SPS Global Insights

Critical Minerals in Latin America

This SPS report delves into Latin America's mineral wealth, exploring the implications of resource nationalism, the increasing geopolitical influence of global superpower and the environmental impact to the growing demand for critical minerals for the green energy transition.

Introduction

As the global community increasingly prioritises green energy, there is a growing demand for critical minerals. Latin America stands out as a region with significant reserves of these essential minerals. For example, Chile, Argentina, and Bolivia, collectively known as the "lithium triangle," are estimated to possess approximately 60% of the world's lithium reserves. Additionally, Peru and Chile rank as the world's top two copper producers, while Brazil has 17% of the world's nickel reserves.

The ongoing global energy transition offers a substantial opportunity that could result in a significant rebalance of the world economy. Critical minerals will become ever more valuable as demand increases. Throughout the world modern technology and future green initiatives remain reliant on a scarce resource of precious minerals, so much so that the supply of critical minerals are now discussed in terms of national defence strategies amongst global powers. The race to retrieve these resources potentially heightens risks of geopolitical tensions and could have profound effects throughout Latin America.

Governments often aim for a well-regulated mining sector that not only contributes to public welfare but also drives socioeconomic progress while minimising adverse social and environmental consequences. Nonetheless, challenges related to natural resources have hindered governments in realising this vision and have begun to reshape geopolitics. China, in particular, has exerted significant influence in the region as Latin American countries have strengthened their commercial ties with China over the past decade.

This report aims to analyse the dynamics of mineral wealth in Latin America, exploring the challenges it presents in the region through challenges such as resource nationalism, geopolitical consequences and environmental impacts.

Resource Nationalism

In Latin America, there has been a gradual surge in resource nationalism, including Mexico, Peru, and Chile. Many proposals have emerged to increase state involvement in the mining sector or even consider full nationalisation of certain aspects of the industry. As populist movements gain traction due to the adverse effects of Covid-19, governments aim to recoup financial losses, especially in resource-rich nations with substantial mining and energy industries. The Resource Nationalism Index (RNI) reveals significant increases in 34 countries, with numerous Latin American nations at the forefront. For example, Mexico, which was ranked 101st globally for RNI in 2018, has now ascended to 14th place, while Argentina moved from 81st to 20th place. Additionally, the surge in nationalisation efforts is also driven by the escalating demand for resources. This demand is primarily attributed to the global shift toward green energy. Consequently, governments across the region are reacting to the increasing need for critical minerals generated by the world's largest economies.

It's accurate to say that many Latin American countries have been focusing on developing strategies and policies regarding critical minerals, particularly lithium, in response to the global demand for renewable energy technologies, such as lithium-ion batteries. Which have become a fundamental resource because they enable the efficient storage of renewable energy, making them essential for various applications, from portable electronic devices to electric vehicles. Several Latin American countries, such as Chile, Argentina, and Bolivia, known as the 'lithium triangle' are known for their significant lithium reserves. As the demand for lithium-ion batteries and renewable energy storage systems has increased, these countries have sought to exploit their lithium resources for economic growth and sustainability. They have been refining their policies to attract investment and foster lithium production.

The surge of government intervention in Latin America has taken on subtler forms, including regulatory overreach, gradual acquisition regulations, calls for increased local ownership, and indirect property confiscation through elevated tax rates. While these measures may appear discreet, they have the potential to disrupt and harm foreign investors significantly. As an example, Mexico has curtailed the independence of regulatory agencies, which has had negative implications for the energy industry. In Argentina, resource nationalism has taken various forms, including asset nationalisation, attempts to assume control of private enterprises, the implementation of price controls, trade restrictions, and heightened financial withholdings. Consequently, resource nationalism in Latin America is viewed as a significant risk for numerous companies and foreign investors.

Geopolitics of Mining

The mining industry has increasingly influenced geopolitics and become a focal point in the global climate change discourse. The COVID-19 pandemic and Russia's invasion of Ukraine have highlighted the risks of over reliance on a single source for critical resources, prompting Western nations to take action. In response to these concerns, President Biden introduced the Inflation Reduction Act, a $369 billion initiative aimed at establishing a self-reliant lithium supply chain and reducing external dependence.

Conversely, China has significantly extended its economic footprint in Latin America. Determining the exact extent of China's investments in the region's mining sector has been challenging due to the intricate nature of mining agreements, the opacity of the entities involved, and the absence of stringent host country reporting mandates. Nevertheless, Chinese mining projects in Latin America surpass $1 billion.

China currently holds a commanding position in the global production of battery components, including cathodes, anodes, and batteries, largely relying on lithium sourced from Latin America. Over the period from 2019 to 2022, Chinese companies directed approximately $4.5 billion into lithium projects situated in Mexico and Chile. Furthermore, Chinese mining investments have been focused on copper and iron ore projects in Peru. Despite various nations in the region pursuing nationalisation efforts within their mining sectors, Chinese investment entities like Tianqi Lithium Corporation, alongside American companies

like Albemarle and Livent, maintain substantial mining investments in Chile.

As Latin American countries continue their efforts to nationalise mining companies while simultaneously welcoming both US and Chinese investments, it is evident that these nations seek to capitalise on benefits from both major players. However, the growing tensions between Beijing and Washington in recent years are hard to ignore. Massive investments from China, combined with the substantial presence of the US in Latin America, underscore a competitive struggle between the two nations for control over the most critical resources, upon which billions rely, particularly as the world navigates a course toward renewable energy. Given China's significant foothold in this sector, it is a source of concern for the US. These concerns raise the risk of heightened tensions that could potentially disrupt business operations within the region.

Environmental Impact

The extraction of valuable minerals in Latin America has brought substantial economic benefits, but it has also often left a significant environmental footprint. As geopolitical rivalries and the demand for critical rare earth minerals increases, the environment may increasingly be threatened. Latin America is a region renowned for its biodiversity, rainforests, and vital ecosystems. However, as legal and illegal mining activities expand, they can pose a threat to the natural environment.

Deforestation is one of the most immediate and visible consequences in part driven by the expanding rare earth mining industry. In countries like Brazil, the Amazon rainforest often houses valuable natural resource deposits. As the financial value of rare earth material rises, along with demand for national security reasons, the incentives for illegal mining operations increases. Such operations generate substantial water pollution and have severe environmental risks.

As a result, many local communities suffer from polluted drinking water and adverse health effects. Large open-pit mines have been known to disrupt local landscapes and habitats, driving numerous species to the brink of extinction.

International operations and investors are increasingly beginning to highlight more sustainable working practices in response to governments, environmental organisations, and other mining companies strong advocacy, yet such industrial practices necessitate some environmental costs. Stricter regulations, reforestation initiatives, and attempts to mitigate environmental harm are gaining traction, but the balance between resource wealth and conservation remains a significant challenge for the region. Finding a balanced path will be important to safeguard both the environment and the economic opportunities that mining offers.

Therefore, this will include fostering greater collaboration between governments, businesses, and environmental groups, while harnessing technologies that minimise environmental impacts, ensuring that local communities and ecosystems remain resilient in the face of increasing mining activities. Only by striking this balance can Latin America continue to harness its mineral wealth while preserving the natural heritage that is integral to its identity and global environmental stability.

Conclusion

The resource-rich landscapes of Latin America have placed the region at the forefront of global geopolitics and economics. With abundant reserves of critical minerals, including lithium, copper, and nickel, Latin American nations have experienced a surge in resource nationalism and foreign investment as they seek to capitalise on the growing demand for these minerals, driven by the global shift towards green energy. This has led to significant changes in the geopolitical and economic landscape of the region.

Resource nationalism, characterised by greater state involvement in the mining industry, has taken root in Latin American countries. Populist movements fuelled by the economic fallout of the COVID-19 pandemic are pushing for more significant state control over mining activities, with several countries contemplating partial or complete nationalisation. This trend, while addressing financial losses, has raised concerns for foreign investors, as subtle regulatory changes, creeping takeovers, and increased financial demands become disruptive forces in the mining sector.

Environmental concerns have also come to the forefront. As mining operations expand, the region's remarkable biodiversity, rainforests, and ecosystems are at risk. Deforestation, water pollution, and habitat disruption are threatening Latin America's natural treasures. However, there is a growing awareness and commitment among governments, environmental organisations, and international mining companies to mitigate these harmful effects and promote sustainable practices. Yet the rising demand and the geopolitical race for resources can often lead to the loss of effective environmental mitigations, fuelling local unrest and subsequent security issues .

Despite the environmental and political challenges, Latin America's mineral wealth holds the key to both economic growth and potential conflicts. The competition between global superpowers like China, the EU and the United States to secure essential resources in the region is palpable, raising geopolitical global tensions that could have far-reaching consequences. The rewards of international investment and expertise are increasingly weighed against the loss of national resources and societal concerns, raising the prospect of ever greater resource nationalism .

The race for critical minerals will only accelerate as the green transition progresses fuelling demand. With this, there are both benefits and challenges for latin America. The resource wealth will allow for large inward investment, but without capturing its returns such industries may leave the continent environmentally scarred without a long term strategy. The industry also threatened to force geopolitical alignment in a continent historically neutral in the affairs of the world. The ever deepening global divisions and competition for critical minerals will have profound political consequences for countries, as mining contracts increasingly will be highlighted to reflect political alignment on issues of geopolitics. Such mineral deposits have never been so important to national security and thus will drive competition.

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