

The
Economist

**SPECIAL
REPORT:**

Latin America

→ June 18th 2022

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Between stagnation and angry streets



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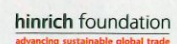
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A grim period

Latin America is stuck between stagnation and street protest, argues Michael Reid

THEY STARE out in black and white, a double row of portraits winding the full length of the curving wall of the cliff-top mansion overlooking the Pacific that is the headquarters of Peru's medical association, and then even continue into the garden. They are "the heroes of medicine", records a plaque: the 551 doctors who died of covid-19 in Peru from the start of the pandemic in 2019 to the end of September 2021. Even as Latin America begins to leave covid behind, this poignant memorial is a reminder of what a savage toll it has wreaked. With just 8% of the world's population, the region has suffered 28% of the officially recorded deaths from the disease. In *The Economist's* reckoning of "excess deaths" per 100,000 people (the total number above the normal mortality rate), it trails only Europe.

Covid has starkly exposed the fragilities of government in Latin America. "The health system reflects all the disparities, inequalities and inefficiencies of the country," says one health official in Peru. "It arrived when we had no plan and no leadership." Officials had drawn up a strategy that required an extra \$465m of spending on equipment and intensive-care beds. Although Peru's public debt was relatively small (at 35% of GDP), they were given less than \$1m. Health care is fragmented into five different systems. Francisco Sagasti, the country's caretaker president from November 2020 to July 2021, says he found that there was not even a single database of doctors.

Peru, which heads the World Health Organisation's rankings of excess deaths from covid for 2020-21, may just have been an ex-

treme case. Yet in much of Latin America, what are in effect developing-world health systems have to serve a population that is older than, for instance, Africa's but also suffers rich-world disorders of poor diet, obesity and diabetes. Some countries have coped better than others. But in Brazil and Ecuador as well as in Peru, patients were left in the street for lack of beds and oxygen supplies.

The region is now bouncing back quickly from the pandemic. After a slow start, most governments did quite well on vaccines: three-quarters of South Americans are fully jabbed, a higher share than in Britain or the United States. A recent survey in São Paulo by Todos pela Saude, a non-governmental organisation, found that 85% of those sampled had antibodies for covid-19, either from infection or from vaccination. Latin America's GDP contracted by 7% in 2020. Only the euro zone, with a fall of 6.1%, came close to doing as badly. But thanks partly to emergency public spending, Latin America rebounded by 6.8% in 2021, compared with the euro zone's growth of 5.3%.

A bigger worry is that, when covid-19 arrived, the region was already suffering from stubborn and deep-rooted problems that the pandemic merely made worse. Economically, the 2010s were a "lost decade" (echoing that of the 1980s), during which growth averaged just 2.2% a year. That is barely above the rate of population increase, so average living standards stagnated. It was below the world average of 3.1%, meaning that far from converging with richer countries, Latin America was falling further back. The slowdown coincided with the end of the commodity boom of the ▶▶

► 2000s, which had helped South American producers of oil, minerals and foodstuffs. Now only a fresh commodity boom, intensified by Russia's war on Ukraine, stands between the region and a return to growth rates of 2% or less.

This long period of relative economic stagnation has brought frustration over lack of opportunities, especially for younger Latin Americans, who have more education than their parents but whose expectations of good jobs have all too often been dashed. And this new social frustration has coincided with a marked political deterioration. Not only is democratic politics across the region discredited by the perception (sometimes exaggerated) of corruption, and by the corrosive cacophony of social media. But also politics is increasingly dysfunctional and unstable, suffering from fragmentation, the weakening of political parties and polarisation to the extremes. These are ills of the democratic world in general, but they are peculiarly acute in Latin America.

It all adds up to a vicious circle and a development trap. Politicians across Latin America have proved unable to agree upon and implement the reforms that the region needs if it is to grow faster, which foments more social discontent, which in turn makes both politics and government harder. In a report last year, the UN Development Programme highlighted Latin America's toxic combination of high inequality and low growth, which it says are caused in part by a concentration of economic and political power; in part by widespread "political, criminal and social" violence; and in part by systems of social protection and labour-market regulation whose very design introduces economic distortions. "It's very hard to have sustained growth when you have this much political volatility and so little willingness to do anything that improves productivity," says Andrés Velasco, a former finance minister of Chile now at the London School of Economics.

Democracy at bay

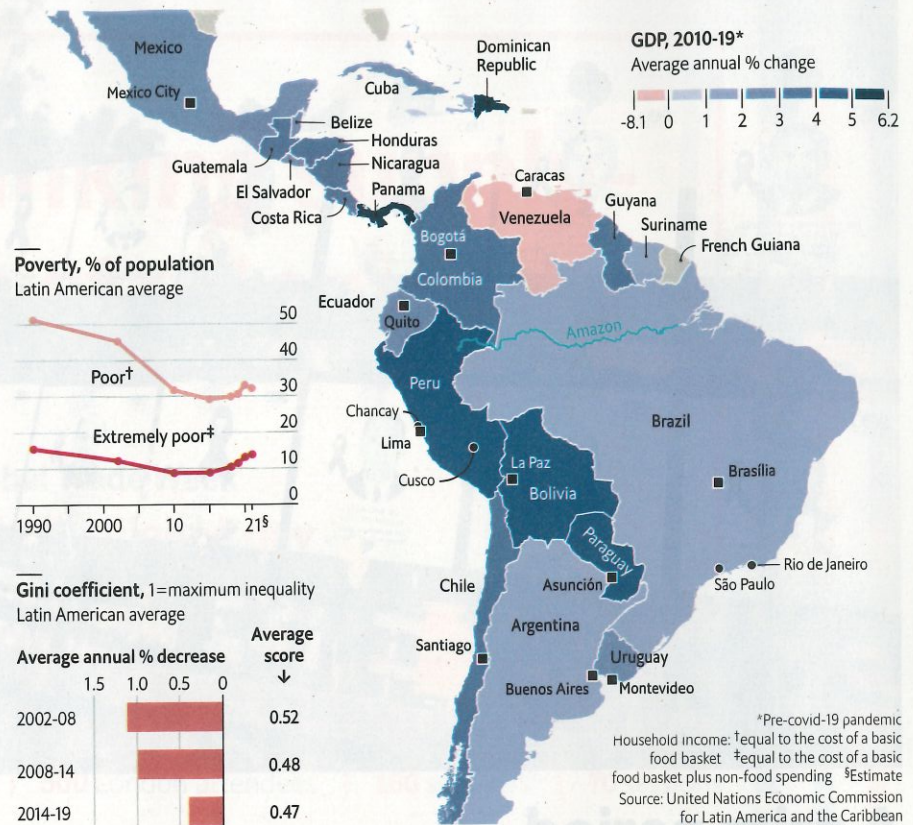
Despite everything, democracy has survived in the region. But it is under greater strain than at any time since the military dictatorships of the 1960s to 1980s departed as part of what Samuel Huntington, a political scientist, labelled the "third wave" of global democratisation, in which Latin America played a prominent part. In Venezuela and Nicaragua presidents who were originally freely elected went on to erect dictatorships. In Venezuela in April the tame national assembly hand-picked a new Supreme Court stuffed with supporters of Nicolás Maduro's civilian-military dictatorship. Ahead of a farcical election in Nicaragua in November 2021, the sinister regime of Daniel Ortega and his wife, Rosario Murillo, imprisoned seven electoral rivals and shut down the remaining independent media. In El Salvador Nayib Bukele, a millennial conservative, is following a similarly autocratic path. His draconian policies towards criminal gangs and against covid-19 have made him the most popular president in the Americas and brought him a landslide victory in a legislative election, which he then used to take control of the courts.

Regionwide polls suggest that between 50% and 60% of respondents still support democracy. And in general, Latin Amer-

ican elections continue to be free and fair—"the single most important achievement of the process of democracy-building of the past 40 years", according to Kevin Casas-Zamora of International IDEA, a Stockholm-based inter-governmental body that promotes democracy. "The problem is all the rest." Never strong, the rule of law is weakening further. Latin American governments may sometimes be heavy-handed but they are also often both weak and inefficient. Elections provide an important safety valve. But the legitimacy they bestow and the hopes they arouse can be quickly corroded by governments' poor performance in office. That has given rise to a growing belief in an efficient autocrat, a strongman who gets things done in the style of Mr Bukele—even though history suggests that he is likely to leave his country even worse than he found it.

Elsewhere discontent has taken various other forms. In 2018 Brazil and Mexico, which between them account for more than half of Latin America's population and a roughly similar proportion of its total economic output, both elected populist presidents. Jair Bolsonaro, a hardline conservative, and Andrés Manuel López Obrador, who claims to be of the left, disagree about much but they share a contempt for independent institutions, including electoral authorities, independent media and civil society. Mr Bolsonaro, who wants to win a second term in the election in October, has sought, in the mould of Donald Trump, to cast doubt on the integrity of the voting system. Mr López Obrador wants an electoral reform that would put the electoral authority under closer government control.

A second manifestation of discontent is a pervasive anti-incumbent mood. This has seen the opposition of whatever colour win almost every election since the end of the commodity boom. Nowadays political cycles and government honeymoons are notably short. And a third and perhaps most dramatic sign of griev-



ances is massive, and sometimes violent, street protests, widely dubbed “social explosions”. These occurred in Brazil in 2013 and 2015 and spread to Venezuela in 2017, to Nicaragua in 2018, to Ecuador and Chile in 2019 and to Colombia in 2021, as well as to communist Cuba in the same year, and to Peru in 2020 and 2022.

What is striking about this is that Chile, Colombia and Peru had until recently been three of Latin America’s more successful countries. Poverty had fallen. So in most Latin American countries did income inequality in the 2000s, although it remains higher than anywhere else bar Africa. The fall came because the expansion of education reduced the salary premium attached to it and the commodity boom created more demand for unskilled labour in services. But that progress has now stalled. And the protests were about multi-dimensional forms of inequality—a sense of unequal and unfair opportunities and access to public services, from parks to justice. They expressed, too, a deep-rooted popular mistrust of institutions, political parties and leaders.

The anti-incumbent mood has brought a crop of left-wing leaders to power, prompting excited talk of a new “pink tide”—a term that harks back to the election of Hugo Chávez in Venezuela in 1998, followed among others by those of Luiz Inácio Lula da Silva in Brazil and Evo Morales in Bolivia. The trend may be reinforced: Lula is the narrow front-runner ahead of Brazil’s election. But Colombia’s run-off on June 19th looks a tight race between two populists: Gustavo Petro on the left and Rodolfo Hernández, a millionaire businessman, on the right. Most of the new presidents lack legislative majorities, and so may struggle to get much done.

Take Peru, which suffers to the point of caricature many of the current ills of Latin American politics. Its party system has disintegrated. Ten parties share the 130 seats in the Congress. Most are mere electoral platforms run as businesses for hire, without ideology, programme or activists. A presidential election last year pitted Pedro Castillo, a rural schoolteacher with no previous political experience running for a Marxist party, against Keiko Fujimori, the daughter of a former autocrat who was discredited by undeclared party financing. Neither took more than 15% of the vote in the election’s first round. Mr Castillo won a run-off by just 45,000 votes out of 17.6m. In his first ten months in office he got through more than 50 ministers and three cabinets while surviving corruption allegations and two attempts at impeachment. His approval rating sank to 19% in April.

In Chile Gabriel Boric, a “libertarian socialist” and former student leader who is still only 36, is a more accomplished figure. But his inexperienced team is struggling to make progress with his promise to create a universal welfare state. His approval rating in one poll fell from 51% to 36% in his first three months in government. Mr López Obrador is an exception: in his fourth year in office he has an approval rating of around 60%, despite an unremarkable record on the economy and crime. That is partly because of his image as a saintly man of the people, but partly also because he has redistributed public money towards cash-transfer programmes and real wages have been rising. Yet he may find the rest of his term more difficult.

In Brazil a deep recession in 2015-16 together with anger over corruption paved the way for Mr Bolsonaro, a political outsider, to reach power. He is a demolition merchant, rather than a consensus builder. His pro-market economy minister, Paulo Guedes, has failed to deliver many of the proposed economic reforms that might have raised Brazil’s anaemic growth rate.

The pandemic has brought Latin America additional burdens. One is a further loss of social cohesion, as the better-off were protected by private health care. In its aftermath governments face demands for additional spending, on health care, education and the social safety-net even as rising interest rates push up the cost of debt servicing. Take public spending on health care: before the

pandemic in Latin America it was worth just 3.8% of GDP, compared with an average of 6.6% in the OECD group of mostly rich countries. All this points to the need for more taxes (revenues average just 19.8% of GDP in Latin America, compared with 33.5% in the OECD)—and greater efficiencies in spending. Neither of these will be easy, but they are essential for the new social contract that the UNDP and others advocate.

And now, inflation again

Second, inflation has returned to a region with a long history of it, but one that had been largely overcome. Argentina and Venezuela excepted, one achievement of the past two decades was that most Latin American governments pursued broadly responsible monetary and fiscal policies. That enabled them to provide aid during the pandemic: emergency spending totalled 4.6% of GDP in 2020 alone, not as much as in Europe or the United States but more than in past slumps. In some countries, such as Brazil and Chile, stimulus continued into 2021 and produced a sharp rise in inflation even before the impact of the Ukraine war on energy and food prices. Now inflation is heading into double digits. “Before the war I would have said it would take two years for inflation to return to target”, says Ilan Goldfajn of the IMF. “Now it looks more persistent”. Several governments, including Mexico’s and Peru’s, have resorted to indiscriminate subsidy to stop fuel prices rising.

Higher prices come even as wages have fallen. GDP has recovered faster than employment, especially of women. Many of the new jobs are informal. Although aid cushioned the blow, poverty has risen. The UN Economic Commission for Latin America and the Caribbean (ECLAC) reckons that poverty affected 32% of the region’s population in 2021, up from a low of 29% in 2015. The middle class, defined by the World Bank as those on an income of \$13 to \$70 a day, made up 37% of the population before the pandemic. The bank reckons that food-price inflation may shave more than two percentage points from that number in several countries. For some, hunger is a real risk.

Latin America is a large and heterogeneous region, of 20 countries and more than 600m people (excluding the Guyanas and the English-speaking Caribbean). Some parts of it continue to do well. One is Uruguay, long an egalitarian country which enjoys strong parties, political stability and steady economic growth. Sadly it has only 3.5m people. The Dominican Republic, Panama and Paraguay enjoy growth and stability, too, albeit with more corruption, crime and inequality. Costa Rica, another small and long-established democracy, is suffering political decay with a proliferation of parties and the election in April as president of Rodrigo Chaves, who campaigned as a populist. Across the River Plate from Uruguay, Argentina is a sad story of chronic decline that has continued under the squabbling Peronist government of Alberto Fernández and his vice-president and internal opponent, Cristina Fernández de Kirchner (no relation).

This special report will focus mainly on the larger and more representative countries in a region that ought to matter more to the rest of the world. It was long part of the West—“the Far West” in the term of Alain Rouquié, a French writer. Now it is the subject of geopolitical competition between the United States and China. What follows will argue that continued muddling through will place democracy at increasing risk in Latin America. Reforms are long overdue. The problem is that they have become much harder to do. And that is partly because Latin American societies have become both more diverse and more demanding—and are enamoured of some distinctly divisive ideas. ■

The anti-incumbent mood has brought a crop of left-wing leaders to power

Social trends

Changing identities

Universal policies are more important than group rights

IT WAS A timeless scene. On Easter Thursday several hundred people were gathered in the cavernous Basilica of Guadalupe, built at the spot in the northern suburbs of Mexico City where a 16th century Amerindian shepherd reportedly had a vision of the Virgin Mary. Some sat on wooden benches, others knelt on the marble floor. They were mainly middle-class or poorer, and copper-skinned. Some came to fulfil vows to give thanks for the overcoming of illness or other troubles.

Standing outside the basilica, Marcela, a young architect from Cusco in Peru, waited for her grandparents and father, who wanted to visit on the first day of their holiday. She would prefer looking at Mexican urban architecture. "Things are changing now, each generation thinks differently," she said. Her grandparents' generation grew up in a hierarchical and more deferential society, where public policies about family, gender and sex were ruled by a monolithic Roman Catholic morality.

Marcela's generation of Latin Americans are not only more diverse religiously, with the rise of evangelical Protestantism and secularism. They also have a greater sense of rights and freedoms, the result of urbanisation, more disposable income, the expansion of higher education and, more recently, exposure to the digital world. In 2000 only 21% of 18- to 24-year-olds in the region were enrolled in higher education. By 2013 that figure had leapt to 43%, according to the World Bank. Poverty fell from 45.3% in 2002 to 29.81% in 2018 and the lower-middle class grew.

Yet this generation has grown up in a badly fractured society.

Latin America has failed to redistribute enough or offer anything resembling equal opportunities. "The poor and lower-middle classes live in different neighbourhoods, attend different schools, visit different health clinics and make do with...pensions and health schemes that are less generous," concluded researchers at the Inter-American Development Bank in 2020. Much of the expansion of higher education took place in poor-quality private institutions whose graduates may never recoup their investment through higher salaries.

The sense of unfairness lies at the root of many social explosions. "If young people don't take the reins of this country, nobody will save us," Álvaro Herrera, a music student from Colombia told *El País*, a Spanish newspaper, after he was beaten by police for taking part in a peaceful demonstration. "This isn't about parties or ideologies, it's about dignity." The impact of the pandemic on school closures has made matters worse (see box on next page).

Rights for all

The cause of human rights was central to the establishment of democracy. It has since expanded to include socio-economic rights and a social safety-net. But there is growing demand for other rights, ranging from the environment to the situation of women and people of indigenous or African descent.

Environmental consciousness is growing. Polls have long shown greater awareness of climate change in Latin America than elsewhere, perhaps because of the region's vulnerability. Chile, which is highly dependent on natural resources, is suffering worsening droughts. The Pinochet dictatorship of 1973-90 made water rights into private property and allowed uncontrolled pollution in "sacrifice areas". A convention set up after the social explosion of 2019 to write a new constitution has declared water a public good and given more clout to environmental regulators. Seven Latin American countries have now ratified the Escazu Agreement, a treaty requiring more openness and consultation on green issues.

Changes in environmental policies are forcing new attitudes on businesses, especially in extractive industries. The risk is that regulation becomes a cover for the anti-capitalism that infects some environmental NGOs, which continue to target big mining. In the recent past, some mining companies were indeed cavalier about environmental damage. But now most environmental harm is committed by informal or illegal miners who dredge rivers and dump untreated toxic waste.

Several governments now take climate change more seriously. Fully 40% of the World Bank's lending to the region is climate-related, much of it aimed at reducing emissions in agriculture and forestry, more efficient use of water and electric-bus fleets. Brazil was a leader in curbing deforestation a decade ago. Under Mr Bolsonaro, who has dismantled much environmental enforcement, it has become a global environmental pariah.

Feminism is now a significant political force. Women's right to abortion has made progress. In February Colombia's Constitutional Court decided by five votes to four to decriminalise abortion on any grounds in the first 24 weeks of pregnancy. In 2020 Argentina's Congress voted to do likewise in the first 14 weeks. Abortion is legal in Mexico and partly so in Chile. Although Mr Ló- ▶



Flagging the anger

A loss of learning

Making up for Latin America's lengthy school closures

DOM AGNELO CARDEAL ROSSI school is on the south-western edge of São Paulo, more than an hour's taxi ride from the city centre. It is in Vila do Sol, a community that was once one of the most violent in Brazil. Today it is poor but hard-working, a place of car-repair workshops, dingy lunch counters and small stores. In late March the school was humming with controlled ebullience, its 1,540 pupils aged six to 14 enjoying being back in the classroom for the first time in almost two years.

Getting there was a struggle, as successive waves of covid-19 saw partial re-openings and their reversal. The school tried distance teaching, with printed material and a free chip with internet time. But "many homes don't have a good signal," says Fátima de Almeida, the headmistress. The long break has been punishing. "Fifth-year pupils are mentally reaching second- or third-year level, because of the lack of socialisation and the loss of links with teachers," she says. "We've seen more aggression, anxiety and panic."

The school is trying to make up for lost time. The state government doubled resources for remedial teaching and provided a psychologist. Several classes of Portuguese and maths now often have two teachers. Ms de Almeida is seeking parental consent for a longer school

day. São Paulo state is relatively well-off and well-governed. Elsewhere the picture is bleaker. Latin America vies with South Asia for having seen the longest school closures during the pandemic. Pupils have lost between one and two years of learning, reckons Emanuela di Gropello of the World Bank. Educationalists fear that many, especially girls, may drop out of school early.

How much of the lost learning can be recovered? The answer starts with assessing pupils' level of learning, hiring more teachers and scheduling extra classes in holidays or after school. There is an opportunity to improve teaching methods and simplify curricula, focusing on maths, reading and social and emotional skills, says Ms di Gropello. Even so, there will be lasting harm. The bank thinks the future earnings of affected pupils might be 10% lower than they otherwise might have been.

Inequalities will widen. Poor children, with weak or non-existent internet connections, suffered disproportionately. Before the pandemic, 15-year-olds in Latin America were on average three years behind their peers in the OECD in reading, maths and science, according to PISA international tests. They will now lag further behind. They may ask why politicians, teachers and parents did not push for schools to reopen sooner.

they did. In Brazil the approval in 2012 of quotas for university entrance based partly on race and partly on social class increased the numbers of low-income and black students, mainly in the humanities. These graduates are starting to take up professional jobs, according to Michael França, an economist at Inesper, a university in São Paulo, who is black. More broadly, Brazilian society has started to face up to past and present racial issues, he thinks.

Recognition of inequality is important in overcoming it. But considering people in terms of their group identity rather than as individuals can create problems of its own. Chile's constitutional convention has defined the country as not just "intercultural" but "plurinational" and said that indigenous people should have their own legal system, following the line of constitutions in Ecuador and Bolivia. In Ecuador Leonidas Iza, president of the Confederation of Indigenous Nationalities, says that plurinationalism is essentially a demand for respect, for the recognition of indigenous cultures and languages. "We are Ecuadorean. We've never proposed a [separate] state within the state," he asserts.

The plurinational effect

In Chile, too, plurinationality may be mainly symbolic, but some worry that it may not be. It could mean that the same crime receives a different punishment depending on the ethnic identity of the offender, or that basic laws and rules vary around the country. Adolfo Millabur, an indigenous representative in the constitutional convention, argues that Mapuche territory was invaded by Chile in 1860, and that "Western ways were imposed by violence." He says that plurinationality would change "the distribution of power" and

▶ pez Obrador has clashed with feminists—as he so often does with civil society in general—he has appointed many women to his cabinet. By law, parties in Mexico must present an equal number of women and men as candidates for Congress. Women's participation in the region's labour market (44% in 2021) has grown in this century, though it still lags behind that of men (67%), according to the International Labour Organisation. Gay rights, too, have made big strides, with half a dozen countries legalising gay marriage and a number banning discrimination.

"Yes, the feminist movement is changing attitudes," says Ana Pecova, an activist in Mexico City. "Perhaps there are changes we haven't been able to measure because we've focused on symbolic things." These include violence against women, part of general violence in Latin American societies but with an element of femicide, or the killing of women because they are women. The pandemic brought an increase in gender violence in the home, a global trend. And feminist advances are contested ground. In May Peru's Congress took steps to weaken sex education and the teaching of gender equality.

Black and indigenous Latin Americans, who make up around 25% and 8% of the population respectively, suffer from discrimination and lower incomes. But they gain more recognition than

pave the way for the restitution of land that was previously occupied by non-Mapuche farmers and forestry companies.

As Francis Fukuyama, a political scientist, has pointed out, left-wing identity politics tends to stimulate its equivalent on the right. Between them, he argues, they undermine the pursuit of common goals by collaboration and consensus that lies at the heart of a successful democracy. This has happened in Brazil. Mr Bolsonaro tapped the resentment of social conservatives at "gender ideology" (the teaching of sex education and tolerance in schools), of lower middle-class whites over university quotas and of farmers against environmental controls. Something similar risks happening in Chile, where José Antonio Kast, of the hard right, won 45% in the presidential election in a backlash against the political correctness of the convention.

The demand for plurinationalism is an indictment of the neglect and discrimination suffered by indigenous peoples and should be a call to remedy that. But it also questions the central narrative of Latin American identity over the past century or more: that the region is a melting pot of Europeans, Amerindians, the descendants of African slaves and in some countries Asian immigrants, too, and the racial mixing of all these.

Latin America's history is being re-evaluated in the light of ▶▶

► such political concerns. Claudia Sheinbaum, the mayor of Mexico City, removed a statue of Christopher Columbus even though she is herself a Mexican of European Jewish descent. She argues that Latin America still suffers from residues of colonialism and its caste society. But she concedes that after the European conquest “a very rich *mestizo* culture was born” that it is important to recognise. Amid all its other pressing tasks, the region needs to reconcile itself to its history and refine a fresh narrative capable of emphasising the many things that Latin Americans have in common. But that also means making equality of opportunity more than a mere slogan. In this sense it does not help that the very idea of meritocracy is under attack. ■

The economy

Stalled

How can Latin America become more productive?

THE HEADQUARTERS of Creditas is a sleek glass tower near São Paulo's ring road, furnished with rows of computer terminals, modish sculptures and swing-seats for relaxation. The offices have space for 2,700 workers. The firm designed them before the pandemic, when it had 1,200 staff. Now it has 4,000, almost a fifth of them digital developers and some based in Mexico and Spain. Creditas offers loans secured against homes, cars and pay cheques at much lower interest rates than banks. It raises the money in the markets and uses venture capital to finance technology and customer acquisition. It is one of a clutch of startups that are shaking up Brazil's financial system. The banks had inefficient branch networks and charged high margins on a low volume of business. “We have forced the banking industry to change,” says Sergio Furio, Creditas's founder, who is Spanish. “They now speak a different language, cutting costs and automating.”

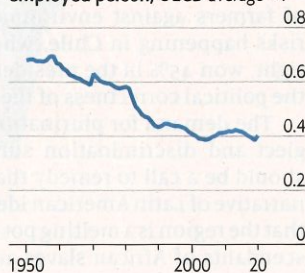
Long a digital laggard, Latin America is catching up as consumers turn to their computers to buy goods and services. The number of fintechs in the region more than doubled between 2018 and 2021, to 2,482 (a quarter of the global total), according to the Inter-American Development Bank (IDB). Venture-capital funds poured \$15.7bn into the region last year, more than the combined total for South-East Asia, Africa and the Middle East.

Profitable but unproductive

Companies*, average gross profit margin, %



Latin America, output per employed person, OECD average = 1



Sources: UNDP; “Global market power”, by J. De Loecker and J. Eeckhout, CEPR, June 2018; The Conference Board

*Based on data from 40 countries †Members in 1990

Fast-growing, innovative firms like Creditas are an exception in Latin America's business landscape, which is dominated by a small number of old-established large companies, many of them family-run conglomerates, and a mass of unproductive small firms. Half the region's workforce labours in the informal economy, a number that hasn't varied much for decades. This is both a cause and a consequence of low growth and low productivity.

Latin American workers are only about a quarter as productive as those in the United States. To make matters worse, this figure has been falling for most of the past four decades. Total factor productivity has been stagnant over that period. Capital investment in the region, which reached 21% of GDP during the commodity boom, was only 17% in 2020, according to ECLAC. Such growth as there has been has come mainly from the expansion of the labour force. But this is set to tail off as the region experiences a demographic transition (though there is still much scope for more women to work outside the home).

Several things lie behind this dispiriting performance. Start with a lack of competition and the prevalence of oligopolies. These arise partly because most Latin American economies are relatively small and are geographically distant from the main centres of the world economy. But firms are also quite protected. Governments slashed tariffs in the 1990s as Latin America seemed to open up to the world. But plenty of non-tariff and regulatory barriers remain. According to the UNDP, Latin America's formal firms have long enjoyed bigger mark-ups than those in most OECD countries. As monopoly power has also grown in rich economies over the past decade, the rates of return have converged. But that is a case of the world becoming more like Latin America, not the other way round.

Expensive and unequal

Such monopoly rents are key to Latin America's extreme inequality of income and wealth. They also reflect lobbying power. “Each market distortion has an owner,” notes Zeina Latif, a consultant in São Paulo. Some of those are labour unions, which block changes to labour laws that make hiring prohibitively expensive. The protection of incumbent firms means they get away with poor management, a lack of innovation and a lack of investment, points out William Maloney of the World Bank. With the partial exception of Brazil, Latin American countries invest less in research and development than their income level should suggest. And because they do not invest enough in technology, when they have faced competition in the form of Chinese rivals some have simply packed up rather than trying to compete. This happened to car-parts firms in Colombia that were studied by Mr Maloney. The labour force lacks skills and training. The region has a chronic shortage of engineers and scientists (and produces too many lawyers). Less than 30% of pupils aged 12 met minimum standards in science in 2019, according to UNESCO.

Another consequence of protectionism is that Latin America does not export as much as it should, given its many free-trade agreements. It also helps explain why commodities, which enjoy a comparative advantage, have such weight in the region's exports. Colombia has not exploited its export-manufacturing potential because the incentive to do so has been scarce, owing to protection against imports, deficient transport infrastructure and expensive logistics, says a study by economists at the central bank. The result is that Colombia has a persistent current-account deficit, and is uncomfortably dependent on exports of oil and coal, fuels that face an uncertain future.

Argentina is the pathological case of all such ills. Because of protectionism it suffers from a chronic shortage of foreign exchange, even as distortions and subsidies conspire against investment and innovation. All this undermines confidence in the peso, ►►



Freedom yes, but prosperity?

▶ the prime symptom of the country's decline. Some Brazilians now worry that their country is going the same way.

Not all is gloom, especially in countries that have tried to integrate more into the world economy. Since the North American Free Trade Agreement (NAFTA) came into force in 1994, northern Mexico has seen steady economic growth. It is benefiting from "near-shoring", or the shortening of supply chains by American firms because of the pandemic and rising tensions with China. This is happening in industries from building materials to textiles and toys. Mexico has been taking business from China, claims Luis de la Calle, an economist. But he adds that "Mexico is many different countries in one." The south and centre of the country resemble Central America, held back by poor transport links and education and anti-enterprise politics. Northern Mexico would be doing even better if Mr López Obrador had not frightened private investors with his energy nationalism and what an American official calls "arbitrary treatment" of her country's investors.

Latin America is "unusual because it is outside all value chains", notes Mr Velasco at the LSE. Its manufacturing is too backward to export finished goods, and too far away to export components, as South-East Asia does. That makes diversification harder. Some has happened in Chile and Peru, driven mainly by agro-industry. But the pipeline of new products in Chile has dried up and in Peru new irrigation projects are stymied by interminable legal wrangles. In both countries governments have tried to facilitate new products through prompter certification and the co-ordination of private and public actors. This has been more effective than

old-fashioned industrial policy, in which Latin America has a long and expensive history of failure.

Some say the search for growth should start at the bottom. "We should forget about the idea that the modern sector will absorb surplus labour," says Piero Ghezzi, a former minister in Peru. "The only way to improve productivity is to do so in micro and small businesses. Diversification is about giving value to what you have." He now provides loans on commercial terms to 250 young coffee farmers in the Andes who got money from public sources for organic and fair-trade certification and moved from subsistence to productive enterprise. "It's not a moonshot. It's about small improvements on the ground." ■

The state

Captive states, misrule of law

Enter the political demolition squads

AS A SPECIAL prosecutor for corruption in Guatemala since 2015, Juan Francisco Sandoval worked with a UN commission to secure convictions against a president and a vice-president. In mid-2021 he was fired by Guatemala's attorney-general, Consuelo Porras. She accused him of an "ideological" approach and procedural mistakes. He thinks it was because he had uncovered enough evidence to open an investigation against Alejandro Giammattei, Guatemala's current president, over allegedly paying bribes to secure a docile legislature, having received them from a construction company and several Russian and Kazakh businessmen with mining interests. In 2020 Mr Sandoval found a pile of cash equal to \$16m in a house in Antigua Guatemala that he links to the president, who denies any wrongdoing.

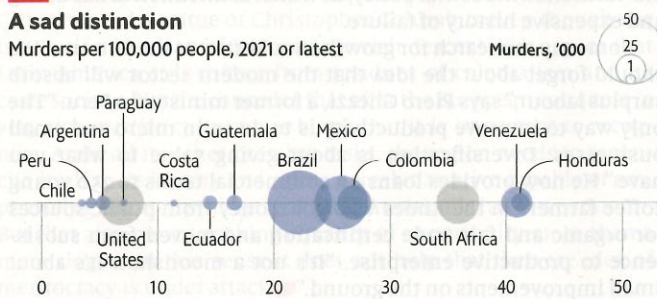
Mr Sandoval now lives in Washington, DC. He fled Guatemala "because my life was in danger", he says. "I knew they would start to persecute me...They have planted evidence. The intention is to frame me." In all, 22 former Guatemalan judges or prosecutors are in exile, ten face charges back home and one is in jail. Their plight shows how hard it is to make lasting progress in fighting corruption in Latin America. The UN commission had enjoyed wide public support, but the politicians rebelled against it and Mr Giammattei's predecessor, Jimmy Morales, expelled it in 2019. "There is a confluence of interest between corrupt politicians and the economic oligarchy," says Mr Sandoval.

The victory of these interests highlights two problems that are widespread in Latin America: the weakness or absence of the rule of law, and the capture of the state by private interests. Democratisation across the region brought welcome attempts at judicial reform. Many countries replaced fusty procedures in which judges investigated crime and trials were conducted on paper. They brought in independent prosecutors and oral trials. Unfortunately, these changes coincided with an expansion of organised crime in Latin America, for which they were wrongly blamed. The rule of law depends not just on judges but on having the right ecosystem, from police to prisons.

Its weakness in Latin America is shown not just by impunity for the corrupt but by a chilling statistic: with 8% of the world's population, the region accounts for 37% of all murders, according to the UN. Once largely confined to Colombia, Peru and Bolivia, drug mafias have spread throughout Latin America and diversified into extortion and human trafficking. After several gang-related ▶▶

A sad distinction

Murders per 100,000 people, 2021 or latest



Source: Igarape Institute

prison massacres, Ecuador last year imposed a state of emergency that was renewed in three provinces in April. In February the United States temporarily suspended the import of avocados from Mexico after one of its plant-health inspectors was threatened.

There have been some successes, but they tend to be local and hard to sustain. In Colombia the murder rate fell from 69 per 100,000 people in 2002 to 25 in 2017, thanks to a security build-up followed by a peace agreement between the government and FARC guerrillas. But the impetus has been lost and the rate has edged up, partly because of the politicisation of the security forces under Iván Duque, president since 2018. Parts of Brazil, such as São Paulo state, have seen a successful shift to more community policing. And crime has fallen in Mexico City, thanks to a tough and energetic police chief and increases in police numbers and wages.

Yet swathes of rural Mexico are under the control of criminal gangs. There are fewer murders, but that is mainly because the army has scaled back its operations against the gangs. Two of the bigger mafias have consolidated their grip and achieved criminal monopolies in areas previously bloodily contested, reckons Eduardo Guerrero, a security consultant. He adds that elections last year suggested that organised crime is penetrating local politics. Extortion is a drag on economic growth, discouraging small businesses from expanding. Venezuela's government does not control the "mining arc", a large area of the south that is dominated by paramilitary gangs and Colombian guerrillas, according to Ricardo Molina, who was Mr Maduro's environment minister.

At the car wash

Guatemala is not the only place where the fight against corruption has faltered. Operation Lava Jato (Car Wash), launched in Brazil in 2014, exposed bribes and contract padding by construction firms. Prosecutors have secured convictions against some 200 business people and politicians, including Lula. But Sérgio Moro, the judge who jailed Lula, notched up fatal own goals. Leaked messages showed he had breached judicial impartiality by coaching the chief prosecutor in the case. He undermined judicial independence by becoming justice minister in Mr Bolsonaro's government. Brazil "has lost its appetite for fighting corruption", laments Oscar Vilhena Vieira, a law professor at the Fundação Getulio Vargas, a university. Similarly, in Peru judges placed two former presidents and Ms Fujimori in preventive detention. But after seven years of investigation prosecutors secured only a handful of convictions, mainly against minor figures.

"The single most acute barometer of the state of democracy is judicial independence," argues Mr Casas-Zamora of International IDEA. The picture is mixed. Most judges in Brazil are independent, reckons Mr Vieira. The Supreme Court has survived threats from Mr Bolsonaro. Its equivalent in Mexico has not fallen wholly under the sway of Mr López Obrador. The Constitutional Court in Colombia remains independent. But chief prosecutors in all three

countries are loyal supporters of their presidents. In Argentina Ms Fernández de Kirchner has failed to subjugate the courts, but other branches of the state are less resistant to political takeovers.

"State weakness is the single most important source of Latin America's chronic problems, including social inequality, economic stagnation and poor governance," concludes Sebastián Mazzuca, an Argentine political scientist at Johns Hopkins University, in a recent book. Most Latin American countries had consolidated their grip over their territory by 1875. But where European states were honed by war, the imperative in Latin America was trade, and that brought deals with local potentates, Mr Mazzuca says. What emerged were "patrimonial" states, in which private and public interests were muddled, rather than having impersonal and disinterested bureaucracies.

Modern state-building did take place in the mid-20th century in Brazil, Mexico and other countries but it was then undermined by populism, a political impulse pioneered by the region. Democratisation brought more reforms. Central banks, finance ministries and electoral authorities became islands of technical excellence. This even spread to social policy through targeted and politically neutral cash transfers for the poor. But state weaknesses remain stark. In Brazil, for example, Mr Bolsonaro has stuffed the public sector with soldiers and police, dismantled environmental controls, placed ill-qualified ideologues in charge of education and slashed the budget for universities and scientific research. "There was a sense that we were building a country," says Fernando Reinach, a former science minister. "Now the feeling is that we are destroying it." In Mexico Mr López Obrador has slashed public-sector salaries. Many experienced officials have departed from ministries and regulatory agencies.

The destruction has been especially swift in Peru. To give jobs to its supporters Mr Castillo's government has lowered qualifications for posts, says Carolina Trivelli, a former minister for social development. The director of a state technological institute learned of his sacking in the official gazette; he has been replaced by a political hack. In May Peru's Congress voted to gut the powers of an independent regulatory agency that supervises standards in universities.

Latin American conservatives have never had much problem with patrimonialism. But the left is now assaulting the principle of civil-service meritocracy on the grounds that it benefits a "neoliberal" elite. "Behind the changes in the state in Mexico there's a redistribution of power, with new groups coming in," says an official in Mr López Obrador's government. They are drawn mainly from newer universities and local government. In Argentina public-sector jobs have long been rewards for those who deliver the vote for Peronists in the poorer suburbs of Buenos Aires. Yet the left ought to have an interest in high-quality public services. It is striking that left-leaning economists so often favour a big role for the state for which it is not technically equipped.

A study by CAF, a development bank, found that the quality of government in Latin America is thought to be lower than anywhere else in the world bar Africa. And on many indicators it seems to be declining. The IDB reckons that public spending worth as much as 4.4% of GDP is wasted, often because of inefficient procurement. And the combination of relentless media scrutiny with judicial persecution in the name of anti-corruption has driven many good, honest people out of public service or led graduates to avoid it. Those who remain are scared to take decisions, especially on public contracting. It all adds up to yet another development trap. ■

State weakness is the single most important source of Latin America's chronic problems

Latin America in the world

Uncle Sam or the dragon

A region divided against itself

IN A TRENCH beside the Pan-American highway at Chancay, 65km (41 miles) north of Lima, boring machines dig a tunnel beneath a sand hill. Under its other slope, by the ocean, Chinese-made giant trucks deliver rubble to extend the land into deeper water, already partly enclosed by a breakwater. They are creating a new port able to take the world's largest container ships. The \$1.3bn first stage, due to be completed in 2024, involves four quays. The final plan calls for 15 quays and a large industrial park that would make Chancay the biggest port on the Pacific coast of South America, with the aim of becoming a trans-shipment centre for the region.

The port is being developed by Cosco, a Chinese shipping and logistics giant, with Volcan, its Peruvian partner. Gonzalo Rios, one of the managers, stresses that it is a market-driven private-sector project. Since it is close to Callao, Lima's large modern port, some are sceptical that it can attract sufficient shipping unless it becomes a strategic beachhead for Chinese firms. Either way, it is a sign of changed geopolitical times in Latin America.

China is now a bigger trading partner than the United States for all the main Latin American economies except Mexico and Colombia. It is also an important investor, initially in oil and mining and more recently in infrastructure and manufacturing. The United States still matters, especially as a private investor and because of its sway in international financial institutions. But it has lost influence, partly because of its own political gridlock. It lacks ambassadors in eleven posts in Latin America. China's diplomatic operation in the region is now more effective. Europe has also long been an important trading partner for Brazil and Argentina. In

2019 it concluded a trade and co-operation agreement with Mercosur, a block based on those two countries. But it has yet to be ratified, mainly because of European hostility to Mr Bolsonaro's environmental destruction.

Most Latin American countries do not want to have to choose between the United States and China, as Donald Trump once suggested. At Mr Trump's insistence, NAFTA was renegotiated. The United States-Mexico-Canada agreement that replaced it includes clauses aimed at blocking Chinese trade and investment. Mr Bolsonaro, a fan of Mr Trump, has been hostile to China. Brazil remained in the BRICS group that includes China, India, Russia and South Africa. But the president's family and Ernesto Araújo, his first foreign minister, made intemperate criticisms of China. In response Xi Jinping's government quietly made clear that Argentina is a rival partner in South America. Only this month did Mr Bolsonaro talk for the first time to both Joe Biden and Alberto Fernández, Argentina's president. He has "done a remarkable job of isolating Brazil from the world", says Matias Spektor of the Fundação Getulio Vargas.

Latin America's preference for a multipolar world to one of geopolitical confrontation has led some to question whether it is still part of the West. Its stance on Russia's invasion of Ukraine has been ambivalent. Most Latin American countries voted at the UN to condemn this. But some tempered their position. Mr Fernández visited Russia and China shortly before the war began. He said his country should be the "gateway" for Russia in Latin America. Venezuela and Nicaragua are close allies of Vladimir Putin. "We don't want the multilateral order to fall apart," says a Mexican official, who opposes Russia being kicked out of the G20. "But that doesn't mean we're not on the side of democratic institutions."

Internal differences

Latin America's internal political fragmentation is mirrored at regional level. Attempts at deeper integration have faltered. Mercosur, founded in 1994 as a putative customs union, was a cornerstone of Brazilian foreign policy. But it is declining into irrelevance, partly because agribusiness (whose main market is China) has eclipsed manufacturing. The Pacific Alliance founded in 2011 and comprising Chile, Colombia, Mexico and Peru has lost momentum. "Latin America doesn't count for anything in the world," laments Enrique Iglesias, a veteran Uruguayan leader. "We are silent. If the big countries don't lead the process of integration and commit to it, efforts will be very limited." Two core institutions that link Latin America and the United States, the IDB and the Organisation of American States, are troubled, with leaders who do not command support and deep divisions over the treatment of Venezuela.

Indeed, the issue of what to do about Venezuela has split Latin America. Mr Trump's policy of seeking regime change through sanctions imposed in 2019 initially attracted support. But it failed. Today Mr Maduro is stronger than before, and the economy is reviving thanks to de facto dollarisation. The opposition is weakened. Juan Guaidó, its titular leader, was once recognised as the legitimate president by some 60 countries; today only a handful still do so. The Biden administration, and many Latin Americans, believe that negoti- ▶▶



Friends, at least for now

ation with Mr Maduro, hard though that will be, is the only option. "Otherwise, it's [like] Cuba, and we don't want to be having this conversation in 60 years' time," says an American official.

Divisions over democracy overshadowed the Summit of the Americas in Los Angeles in early June. Mr Biden did not invite Cuba, Venezuela or Nicaragua, which caused Mr López Obrador and three other leaders to stay away. To the frustration of many Latin Americans, policy in Washington appears to be driven by the imperatives of domestic policies.

Latin America cannot change this unless it makes itself a more important partner. And that requires a more pragmatic, issue-based, approach to regional integration. Latin American countries have had to absorb 6m migrants from Venezuela and many are countries of transit for other immigrants. Mr Biden is now pushing for a regional approach to the problem. With interest rates rising, Latin America should be leading discussions about international help to middle-income countries to boost economies and respond to climate change. As always, more intra-regional trade is one of the best routes to economic growth.

"We have to stop creating [regional] organisations based on the ideology of the governments of the day," Chile's Gabriel Boric argues. "It's important that Latin America once again has a voice in the world." For that, it needs to rediscover a path of progress. ■

The future

Agreement or anomie?

Politics needs to be rebuilt from the ground up

IF ANY LATIN AMERICAN country had a chance of moving to a new social contract, political renewal and a more productive economy, it was surely Chile. In November 2019, as protests raged in the streets, politicians agreed to a constitutional convention, charged with drawing up a new constitution to replace the existing one, whose origins date back to the Pinochet era (though with later amendments). But the convention tilted more to the left than did public opinion. It is torn between trying to reform Chile and trying to refound it from first principles. And it has conflated a demand for social rights with identity politics. The text will not be finalised until July 4th. A dwindling band of optimists still hopes to see a workable document. But the auguries are not good: the draft has 499 articles. "We are losing an opportunity to have a constitution for a developed country and not for a typical Latin American country," says Rodrigo Valdés, a former centre-left finance minister.

If the new constitution is rejected in a referendum in September, as seems possible, it will leave Chile in political limbo. It would also be a fatal blow to Gabriel Boric's young government, whose core programme is to increase tax revenues in order to create a universal welfare state in place of Pinochet's "subsidiary state", in which the market played a big, but for many unsatisfactory, role in providing health care, education and pensions.

Chile's travails highlight broader problems. Latin America's left tends to be too Utopian, populist and anti-capitalist. The right fiercely defends its privileges and monopoly rents in the name of freedom. And the political centre has collapsed. Its failure is linked to that of liberal technocrats, brought up in a segregated upper-middle class that has too little knowledge of everyday realities. Take Colombia, where Mr Duque's government produced a sensible tax reform in 2021 that led only to riots and protests from

which the government never recovered.

Latin America's problems are partly those of success, since they reflect more educated people

"Top-down reforms have failed," concludes Sofía Ramírez of México Cómo Vamos, a pressure group. "The road is bottom-up, the middle class to local power." Mayors tend to be closer to the people than Congresses, and local government is a solid recruiting ground for national office. But mayors can also be corrupt and incompetent. And the region's political systems are failing in their most basic function of channelling interests upwards and then arbitrating among them.

Politics suffers from design defects. Uniquely in the democratic world, Latin America combines directly elected executive presidents with legislatures chosen by proportional representation. That makes it hard for governments to command parliamentary majorities that will enact reforms. This mattered less when presidents were popular and parties were fewer and were more open to negotiation. But those days have long gone. Many Latin American academics now favour parliamentarism. But presidentialism is an indelible part of the political culture. This issue has not been a matter of serious debate, even in Chile's convention.

Another issue is the weakness of political parties. Laura Chinchilla, a former president of Costa Rica, argues for rules to ensure that parties have a life between elections. There should be a middle ground between turning parties into protected fiefs and making it too easy to create new ones. Populist leaders have abused referendums. But politicians could seek better mechanisms for participation, such as consultative committees of citizens. "There is a demand from society to be heard," says Ms Chinchilla.

Latin America's problems are partly those of success, since they reflect the fact that it has more educated people. After more than 30 years of democracy, younger generations take freedom for granted. There is polling evidence that societies as a whole are less polarised than their political elites. And for at least 200 years Latin Americans have expressed wonder at their own potential. The region faces no serious danger of war and is far from the world's most acute conflicts. Its vast natural resources should help it benefit from the green-energy transition, since it produces much of the world's copper and lithium and has untapped potential in renewable energy and green hydrogen. Its people mainly speak just two closely related languages. Despite everything, it has retained democratic freedoms. Respondents tell pollsters they are happy, thanks to family, friends and the fiesta, the eternal pleasures of Latin American life.

Yet in the past few years Latin America has started to lose thousands, perhaps tens of thousands, of its best-educated and brightest citizens. They have found more security and opportunity in the United States or Europe. Unless it can find a way to make its political systems more effective and responsive, Latin America's relative decline will only continue. ■

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