, Colombia, Costa Rica, and Mexico. Together, these countries account for roughly 80 percent of the region's GDP and reflect its diverse endowments and capabilities[1] (see the methodology section in the appendix for more detail on country selection). We also included additional countries depending on sector-specific considerations.

For each sector, we identified the countries with the greatest potential and classified them into four archetypes, defined by the sector's overall maturity within each country:

— *Global champions* include regional players accounting for more than 10 percent of global exports, top-five exporters, and countries with the potential to become even more relevant in the future, given emerging global trends.

— *Strong competitors* are countries that have established robust capabilities (such as labor or technology) in a given sector but are not yet global leaders. Strong competitors are well positioned to enhance their global relevance as emerging trends reshape opportunities.

— *Promising contenders* are regional players that hold a potential competitive edge but need to strengthen capabilities and invest in enablers to fully capture the opportunity.

— *Emerging frontiers* are high-potential countries whose competitiveness depends on overcoming significant uncertainty through coordinated efforts and alignment among key stakeholders.

This categorization of archetypes applies to country–industry pairs, using industries within the seven sectors. It is done at the industry level because industries within the same sector in the same country could be categorized as different archetypes. For instance, Argentina's critical minerals sector is a global champion in lithium production but a promising contender in copper, illustrating the multifaceted nature of competitiveness and the importance of strategies tailored to each industry's stage of development. In cases where relevant opportunities did not exist for country–industry pairs, they were not categorized as an archetype.

[1] World Bank.

By 2040, seven sectors could generate combined additional annual revenues of approximately $590 billion to $1.2 trillion.

Mexico holds a favored position in a number of sectors. Fruits and vegetables as well as beverages are categorized as global champions, while food processing, oil, medical devices, EVs, batteries, semiconductors,[72] IT services, BPO, and data centers are all strong competitors. Its copper industry is a promising contender, while e-fuels, green hydrogen, and ammonia are categorized as emerging frontiers.

Argentina's lithium production and animal feed are its two global champions, with crops, meat, beverages (especially wine), oils and waxes, fish (especially crustaceans), and IT services categorized as strong competitors. The country also has a promising contenders position in copper and oil and gas. Emerging frontier industries include electric vehicles, batteries, and e-fuels.

Chile holds the world's largest copper reserves and is leading in lithium, categorizing these industries as global champions. Its fish industry is also a global champion. In addition, meat, fruits and vegetables, and beverages are strong competitors, alongside promising contenders that include animal feed, hydrogen and ammonia, IT services, and data centers. E-fuels are categorized as an emerging frontier.

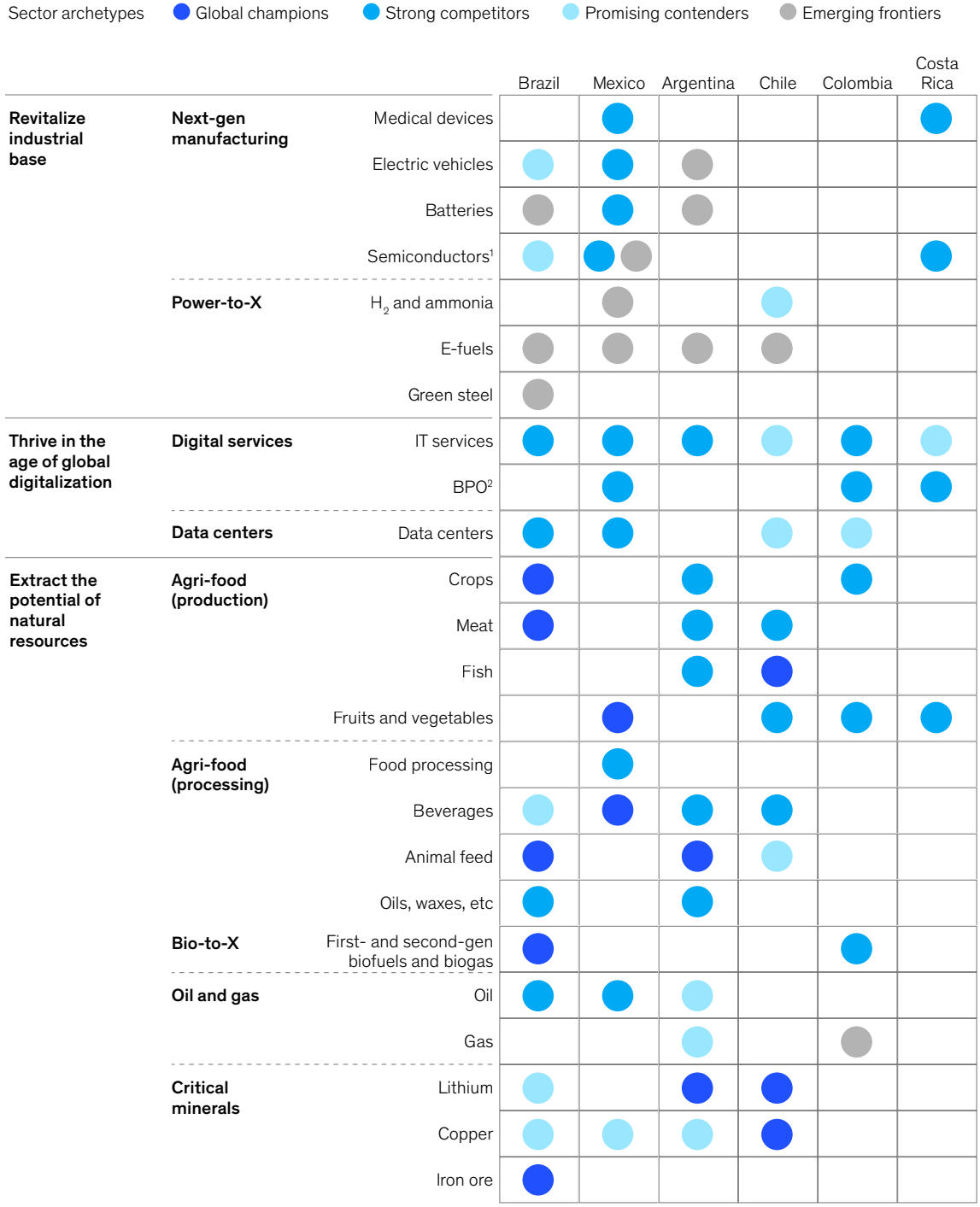
Colombia has several industries that are categorized as strong competitors: crops (mainly coffee), fruits and vegetables, IT services, and BPO. Its data center industry is a promising contender, and natural gas is an emerging frontier.

Costa Rica has a more concentrated profile: Its fruits and vegetables, medical devices, semiconductors, and BPO are strong competitors, while its IT services is a promising contender.

EXHIBIT 13

Investment opportunities can be sorted into four archetypes, defined by the sector's overall maturity within each country.

Investment opportunities concentrated in current champions, by sector



[1]For Mexico, strong competitors is for assembly, testing and packaging, and emerging frontiers is for design.
[2]Business process outsourcing.

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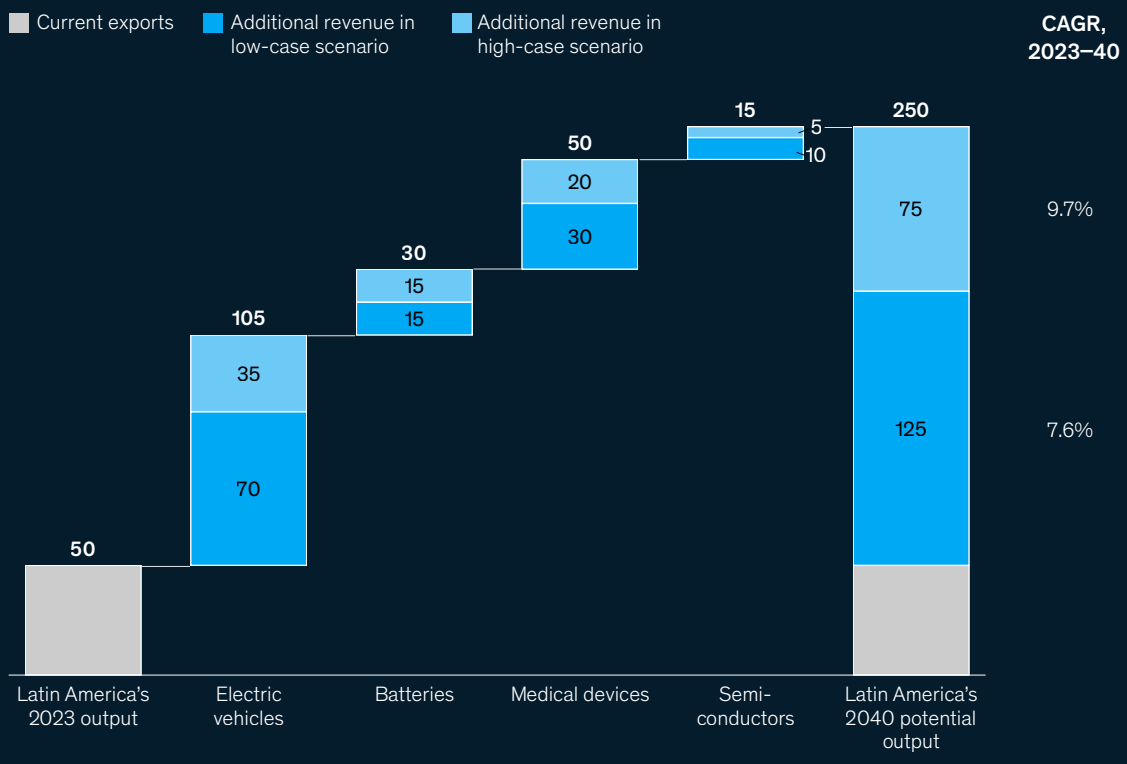
Next-generation manufacturing: Riding the wave of industry innovation

By 2040, Latin America could develop its next-generation manufacturing sector to unlock an additional $200 billion in annual revenues. Capturing this opportunity would require cumulative investments of roughly $230 billion by 2040 (Exhibit 14).

EXHIBIT 14

By 2040, Latin America could increase its next-gen manufacturing exports by approximately $200 billion.

Potential incremental growth in export revenues from next-gen manufacturing, 2040, $ billion



Source: Gartner; INEGI Registro Administrativo de la Industria Automotriz de Vehículos Ligeros; McKinsey Fusion Solution; McKinsey Value Intelligence Platform; The Ministry of Economy of Mexico; TradeMap; S&P Global Market Intelligence; McKinsey analysis

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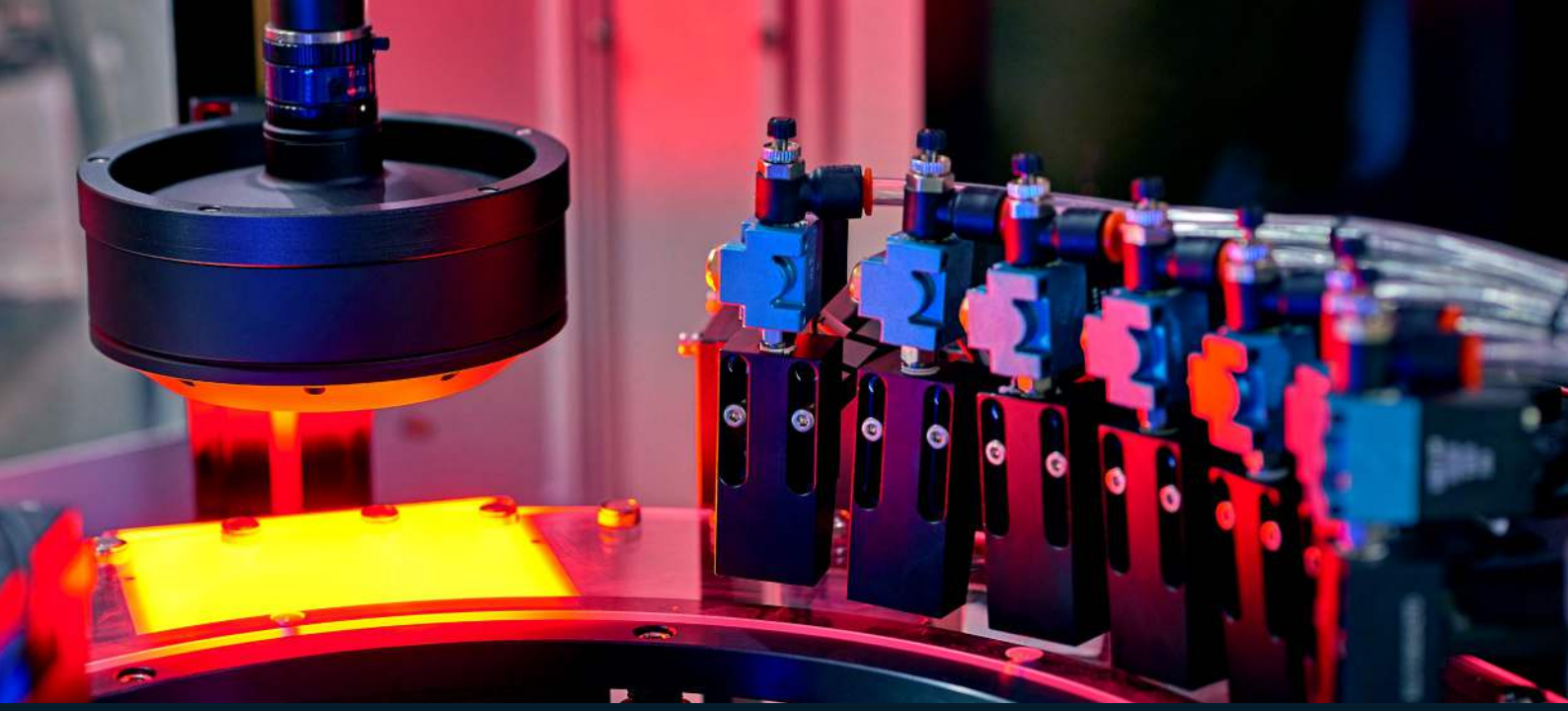
By 2040:

- Additional annual revenues: **$200 billion**
- Required cumulative investment: **$230 billion**



The four forces we discussed in chapter 2 are redefining the global next-generation manufacturing sector, creating both opportunities and challenges for Latin America:

— *The multipolar world* is prompting companies to diversify supply chains. These moves could benefit the region given its proximity to North America and trade links with Europe and Asia, but the potential rearrangement of trade patterns could also expose Latin American companies to competition with foreign goods and services.

— *Technological advancements* in areas such as semiconductors and digital manufacturing are opening new growth avenues, but the region would need to secure additional capital and develop its workforce to compete globally.

— *Demographic transitions* are increasing the demand for healthcare services. The region could build on its strong capabilities in medical devices and biotech.

— *Resource and energy systems* are accelerating demand for EVs, batteries, and low-emission production, but manufacturing these products would require the region to make significant investments in enabling infrastructure and concerted efforts to reduce carbon intensity across the entire value chain.

These forces spotlight high-potential industries for Latin America, including EVs, batteries, semiconductors, and medical devices. All could see 5 to 12 percent CAGR in our low-case scenario and 7 to 16 percent CAGR in the high-case scenario.

For EVs and batteries, the underlying sustainable transformation scenario is the most important factor driving low and high revenue. In the case of EVs, the lower-revenue scenario corresponds to a world in which the trajectories of import duties, production, and price trends do not see major changes. In the higher scenario, the penetration of affordable Chinese cars (manufactured in Latin America) and proactive government policies to support the build-out of EV infrastructure accelerate adoption, leading to EVs accounting for 50 to 70 percent of new cars in Latin America in 2040 (depending on the scenario). The adoption rate will depend on regulation and incentives, technology (battery costs) and charging infrastructure, and consumer preferences.

For batteries, in addition to alignment with sustainability scenarios, the lower- and higher-revenue cases reflect Latin America's capacity to supply 50 and 80 percent of its local demand, respectively. Supplying 50 percent of local demand is a realistic near- to medium-term goal, given the current project pipeline (with two gigafactories announced in Argentina and Mexico). The 80 percent target assumes a stronger policy push and successful localization of battery assembly. Exports are not considered at this stage (a conservative assumption) due to uncertainty around tariffs and the expectation that the regional market will focus primarily on meeting domestic demand from EV adoption. Given the current context and market trends, achieving these ambitious targets would likely require incentives to localize production and partnerships with leading players, such as Chinese manufacturers.

In the case of semiconductors, global growth has already been more than 6 percent per year since 2014.[73] The revenue scenarios are based on the region's existing capabilities in the back-end segment (packaging and test market). The high-case scenario reflects accelerated total market growth of 7.8 percent CAGR fueled by AI adoption and assumes the region is able to capture 5.0 percent of the back-end market. In the low-case scenario, growth is 6.8 percent and the market share is 3.5 percent. Both cases assume that the region is able to expand its market share from the current 1 to 2 percent and take into account nearshoring trends and the maturing capabilities of Costa Rica and Mexico.

For medical devices, export growth has achieved a 6 percent CAGR percent since 2013, with Costa Rica standing out at 13 percent CAGR over this period.[74] The continuation of the Free Trade Zone Regime and the maintenance of cost competitiveness (driven by exchange rate dynamics, availability of skilled labor, and logistics costs) are expected to sustain growth and reinforce the low-case scenario. The high-case scenario of 7 percent CAGR through 2040 relies on the region's ability to increase market penetration, which in turns depends on maintaining a competitive cost structure across key production hubs.

The region holds significant advantages: abundant raw materials (more than 50 percent of global lithium reserves), strong industrial bases in Brazil and Mexico, established medical and semiconductor hubs in Costa Rica and Mexico, and geographic proximity to North America, which can reduce shipping times by up to a month compared with Asian competitors, depending on the country of origin and the destination (Exhibit 15).

The EV adoption rate will depend on regulation and incentives, technology (battery costs) and charging infrastructure, and consumer preferences.

EXHIBIT 15

Latin America can win due to significant critical mineral reserves, geographic proximity, and advanced industrial capabilities.

Next-gen manufacturing competitiveness evaluation for Latin America, by quartile for availability of productive resource

Productive resource type	Specific resource or capability	Indicators
Endowments	Raw materials, critical minerals[1]	Reserves of critical minerals[1]
	Geographical proximity to US and Canada	Distance
Public capabilities	Transportation infrastructure	Logistics Performance Index[2]
	Utility infrastructure (energy, water)	GCI 4.0 infrastructure score[3]
	Political stability and absence of violence	Political stability and absence of violence indicators[4]
	Market access	Trade facilitation indicators[5]
	Regulatory quality	Regulatory quality indicators[6]
Private capabilities	R&D capabilities	Patent applications per million people[7]
	Advanced industrial capabilities	Economic Complexity Index[8]
People capabilities	Cost of specialized talent	FDI Benchmarks[9]
	Specialized talent	QS ranking of top engineering and technology programs[10]

Note: Latin America champions were selected based on their current comparative advantage and level of exports in the sector. Quartiles are calculated on a global basis.
[1]EIU; US Geological Survey. Weighted by quantity and diversity of critical minerals that are key to produce batteries. [2]World Bank, 2023. [3]WEF, 2019. [4]World Bank, 2022 [5]OECD, 2022. [6]World Bank, 2022. [7]UN and World Bank, 2021. [8]Harvard Kennedy School, 2022. [9]fDi Benchmark, a service from *The Financial Times*, 2023.
[10]Top Universities.

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7–16%

Potential CAGR across industries through 2040 in high-case scenario

Latin America's next-generation manufacturing capabilities span multiple high-value industries, with several countries establishing specialized niches across the value chain. While the region does not yet host global champions in this sector, its existing advantages create a powerful foundation for capturing the next wave of advanced-manufacturing growth.

Strong competitors

Strong competitors include country–industry pairs with proven export records. Costa Rica has emerged as a global hub for semiconductor assembly, testing, and packaging (ATP). It is also home to 13 of the top 20 OEMs in medtech, harnessing a stable regulatory environment, deep talent pools, and a successful free-trade-zone model to scale an export-oriented ecosystem for medical devices.[75] Mexico has strong manufacturing capabilities; for example, it exported $20.3 billion in medical devices in 2023.[76] It is also a leader in semiconductors and automotive production and has expanded strategically into EVs and batteries.[77]

Promising contenders

Promising contenders have access to production capacity, raw-material input, and growing domestic demand. Brazil stands out both for its local automotive market and for its established platform for exporting vehicles to the region. Chinese companies such as BYD and Great Wall Motor are planning to start manufacturing within Brazil's borders,[78] and domestic demand for EVs is expanding rapidly thanks to policy support and the availability of competitively priced Chinese models. In 2024, EV sales more than doubled, to 125,000 units, reaching a 6 percent market share (the highest in Latin America). Chinese imports account for 85 percent of total EV sales. Fast-growing demand, favorable policy incentives, and strong trade links with China combine to position Brazil as a key growth market in the region.[79]

Beyond the EV sector, Brazil is positioning itself as a regional player in semiconductor assembly and testing. The country has implemented recent policy measures to support its growth. Notably, the 2024 Semiconductor Program[80] extends tax incentives, expands R&D funding, and promotes infrastructure modernization to enhance the country's competitiveness in this strategic industry.[81]

Emerging frontiers

Emerging frontiers could include battery manufacturing in some resource-rich countries. Both Argentina and Brazil could become established battery producers (at least at a regional level) by attracting the right partners with the required expertise and providing incentives for local production. Further, Mexico is taking steps toward expanding into semiconductor design: Its Kutsari project aims to improve design capabilities and build dedicated R&D centers. Last, Argentina could become an emerging frontier by aligning its industrial base toward EV production to fulfill regional demand and by integrating supply chains with Brazil, in line with its approach to traditional auto manufacturing.

Unlocking this potential requires strategic actions to prioritize education and workforce development and improve transportation and logistics infrastructure. To address talent gaps, countries could follow Costa Rica's successful model of investing in STEM education and specialized training programs. Moreover, upgrading infrastructure could reduce transportation and logistics costs and increase the region's competitiveness. Mexico, for instance, could significantly lower logistics expenses by modernizing its highways and railways, bringing costs closer to OECD standards and strengthening its position as a manufacturing powerhouse.

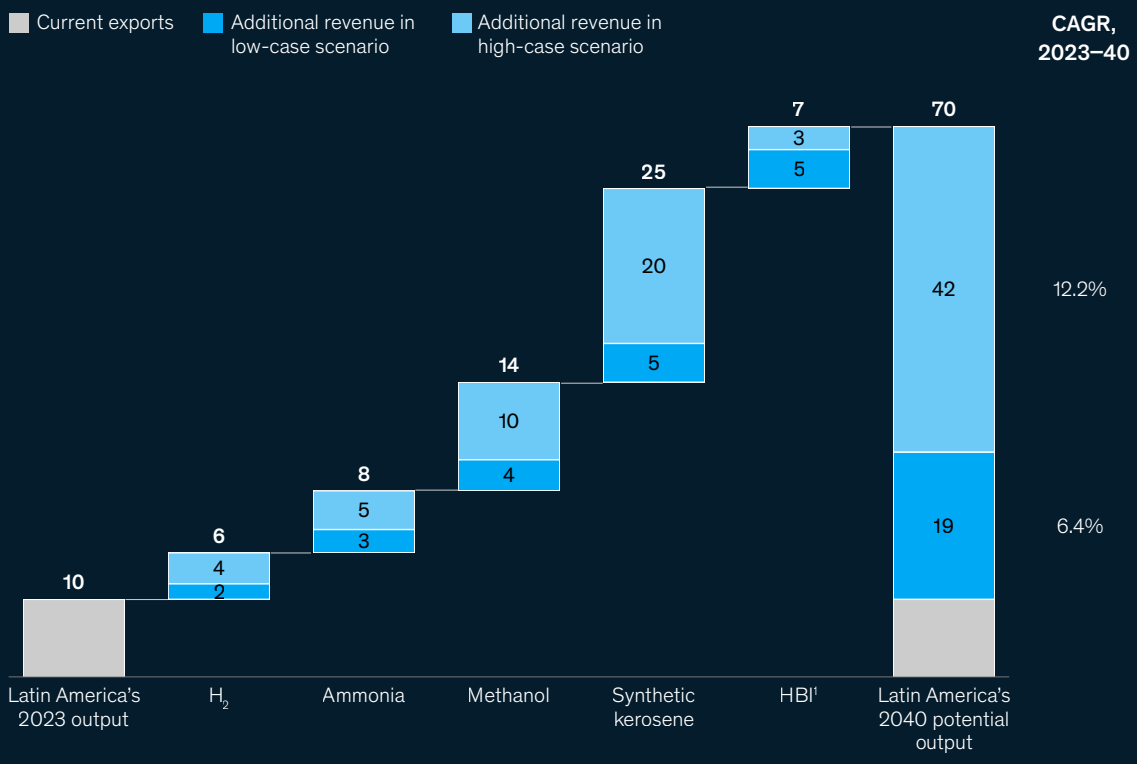
Power-to-X: Harnessing renewable-energy potential

By 2040, Latin America could expand revenues from its power-to-X sector, encompassing green hydrogen and its derivatives, by an additional $60 billion annually. Capturing this opportunity would require cumulative investments of up to $275 billion by 2040 (Exhibit 16).

EXHIBIT 16

By 2040, Latin America could increase its power-to-X exports by approximately $60 billion.

Potential incremental growth in export revenues from power-to-X, 2040, $ billion



Note: Figures may not sum to totals, because of rounding.
[1]Hot briquetted iron.
Source: Midrex Technologies; McKinsey MineSpans; McKinsey analysis

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By 2040:

- Additional annual revenues: **$60 billion**
- Required cumulative investment: **Up to $275 billion**

Global decarbonization is accelerating demand for clean-energy carriers to address hard-to-abate sectors such as heavy industry, long-haul transport, and chemical production. Thanks to these efforts, the power-to-X sector is projected to grow more than 250 percent by 2040, assuming continued momentum.[82]

This trend creates an opportunity for Latin America to build capabilities across multiple segments of the power-to-X value chain:

— green hydrogen for industrial and transport decarbonization

— e-fuels such as synthetic kerosene for aviation

— methanol for shipping and chemical feedstocks

— green steel[83] produced with hydrogen-based methods

Along with data centers, power-to-X is the smallest of the sectors analyzed, but it exhibits both the widest gap between low- and high-growth scenarios and the highest potential CAGR—exceeding 12 percent in the high case. This sector's substantial opportunity stems from Latin America's competitive advantage, given that several countries hold favorable positions on global cost curves.

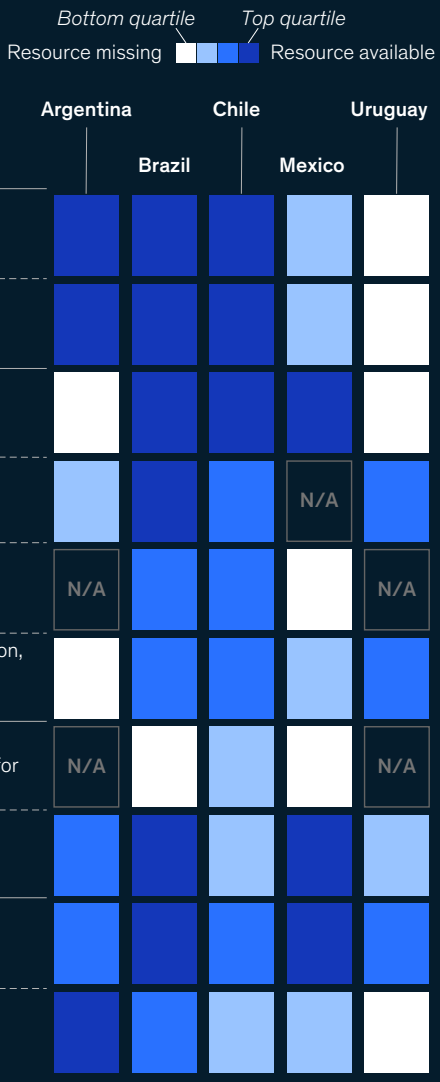
The variability between revenue cases is caused by several factors: the underlying sustainability scenarios and the global demand associated with them, uncertainties related to technology costs (such as electrolyzers), and the extent of policy support (including incentives and regulatory frameworks).

Latin America's renewable-energy potential positions the region in the top quartile globally for low-cost hydrogen production. Chile has one of the highest capacity factors—a metric for efficiency—in the world for solar photovoltaics (PV),[84] while Argentina holds the ninth position for onshore wind potential and eighth for offshore wind potential.[85] The region also benefits from substantial biogenic CO_2 sources—critical feedstock for producing hydrogen derivatives—and supplies approximately 20 percent of globally traded iron ore (Exhibit 17).[86]

EXHIBIT 17

Four key enablers may be needed to support the development of the power-to-X economy.

Power-to-X competitiveness evaluation, by quartile for availability of productive resource



Productive resource type	Specific resource or capability	Indicators
Endowments	Renewable factors	Solar capacity factor[1]
		Wind[2] capacity factor[3]
Public capabilities	Power-to-X feedstock factors	Iron ore production[4]
	Biogenic CO_2 potential	Million metric tons CO_2 per country[5]
	Regulatory environment	National policies, incentives, and regulation[6]
	Market access	Level of international cooperation, H_2 export planning, trade facilitation indicators[7]
Private capabilities	Market infrastructure	Current and projected infrastructure to be developed for RES,[8] T&L,[9] and H_2[10]
	Tech advancements and manufacturing	Efficiency and capacity for economies of scale[11]
People capabilities	Specialized talent	% of labor dedicated to power-to-X related fields[12]
	Cost of specialized talent	FDI Benchmarks[13]

Note: Quartiles are calculated on a global basis.
[1]McKinsey Power Solutions, 2025. [2]Onshore wind levelized cost of electricity model. [3]Rystad, 2024. [4]Statista, 2024. [5]McKinsey Hydrogen Insights, 2024. [6]H2LAC Index, 2025. [7]H2LAC Index, 2025. [8]Renewable-energy sources. [9]Transportation and logistics. [10]H2LAC Index, 2025. [11]H2LAC Index, 2025. [12]ILO, 2024. [13]fDi Benchmark, a service from *The Financial Times*, 2023.

McKinsey & Company

250%

Expected growth by 2040

100

Hydrogen projects in development

Given the nascent nature of the power-to-X sector, no country has yet to establish itself as a global champion. However, numerous Latin American countries are well positioned for future growth as promising contenders and emerging frontiers. The region already has 12 operating hydrogen projects, and nearly 100 more are in development.[87]

Promising contenders

Promising contenders include Chile's solar industry. The solar irradiation in Chile's Atacama Desert is ideal for powering electrolysis plants, and the region is preparing to host one of Latin America's largest solar power complexes. In southern Chile's Magallanes region, large-scale projects (such as HIF Global's Haru Oni e-fuels plant[88] and TotalEnergies' H2 project[89]) are positioning the country as a future exporter of clean hydrogen and its derivatives.

Emerging frontiers

Emerging frontiers opportunities include Argentina and Mexico's investments in methanol and Uruguay, Brazil, and Chile's production of synthetic kerosene given biogenic CO_2 availability and lower levelized cost of hydrogen. Additionally, Brazil is taking advantage of its position as the world's second-largest iron ore producer (producing 440 metric tons per year) to develop green steel manufacturing.[90] Furthermore, Mexico could leverage blue hydrogen production to satisfy US demand.

Excelling in power-to-X areas would require the development of transportation and storage infrastructure for hydrogen and its derivatives, as well as investments in R&D and the harmonization of regulatory frameworks. Establishing regulatory frameworks, funding for pilots, and advances in tech and capabilities could create a virtuous cycle. By focusing on these enablers, Latin America can establish itself as a global leader in the emerging green hydrogen economy.

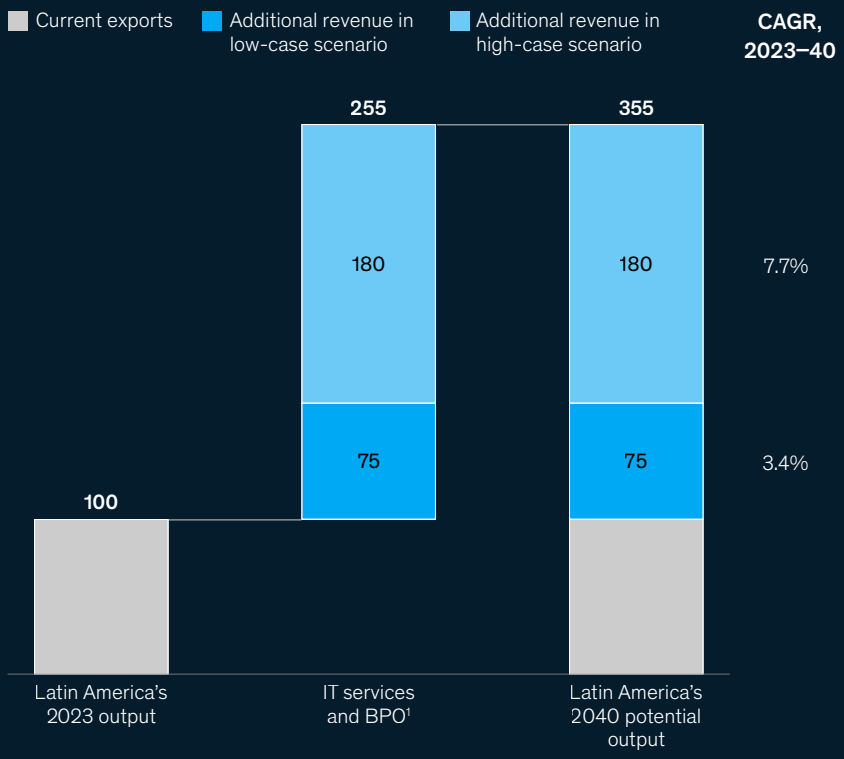
Digital services: Unlocking Latin America's technology potential

By 2040, Latin America could expand its IT services and BPO revenues by $255 billion by capturing a fast-growing share of the global digital services market. Pursuing this opportunity would require cumulative investments of roughly $270 billion through 2040 (Exhibit 18).

EXHIBIT 18

By 2040, Latin America could increase its revenue from digital services by $255 billion.

Potential incremental growth in export revenues from digital services, 2040, $ billion



[1]Business process outsourcing.
Source: Gartner; McKinsey analysis

McKinsey & Company

By 2040:

- Additional annual revenues: **$255 billion**
- Required cumulative investment: **~$270 billion**

Enterprise digital transformation and evolving customer experiences could increase global demand for IT services and BPO by more than four and two times, respectively.[91] Digital-first workstreams—cloud, data, cybersecurity, and AI engineering—are projected to account for more than 75 percent of incremental spending. Today, North America dominates both markets (with roughly 40 percent of global IT services and 57 percent of BPO).[92]

The overall market has fluctuated over the past five years. For example, the total enterprise value of leading global companies grew 2.4 times from 2020 to 2021, experienced a correction over the next two years, and rebounded during the past year to a postpandemic high, thanks to AI, before falling around 20 percent due to uncertainty about AI's impact.[93] However, AI is expected to accelerate the sector's expansion in general, with demand for certain services growing and others shrinking.

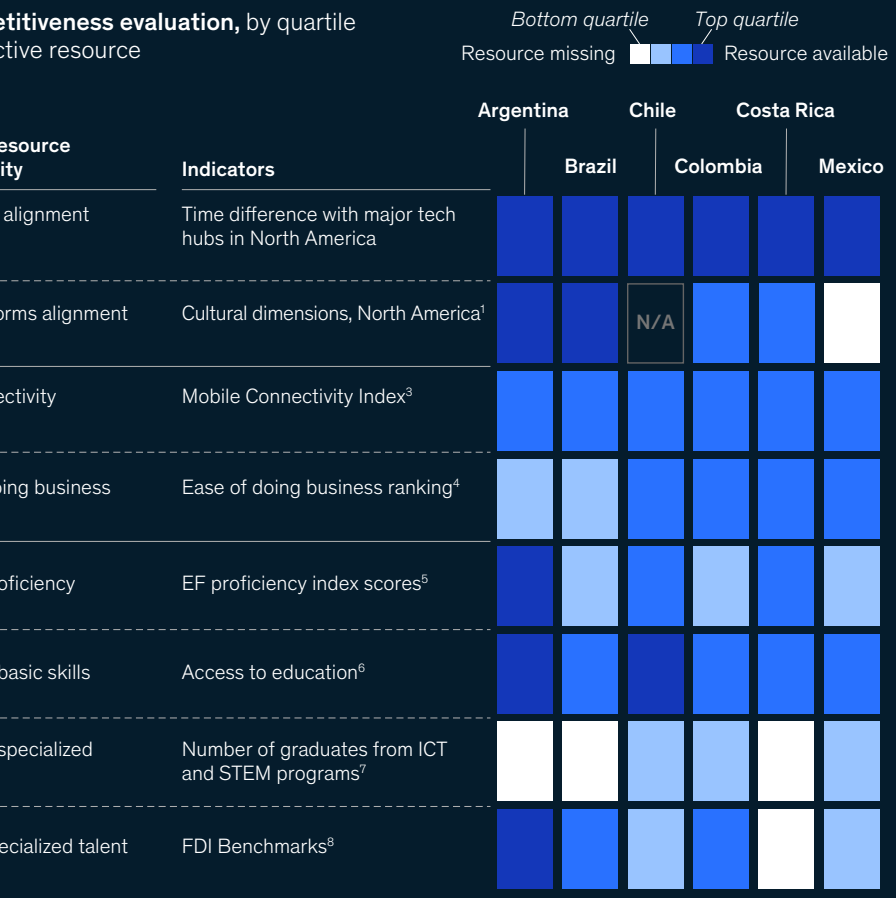
Our low- and high-case scenarios are based on the proportion of North American and European demand that Latin America could meet, given the region's competitiveness and language capabilities. Specifically, Latin America could capture 1 to 5 percent of the European market and 5 to 20 percent of the US market, depending on the scenario. Latin America's capacity to meet this demand relies on its competitive costs, time zone and cultural alignment, and a large, qualified talent base of 6.3 million digital professionals (larger than the US pool).[94] Countries such as Argentina, Chile, and Costa Rica also excel in English proficiency, outperforming India.[95] These wide ranges account for the uncertainty introduced by increased AI adoption in North America and Europe, which could reduce the need for outsourcing to Latin America.

The region has already built strong capabilities in IT services and BPO. Labor costs are competitive: For example, annual salaries for customer representatives in Argentina are about $6,000 compared with $5,800 in India.[96] In addition, the region has a robust software engineering pipeline. Local companies have become regional leaders, while global IT giants such as IBM have established major knowledge and service centers across Latin America (Exhibit 19).

EXHIBIT 19

Latin America's location, lower labor costs, and large qualified talent pool give it a right to play.

Digital services competitiveness evaluation, by quartile for availability of productive resource



Productive resource type	Specific resource or capability	Indicators
Endowments	Time zone alignment	Time difference with major tech hubs in North America
	Cultural norms alignment	Cultural dimensions, North America[1]
Enabling ecosystem	ICT[2] connectivity	Mobile Connectivity Index[3]
	Ease of doing business	Ease of doing business ranking[4]
People capabilities	English proficiency	EF proficiency index scores[5]
	Supply of basic skills	Access to education[6]
	Supply of specialized talent	Number of graduates from ICT and STEM programs[7]
	Cost of specialized talent	FDI Benchmarks[8]

Note: Quartiles are calculated on a global basis.
[1]GLOBE, 2020. [2]Information and communications technology. [3]GSMA, 2025. [4]World Bank, 2020. [5]Education First, 2024. [6]HDI, 2019. [7]World Bank, 2024. [8]fDi Benchmark, a service from *The Financial Times*, 2023.

McKinsey & Company

1–5%

Potential share of the European market

5–20%

Potential share of the US market

Latin America's digital services sector has established a solid presence across IT services and BPO.

Strong competitors

Strong competitors include Argentina, Brazil, and Mexico, which have developed mature ecosystems hosting regional IT leaders such as Globant, Stefanini, and Softtek, respectively. Globant alone generated revenues of $2.4 billion in 2024.[97] These markets are further strengthened by global IT giants such as IBM, which operate substantial knowledge and service centers throughout these countries. Furthermore, on the BPO side, Mexico, Colombia, and Costa Rica leverage their advantages to serve the North American market. In IT services, Colombia is a strong player due to its foundational advantages.

Promising contenders

Promising contenders on the IT services side are Chile, Costa Rica, and Uruguay, where global companies such as Globant and Tata Consultancy Services have set up operations. Moreover, Costa Rica hosts digital development centers for 16 of the top 100 IT companies globally and 32 Fortune 500 companies in corporate and business processes,[98] while Uruguay boasts 400 domestic tech firms delivering high-quality tech solutions.[99]

To unlock the full potential of the digital services sector, the region would need to align itself with target markets, mainly North America. Companies can achieve this by leveraging sector-specific expertise developed by serving clients in the region, by serving global clients with operations in the region, or by forming partnerships with hyperscalers that could give them access to North American clients. Furthermore, investing in skilled talent, English proficiency, and connectivity could enhance the talent pool, and developing hubs around the investment could facilitate growth and the creation of new companies. Partnerships between universities and companies to create specific programs or boot camps could facilitate the development of talent.

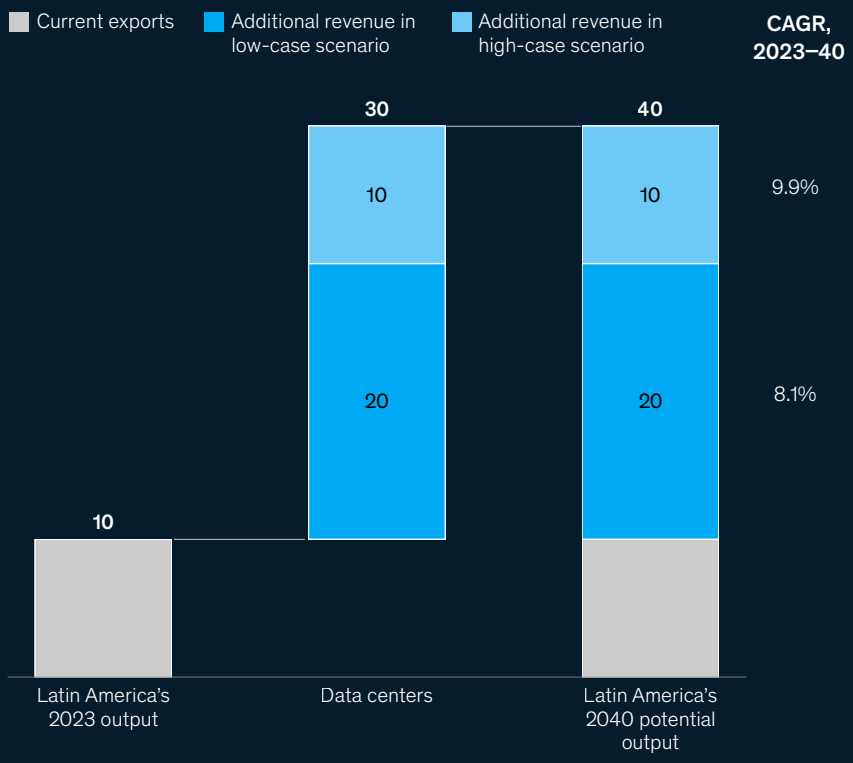
Data centers: Sustainably powering the world's data

By 2040, Latin America could expand its revenues from data centers by an additional $30 billion a year. Capturing this opportunity would require cumulative investments of roughly $70 billion by 2040 (Exhibit 20).

EXHIBIT 20

By 2040, Latin America could increase its revenue from data centers by $30 billion.

Potential incremental growth in export revenues from data centers, 2040, $ billion



Source: Gartner; McKinsey experts; McKinsey analysis

McKinsey & Company

By 2040:

- Additional annual revenues: **$30 billion**
- Required cumulative investment: **~$70 billion**

AI, cloud, and other new technologies are accelerating demand for data centers, potentially creating a supply shortfall in key markets. The United States, for instance, is expected to have unmet demand of 10.4 GW by 2030.[100] Generative AI alone is projected to account for more than 40 percent of demand by 2030.[101] Further, increased energy consumption by data processing is creating a market for sustainable data centers, though current digital infrastructure is not able to fully support these needs. In our low- and high-case scenarios, Latin America serves 25 to 50 percent of unmet US demand, respectively, while meeting 100 percent of regional demand in both cases.

Our analysis assumes the ability of Latin America and Canada to cover 50 percent of the United States' unmet demand, given the region's low-latency advantage from its geographic proximity. The other half would be met by other regions based on cost factors and diversification of sources across risk factors (such as geopolitics and energy availability). Our scenarios vary in how much Canada absorbs; it supplies 50 percent of the unmet demand in the low case and 0 percent in the high case.

Latin America's competitive advantages include proximity to key markets, connectivity, large renewable-energy potential, and existing data centers, along with associated capabilities (Exhibit 21). The region could capitalize on several built-in advantages to address North America's projected supply gap. Colombia and Mexico's low-latency connections to North America are in the top quartile globally, and Brazil and Mexico rank in the second quartile in fiber access.[102] Moreover, the region offers cost-effective construction: Compared with a global average of 1.00, Santiago, Bogotá, and São Paulo score 0.64, 0.75, and 0.93, respectively, while the United States scores 0.95.[103] In addition, the availability of renewable-energy sources—Chile has one of the highest capacity factors in the world for solar PV, and Argentina holds the ninth position for onshore wind potential and eighth for offshore wind potential[104]—makes the region attractive for sustainable, large-scale infrastructure.

EXHIBIT 21

Latin America's data center edge includes existing infrastructure, abundant renewable energy sources, and low build and electric costs.

Data center competitiveness evaluation, by quartile for availability of productive resource

Note: Quartiles are calculated on a global basis.
[1]Wonder Network, 2025. [2]Information and communications technology. [3]GSMA, 2025. [4]Submarine Cable Map, 2025. [5]World Broadband Association, 2024. [6]Statista, 2025. [7]Energy Institute, 2025. [8]World Bank, 2019. [9]IRENA, 2024. [10]Turner and Townsend, 2024. [11]DLA Piper, 2024. [12]World Bank, 2020.

McKinsey & Company

25–50%

Share of unmet US demand that Latin America could serve

100%

Share of regional demand that Latin America could serve

Latin America's data center opportunity is spread across two archetypes.

Strong competitors

Strong competitors include Brazil and Mexico, where 258 data centers already operate—195 in Brazil and 63 in Mexico.[105] Brazil has positioned itself as an emerging hub, with 16 direct submarine cables connecting it to global networks.[106] Mexico's strategic location and fiber optic infrastructure, which is particularly robust in its central region, could ensure connections to North America of less than 200 milliseconds (ms) of latency.[107] Both nations attract hyperscalers[108] by offering strong fiber connectivity and renewable-energy resources—critical components in the sustainable operation of power-intensive facilities.

Promising contenders

Promising contenders include Chile, Colombia, and Uruguay, which collectively are home to nearly 100 operational data centers.[109] All three countries have an abundance of renewable-energy sources and strategic subsea-cable connectivity, and they have established stable regulatory environments and infrastructure policies that consistently attract data center investments. Colombia also benefits from connections to North America with less than 200 ms of latency.

Pursuing this opportunity requires streamlined permitting, stronger connectivity, and reliable access to energy. Two countries offer valuable examples:

Brazil's emergence as a data center hub demonstrates how investing in digital infrastructure can generate substantial revenue growth. For example, leading infrastructure provider Ascenty doubled its revenue in recent years. This momentum is further reinforced by new federal tax exemptions on data center equipment, which are expected to attract hundreds of billions of dollars in additional investment.[110]

Mexico could similarly accelerate growth by improving interconnectivity in underserved regions, ensuring access to energy at competitive prices, and providing financial incentives to attract leading companies. Recent announcements underline the scale of investor interest: Amazon Web Services has committed more than $5 billion to establish a new cloud region in Querétaro,[111] while ODATA is investing about $3 billion in a 300-megawatt-capacity campus in the same state.[112] Beyond these two large markets, Uruguay is also securing major funding, with Google confirming an $850 million investment in a new data center in Canelones.[113] Together, these developments highlight the strong investor confidence backing the region's digital infrastructure opportunity.

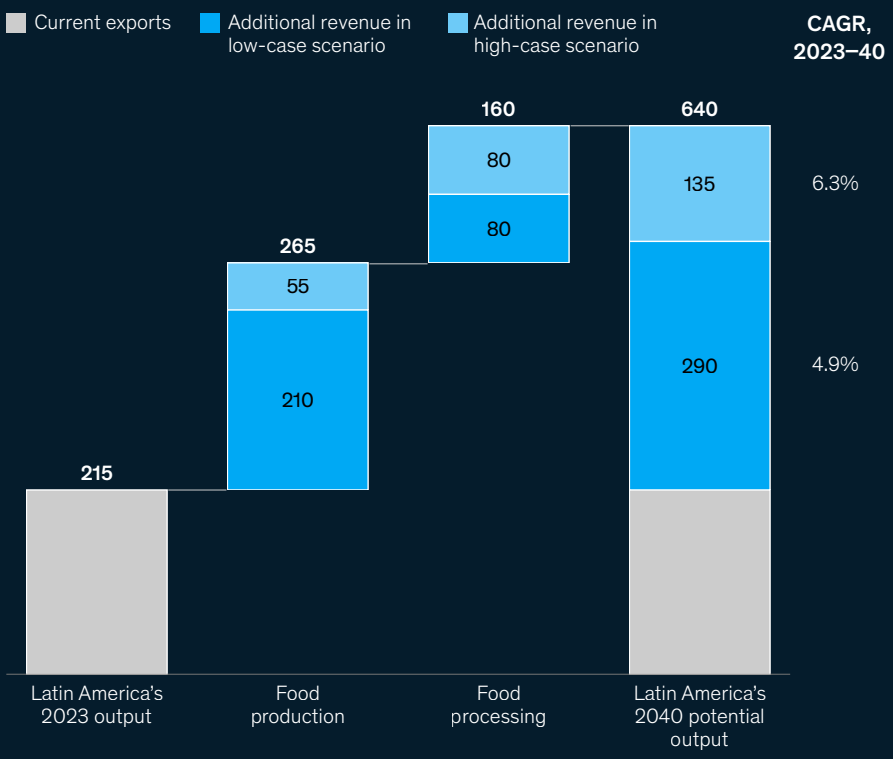
Agri-food: Feeding the world

By 2040, Latin America could generate an additional $425 billion in agri-food revenues a year, including both food production and processing. Capturing this opportunity would require cumulative investments of up to $760 billion by 2040 (Exhibit 22).

EXHIBIT 22

By 2040, Latin America could increase its total agri-food output by $425 billion.

Potential incremental growth in export revenues from agri-food, 2040, $ billion



Source: FAO; S&P Global; UN Comtrade; UN population projections; World Bank World Development Indicators; McKinsey analysis

McKinsey & Company

By 2040:

- Additional annual revenues: **$425 billion**
- Required cumulative investment: **Up to $760 billion**

Compared with the other sectors highlighted in this report, agri-food (which includes both production and processing) has the lowest productivity in Latin America.[114] The region has two primary pathways to enhance productivity in the agri-food sector: First, investment in physical capital and technology would increase productivity across the sector. Second, because agriculture is highly heterogeneous and much of its growth comes from higher global demand, new investments would likely be channeled toward export-oriented activities, which are usually more productive than non-export-oriented ones.

Two countries demonstrate the impact of these pathways. Brazil's soybean production in the Cerrado exemplifies technological advancement,[115] with Embrapa, one of the largest agricultural research corporations of the world, boosting yields through soil research, local rhizobium use, new tropical varieties for multiple harvests, and no-till farming. Regarding resource allocation, Chile's fruit subsector—especially export-oriented fruits such as cherries, apples, and table grapes[116]—has significantly higher returns per hectare than non-export-oriented crops and a higher technological component as well. Fruit production has grown exponentially, making it the country's second-largest exporting sector, thereby demonstrating that shifting labor into subsectors with higher growth can boost overall productivity.

Global demand for food is set to increase more than 40 percent by 2040 because of population growth, an expanding global middle class, and increasing food dependency in many regions.[117] This growth offers Latin America an opportunity to harness its vast agricultural endowments and emerging food-processing capabilities. We modeled future global demand based on population growth projections and per capita consumption over the past ten years for each region and category.[118] Our low-case scenario assumes Latin America taps into the expanding global demand by keeping current shares constant. The high-case scenario includes increases in market share, especially in fruits and fish, where Latin America's share rises seven percentage points based on the more recent growth of these industries in countries such as Argentina and Chile.

Latin America possesses significant natural advantages for agricultural production, including abundant land and water as well as favorable climate conditions. Countries such as Argentina, Brazil, and Chile have supplemented these endowments with public and private capabilities, including advanced farming practices, R&D infrastructure, and specialized talent. The transformation of Brazil's soybean industry illustrates this potential: Through targeted investments in research with Embrapa, yields increased 77.5 percent from the 1980s to the 2010s, while exports surged from $601 million in 1995 to $4.6 billion in 2022.[119]

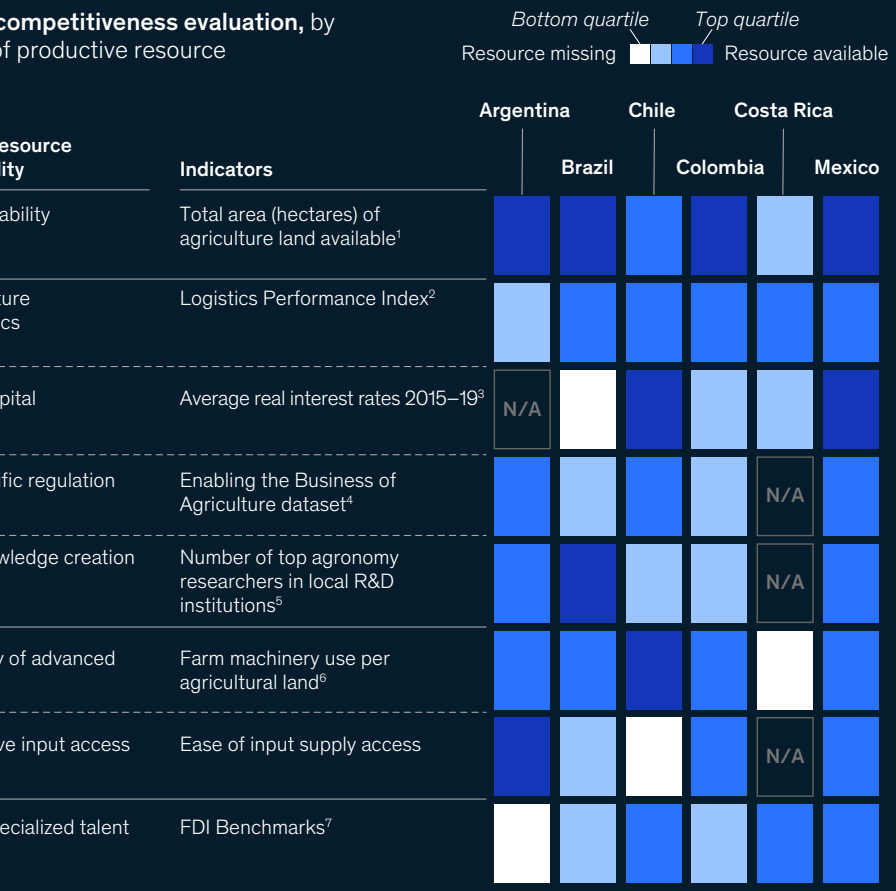
In this report, we segmented agri-foods into production and processing to illustrate that Latin American countries have varying degrees of specialization and competitive advantages (Exhibits 23 and 24).

Moreover, the agricultural sector provides a significant opportunity in bio-to-X, which could enable Latin America to convert its abundant renewable resources into low-carbon energy and biobased products—but with agriculture rather than electrons as the starting point. Given the shared feedstocks between agri-food and bio-to-X, the range in Exhibit 22 includes this additional revenue.

EXHIBIT 23

All Latin America has strong agri-food endowments, and Argentina, Brazil, and Chile also have strong public and private capabilities for production.

Agri-food production competitiveness evaluation, by quartile for availability of productive resource



Productive resource type	Specific resource or capability	Indicators
Endowments	Land availability	Total area (hectares) of agriculture land available[1]
Enabling ecosystem	Infrastructure and logistics	Logistics Performance Index[2]
	Cost of capital	Average real interest rates 2015–19[3]
	Agri-specific regulation	Enabling the Business of Agriculture dataset[4]
	Local knowledge creation	Number of top agronomy researchers in local R&D institutions[5]
Private sector competitive-ness	Availability of advanced farms	Farm machinery use per agricultural land[6]
	Competitive input access	Ease of input supply access
People capabilities	Cost of specialized talent	FDI Benchmarks[7]

Note: Quartiles are calculated on a global basis.
[1]Our World in Data, 2024. [2]World Bank, 2023. [3]World Bank and EBA, 2019. [4]World Bank, 2023. [5]Research.com, 2025. [6]Our World in Data, 2024. [7]fDi Benchmark, a service from *The Financial Times*, 2023.

McKinsey & Company

27%

Latin America's share of global liquid biofuels production in 2023

14%

Latin America's share of the world's agricultural land

EXHIBIT 24

Latin America's strong local food inputs are a key advantage, but weak transversal public capabilities constrain its potential.

Agri-food processing competitiveness evaluation, by quartile for availability of productive resource

Productive resource type	Specific resource or capability	Indicators
Enabling ecosystem	Infrastructure and logistics	Logistics Performance Index[1]
	Electricity cost	Levelized cost of electricity competitiveness[2]
	Cost of capital	Average real interest rates 2015–19[3]
Private sector competitive-ness	Agri-food regulation	Enabling the Business of Agriculture dataset[4]
	Local agricultural production industry (upstream)	Revealed comparative advantage in agricultural food processing sector[5]

Note: Quartiles are calculated on a global basis.
[1]World Bank, 2023. [2]World Bank, 2019 [3]World Bank, 2019. [4]World Bank, 2023. [5]UN Comtrade, 2024.

McKinsey & Company

Latin America already plays a disproportionate role in global liquid biofuels, accounting for about 27 percent of world production in 2023. Brazil alone is responsible for about 93 percent of that output.[120] It is the world's second-largest ethanol producer (projected at 32.5 billion liters in 2024) and third-largest biodiesel producer (8.9 billion liters in 2024), with a long-standing sugarcane ethanol program and a rapidly growing corn-ethanol segment.[121] Argentina and Mexico have sizable biodiesel and ethanol industries and emerging sustainable aviation fuel (SAF) initiatives, while agricultural residues such as sugarcane bagasse, soy and corn stover, and forestry waste provide a scalable feedstock base for advanced biofuels and biogas.[122] These natural endowments are matched by dense industrial infrastructure in ethanol mills, oilseed-crushing plants, and biogas and biomethane clusters. Regulatory signals are increasingly aligned with this trajectory: For example, Brazil's Fuel of the Future law, which creates national programs for green diesel, SAF, and biomethane, is expected to mobilize roughly 260 billion Brazilian reais (about $45 billion to $50 billion) in agribusiness and biofuels investments by 2037. Blend mandates and SAF road maps across the region provide demand visibility for producers.[123]

Building on this base, bio-to-X could represent a multibillion-dollar opportunity by 2040 as Latin America expands production of ethanol, renewable diesel, SAF, biomethane, and biobased chemicals. Global analyses suggest demand for low-carbon fuels in hard-to-abate sectors—such as aviation and shipping—could grow severalfold by mid-century.[124] If Latin America maintains a 20 to 25 percent share of global sustainable liquid fuels and doubles its current biofuel output (around 40 billion to 45 billion liters in 2019) while shifting progressively into higher-value drop-in fuels and biochemicals, the region could plausibly generate $40 billion to $80 billion in additional annual value by 2040.[125]

Several trends—decarbonization of aviation and long-haul transport, growing interest in green methanol for shipping, and the expansion of biogas and biomethane for industry and heavy vehicles—are contributing to this potential. Latin America's proximity to major demand centers in North America and, increasingly, Europe and Asia further reinforces these trends.[126] Capturing this upside assumes continued improvements in agricultural yields, stable land-use frameworks that limit deforestation while allowing productivity gains, the commercial scaling of second-generation technologies that rely on residues rather than new cropland, and a persistent increase in export demand consistent with global net-zero and sustainable-fuels outlooks.[127]

Within the broader set of opportunities outlined in this report, bio-to-X can be seen as a bridge between the agri-food and power-to-X themes, using the same natural advantages that reinforce the region's role in global crop, meat, and animal-feed markets to move further up the value chain into low-carbon molecules and materials. Areas that could become particular focal points include the following:

- strengthening feedstock-to-fuel value chains across sugarcane, corn, soy, and forestry residues
- accelerating the deployment of second-generation biofuels based on agricultural and agro-industrial waste
- improving storage, logistics, and sustainability certification systems to reliably serve international low-carbon fuel and chemical markets
- deepening integration among agricultural producers, energy companies, and chemical clusters around multiproduct biorefineries

At the same time, the region could benefit from attracting technology partners in SAF, green methanol, biomethane upgrading, and biobased chemical platforms. It could also expand export corridors that benefit from its geographic proximity and trade links to the United States as well as growing demand in Europe and Advanced Asia for sustainable fuels and feedstocks.[128]

Latin America's agri-food sector showcases a powerful combination of production capacity and processing expertise across the value chain.

Latin America's agri-food sector showcases a powerful combination of production capacity and processing expertise across the value chain. Home to approximately 14 percent of the world's agricultural land, Latin America is the largest net food-exporting region in the world.[129] Brazil and Mexico have established world-leading capabilities in processing, and Mexico has developed specialized knowledge for the mass production and commercialization of processed foods. This comprehensive agri-food ecosystem could position Latin America to significantly expand its role in global food security while moving up the value chain into higher-margin processed products.

The agri-food sector's opportunities reflect the region's fundamentals in natural endowments, trade relationships, and growing global demand. In addition, infrastructure and logistics are competitive across most leading countries, with Chile enjoying a particularly favorable cost of capital.[130] Agricultural regulatory frameworks are especially supportive in Argentina and Chile,[131] while Argentina and Brazil have a solid base of top agricultural researchers in local institutions. Private sector competitiveness benefits from the availability of advanced farm machinery and access to competitively priced inputs. Agricultural-labor costs are also competitive in relation to global benchmarks.

Global champions

Global champions include leaders already among the top five exporters in their sector.[132] Their potential across production and processing positions them for further growth.

- Mexico ranks as one of the world's top countries in fruit and vegetable production: In 2023, it was the second-largest exporter of vegetables after China and third in fruit exports after the United States and Spain.[133]
- Brazil was a top global exporter of soybeans, cereals, and coffee in 2023 thanks to its extensive arable land and high productivity.[134] It also has a robust meat sector, ranking as the world's second-largest meat exporter overall and the leading exporter of frozen beef and poultry.[135]
- Chile is the world's second-largest salmon producer.

As an established global leader in beverages and animal feed, Latin America is well positioned in agri-food processing.[136]

- Mexico leads in beverages, notably beer and spirits, on the strength of globally competitive brands and export capacity.
- Brazil is the world's second-largest exporter of soy-based animal feed thanks to its advanced agricultural sector.
- Argentina is the third-largest global exporter of animal feed, primarily through the production of soy residuals.

These processing strengths build on existing agricultural output, industrial capabilities, and increasing global demand for processed agriproducts.

Strong competitors

Strong competitors include countries that have the potential to become even more relevant amid emerging global trends.[137]

— Argentina is a major producer and exporter of cereals and soybeans, ranking 12th globally in exports. It also ranks ninth for volume of beef exports and has achieved growth in crustaceans (such as shrimp) in recent years and now ranks as the seventh-largest exporter in the world.

— Chile demonstrates high export-to-production ratios in pork and poultry, maintains robust sanitary standards, and leads in some fruits and vegetables, particularly cherries.

— Colombia is among the top global exporters of coffee and bananas, benefiting from both agricultural capacity and strong national branding.

— Costa Rica specializes in fruit and vegetable exports, especially pineapples and bananas, drawing on its climate, export infrastructure, and access to global markets.

These strengths reflect factors including natural resources, trade partnerships, and rising global demand.

Latin America also has significant opportunities in agri-food processing, with specific strengths across four key countries.

— Brazil excels in food and soybean oil processing, leveraging its position as a global leader in soybean production.

— Mexico stands out in bakery goods and fruit-based foods, benefiting from a large domestic market, integrated supply chains, and close trade ties with the United States.

— Argentina already ranks among the top global exporters of wine and shows promise in oils and waxes, particularly soybean oil, thanks to its scale and advanced processing infrastructure.

— Chile generates value in beverages through wine exports, driven by established branding and access to key international markets.

Built on existing agricultural output and industrial capabilities, these processing opportunities reflect increased global demand for processed and value-added agricultural products.

Promising contenders

Promising contenders are countries with production and processing capabilities that have yet to explore their export potential. Several nations are emerging in key areas of agri-food production and processing.

- Brazil is well positioned in beverages, particularly wine, beer, and spirits, where its established local brands are largely untapped in global markets, offering room for export-driven growth.
- Chile has demonstrated potential in animal feed, where production is rising to support the country's burgeoning livestock and aquaculture sectors.

While these countries are not yet market leaders in these segments, their improving industrial base and export capacity suggest a clear trajectory toward stronger regional and global relevance.

Achieving the potential in agri-food could require targeted action in several areas. Transportation and logistics infrastructure could be improved in countries where it is underdeveloped, especially in Colombia, Costa Rica, and Mexico. The higher cost of capital represents a barrier to growth, particularly in Argentina, Brazil, Colombia, and Costa Rica. It could be addressed through macroeconomic stability and financial system development to enable investments in mechanization. Upgrades to energy infrastructure and processing capabilities for food products could also make the region more competitive. Successful models such as Brazil's agricultural transformation demonstrate that coordinated public–private efforts in research, infrastructure development, and trade diplomacy could unlock dramatic productivity growth.

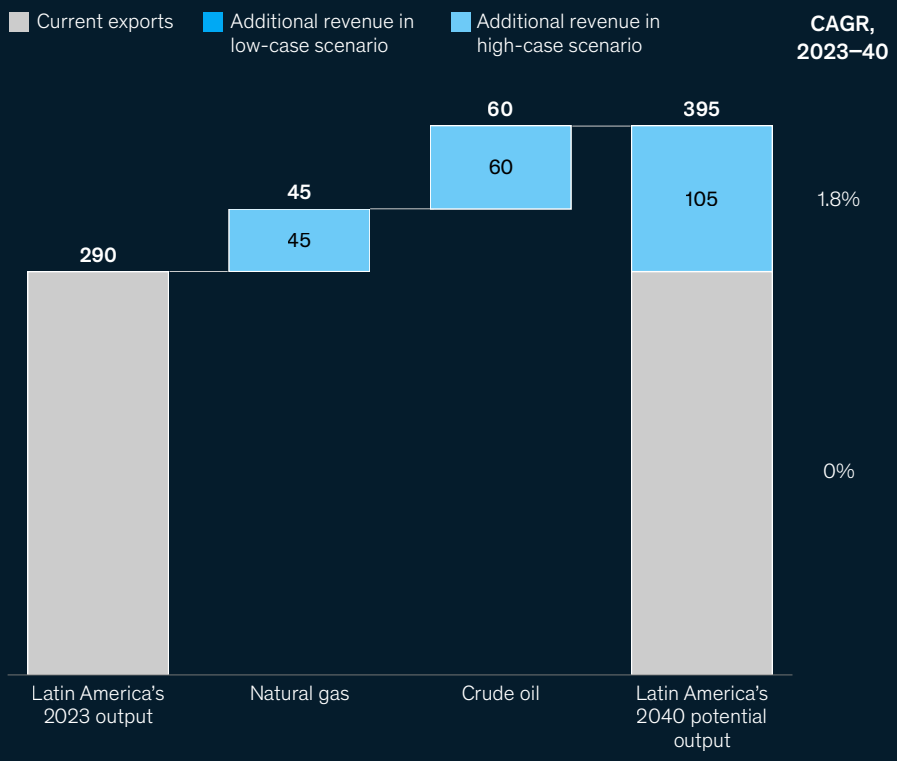
Oil and gas: Powering the present and the transition

By 2040, Latin America could expand its revenues from oil and gas by an additional $105 billion annually. Capturing this opportunity would require cumulative investments of up to $785 billion by 2040 (Exhibit 25).

EXHIBIT 25

By 2040, Latin America could increase its total oil and gas output by $105 billion.

Potential incremental growth in export revenues from oil and gas, 2040, $ billion



Source: McKinsey Energy Solutions; McKinsey experts; McKinsey Global Energy Perspective model; Rystad UCube, accessed Aug 2025; Statista; US Energy Information Administration; McKinsey analysis

McKinsey & Company

By 2040:

- Additional annual revenues: **$105 billion**
- Required cumulative investment: **Up to $785 billion**

A sustainable transformation scenario could increase demand for sectors such as power-to-X, agri-food, and critical minerals. Under the slow evolution scenario, we expect higher global demand for oil and gas. However, the gap in low-carbon deployment suggests oil and gas will remain essential bridging fuels until 2050, ensuring energy security and affordability until alternative sources scale.[138]

Our low- and high-case revenue projections therefore reflect the energy transition scenarios. Demand for oil and gas is expected to remain constant over the next 15 years under the continued momentum scenario (our low case), in which the global energy transition advances but without a sharp increase in the implementation of decarbonization policies.[139] In the high case, modeled under the slow evolution scenario, demand grows, and we assume additional ramp-up in output from Argentina, Brazil, and Guyana based on recent national development plans. In both cases, we model Latin America's share of demand based on its intersection with global cost curves.

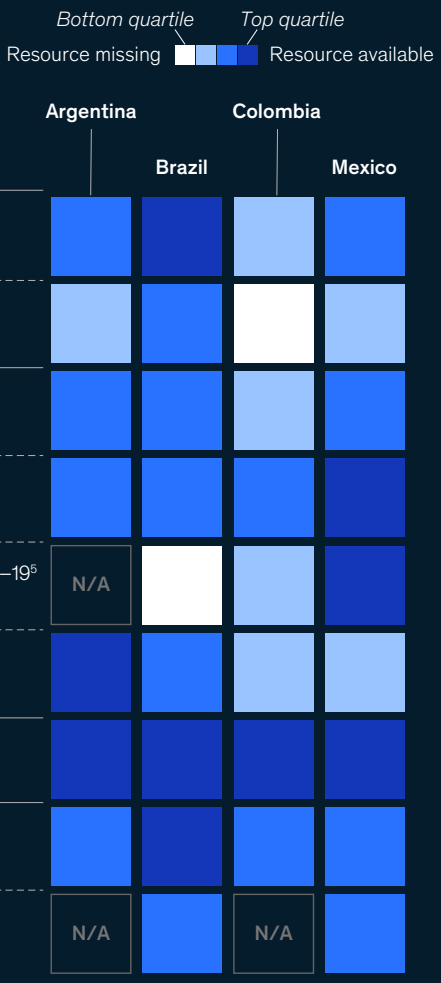
The region holds more than 20 percent of global oil and approximately 4 percent of natural gas reserves.[140] However, the prospects of individual countries vary substantially. On the one hand, major large-scale projects are concentrated in Guyana's offshore oil surge, Brazil's deep-sea production, and Argentina's Vaca Muerta formation.[141] On the other, Colombia, Mexico, Venezuela, and other oil-producing countries are expected to see declining output by 2040 because of aging reserves. As a result, the region's overall production is projected to increase moderately in the coming years.

Latin America benefits from a skilled, cost-competitive workforce because it is home to six of the top 50 petroleum engineering programs in the world[142] and deep industry expertise, with 400 of the 419 largest petroleum companies operating in the region (Exhibit 26).[143]

EXHIBIT 26

Latin America is positioned to win because of its significant reserves, competitive workforce, and expertise.

Oil and gas production competitiveness evaluation, by quartile for availability of productive resource



Productive resource type	Specific resource or capability	Indicators
Endowments	Raw materials: oil	Total oil reserves[1]
	Raw materials: gas	Total gas reserves[2]
Public capabilities	Infrastructure and logistics	Quality of infrastructure[3]
	Market access	Trade facilitation indicators[4]
	Cost of capital	Average real interest rates 2015–19[5]
	Oil- and gas-specific regulation	Policy Perception Index[6]
Private capabilities	Extraction and production knowhow	Largest mining companies by market cap[7]
People capabilities	Oil and gas specialized talent	QS ranking of top oil and gas programs[8]
	Cost of specialized talent	FDI Benchmarks[9]

Note: Quartiles are calculated on a global basis.
[1]*World energy review 2024*, ENI, 2024. [2]*World energy review 2024*, ENI, 2024. [3]Ashley Stedman and Kenneth P. Green, *Global petroleum survey 2018*, Fraser Institute, 2018. [4]OECD, 2022. [5]World Bank, 2019. [6]Ashley Stedman and Kenneth P. Green, *Global petroleum survey 2018*, Fraser Institute, 2018. [7]Considers if the companies have operations in the country or not. [8]Top Universities. [9]fDi Benchmark, a service from *The Financial Times*, 2023.

McKinsey & Company

20%

Latin America's share of global oil reserves

~4%

Latin America's share of natural gas reserves

Latin America's oil and gas landscape includes a combination of established production powerhouses and emerging players positioned to capitalize on global demand.

Strong competitors

Strong competitors in crude oil production combine large-scale output with proven reserves, mature infrastructure, and ongoing investment in exploration and extraction. Brazil accounts for approximately 45 percent of Latin America's crude oil production and is among the world's ten largest producers.[144] Moreover, it has solidified its position through sustained investment in offshore deepwater drilling and has even joined OPEC+ as a collaborating member, underscoring its increasing global relevance. Mexico, which contributes about 20 percent of the region's crude oil output,[145] benefits from decades of production, a well-established energy sector, and robust infrastructure. In 2022, Mexico ranked 13th globally in crude oil production, accounting for an average of 1.6 million barrels a day.[146]

Promising contenders

Promising contenders include Argentina, which is undergoing an energy transformation spurred by the rapid development of the Vaca Muerta shale formation. Natural gas output is expected to grow 50 to 100 percent by 2040 compared with 2024 levels, positioning the country to not only secure domestic supply but also emerge as a regional energy exporter, according to McKinsey analysis. In oil, Vaca Muerta could contribute 1 percent of global production by 2030, elevating Argentina to the ranks of the world's top 20 exporters by 2032, based on our analysis. Guyana also exemplifies rapid sector development: It already exports $13.4 billion annually despite being a relatively new producer and now accounts for approximately 0.5 percent of global oil production.[147]

Emerging frontiers

Emerging frontiers are poised to explore untapped reserves. Colombia has opportunities in gas, with recent exploration in Santa Marta indicating a substantial increase in reserves.[148] In 2024, Bolivia discovered approximately 1.7 trillion cubic feet in natural gas, its biggest find since 2005.[149]

Increasing the growth of the oil and gas sector would require investment in the development of transportation and logistics infrastructure (including pipelines), significant foreign investment for exploration, and the adoption of advanced technologies to increase productivity. In Argentina, for example, the expansion of gas pipelines will be critical to meet growing domestic and regional demand.[150] Meanwhile, Guyana's creation of a natural resource fund to reinvest petroleum revenues into diversifying the economy provides a model for sustainable, long-term development.[151]

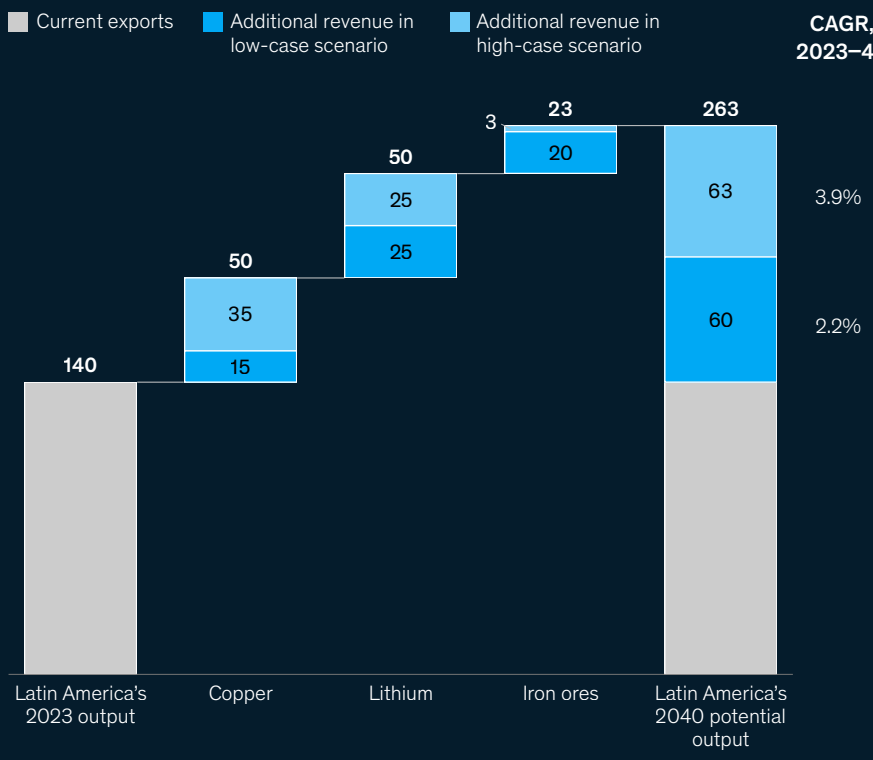
Critical minerals: Enabling the energy transition

By 2040, Latin America could increase its critical minerals revenues by an additional approximately $120 billion annually. Capturing this opportunity would require cumulative investments of up to $495 billion by 2040 (Exhibit 27).

EXHIBIT 27

By 2040, Latin America could increase its revenue from critical minerals by about $120 billion.

Potential incremental growth in export revenues from critical minerals, 2040, $ billion



Source: McKinsey MineSpans; McKinsey analysis

McKinsey & Company

By 2040:

- Additional annual revenues: **~$120 billion**
- Required cumulative investment: **Up to $495 billion**

The global energy transition is substantially boosting demand for critical minerals, which could create a strategic opportunity for Latin America. In a continued momentum scenario, demand for copper and lithium is expected to surge by approximately 40 and 500 percent, respectively, by 2040 compared with 2024 levels—the biggest shift since the Industrial Revolution.[152] For copper, a supply shortfall is projected to persist until 2035.[153] Causes include underinvestment in new exploration and development, long permitting timelines, and increasing environmental and regulatory constraints that hinder new projects. Similarly, until 2040, lithium demand is projected to outpace supply due to the growth of electric vehicles and energy storage along with the slow, investment-constrained expansion of mining and refining capacity (based on currently disclosed project announcements). This forecast considers specific circumstances, such as demand driven by the energy transition and supply bottlenecks due to investment or technological constraints.

We assessed the share of global demand that Latin America could meet, based on the pipeline of projects and the region's position on the global cost curve. The difference between the high- and low-case scenarios primarily reflects the number of potential mining projects included in the cost curve based on their maturity. For lithium and copper, where a supply gap is expected, projects with greater uncertainty about their implementation were included. Our low-case scenario of 2.2 percent CAGR to 2040 is based on Latin America completing currently planned and probable projects already in the pipeline. That could rise to 3.9 percent if more projects are delivered and global prices rise under a more supply-constrained global market.

Although these supply estimates are not formally linked to global energy transition pathways, the low case can be broadly associated with a continued momentum trajectory, while the high case aligns more closely with a sustainable transformation pathway, where stronger policy action and faster cleantech adoption increase demand for critical minerals. Global demand for the different minerals varies, with copper growing at 2 to 3 percent a year,[154] iron ore remaining fairly constant, and lithium ranging from 12 to 13 percent.[155] These variations reflect the maturity of the different industries. In addition, the region has outsize growth in lithium and iron ore, given the lower extraction cost.

Latin America's advantages in this sector are substantial and multifaceted (Exhibit 28). It holds 58 percent of the world's identified lithium reserves and 35 percent of global copper reserves.[156] Further, the region has cost-effective production, with Argentina and Chile operating in the lowest quartile of the global cost curve for lithium. As a result, Latin America's extraction of lithium and iron ore produces margins 2.3 and 1.5 times higher than the global average, respectively.[157]

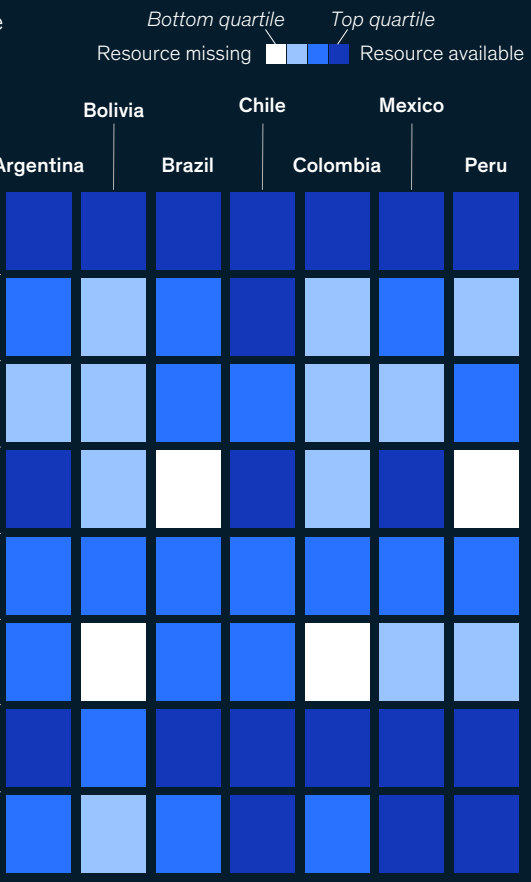
Beyond raw resources, the region has developed significant mining expertise: 30 of the 42 largest critical-minerals mining companies maintain operations in the region, and Latin American universities have three of the world's top 35 mining engineering programs.[158]

Major producing countries such as Argentina, Brazil, Chile, and Peru also benefit from transportation infrastructure that ranks in the second-highest quartile globally for quality.[159]

EXHIBIT 28

Latin America is positioned to win since it has significant reserves, critical minerals know-how, and quality transportation infrastructure.

Critical minerals competitiveness evaluation, by quartile for availability of productive resource



Productive resource type	Specific resource or capability	Indicators
Endowments	Raw materials: critical minerals[1]	Reserves of critical minerals[1]
	Utilities infrastructure[2]	GCI 4.0 infrastructure score[3]
Public capabilities	Market access	Trade barriers[4]
	Cost of capital	Average real interest rates 2015–19[5]
	Transportation and logistics	Quality of infrastructure[6]
	Critical minerals specific regulation	Policy Perception Index[7]
Private capabilities	Extraction and production know-how	Largest mining companies by market cap[8]
People capabilities	Specialized talent	Availability of labor and skills[9]

Note: Quartiles are calculated on a global basis.
[1]EIU; US Geological Survey. Weighted by quantity and diversity of critical minerals that are key to energy transition in the sector. [2]Chile adjusted for missing water utilities in northern region. [3]WEF, 2019. [4]Julio Mejía and Elmira Aliakbari, *Survey of mining companies 2023*, Fraser Institute, 2024. [5]World Bank, 2019. [6]Julio Mejía and Elmira Aliakbari, *Survey of mining companies 2023*, Fraser Institute, 2024. [7]Considers if the companies have operations in the country or not. [8]Julio Mejía and Elmira Aliakbari, *Survey of mining companies 2023*, Fraser Institute, 2024. [9]Julio Mejía and Elmira Aliakbari, *Survey of mining companies 2023*, Fraser Institute, 2024.

McKinsey & Company

58%

Latin America's share of the world's identified lithium reserves

35%

Latin America's share of the world's global copper reserves

Latin America possesses substantial endowments in critical minerals essential for the global energy transition, with countries across the region holding strategic positions in different segments of the value chain.

Global champions

Global champions are among the top five exporters globally. Chile holds the world's largest copper reserves, is the leading producer of mined (unprocessed) copper,[160] and ranks third globally in refined copper output.[161] It also possesses the world's largest reserves of lithium that can be economically extracted—estimated at 9.3 million metric tons[162]—and is the second-largest producer of lithium globally, with an output of 49,000 metric tons in 2024.[163] Other relevant players include Argentina, which has the third-largest lithium reserves in the world and ranks third in lithium exports[164]; Brazil, the second-largest exporter of iron ore after Australia[165]; and Peru, which holds the world's second-largest copper reserves and exports 21 percent of global copper ore.[166] From a capabilities standpoint, Argentina, Brazil, and Chile are well positioned in utilities infrastructure (all are in the second quartile globally),[167] and transportation and logistics are robust in these countries as well as in Peru. In addition, the region is home to 30 of 42 of the largest mineral mining companies by market cap.[168]

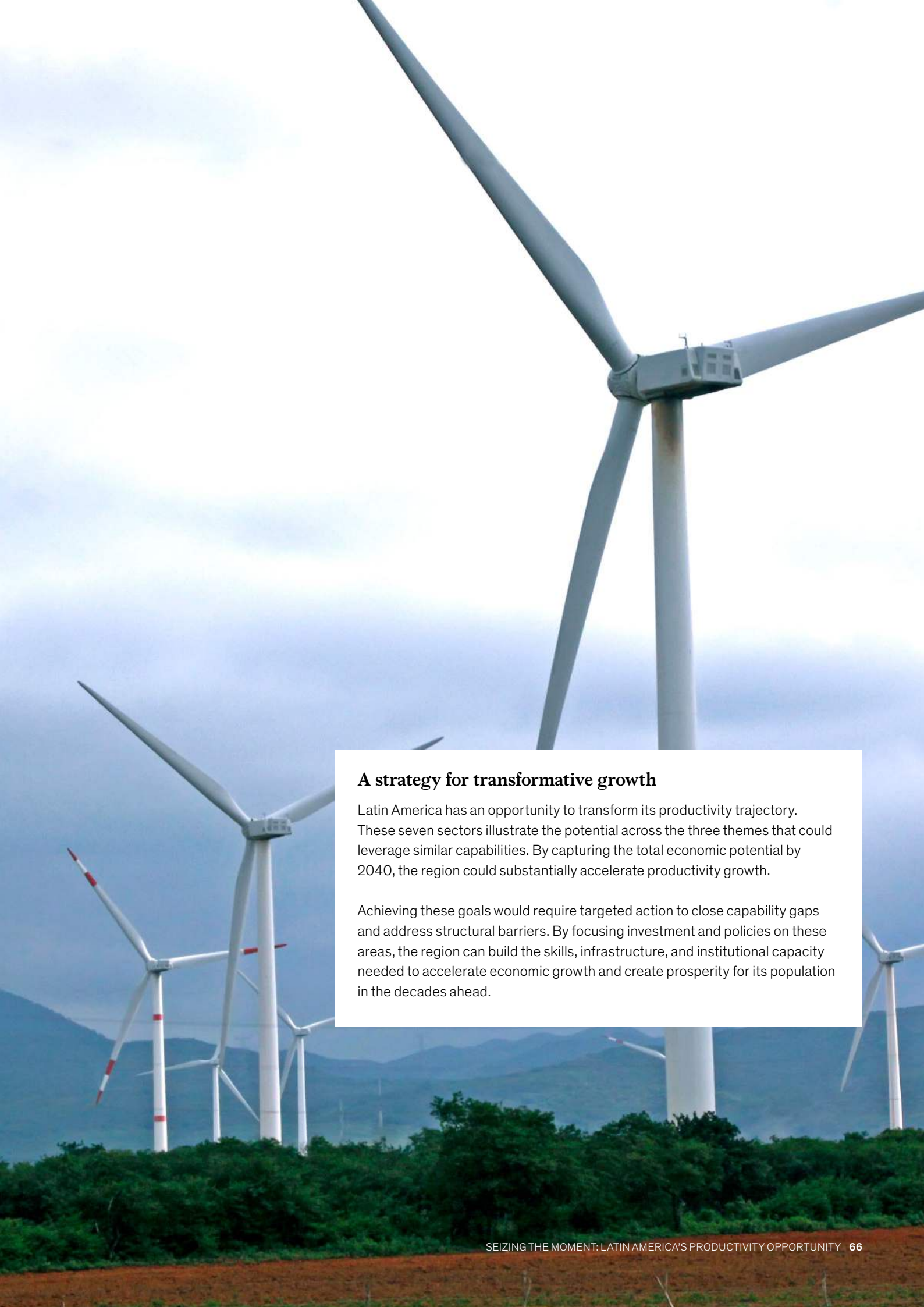
Promising contenders

Promising contenders are countries with the right mix of endowment and capabilities but have yet to become sector leaders. Argentina holds untapped copper potential (roughly 7.5 percent of global copper reserves, or 17.1 million metric tons), yet its current production remains insignificant on a global scale (4,000 metric tons a year versus Chile's 5.5 million metric tons).[169] The country needs to address capability gaps such as sector regulations, availability of specialized talent, and market access. Another example is Mexico, which ranks among the top 15 global producers of mined and refined copper and holds about 1 percent of the world's graphite reserves.[170] Home to many of the world's leading mining companies, Mexico has an extensive pool of specialized talent. Finally, Brazil could expand its production of copper and lithium: It has significant reserves and substantial mining capabilities (proved by its ranking as the second-largest in the world for iron extraction).[171]

Emerging frontiers

Emerging frontiers include countries that have large mineral reserves but limited capabilities. For example, Bolivia has the world's largest lithium reserves, primarily concentrated in the Salar de Uyuni, and it could become a global player in the energy transition.[172] However, it has struggled to capitalize on its reserves amid complex regulatory frameworks, limited private sector participation, and technological gaps in lithium extraction and processing. Continued efforts at regulatory modernization, international cooperation, and capability building could make Bolivia a regional anchor in the lithium value chain and a supplier of materials critical to global decarbonization efforts.

To capture this potential, countries need to address regulatory constraints and key resources. In Chile, mining projects currently require up to 200 permits[173] and can take 11.5 years to gain approval[174]—compared with just 2.0 years in competing countries such as Australia and Canada.[175] Water scarcity presents another obstacle for extraction and refining processes, with availability in northern and central Chile projected to drop 50 percent by 2060.[176] Further, countries with mining opportunities need to address environmental concerns when updating permitting processes. Strategic investments in regulatory reform, water desalination infrastructure, and advanced extraction technologies could help overcome these barriers and make Latin America the world's premier supplier of energy transition materials.



A strategy for transformative growth

Latin America has an opportunity to transform its productivity trajectory. These seven sectors illustrate the potential across the three themes that could leverage similar capabilities. By capturing the total economic potential by 2040, the region could substantially accelerate productivity growth.

Achieving these goals would require targeted action to close capability gaps and address structural barriers. By focusing investment and policies on these areas, the region can build the skills, infrastructure, and institutional capacity needed to accelerate economic growth and create prosperity for its population in the decades ahead.

04

Strategic accelerators: Unlocking growth in Latin America

The sector-specific opportunities described in the previous chapter could not only have an outsize impact but also catalyze a virtuous cycle of investment and growth. To execute this strategy, some broader enablers need to be in place that could also promote growth across the rest of the economy. We have identified four strategic accelerators that could enable the region to increase its productivity at an economy-wide level.

Shifting global factors create uncertainty

As discussed in chapter 2, the world is in the midst of massive change. A number of forces are contributing to extensive uncertainty. That requires Latin America to consider the economy-wide enablers necessary to promote growth amid this uncertainty.

Geopolitical tensions and changes in tariff policy are reshaping global trade and increasing the relevance of trade blocs. In response, nations and companies are taking action to avoid supply chain disruptions, emphasizing the importance of friendshoring and nearshoring.

In addition, the global economy is entering a period marked by interest rate uncertainty and concerns over fiscal and debt sustainability. For Latin America, where dollarized liabilities and exposure to inflation and external shocks are both high, these dynamics could be particularly disruptive. In fact, the region faces structural challenges, such as a growing public debt burden that is expected to reach 55 percent of GDP in 2024,[177] historical gaps in digital and physical infrastructure,[178] significantly higher financing costs,[179] low educational attainment, and the presence of violence and organized crime.

Evolving trade policies, tightening global financial markets, and growing ambiguity around monetary direction add layers of complexity to economic decision-making for Latin American leaders. In this environment, investors are exercising caution, and attention has turned toward managing near-term stability alongside long-term priorities such as industrial upgrades and productivity growth.

While some disruptions may stabilize quickly, the continued impact of global factors will require Latin America to adjust strategy to maintain its competitiveness and productivity growth. The region must develop new capabilities to navigate these changes effectively and turn potential threats into opportunities.

Strategic accelerators to catalyze growth

In this shifting global context, four accelerators could help Latin America attract investment and increase its productivity and growth. The first two aim to take advantage of the opportunities from shifting trade patterns; the other two are capability accelerators that could help attract investment and drive productivity growth:

— *Trade-related accelerators.* These include diversifying and proactively opening new trade corridors as well as enhancing intraregional integration and collaboration.

— *Capability accelerators.* These include streamlining regulatory frameworks in key sectors and upskilling the future workforce.

While not comprehensive, this set of accelerators could be especially relevant for Latin America's context. For each one, we draw on proven international examples to illustrate its potential.

Diversifying and proactively opening new trade corridors

Geopolitical tensions are altering global trade. Since 2017, commerce between geopolitically distant partners has fallen,[180] indicating that a reconfiguration of trade is underway. To understand the impact of factors such as tariffs and industrial policy on trade, McKinsey research explored three scenarios, developed using the Global Trade Analysis Project.[181] McKinsey Global Institute analysis found that more than 30 percent of global trade in 2035 could swing from one trade corridor to another.[182]

Latin America could seek to double down on trade by opening and exploring new trade corridors. Each new trade corridor could not only create demand for the region's production but also attract targeted investments and technology partnerships in high-growth sectors. The creation of robust corridors with key (and sometimes new) global trading partners would likely depend on strong agreements and cooperative frameworks. In addition, clear and predictable trade policies, together with reciprocal commitments such as local investment in priority sectors, can help strengthen the resilience and adaptability of the region's trade network.

Currently, Latin America's trade is heavily concentrated, with approximately 60 percent of its exports bound for the United States and China. In stark contrast, Southeast Asia receives only about 3 percent of Latin American exports. When considering market size, this imbalance becomes even more pronounced: The combined economies of the United States and China total $6.3 trillion in imports and absorb the majority of Latin America's exports, while Southeast Asia, with a collective market size nearing $1.7 trillion in imports (more than half the total of the United States alone), remains significantly underutilized as a destination for Latin American exports.[183]

Latin America's trade remains focused on a small number of partners, pointing to opportunities to broaden corridors and deepen engagement with additional markets. Expanding and building new interregional corridors, such as to the Middle East, India, and Southeast Asia, could also increase Latin America's trade with emerging markets, which are expected to see above-average growth and could offer stability amid global uncertainty.[184]

The region must develop new capabilities to navigate these changes effectively and turn potential threats into opportunities.

As noted in chapter 3, four strategic sectors rely heavily on external demand beyond the United States: power-to-X, agri-food, oil and gas, and critical minerals.

Power-to-X. Trade opportunities are expected to be concentrated in Europe and Advanced Asia,[185] particularly Japan and South Korea,[186] given their ambitious sustainability commitments.

Agri-food. About one-quarter of Latin American agricultural exports go to North America and China. Yet exports to the Middle East and Africa remain below 10 percent, even though these regions together represent a $280 billion import market[187]—comparable in size to the United States or China—and offer strong growth prospects. For example, sub-Saharan Africa has high demographic growth and rising food demand. Recent shifts in US tariffs have also reshuffled global trade dynamics, opening new opportunities for intra–Latin American trade and exports from the region, such as Brazilian meat to Mexico and the Middle East and North Africa.

Oil and gas. Intraregional markets and liquefied-natural-gas (LNG) demand from Europe and Asia offer growth potential. For instance, Argentina is investing in floating LNG capacity and has secured long-term offtake agreements with China, Germany, India, and Japan[188] while also exploring new oil export routes to India.[189]

Critical minerals. In 2023, China was the largest importer of lithium carbonate, with annual imports of $4 billion, followed by South Korea ($2.6 billion) and Japan ($1 billion).[190] Latin America accounted for 85 percent of China's imports, but it supplies about 75 percent of Japan and South Korea's demand. That creates an opportunity for the region to increase the supply of lithium to the latter two markets in line with China's imports. Latin America could also expand copper exports to Europe, which currently takes in less than 10 percent of the region's production despite accounting for 22 percent of global imports (by comparison, China's share of global imports is 38 percent).[191] In iron ore, China is the world's top importer.[192] The region's countries are already responding to these trade dynamics—Brazil and Chile by investing in energy efficiency[193] and Argentina through new incentive regimes (such as the RIGI program,[194] designed to attract large-scale investment in energy and mining) and infrastructure expansion.

By contrast, the development of next-generation manufacturing and digital sectors will be fueled primarily by intraregional and US demand, which offer both scale and proximity. Expanding these sectors into other markets is unlikely to be viable in the foreseeable future, so efforts to promote regional integration and North American ties are the most realistic pathways for trade growth.

These efforts could streamline trade flows and expand market access for local businesses. Further, such integration could attract both foreign and domestic investment in these sectors, fostering technology transfer and broader knowledge exchange. Last, by diversifying its trade partners, Latin America could expand trade overall, making it less vulnerable to shocks.

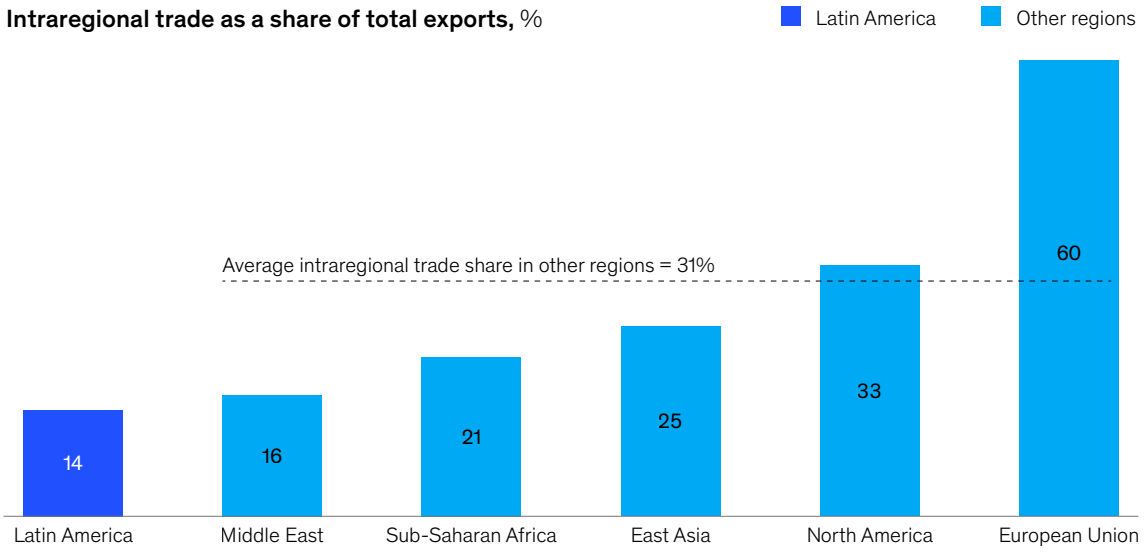
Recent initiatives in other geographies could serve as useful case studies for Latin America, with the understanding that adaptations would need to be made. For example, the EU-CARIFORUM Economic Partnership Agreement highlights the use of mechanisms such as asymmetric trade liberalization: The 14 Caribbean states that make up CARIFORUM were granted longer transition periods and access to EU markets, joint oversight institutions to manage implementation and resolve disputes, and targeted technical assistance to build regulatory and export capabilities. While the agreement has been linked to increased trade flows, its mixed results, including uneven benefits across member states and challenges in deepening value-added exports, reinforce the importance of tailoring such frameworks to the specific needs of regions.

Enhancing intraregional collaboration and investment

Regional integration in Latin America remains limited relative to other major economic blocs. Its intraregional exports currently make up only about 15 percent of its total exports versus 60 percent for the European Union (Exhibit 29).[195] Gaps in physical connectivity—particularly cross-border road and transport networks—contribute to this dynamic and remain a focus for future development.

EXHIBIT 29

Intraregional exports account for a smaller share of total exports in Latin America than in other regions.



Source: UN Comtrade

McKinsey & Company

Although Latin American countries have historically expressed ambitions to deepen regional trade ties and pursued formal commitments, progress has often stalled in the implementation stage. Meanwhile, other economies are strengthening regional integration through initiatives such as the ASEAN Economic Community and the Regional Comprehensive Economic Partnership (RCEP).[196]

Latin America has an opportunity to diversify its trade relations while deepening its regional integration. These twin actions could bolster the region's resilience and strengthen connectivity among its markets. Recently, Latin America has increased trade with China, while intraregional trade declined. For example, Brazil's share of imports from key South American trading partners fell to 11 percent in August 2024 (compared with 14 percent the year before), while imports from China increased from 22 to 24 percent in the same period.[197] Progress would require expanding and modernizing regional trade agreements to systematically lower trade barriers, standardizing regulations, and promoting the development of cross-border supply chains and investment flows.

Joint investments in shared physical and digital infrastructure, including regional ports, highways, and digital traffic management systems, would be crucial to ensure seamless trade flows. Success will depend on promoting medium- and long-term collaboration and instilling a shared commitment across stakeholders.

Such regional integration and increased intraregional trade could not only reduce Latin America's dependency on volatile external markets but also facilitate economies of scale—a key component of productivity and specialization. Further, integration can stimulate more intraregional investment by creating connections and supply chains that harness the unique strengths of different countries within the region. As economic ties deepen and connectivity improves, Latin America could become a more unified and competitive trading bloc.

Regional integration can benefit most sectors, but it is essential for next-generation manufacturing. Both intermediate products (minerals, batteries, and car parts) and final products (EVs) rely on a robust supply chain. In addition, intraregional trade of energy and fossil fuels could create more-reliable energy grids.

The Trans-European Transport Network (TEN-T) illustrates how coordinated infrastructure planning can foster regional economic integration. Key features include the alignment of national infrastructure plans under a shared European framework, the use of common technical and regulatory standards, and cofinancing tools to provide incentives for cross-border projects.

TEN-T's phased corridor structure prioritized core transport routes with set completion dates, enabling the European Union to focus investment on high-impact projects that connect major urban, port, and industrial hubs. For instance, this initiative helped to add more than 65,000 kilometers of motorways and high-speed rail, reducing bottlenecks, cutting freight transit times, and improving regional connectivity.

The Connecting Europe Facility (CEF) is the financing engine that translates the TEN-T blueprint into concrete assets. In the five-year period since the program began, the European Commission has allocated more than €26.4 billion in grants, which has helped attract more than €55.5 billion in additional funding.[1] This highlights how public sector alignment and support can help draw two times the investment into enabling areas.

These mechanisms reduced internal trade frictions and enhanced the function of the single market.

[1] *Investing in European networks*, European Commission, June 16, 2022.

Streamlining regulatory frameworks in key sectors

A welcoming business environment is essential for sectors where Latin America needs to attract both investment and expertise. The region's capacity to develop complex industries such as EVs and semiconductors relies heavily on its ability to draw the right companies and technology. This effort will benefit from ongoing collaboration between public and private stakeholders to address administrative and operational bottlenecks. As laid out in this report, a welcoming business environment created through good governance and successful investment is mutually reinforcing and can get stronger over time.

Moreover, establishing the appropriate regulatory environments could accelerate growth in sectors such as critical minerals, oil and gas, and power-to-X, which require substantial investment and where new projects take considerable time to become operational.

Operating environments in Latin America can be complex relative to other regions, reflecting the number of administrative steps and time required to complete core business processes. The World Bank reports the following:

— Starting a business takes an average of 28.8 days and requires 8.1 procedures in Latin America versus just 9.2 days and 4.9 procedures in OECD high-income countries.[198]

— Obtaining construction permits requires an average of 15.5 procedures and 191.2 days, longer than the global average of 12.7 procedures and 152.3 days.[199]

— Registering property is similarly burdensome, taking 63 days versus 24 days in OECD high-income countries.[200]

Efforts that enhance regulatory clarity, predictability, and efficiency—particularly in priority sectors—could strengthen investor confidence and unlock stalled projects, supporting broader competitiveness across the region. Actions could involve streamlining regulatory processes and making business setup, permits, and dispute resolution more efficient while maintaining transparency and rigor. A successful effort could unlock billions of dollars in stalled projects and increase the region's competitiveness as a manufacturing hub.

Singapore's success in attracting foreign direct investment (FDI) is rooted in its proactive regulatory environment and strategic infrastructure planning. The Economic Development Board (EDB) serves as a one-stop agency for investors, streamlining processes and reducing bureaucratic hurdles. Singapore's focus on developing industrial clusters in sectors such as electronics, petrochemicals, and advanced manufacturing has helped enhance productivity. Incentive schemes, such as the 100 percent Investment Allowance Scheme and the Land Intensification Allowance, further encourage investment in high-value industries.[1]

These mechanisms, coupled with a transparent legal framework and robust infrastructure, helped to transform Singapore into a hub for innovation and manufacturing. In 2024, it achieved a record FDI inflow of nearly $160 billion, driven by strategic investments in advanced manufacturing, green technology, and AI.[2]

Latin America could draw lessons from Singapore's integrated approach to regulatory efficiency and infrastructure development to foster a more conducive environment for investment in sectors such as EVs, semiconductors, and renewable energy.

1 "Singapore: Corporate - Tax credits and incentives," PwC, July 29, 2025.
2 "Foreign direct investment (FDI) in Singapore," Lloyds Bank, updated October 2025.

Upskilling the future workforce

In many regions, the misalignment between educational institutions and the demands of the job market has grown considerably over the past 20 years.[201] This situation is particularly relevant in Latin America: For example, 80 percent of companies in Colombia anticipate a shortage of skilled workers by 2027.[202] At the same time, 84 percent of employers in Latin America plan to upskill their workforce to meet the demand for digital and tech talent.[203]

In addition to gaps in the number of professionals in key areas, outcomes from international assessments such as the Programme for International Student Assessment (PISA) point to opportunities to strengthen foundational education quality. In 2022, all Latin American countries that participated in the test scored below the median in mathematics, with ten out of 14 in the lowest quartile.[204]

Efforts to strengthen skills and technology adoption would likely hinge on expanding access to high-quality education and targeted training programs. Collaborative initiatives involving government, academia, and the private sector have the potential to accelerate progress, particularly if implemented at scale. For instance, to meet projected job demand through 2030, Chile would need to upskill 1.9 million people, which represents 21 percent of its current workforce.[205]

Emerging models include dual education systems and sector-specific training hubs. This coordination could closely align university curriculums with the needs of high-growth strategic sectors such as AI, biotech, and advanced manufacturing without neglecting other vital sectors of the economy such as education and medicine.

Targeted large-scale digital reskilling and upskilling programs, especially for underemployed populations and micro, small, and medium-size enterprises (MSMEs), would help link educational institutions with demand from employers. Public–private alliances could build curriculums with clear job pathways, provide incentives for ongoing employee development, and scale apprenticeship systems for hands-on skills acquisition.

These efforts would boost human capital development, positioning the region as an attractive destination for investment in priority sectors. The quantity and quality of talent pools are crucial enablers: A more capable talent pool facilitates the quicker adoption of new technologies, allowing sectors to move into higher-value activities.

Bridging the region's talent gap would spur growth across the economy, but such efforts would have an outsize impact on certain sectors, such as digital services, data centers, and next-gen manufacturing (semiconductors and EV production).

Europe's Human Capital Initiative (HCI) exemplifies the reach of talent development efforts: With €300 million in funding, HCI established more than 1,000 new courses across 34 disciplines, placed 4,000 additional students, and engaged with more than 400 enterprise partners. The initiative significantly expanded the talent pipeline for critical sectors and equipped graduates with industry-relevant skills.[1]

[1] *HCI Pillar 3 mid-term evaluation report*, HEA, June 1, 2023.

Latin America is at a pivotal moment, when strategic actions can significantly reshape its economic future.

Over the past 25 years, Latin America's GDP growth has trailed global averages and primarily been sustained by an expanding labor force. Now, the region must enhance its productivity to meet rising economic and social needs—including education, healthcare, and social security.

Latin America is at a pivotal moment, when strategic actions can significantly reshape its economic future. This report has laid out a pathway that could enable the region to increase its GDP from $6.2 trillion in 2023 to between $8.9 trillion and $10.3 trillion by 2040, sufficient to achieve high-income status.[206]

The region could overcome a challenging macroeconomic context—not through undertaking wholesale change but by focusing on the success of specific sectors with the potential to unleash a new wave of investment and growth in the region. These strategic opportunities, which arise from the match between current and future global trends and the region's distinctive assets, encompass three broad themes: revitalizing its industrial base, thriving in the digital age, and leveraging its natural resources. Successful efforts could help extend investment across the region's economy.

Fully capitalizing on these opportunities requires decisive action. Mobilizing capital, adding new trade corridors, deepening intraregional trade, modernizing regulation, and building human capital could substantially improve Latin America's resilience and responsiveness to global shifts and close persistent investment and productivity gaps. The result could be a clear path to sustainable growth.

Appendix

We assessed Latin America's competitiveness across seven sectors based on endowments, business-enabling ecosystems, private sector strength, share of global market, and talent availability.

For each sector, we conducted a bottom-up calculation of the sector's potential revenue growth by 2040. We used varying methodologies to calculate potential output, given that sectors have different starting points and data availability—for example, historical data does not have the same relevance for emerging industries, such as electric vehicle (EV) production, that it does for traditional sectors such as fossil fuels. Moreover, we have estimated potential revenues, which generally reflect a range between current revenues and two potential output scenarios (high and low cases) by 2040 for each sector.

We also estimated the amount of capital expenditure investment required to sustain this growth in output. As with the output calculations, the methodology for our investment estimates is based on the assumptions and data used in the calculations of output to ensure consistency between them, which results in some differences across sectors.

Energy transition scenarios

Because the potential revenues of several sectors rely on the pace of the energy transition, we adopted the following methodology to ensure consistency for revenue calculations in the high- and low-case scenarios across sectors. These scenarios define the high and low bounds for the following sectors and industries to ensure internal consistency in sizing: next-gen manufacturing, EVs, batteries, critical minerals, oil and gas, and power-to-X.

We based the estimation of outputs for these sectors on two energy transition scenarios: continued momentum and sustainable transformation.[1] The only exception is oil and gas, reflecting the sector's asymmetric behavior compared with others. While the sustainable transformation scenario translates into higher demand and additional opportunities for the power-to-X and critical minerals sectors, and for two industries in next-gen manufacturing, it reduces revenues for oil and gas. In the case of oil and gas, the high scenario corresponds with the slow evolution scenario. Consequently, when aggregating opportunities across sectors, the range for oil and gas is combined inversely with those of the others.

The energy transition does not directly affect revenues in two industries in next-gen manufacturing (medical devices and semiconductors) or in agri-food, digital services, or data centers, so these sectors and industries are excluded from the framework. This methodology ensures consistency across sectors while respecting industry differences.

[1] For more detail on these scenarios, see *Global Energy Perspective 2025*, McKinsey, October 13, 2025.

Country selection

We selected six economies based on size and representativeness of region. This included five of the region's largest economies and Costa Rica, as a country to represent Central America and the Caribbean in our sample. This approach ensured coverage of economies that have consistently accounted for the bulk of regional output and productivity dynamics. Peru initially appeared among the top candidates, but the Andean region was already represented through its largest economies (Colombia and Chile).

Costa Rica was selected as the sixth economy based on several criteria: strong GDP growth over the period, notable productivity gains, sustained inflows of foreign direct investment (FDI), and one of the largest shares of gross fixed capital formation (GFCF) as a percentage of GDP in the region. In addition, Costa Rica provides an interesting case study of structural transformation and integration into global value chains.[2]

In the sector-level competitiveness analyses, we also included additional Latin American economies that play a significant role in specific sectors. This lens allowed us to capture the nuances of sectoral competitiveness across the broader region.

Together, the six economies of focus (complemented by sector-specific country cases) account for a substantial share of Latin America's GDP and illustrate diverse growth patterns, enabling us to capture regional heterogeneity while maintaining analytical focus.

Next-generation manufacturing

To estimate the potential of key manufacturing subsectors in Latin America by 2040, we used a combination of projected global demand and regional penetration rates.

Electric vehicles

The impact for Latin America's 2040 EV market was calculated using McKinsey Center for Future Mobility (MCFM) sales estimates for the region. The difference between the upper and lower bounds comes from different assumptions about future declines in EV market selling prices. The projection incorporates current market dynamics and assumes a long-term acceleration in EV adoption as costs continue to decline and production capacity expands.

Demand assumptions. MCFM EV sales forecasts form the basis of the demand projection for Latin America. Demand growth is expected to recover after the trough of disillusionment, with accelerated long-term adoption consistent with global EV trends.

Supply assumptions. EV production and supply are based on announced global and regional EV production capacities (18 percent CAGR between 2024 and 2040, according to MCFM estimates). The supply outlook reflects a current slowdown in momentum but assumes a return to growth in the long run. Policies currently in place are considered insufficient to close the gap to net zero, meaning supply expansion follows announced capacity, not full decarbonization targets.

Prices and investment. EV prices are assumed to decline by approximately 1.5 percent a year from 2023 to 2040. We used capital expenditure benchmarks from regional EV plant developments.

[2] Industrial policies to boost advanced-manufacturing sectors (for example, high tech, medical-device manufacturing, and tourism) and trade openness, including joining multiple free trade agreements and implementing free trade zones with various incentives and tax exemptions for foreign companies.

Semiconductors

The impact for Latin America's semiconductor opportunity was calculated by projecting the global semiconductor market to 2040 using the 2014–24 growth band to create a low-to-high global range, and then isolating the back-end segment (the part most relevant for Latin America). Three market-share scenarios for the region (likely, optimistic, and very optimistic) were applied, and the results were cross-combined in a probability matrix. The forecast band was defined by taking the top of the "likely" case as the lower bound and the top of the "optimistic" case as the upper bound, forming an ambitious but credible range for Latin America's 2040 back-end semiconductor revenues.

Demand assumptions. The global semiconductor market is projected to 2040 using the 2014–24 growth band, creating low-to-high total market estimates. Latin America's potential revenue is derived by applying its back-end segment share to this global range.

Supply assumptions. Latin America's opportunity is limited to the back-end segment of semiconductors, identified as the portion the region is most likely to compete in. Regional market capture estimates are based on three market-share scenarios—likely, optimistic, and very optimistic—informed by expert input based on views of past growth in the region and potential future growth based on endowments and capital in the region.

Prices and investment. The calculation is based on revenue projections and does not include explicit price assumptions; growth is expressed through market value trends. Investment was assessed top-down, using data to apply a capital-expenditures-to-revenue ratio based on historical data.

Medical devices

The impact for Latin America's 2040 medical-device output was estimated by focusing on the region's two data-rich export hubs (Mexico and Costa Rica), where export volumes closely track total production. Starting from their 2024 export bases, two growth paths were projected:

— The lower bound assumes that both countries grow at 5.0 percent CAGR, a conservative rate below the 6.0 to 6.5 percent global market outlook.

— The upper bound applies each country's historical long-run growth pace: 6.8 percent CAGR for Mexico (its 2011–20 average) and 9.7 percent CAGR for Costa Rica (Mexico's rate plus the historical 2.9 percentage-point gap).

Demand assumptions. The global medical-device market is assumed to grow at 6.0 to 6.5 percent CAGR, which provides the benchmark for assessing Latin America's relative growth. Latin America's export-led production growth assumes continued global demand expansion consistent with these global rates.

Supply assumptions. The assumption focuses on Mexico and Costa Rica as representative hubs, assuming their exports proxy total production for Latin America. The lower-bound supply scenario assumes 5 percent CAGR for both countries, while the upper-bound scenario applies 6.8 percent CAGR for Mexico and 9.7 percent CAGR for Costa Rica. Sustained output growth depends on maintaining competitive cost structures, including favorable exchange rates, availability of skilled labor, and manageable logistics costs.

Prices and investment. No explicit price assumptions are included; growth is measured in volume or value terms via export and production trends. Investment is calculated using the ratio of foreign direct investments (FDI) to exports as a proxy for capital expenditure.

Batteries

Based on expert input and the size of Latin America's lithium reserves, we developed two scenarios in which the region supplies 50 to 80 percent of its own battery demand. In the low case, we used continued momentum demand; in the high case, we used sustainable transformation regional demand (GEP scenarios).

Demand assumptions. Demand is driven by energy transition scenarios: The low case uses continued momentum projected demand. The high case uses sustainable transformation projected demand.

Supply assumptions. The main assumption is that the region is able to supply 50 to 80 percent of its internal demand. In the low case, this assumption translates to using roughly 5 percent of its lithium production. In the high case, this assumption translates to using roughly 10 percent of its lithium production.

Prices and investment. Price is based on McKinsey's Fusion solution, which projects costs to decrease roughly 30 percent by 2040. We added a 10 percent profit margin on production costs. We estimated investment requirements using the 2024 global median capital expenditures per gigawatt-hours of production across all cell plants, based on McKinsey Fusion data.

Power-to-X

We estimated revenues using McKinsey's Global Hydrogen Trade Flows Model, adapted to reflect Latin America's potential in hydrogen, ammonia, synthetic kerosene, methanol, and green steel by 2040.

Demand assumptions. Demand is modeled based on energy transition scenarios from McKinsey's *Global Energy Perspective 2024* (GEP)[3]:

— The low case uses the continued momentum scenario.

— The high case uses the sustainable transformation scenario.

Supply assumptions. Supply is driven by cost curves of potential global production for various products.

Prices and investment. Exports are provided at cost by McKinsey's Global Hydrogen Trade Flows Model; we assume a 10 percent margin to calculate total revenue. Investment is based on McKinsey's Global Hydrogen Trade Flows Model.

Digital services

We used Gartner's end-user-spend estimates and projected similar growth until 2040. We then adjusted potential demand based on "future of work" findings from the McKinsey Global Institute

[3] This report was in the later stages of development when McKinsey's *Global Energy Perspective 2025* was released, so we relied on the 2024 edition of the GEP.

(MGI) to account for the reduction in demand because of AI. Latin America's market share of the total demand depends on the region (North America, Europe, or Latin America) and is based on time zone alignment, cost, and language proficiency.

Demand assumptions. Global demand is based on Gartner's 2024–29 end-user-spend forecasts for IT services and business process outsourcing (BPO). The demand outlook is extended to 2040 by holding the 2024–29 CAGR constant, given that growth through those years is expected to be relatively stable.

Impact of AI: Using MGI's future of work analysis, we estimated demand reduction given the impact of AI. The lower case has a demand reduction of around 40 percent (varies by region), driven by high AI adoption. The high case has a demand reduction of around 25 percent (varies by region), driven by lower AI adoption.

Supply assumptions. Market share assumptions are based on key drivers such as time zone alignment, English (or Spanish) proficiency, and cost: In the lower-bound case, Latin America supplies 10 percent of North American demand, 1 percent of EU demand, and 100 percent of Latin American (regional) demand. In the upper-bound case, Latin America's capture increases to 20 percent for North America and 5 percent for the European Union.

Prices and investment. Price is part of demand projections, given that we draw on end-user spending. We assessed investment needs top-down, drawing on IHS Markit data to apply a capital-expenditures-to-revenue ratio to potential production.

Data centers

The potential for data centers is based on Gartner's end-user-spend projections. Our low- and high-growth scenarios correspond to cases in which Latin America serves 25 to 50 percent of unmet US demand respectively, while meeting 100 percent of regional demand in both cases.

Demand assumptions. Latin America demand is projected based on Gartner's data (2024–29) and extrapolated using the CAGR of that period. US demand growth is projected at a constant CAGR of 9 percent from 2030 to 2040. McKinsey estimates a 10 percent supply gap in the US market by 2030, and we assume the gap holds and starts shrinking around 2035 driven by supply catching up. We assume a shrinkage of 10 percent of the gap by 2040.

Supply assumptions. Latin American market share for regional demand is 100 percent. For US market share, we assume that Canada and Latin America will serve 50 percent of the US gap based on geographic proximity and latency. The rest of the gap is assumed to be served by the rest of the world.

In the low case, Latin America captures 25 percent of the total gap (assuming Canada captures the other 25 percent). In the high case, Latin America captures 50 percent of the total gap (assuming Canada captures 0 percent).

Prices and investment. There are no explicit price assumptions; the projections are based on end-user spending values as a proxy for revenue. We assessed investment needs top-down, based on parameter estimates that apply a capital expenditure cost per gigawatt of installed capacity.

Agri-food

For the agri-food sector, which includes food production and processing, we estimated Latin America's export growth potential by combining global demand forecasts with market share scenarios. Global demand is projected based on per capita consumption per region of different products and population growth projected by the United Nations.

Demand assumptions. Global demand is projected based on two factors: population growth projected by the United Nations, and per capita consumption of various products by region, based on historical growth of the past ten years. For agri-food production, we considered crops, meat, fish, and fruits. For agri-food processing, we considered processing of crops, meat, fish, and fruits; beverages; oils and fats; and animal feed.

Supply assumptions. To estimate potential future market share, we calculated the region's current export volumes and market share by product and region and modeled two scenarios: a low-case scenario, in which the region maintains its share of global provisions, and a more optimistic or high-case one, in which it gains share in underpenetrated markets. In both cases, we assume export growth will outpace domestic production growth, supported by a favorable geopolitical landscape and rising demand from key trade partners such as China and Europe—particularly for soybeans and other products linked to biofuels and animal feed.

We assume that we can maintain or increase share depending on the demand region and the product. Market share growth for agri-food production is three to five percentage points for different product–region combinations (for example, four percentage points for meat demand from Asia) in the low case, and seven to ten percentage points for different product–region combinations in the high case.

Market share growth for agri-food processing is two to four percentage points for different product–region combinations in the low case and ten to 15 percentage points for different product–region combinations in the high case.

Prices and investment. All projections were based on trade volume in US dollars, and we assessed investment needs on a top-down basis, drawing on IHS Markit data to apply a capital-expenditures-to-revenue ratio to potential production.

Oil and gas

We used McKinsey's Global Energy Perspective (GEP), which projects global demand and prices. We used slow evolution as the high case and continued momentum as the low case. The order is inverted in this sector versus the other sectors based on the nature of demand. Additionally, we did not use the sustainable transition scenario, because it projected a decrease in the region's output.

Demand assumptions. GEP's projected demand for oil and gas is driven by energy transition scenarios.

Supply assumptions. GEP's supply estimate is based on global cost curves considering new developments.

Prices and investment. For oil, the upper price range reflects the average of two possible slow evolution scenarios—one in which OPEC maintains current production levels, and another in which it increases output over time. The lower price range corresponds to continued momentum prices.

For gas, we use Rystad's price estimate, which is indexed to Brent.

We assessed investment needs top-down, drawing on IHS Markit data to apply a capital-expenditures-to-revenue ratio to potential production.

Critical minerals

We used information from McKinsey MineSpans, which considers current and feasible projects and their place in the cost curve. We used different MineSpans scenarios to account for the expected supply or demand gap of each ore. MineSpans scenarios are based on the maturity and likelihood of potential projects.

Demand assumptions. MineSpans' demand scenarios follow McKinsey's GEP transition scenarios. The lower case can be broadly associated with a continued momentum trajectory, while the upper case aligns more closely with a sustainable transformation pathway, where stronger policy action and faster cleantech adoption drive higher demand for critical minerals.

Supply assumptions. Supply assumptions are based on MineSpans volume scenarios. In every case, these scenarios consider the cost curve of current and future projects.

The low scenario uses MineSpans' base case, which includes current operations plus certain and probable projects (used for all lower-bound scenarios).

The high scenario considers the following: For iron ore, we used MineSpans' high case, which includes possible projects. This is because the market is expected to be oversupplied, so only a conservative number of new projects are included. For lithium and copper, we use MineSpans' full-potential case, which adds very ambitious projects with lower probability of occurring (used for lithium and copper upper bounds). This is because supply deficits are expected.

Prices and investment. Prices follow MineSpans' scenarios. We used base case for our low scenario and high case for our high scenario; we did not use the full-potential price to be more conservative. For investment, MineSpans has capital expenditure estimations for each of the production scenarios used in the output estimations. These were used as investment metrics for our report.

Endnotes

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By McKinsey
December 2025

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