Next Generation Democracy

The Americas

Track 2 - Business and the Economy

Regional Trends 2000-2015 & Projections 2015-2030

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NOTE TO THE READER

NGD regional reports for Track II, 'Business and the Economy', analyze trends and projections in democratic governance from a predominantly economic perspective, on the basis of a multidimensional template specifically formulated by the Club de Madrid and the Bertelsmann Stiftung for this purpose. These reports jave been prepared by the Bertelsmann Transformation Index (BTI) team and complemented and fine-tuned as a result of extensive exchanges between International IDEA relevant staff, the CdM Secretariat and, more significantly, NGD regional partners and relevant stakeholders from each region, from sources such as the Round Table discussios that took place in the respective regions.

The template for NGD Track II reports is based on BTI and Bertelsmann Sustainable Governance Indicators (SGI) wich provide an overview of the quality of the market economy (including both economic performance and social developments) as it relates to democratic governance. The BTI team has contextualized and interpreted other economic indicators, particularly those provided by the World Bank´s Doing Business project. The assessent covers the past ten to fifteen years, and the projections sections, which have been drafted by NGD regional partners, represent an attempt to foresee key challegnges and opportunities in the respective field for the next fifteen years.

The relevant BTI and SGI indicators for each section are as follows (see full range of indicators at https://www.bti-project.org/en/index/methodology/):

- ***Economic competition***: 7.1 Market-based competition; 7.4 Banking system.
- ***Legal certainty***: 9.2 Private enterprise – market principles; 9.1 Property rights; 3.3 Prosecution of office abuse.
- ***Market Access***: 9.2 Private enterprise – protection of private companies and privatization processes; 7.2 Anti-monopoly policy; 7.3 Liberalization of foreign trade.
- ***Inclusiveness & Non-discrimination***: 10.1 Social safety nets; 12.2 Education policy; Labor market policy – information from BTI indicators 6, 7.1 and 10.2.
- ***Strategic capacity and Efficiency***: 8.1 Price stability/monetary policy, Macrostability, fiscal / debt policies; 12.1 Sustainability / environmental policy; 17.1 Effective use of support of international partners.
- ***Consensus-building***: 16.1 Actor consensus; 16.4 Civil society participation in shaping economic policies.

These reports constitute the second major step of the NGD process following the discussions on Track I reports, wich will progressively organize transformative practices and ideas, and will draft NGD regional agendas in reaction to signals of democratic decline, advancing democracy worldwide.

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The NGD Regional Report (Track II) for the Americas has been written by Peter Thiery, Senior Research at Heidelberg University and BTI Regional Coordinator for Latin America and the Caribbean. The projections sections in the report were drafted by Adrián Bonilla, Secretary General of FLACSO. The edition was made by Luis Peral, Senior Analyst, Club de Madrid.

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Index

Introduction

The Americas region encompasses countries with a rather divergent level of economic and social development, ranging from the rich countries of **United States** and **Canada** in the north to **Haiti**, the poorest and least developed country in the hemisphere. However, most of the region's countries are located in a middle group that is neither rich nor poor, though differences inside this group are also immense. Huge gaps between rich and poor within all countries complete a picture characterized by massive discrepancies and deeply ingrained inequalities, resulting in a pattern of social exclusion that affects much of the Americas' population. These conditions are not only detrimental to the consolidation of democracy, but also impair the consolidation of balanced market-economy systems, while serving as fertile ground for the emergence of populist movements, violence and organized crime. The waves of migration emanating especially from Central America and **Mexico**, heading both to the north and to the hemisphere's other relatively prosperous countries, are just one result of these shortcomings.

The 2000 – 2015 period saw an unprecedented economic boom for the countries of the ***Latin American and Caribbean (LAC)*** area, which was only briefly interrupted by the consequences of the financial crisis in the north. During this time, many countries were able to raise standards of living for a considerable portion of their population, though to diverging degrees. It also saw the rise of a new middle class that has begun to articulate its interests within systems historically dominated by old elites, thereby invoking democratic rights to foster change and demand more responsiveness from the political system. However, with few exceptions, overall divergences and thus the prospects for narrowing the prosperity gaps remained unchanged. According to the World Bank's 2014 classification of income groups, most countries fall into the above-mentioned middle group. Only the failing state of **Haiti**, with a per capita income of $810 – which places it at 8th place among the 34 low-income economies worldwide, a group mostly comprised of sub-Saharan countries – remains without any likely prospect of achieving a path to greater prosperity in the middle or even long term, at least without international help. However, the seven countries of the lower-middle-income group (comprising 50 countries worldwide), including **Nicaragua** (with a per capita income of $1,790), **Honduras, Bolivia, Guatemala, El Salvador, Guyana** and **Paraguay** ($4,010), are all plagued with serious problems

The 14 countries of the upper-middle-income category form the largest regional country group, ranging from **Belize** (per capita income of $4,510) and **Jamaica** ($5,220) at the lower bounds, through **Ecuador, the Dominican Republic, Cuba, Peru, Colombia, Suriname**, and **Costa Rica** in the middle, to **Mexico** ($9,940) and **Panama** ($10,700) near the group's top. Within this group, **Venezuela** (ranked 50th worldwide, with per capita income of $12,550) and **Brazil** (ranked 51st worldwide, at $11,690) seem to be the only countries possibly approaching the high-income group. However, Venezuela sits today at at the brink of severe crisis due to the decline in oil prices and severe economic mismanagement. The final country in this group, **Argentina,** is also mired in a deep social and moral crisis creating serious doubts with regard to its economic future. Aside from the **United States** ($53,470, 9th place worldwide), **Canada** ($52,200, 10th place) and a handful of small Caribbean island states (such as **Barbados** and **Trinidad and Tobago**), only **Chile** ($15,230, 39th place) and **Uruguay** ($15,180, 40th place) belong to the group of high-income economies.

Ranking on the basis of the UNDP's Human Development Index, which is oriented more toward basic living conditions and achievements, reveals a similar picture. According to the 2014 edition, only the **United States** (rank 5), **Canada** (rank 8), **Chile** (rank 41), **Cuba** (rank 44) and **Argentina** (rank 49) are rated as showing very high human development, with **Uruguay** (rank 50) coming close to this level. The above-mentioned upper-middle-income countries all belong to the high human development group, and the lower-middle-income countries to the group with medium human development. Haiti remains an outlier as the only country in the region with low human development. This admittedly rough picture of the distances between countries has not changed dramatically since 2000, despite the overall increase in development levels, the clear reduction in poverty and the encouraging socioeconomic performance of countries such as **Bolivia** and **Ecuador**. However, development and income levels in themselves do not provide a sufficient basis for functioning market economies conducive to the stabilization or consolidation of democracy. As we will see below, the institutional environment for economic activity varies considerably across the Americas, with certain shortcomings cutting across income levels and casting doubts on the economic viability of democracy in several countries.

The period from 2000 to 2013/14 must be divided into two sub-periods: from 2000 to the onset of the global financial crisis in 2007/08, and the following period of recovery until 2013/14. While LAC countries were less directly affected by the financial crisis than were the **United States** and **Canada**, there were severe effects on economic growth, with more significant influence felt in the smaller countries of Central America and the Caribbean with their closer ties to the U.S. market. Most other LAC countries, which since the 1990s had engaged in a successful diversification of external trade partners driven in large part by Asian and particularly Chinese demand, succeeded in implementing countercyclical measures and thus emerged from conditions of crisis rather rapidly. Since 2012, however, growth rates have again begun to decline in the LAC region (while remaining more or less stable at 2% both in United States and Canada since 2010). This is an alarming signal, especially for countries that have placed bets on growth-driven social progress rather than providing for sound institutional environments. Further significant aspects of the 2000 – 2015 period have included a) the surge of the "new middle classes" in a number of LAC countries, above all **Brazil, Chile** and **Peru**; b) the wave of migration from South and Central America as well as **Mexico** primarily to the United States and Canada, but also to the prosperous centers of neighboring countries; and c) the relative loss of U.S. hegemony vis-à-vis Central and South America, a trend manifested in trade diversification, new economic deals with China, and more self-confident patterns of political and economic cooperation with or without the United States, among other developments.

In considering economic performance over time, national development levels and the quality of economic institutions, four groups distinguished by the soundness of their market economies can be discerned. This division will guide the analysis below. The four groups can be described as follows:

1. Good performers in terms of institutional environment and solid governance by key political actors, with minor deficiencies. This includes **Canada, Chile, Costa Rica, the United States and Uruguay**. However, there could be changes in this group over the next few years; for example, **Costa Rica** may not keep its position, and **Panama** appears likely to enter the good-performers' cluster.
2. Runner-ups who are struggling to maintain course, but demonstrate major deficiencies. This includes **Brazil, Colombia, El Salvador, Mexico, Panama** and

Peru. Brazil is facing continuing economic stagnation, which will have consequences in South America at large, particularly with regard to regional integration processes.

3. Market economies with major flaws, combining partially solid institutions with either bad performance or contradictory policy orientations, mostly belonging to the lower-middle-income group. This includes **Bolivia, the Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Nicaragua** and **Paraguay.**
4. The failures and the "market critics." As of early 2015, the two most disturbing cases in this group are **Argentina** (even though in terms of social and income indicators, Argentina falls well above the Latin American and Caribbean average), a situation that may well change after the November 2015 elections, and **Venezuela. Cuba**, thanks to its still predominantly state-led economy (which is indeed relevant in political rather than in economic terms), and **Haiti** as a failing state remain outliers. Although some commentators might also suggest adding **Bolivia** and **Ecuador** to this group, the grounds for their exclusion should be clear if all indicators are considered.

I. Values and Institutions

1. Economic competition (2000-2015)

In terms of the institutional cornerstones of the economic order – competition, money and property – the often-cited gap between **United States/Canada**, with their more or less sound institutional environments, and the Latin American and Caribbean countries still persists. However, it has significantly narrowed since the reform era of the so-called **Washington Consensus**, which aimed at liberalization, privatization and deregulation. These reforms were often pursued hastily under the pressure of impending debt default and IMF demands. As a result, reforms were in some cases not consistently maintained, were watered down or reversed after strong citizen protests, or were even attacked by politicians pursuing populist strategies. Faced with rather diverse elite and elite-citizen constellations, diverging degrees of external pressure, and divergent development paths, a few countries – **Argentina, Bolivia, Ecuador** and **Venezuela** – used the subsequent window of opportunity to reintroduce comparatively more state-led patterns of development, including state-regulated markets and renationalization.

With regard to the fundamentals of market-based competition, the institutional framework of the region's economies is on average at least satisfactory. However, vast differences are evident. Outside of **Cuba** and the four state-interventionist countries previously mentioned, the primary apparent weaknesses are broadly due to generally weak institutions (especially weak legal and judicial systems, including corruption) and large informal sectors that have often been thoroughly penetrated by organized crime; this is the case in the failing state of **Haiti**, as well as in **Guatemala, Honduras, Nicaragua** and **Paraguay**. Though to a lesser degree, these problems also affect most of the remaining economies and impair their otherwise more sophisticated institutional frameworks. Along with the **Dominican Republic**, this is especially true for **Mexico**, and to some degree also for **Brazil, Colombia, El Salvador, Panama** and **Peru**. In addition to strong state presence in some sectors and a few price controls, remaining bureaucratic obstacles and/or overregulation also take their toll – factors that also impede more fully fledged market orders in the otherwise well-performing **Costa Rica** and **Uruguay.**

The region's best performers are without doubt **Canada, Chile** and the **United States**, where market competition is consistently defined and implemented on both the macroeconomic and microeconomic levels. However, weaknesses are also evident among the top performers, including regulatory weaknesses in the United States, productivity gaps and the presence of marketing boards in Canada, and the dominance of few economic conglomerates in Chile's small domestic market. In addition, the high degree of "marketization," which in turn produces a high level of inequality (i.e., before taxes and transfers) represents a huge challenge for these three countries

Institutions of market competition that for the most part are relatively solid have been complemented by advances within monetary and banking systems. About 30 years ago, the declaration of debt default by the government of **Mexico** in 1982 led to the so-called lost decade. However, over the course of time, most Latin American and Caribbean countries entered the thorny path of structural adjustment. National monetary frameworks became increasingly solid, generally featuring autonomous central banks (see section III.1). Governments also started to tackle the problems of Latin America's underdeveloped banking sector by increasingly adhering to international norms such as **Basel I.** While the Basel II and III accords are still in the process of implementation in most countries, the region's banking systems are today considered to be comparatively stable and generally well capitalized, with mostly functional banking supervision and minimum capital equity requirements. Aside from **Cuba** – where no private banks or capital markets exist – the countries that fall most grievously short with regard to banking-system soundness are **Haiti** and **Venezuela**, while problems are also evident in **Argentina, Ecuador, Guatemala** and **Nicaragua.**

The soundness of the region's banking systems was almost upset by the regulation failures in the **United States** that helped trigger the financial crisis. Surprisingly, Latin American banks were almost unaffected by the crisis. While the U.S. banking system has recovered somewhat since, resistance from powerful financial-sector lobbies has prevented the deficiencies that led to the crisis from being decisively altered. Despite some reforms such as the *Dodd-Frank Wall Street Reform Act*, there is still a latent insecurity concerning the soundness of U.S. banks and in consequence for the region's monetary frameworks more generally. According to the Global Competitiveness Report 2014 – 15, the United States was ranked 41st out of 144 countries with regard to the soundness of banks, surpassed by no less than a dozen Latin American countries. Canada kept its top ranking in this regard, followed by **Chile** (rank 11) **Panama** (rank 12) and **Brazil** (rank 13).

2. Legal certainty (2000-2015)

Compared to the institutional foundations for market competition, legal certainty is in a somewhat weaker position across the Americas, due primarily to weak judiciaries, shortcomings in legal frameworks and pervasive corruption. Available data from the ***Bertelsmann Transformation Index (BTI), World Economic Forum, Heritage Foundation and Fraser Institute*** all reveal more or less the same predominant pattern with regard to the principle of private property and its safeguards, as well as the principle of private enterprise. A few advanced countries – **Canada, United States, Chile** and to a lesser extent **Costa Rica, Uruguay** and **Brazil** – combine a strong private sector with adequate legal safeguards and an overall satisfactory degree of rule compliance. Some cases are assessed differently, such as the protection of property rights in **El Salvador** and **Panama**, which nevertheless show at least a satisfactory degree of private-sector orientation.

Few doubts, however, exist concerning the least successful countries in this regard, including **Guatemala, Bolivia, Ecuador, Haiti, Venezuela** and **Cuba** – the latter two being the clear outliers in this case. Their weak performance results from rather divergent conditions, partially intended (as in Cuba, Venezuela, and also in Bolivia and Ecuador with their decided emphasis on state intervention) but partially also non-intended due to weak state and/or rule-of-law structures (Guatemala and Haiti). About a dozen countries (not counting the smaller island states in the Caribbean) are accordingly somewhat torn between these tendencies, with the tensions often reflected in opposing social and political forces (such as Peronists and non-Peronists in Argentina).

Overall, the core principle of property rights has gained ground over the last three decades, with governments today mostly ensuring well-defined rights of private property and regulating the acquisition, benefits, use and sale of property. The strongholds in the Americas are again the more advanced Canada and United States together with **Chile**, followed by **Uruguay, Costa Rica** and **Brazil**. Private enterprise has always a strength and engine of economic activity in the **United States** and **Canada**, as well as in parts of the Caribbean. Since the implementation of neoliberal reforms in Latin America, private companies have been viewed institutionally as primary engines of economic production throughout the region, though the degree of legal safeguards vary. Exceptions remain the five comparatively state-centric economies, above all **Cuba, Venezuela, Bolivia** and **Ecuador**, while in **Argentina** these tendencies are more contested by a strong private sector, a fact that may now lead to fundamental changes under President Mauricio Macri's government. Indeed, outside of Cuba, no economy is truly state-led, even if the Bolivarian ideas of "socialism of the 21st century" in Venezuela would suggest otherwise. This similarly holds true for Bolivia and Ecuador, and signals that in terms of values, private enterprise remains rooted in these countries (and is respected for pragmatic reasons) even if there is a lack of solid institutions.

Finally, legal certainty and primary actors' degree of rule compliance are in almost all countries hampered by corruption and insufficient prosecution of office abuse. Nearly all available data show that there are again a handful of relatively good performers – **Canada, the United States, Chile, Uruguay** and **Costa Rica** – that show a comparatively low level of (perceived) corruption, an adequate prosecution of infringements by the judiciary and – according to World Economic Forum data – a rather low incidence of irregular payments and bribes. Though **Brazil** too has improved its anti-corruption performance, driven by corruption scandals and an increasingly critical public, this is true primarily only on the federal level (where it has indeed affected the credibility of two successive governments). At state levels, however, governance patterns often still have to be labeled as almost feudal. In Brazil and all remaining countries except Cuba, problems are aggravated by the ongoing advance of organized crime creating its own "informal economy" and its own rules, and contributing to a kind of perverse prosperity. This of course relates to problems of stateness already discussed in track 1 – no state means no democracy, but also a lack of institutional safeguards for a sound market economy, and an absence of sound policies able to compensate for the risks of market economies (see also section II.2: Inclusiveness & non-discrimination).

Projections (2015-2030)

Economic Competition

No substantial changes are expected regarding competition, monetary framework and banking systems in the next few years, since most Latin American and Caribbean countries (aside from **Argentina, Venezuela** and a few **Caribbean countries**) have implemented generally sound and stable frameworks. However, it is likely that existing variations in institutional frameworks will persist. Continuity in this double sense could be affected by external shocks, such as a continuous sharp decline in Chinese demand.

In this context, prospects for further integration are extremely low. Most regional trade initiatives have stalled, and at least one of them, the Andean Community, is in crisis. The LAC region does not seem not ready to engage in further market opening, perhaps due to a lack of trust in the countries' ability to compete internationally. Only the **Pacific Alliance (PA),** a trade bloc that is not considered a formal integration system, shows a likelihood of succeeding in the near term. In this context, the creation of the Transpacific Partnership represents new and complex challenges not only to countries in the region, but to the world economy more broadly. However, the dominant trend is toward bilateralism, as demonstrated by the increasing number of free-trade agreements with regional and extra-regional partners.

The upper-middle-income group among the LAC countries, which comprises important regional players such as **Argentina, Mexico** and **Venezuela**, may experience more change. The situation in Venezuela will probably, and hopefully, evolve toward more democracy, if only as a consequence of the dire economic situation the country currently face. Argentina should return to less chaotic policies following the decline of kirchnerism, and **Mexico** may continue as a sort of additional economic engine for the **United States.** Changes in **Cuba** are taking place rapidly, which may also influence other countries that have looked to Venezuela as a model, although it remains to be seen what degree of democratic transformation will ultimately be achieved.

A large number of Latin American and the Caribbean countries, particularly those whose economies are based around raw materials, will be severely affected by the current decline in commodity prices. As a result, it is likely that social programs, which were frequently funded by commodity-export revenues, are in danger. Countries such as **Brazil, Chile, Colombia, Peru, Bolivia** and **Venezuela** will all face this problem.

Moreover, stagnation in China will severely affect countries such as **Brazil** and **Argentina,** which have turned to China as a primary trading partner. However, China will remain a central partner mainly for South American countries, deepening trade deficits and creating consequent challenges for regional producers.

IMF projections: GDP growth 2015 – 2016, in %

Country	2014	2015	2016
Argentina	0.5	-0.3	0.1
Bolivia	4.3	4.3	
Brazil	-0.1	1	
Venezuela	-4	-0.7	-4
Perú	2.4	3.8	5

Source: IMF Survey (2015)

Expected economic growth in African economies, which is attracting Chinese investment, among other effects, could at least in the medium to long term represent a risk to LAC countries. The primary sector will be the most affected. However, comparative factors such as skilled labor forces, comparatively more developed infrastructure and political stability make LAC countries more secure for investors at least in the short to medium term.

Legal Certainty

Disregarding for the moment the fundamental problem of an uneven distribution of wealth, the private sector has a solid base in LAC countries, even in countries with low levels of legal certainty. It will thus remain a driving force in the Americas' development. This can sometimes have bad effects, as when economic leaders catalyze domestic conflict and dissension, or even seek to erode the basis of democratic governance. On the other hand, problems resulting from insufficient legal certainty – ranging from poorly functioning or corrupt judiciaries to the creation of economic constraints by non-economic institutions and actors – will persist in most countries.

If **Cuba** were to enter a China-style growth path, or even opt for a more profound transformation, and **Venezuela** were to thoroughly recognize the private sector, a more formal homogeneity could develop in the region, potentially reviving the possibility of a certain degree of commercial integration. The normalization of bilateral relations between the **United States** and Cuba may be a transformative factor with direct impact within the Caribbean region, as investors from other Latin American countries are already taking positions.

Moreover, the interest in joining the OECD among countries such as **Peru, Colombia** and **Costa Rica** may lead to improvements in terms of social policies and public administrative procedures, with consequent improvements in competitiveness indicators. In Central America, the prevalence of insecurity and corruption, particularly in **El Salvador, Guatemala** and **Honduras**, may lead to diminishing foreign direct investment (FDI) inflows in the years to come.

II. Access and Inclusiveness

1. Market Access (2000-2015)

Private enterprise is widely considered to be the main engine of economic production across the Americas, and barriers to equal market access have been successively reduced since the 1980 through the neoliberal reform triad of liberalization, privatization and deregulation. The prominent exceptions have been **Cuba** – where no such measures were adopted – and **Venezuela**. In this latter country, however, even Bolivarianism (with its rhetoric excoriating "class enemies") has to rely on a private sector, with the nonfinancial private sector generating close to 60% of GDP and employing about two-thirds of the formal economy's workforce in 2012. Notwithstanding this overall satisfactory status quo, there are a number of obstacles which – to a greater or lesser degree – hamper equal access to product and factor markets.

A cornerstone of widening market access has been the radical diminishing of formerly large state sectors. The privatization of state companies has visibly slowed since the 2000s, also due to the fact that privatization in significant proportions already took place during the 1980s and 1990s. Instead, most governments followed a strategy of public-private partnerships as an alternative to relieve the state (and the state budget) of the necessity of making risky investments. Privatizations before 2000 were often not conducted in a manner consistent with market principles; instead, oligopolies often replaced inefficient state companies, and a small number of politicians and entrepreneurs benefitted from irregular procedures (such as in **Chile** under Pinochet and in **Argentina** during the Menem era). Privatizations since 2000 increasingly proceeded in a manner consistent with market principles, partly due to more scrutiny from within the political sphere and civil society concerning the range and mode of privatization.

In most states a few companies in sectors deemed strategically relevant remained state-owned. One of the most emblematic examples is the Chilean copper firm *CODELCO*, which for strategic reasons the military dictatorship refused to privatize despite its general market radicalism, and whose profits were later used by democratic governments as a foundation for the country's stabilization funds. Over the course of time, Latin American publics and political decision-makers alike concluded that the privatization dogma had sometimes gone too far, and grew increasingly critical of further privatization or even promoted the renationalization of basic services (e.g., water supply in **Bolivia** and **Peru**, education in Chile, Argentina's pensions funds). **Cuba** is again an exception to the rule with its still-timid measures allowing for private enterprise. While there is still no genuine private sector, and no privatization as such for large state companies, the government now allows for private ownership within a number of services such as hairdressers and transportation.

Adding to this rather diverse picture of market access is the great variance with regard to competition or anti-monopoly policies. The problems are manifold here, ranging from inconsistent legal frameworks to weak supervision and enforcement structures, and culminating in the simple neglect of such policies (**Cuba, Haiti, Paraguay** and **Venezuela**). There is also a kind of balancing act between trade liberalization (i.e., increasing competition with external players) and the necessity of having domestic players that are large enough to engage in international competition. This is particularly true for countries with small domestic markets. For example, while **Chile** is considered to have a rather high level of market competition, the market is obviously dominated by a few players, with market concentration especially affecting the banking, private pension, air transportation, communications, pharmaceutical and health insurance sectors. Overall, outside the **United States** and **Canada**, at least a handful of countries have made some progress in designing and implementing anti-monopoly policies (**Brazil, Chile, Costa Rica, Peru** and **Uruguay**). It should also be mentioned, however, that respondents to the WEF survey are somewhat critical regarding the effectiveness of anti-monopoly policies in promoting competition. Indeed, most of the 144 countries surveyed are at best ascribed a mediocre performance, with only a few countries clearly above average (among them the **United States, Canada, El Salvador** and **Chile**) and even fewer clearly below this level (among them **Argentina, Haiti** and **Venezuela**).

One of the strongest aspects of market access has been the liberalization of foreign trade, including the diverse forms of economic cooperation and integration that have emerged through free-trade agreements. With very few exceptions, the Americas today are a region open to regional and international trade, and indeed the boom years since 2002 have mainly been due to openness and the profit earned from external trade. Along with **Cuba**, the two most prominent exceptions in this regard are again Argentina and Venezuela, whose governments – though for different reasons – decidedly tried to (re-)gain more state control over cross-border transactions. To a significantly lesser degree, this also applies to **Ecuador** under the Correa government and **Bolivia** under the Morales government, where a wide range of non-tariff barriers and administrative inefficiencies have constrained market access in recent years. A special case is **Brazil,** which despite increasing liberalization has retained elements of the foreign-trade policy paradigm inherited from the period of protectionist industrialization, with special exemptions and complicated registration formalities.

2. Inclusiveness & Non-discrimination (2000-2015)

Though inclusiveness and non-discrimination have been major topics on the political agenda for decades, and especially since 2000, the record of successful state interventions to guarantee inclusiveness is rather mixed in the Americas, both north and south of the Rio Grande. While the Latin America and the **Caribbean** region still shows the highest levels of inequality by some distance, the **United States** and **Canada** too have had difficulties in compensating for increasing inequality levels, which still remain rather high compared to other OECD countries.

Within Latin America, welfare-state measures have improved slightly since 2000, with the focus shifting more strongly to the fight against deeply ingrained poverty and the resulting vicious circles of exclusion. To achieve these goals, governments have applied different strategies. Most countries have not altered the basic market-economy model, but have instead introduced market-compliant measures through the expansion of existing social programs and the promotion of focused social policies. The conditional-cash-transfer programs applied in **Mexico** since the 1990s (PRONASOL, today labeled Oportunidades) and in **Brazil** since the first Lula government (Bolsa Familia, Fome Zero) have received the most accolades. Financed by the oil-export revenues, **Venezuela** applied the most expansive social policies, including a kind of parallel welfare system through so-called missions that aim directly at the poorest sectors of society (e.g., the parallel health care system that runs hospitals and basic care centers). Others, such as the Ortega government in **Nicaragua**, combined a number of measures through the promotion of focused social policies, programs to aid the grassroots economy, and the distribution of basic necessities via party-administrative organs.

In effect, however, the overall effectiveness of social safety nets is of course determined by the magnitude of outstanding problems in relation to the revenues available or budgeted. Classical social-security schemes are bound to the formal employment sector, thus broadly constricting access to welfare benefits in the majority of countries. Within the LAC region, only **Uruguay** with its long welfare-state tradition, **Chile** and **Costa Rica** possess relatively well-functioning welfare systems. By contrast, the **Dominican Republic, Guatemala, Haiti** and **Honduras** fall short of providing adequate welfare arrangements and sufficient resources. The again large middle group containing the remaining countries suffers from diverse shortcomings including increasingly constrained state budgets (Cuba), clientelism (which has sometimes itself resulted in reductions in poverty, as in Argentina), political favoritism and large-scale corruption (Venezuela). In sum, the social-welfare networks designed to address old age, illness, unemployment and disability in Latin America are somewhat developed, but do not cover all risks for all strata of the population.

Admittedly, poverty has been reduced visibly across the sub-region, but doubts regarding the long-term effectiveness and sustainability of such policies remain. In addition, a significant portion of the reduction in poverty and inequality has been attributable to the overall economic dynamic, and particularly the labor market. In other words, a potential China downturn could produce effects like those already seen in **Costa Rica**, **the Dominican Republic** and **Guatemala.** Finally, many of the existing structural barriers persist unchanged, including generally low taxation ratios with a high share of indirect taxes, and the fact that government expenditure in the 2000s had a neutral or even regressive effect in most countries. This adds to the problems resulting from the magnitude of the informal sector in many countries, a widely known problem that is especially important due to its consequences for the provision of social security. However, changes seem slow, despite resolute political efforts in some countries with huge informal sectors, such as **Bolivia** and **Peru**.

With respect to the **United States**, the overall record and trends in social policies addressing poverty and exclusion seem to be even worse – though of course within the context of a high level of national income. Traditionally, the United States has a strong culture of individualism that leaves matters of welfare predominantly to market mechanisms, charity and the ability of individuals to care for themselves. The corresponding traditionally high levels of economic inequality have increased in recent years, particularly affecting single mothers, individuals over 60 years old, and blacks and Hispanics. With regard to the difficulties in introducing more extended basic provisions of social security, the controversies surrounding the so-called Obamacare universal health care insurance program are emblematic. **Canada** presents a picture of greater equality, as most social policies support societal inclusion and ensure equal opportunities. The high primary inequality decreases considerably after taxes and transfers, though problems remain particularly with regard to immigrants and aboriginal Canadians.

Huge differences between north and south are particularly evident within the region's educational systems. While the United States and Canada provide for rather advanced basic, secondary and tertiary education, in Latin American countries educational systems perform mostly at a mediocre or poor level, and remain among the most significant bottlenecks to greater inclusiveness. Despite increased spending during the past decade, quality remains rather poor except in **Costa Rica, Cuba** (which nevertheless shows a clear downward trend) and **Uruguay**. The transition from secondary to tertiary education in this respect marks the crucial threshold that renders social advancement difficult – and thus reinforces inequality. The problems presented by educational systems have increasingly taken a place on political agendas, in large part driven by protests among the new middle classes demanding greater responsiveness and better services from their representatives. Most countries have embarked on reforms or have sought to restructure their educational systems, often including measures to provide for greater educational opportunities, but significant results will likely be seen only in the medium term.

Over the last two decades, migration has increased considerably throughout the region – predominantly moving from south to north, but in more recent years also inside South America more broadly. This latter phenomenon has been due to the greater attraction of booming countries such as **Chile** and **Brazil,** but also due to the economic crisis affecting traditional destination countries such as **Spain** (indeed, many Latinos have returned to Latin America – and with them a considerable number of Spaniards). According to the International Organization for Migration (IOM), there are about 60 million international migrants in the Americas, most of them in North America (50 million). The phenomenon is multifaceted and includes labor migrants, legal and illegal migrants, those who simply flee from dire living conditions and violence, children who are sent by their parents to save them from misery or death, and trafficking in human beings by mafias for the purposes of labor exploitation across the entire region or for the sex trade for Mexican bosses or North Americans. As in other regions, migrants are commonly employed in sectors with the highest level of irregular and precarious employment.

The large bulk of intraregional migration has been from **Central America** and **Mexico** to the **United States**, where almost half of resident immigrants stem from this sub-region, despite often painful journeys. About one-third of immigrants into the United States are illegal, where they are mostly accepted despite difficulties in gaining legal status and obtaining equal rights. However, political efforts are being made both in the south and the north to resolve the problems associated with immigration. For example, Chilean governments have given serious consideration to immigrants' rights, with the Piñera government facilitating immigrants' access to state protection systems and ensuring equal opportunity in the labor market. Finally, a number of countries depend heavily on remittances from migrants abroad to help mitigate domestic social disparities and unease; this is true above all of Central American countries such as El Salvador, but also includes Cuba.

Projections (2015-2030)

Market Access

No major changes are expected with regard to market access, apart from a progressive elimination of certain largely obsolete barriers by countries such as **Brazil**. Even if new governments are established in the countries today regarded as "market critics," no sudden change in the role of the market can be expected. In the best-case scenario, those states will find a balance between "populist" achievements (or demands) and market-economy requirements. Provided that resources are sufficient, this balance can indeed entail the progressive consolidation of social policies that characterize liberal democracies based on market economies with appropriate social safeguards. In this (optimistic) view, chavism and kirchnerism as a counter-force to "savage capitalism" may have contributed to a new stage in Latin America's pattern of development – provided that the countries' elites are capable of constructing the consensus required. In addition, new governments in favor of the market economy may provoke changes in regional alliances, perhaps as a consequence of the weakening of the ALBA regional integration mechanism. This will in turn open possibilities for strengthening economic regionalism in Latin America.

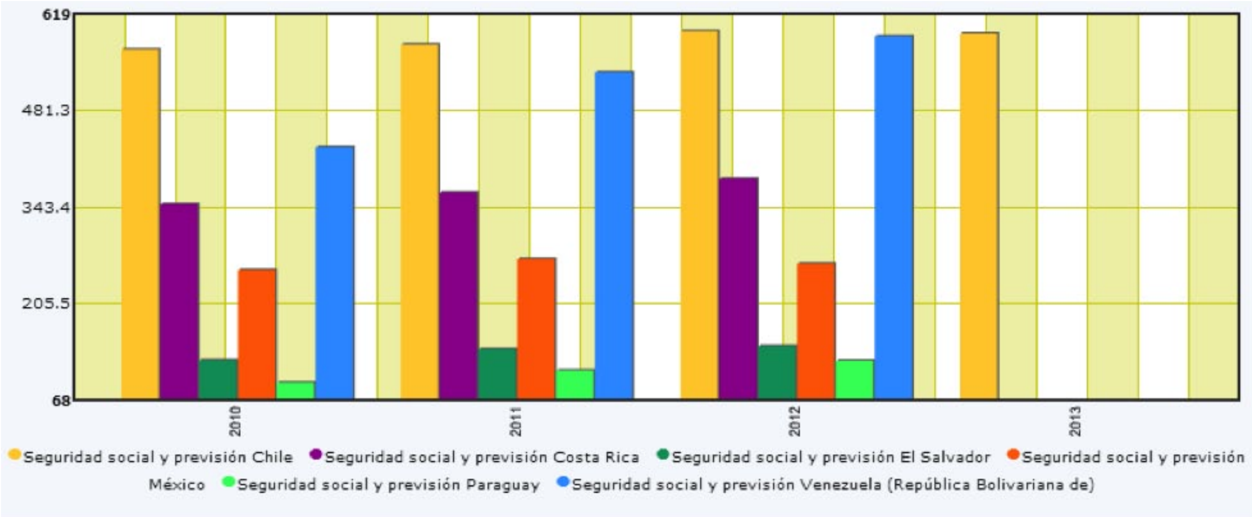
Greater use of public-private partnerships (PPP) may appear as a stable trend in the next few years. Along with some nationalization processes in South America, some states are increasingly opting to establish partnerships with the private sector for functions such as building and operating public infrastructure, particularly large-scale projects such as roads, railways, ports and dams, and even for exploiting mineral deposits. In this regard, Chinese companies (mostly enterprises that are state-owned or linked to the state in some way) have played a leading role. Key examples include the construction of a canal in **Nicaragua** by a Hong Kong company linked with the Chinese government, the construction of a railway line connecting the Brazilian Atlantic coast with **Peru**, and the exploitation of the Vaca Muerta oil field in **Argentina** through a partnership between YPF and SINOPEC.

Inclusiveness & non-discrimination

The volatility of international mineral prices and subsequent economic contractions will likely threaten budgets in many countries in the region, with social investment programs being particularly vulnerable. Social policies implemented in recent years, such as conditional transfer programs and programs aimed at improvements in health or access to drinking water, as well incentives for technical education, are thus at risk. This is indeed one of the key challenges for the region from a democratic perspective.
The region's countries currently show gre

at variation with regard to current states and expected trends. The good performers and the runner-ups show the best chances for improvements, as they will respond to civil-society demands for greater inclusiveness or improved education. However, a dramatic economic downturn could alter this prognosis. In the case of the market economies with major flaws, some – particularly Bolivia and Ecuador – may be able to consolidate gains if export revenues continue to accrue, while the rest will likely face stagnation and maybe even crisis, with effects such as further emigration. The market critics will probably face political turmoil, particularly as they show themselves unable to maintain current social policies and subsides. Haiti will continue to be the region's most problematic case for many years to come.

Graph 1
Social public spending per resident (total and by sector)
Dollars at constant prices (2005)



In this context, the sustainability of pension systems represents one of the major problems facing the region. A demographic shift due to improvements in living conditions (thus an increase in life expectancy) and a decrease in birth rates coupled with a high rate of unemployment, underemployment and informality will indeed put increasing pressure on pension systems.

Migration patterns will become more complex. The traditional north-south flows (mainly Central America – United States and South America – Europe) will remain, with increasing reverse movements taking place. As some LAC countries experience periods of economic dynamism (**Panama, Colombia** or **Peru** are already in this group), south-south migratory flows will increase, particularly within Central America. An increase in north-south migration is also expected, with some professionals from countries such as Spain already seeking better job opportunities in the region. The relationship between personal skills and opportunities, in the skilled as well as less educated segments of the population, will increasingly determine migration flows.

III. Management and policies

1. Strategic capacity & Efficiency (2000-2015)

The majority of governments across the region are pursuing economic policies aimed at monetary stability, with fiscal and debt policies supporting macroeconomic stability. Particularly strong performers include **Brazil, Chile, Peru** and **Uruguay**, but most others – including **Bolivia** and **Ecuador** – showed at least a satisfactory policy performance. In recent years, several countries such as the **Dominican Republic** and **Jamaica** encountered notable difficulties in maintaining a manageable budget deficit. Some countries – led by Chile, with its structural-budget-surplus rule – have introduced regulations forcing their governments to guarantee balanced budgets at least in the medium term. In addition, stabilization funds have been set up to provide financial cushions in times of crises. During the downturn following the financial crisis, these cushions were widely used to support countercyclical policies designed to stimulate economic activity. In addition, some countries with federal-state structures have also imposed debt limits on subnational governments with the aim of controlling public expenditure overall.

However, there are also clear underperformers that for a variety of reasons show pronounced weaknesses with regard to stability policies. In Latin America, **Argentina**, **Cuba, Haiti** and **Venezuela** in particular have failed to achieve either monetary or macroeconomic stability, or in some cases both. While Haiti's weakness again stems from its precarious stateness and very low development level, Cuba's still predominantly state-centered economy has apparently reached its limits, leading to a constrained budget and difficulties in maintaining its dual currency. In Argentina and Venezuela, governments have increasingly engaged in state interventions, seeking to manipulate exchange rates or inflation figures, while also failing to enact transparent budget policies. In both countries this will be a major impediment to overall stability in the coming years, with the situation aggravated further in Venezuela due to the steep decline in oil prices.

While **Canada** has performed rather solidly in recent years, with comparatively low budget deficits and low overall public debt, the **United States** has increasingly encountered difficulties in designing and implementing solid stability policies. While currency stability is still not a serious issue, the budget deficit and the country's long-term debt remain problematic. Apart from structural factors such as a fast-aging population, any efforts to develop sound and sustainable budget and debt policies have been impeded by the strong polarization of the two dominant political parties, which have failed to find a consensus path forward – either by cutting expenditures (Republican demand) or by raising revenues via higher taxes (Democratic demand). However, there are signs of economic recovery and moderate growth today, and the budget deficit in 2014 had declined to 2.8% of GDP – down from such unsustainable heights as 8.4% in 2011, 6.7% in 2012 and 4.1% of GDP in 2013.

In contrast to the rather successful management of monetary and macroeconomic stability, sustainability remains one of the weakest policy-performance aspects for governments in the region at large. With respect to the issue of climate change, this includes the **United States**, one of the world's most significant polluters – on an absolute basis as well as per capita (the country is the worst performer among the OECD countries, and per capita remains far ahead of **China**). Certain political forces and a considerable portion of the population in the **United States** continues to deny the existence of global warming. On the other hand, United States governments at both the federal and state levels have pursued environmental policies to an increasing degree at least since the 1970s, and have implemented solid regulations. In addition, at least at the state level, the use of renewable energy has been promoted with increasing consistency in recent years. **Canada** too has shown increasing difficulties in reconciling the goals of environmental protection and economic development, with recent laws shifting the focus more to the latter pole. Moreover, the government has underreported the country's carbon emissions, which are expected to soar by 38% by 2030, mainly due to the expansion of tar-sands projects.

In Latin America, only a handful of countries have embarked on (however deficient) sustainability policies as such. **Costa Rica** and **Uruguay** have led the way in this regard, followed to a lesser extent by **Brazil, Chile** and **Peru**. Most countries have not implemented consistent environmental policies. Instead, environmental concerns receive only sporadic consideration and are generally subordinated to growth efforts. In addition, prospects for environmental sustainability are somewhat clouded, as a number of governments have sought to stimulate economic growth through major environmentally questionable projects. This is particularly the case in **Ecuador** and **Peru**, where large mining projects have triggered considerable social protest as a result. Even countries such as the **Dominican Republic** and environmental paragon Costa Rica have increasingly struggled with renegotiating the trade-off between economic growth and ecological concerns.

In terms of education and R&D, two policy aspects widely considered to be critical drivers of future-oriented economic and social development, there is still a huge gap between **North** and **South America**, and between **Latin America** and the **OECD countries**. As noted in section II.2, education (and education policies) remain a weak point in terms of development policy south of the Río Grande. This has negative consequences in terms of social development and social justice, but also represents an impediment to the productive transformation of Latin American economies. This set of problems is further aggravated by the low level of innovation compared either to OECD countries or to competing economies such as South Korea or China. While the use of information and communications technologies (ICT) has made significant progress over the past decade, investment in R&D remains rather low, or even negligible in some countries. With the exception of **Brazil** (where R&D accounted for about 1.2% of GDP in 2011), all Latin American countries are far below an investment rate of 1% of GDP, with **Argentina** (0.65% in 2011) and a few other countries hovering around 0.5% (**Chile, Costa Rica, Cuba, Mexico** and **Uruguay**). Indeed, more worrying is the fact that all Latin American countries are far from the investment rates shown by potential global competitors such as South Korea (4% in 2011), Singapore (2.2%) or China (1.9%). According to the Global Competitiveness Report 2014 – 2015, Latin America lags significantly behind in terms of "technological readiness." Among the 144 countries ranked in this report, only **Costa Rica** (rank 40), **Chile** (rank 42) and **Uruguay** (rank 46) are ranked in the upper third, and only six countries fall into the upper half (with **Panama** at rank 53, **Brazil** at rank 58 and **Colombia** at rank 68).

Consequently, according to the OECD's Latin American Economic Outlook 2015, substantive education and innovation reforms are required in order to "ensure equal opportunities for access to a complete, high-quality cycle of education and a workforce with better skills thanks to better matches with the labor market." These should be complemented by more stringent measures to promote formal employment, as the large informal sectors in most countries represent a severe impediment to greater economic and labor-market dynamism. In the absence of such measures, most Latin American countries will be caught in the so-called middle-income trap, in which GDP growth slows once an intermediate level of development has been reached.

The above-noted strengths and weaknesses also stem from the fact that not all countries in the region pursue consistent long-term development strategies. To some extent, this even includes the **United States** (due to the lack of consensus on debt and social security) and **Canada** (due to its environmental policies). With respect to Latin America, governments in **Brazil, Chile, Costa Rica, El Salvador** and **Uruguay** have not only demonstrated consistent development strategies, but have also proved rather effective in utilizing external support for its implementation. Only a few countries (A**rgentina, Cuba, Haiti, Nicaragua** and **Venezuela**) fail to devise consistent strategies or to use support effectively. The remaining Latin American countries, among them **Colombia, Mexico** and **Peru**, though basically pursuing long-term strategies oriented toward the development of the market economy and the advancement of social progress, are still struggling to reconcile contradictory goals or achieve broad consensus.

2. Consensus-building (2000-2015)

While **United States** and **Canada** are not transformation countries as such, and the primacy of the market economy as a strategic, long-term goal in these countries has long been established, a few remarks on consensus-building are necessary, particularly in the U.S. case. The growing intensity of highly polarized and ideological conflicts between the two key political parties, the Democrats and the Republicans, has contributed to an ever-weaker ability to reach consensus on issues of national importance, at least in a medium-term perspective, and has had far-reaching effects for international and global governance.

In Latin America, profound differences can be found regarding the appropriate means of pursuing economic and social development. At times, even in some countries with strong consensus regarding normative goals, there is still debate about the degree of appropriate state intervention or market freedom, which might be classified in classical moderate right vs. moderate left terms. In countries lacking a general consensus, however, more distinct differences are evident, sometimes with pronounced ideological undertones. This has led in various cases to temporary (**Honduras**) or even long-term and deep (**Venezuela**) polarization. Nevertheless, in most countries the degree of consensus – regarding democracy as well as the market economy – is considerable. For example, it is strong in **Uruguay** and **Costa Rica** (though debates on fundamental issues occur from time to time, as has been the case with the DR-CAFTA issue) and rather strong in **Brazil, Chile, El Salvador** and **Jamaica**, where strong debate over the appropriate type of welfare policies takes place, but without calling the basic normative orientation into question. Though a considerable degree of consensus remains, major divisions are evident in countries such as **Colombia, Honduras, Mexico** and **Peru**. **Argentina** again remains a rather special case – and perhaps in the near future a problematic one – as during the past 12 years of “kirchnerismo,” politics have become increasingly personalized, characterized by simple power struggles that have eschewed programmatic debate. In 2015, a conservative candidate who will likely favor market-based policies, Mauricio Macri, was elected to the presidency. However, given the lack of a government majority in Congress and a strong Peronist opposition that remains undefined in strategic terms, any success will depend on both sides' ability to break the cycle of "non-consensus-building" which has prevailed since the country's return to democracy. Finally, sharp divisions and a rather low level of consensus can be found in **Bolivia** and **Haiti,** to a greater degree in **Ecuador** and to an extreme degree in **Venezuela**. Given the authoritarian nature of the Cuban regime, consensus-building in a democratic sense does not take place there.

Apart from the normative consensus among political elites and strong interest groups, the shaping of economic policies in the region generally takes place without the participation of civil society, whose influence is rather limited in practice and significant in only a few countries. Traditionally, during considerable portions of the 20th century, economic policies were designed and implemented by the governments and their ministries; this usually involved consultation with employers' organizations, to some extent with unions as well. In can be regarded as a significant shortcoming that during the era of neoliberal reforms, so-called technocrats often developed and implemented policies in isolation from (or over the protests of) civil society, at best consulting with employers or international advisors. In most countries, employers' associations today still wield the greatest influence of any civil-society element. However, this scenario has been somewhat mitigated since the 2000s with the rise to power of moderate or in some cases radical leftist parties, which have often come with the support of diverse civil-society groups. The most prominent (and broadest) example of consultation has been that of the Lula governments in **Brazil**, whereas the more radical leftist governments of **Venezuela** showed a decreasing willingness to consult with civil-society groups over time. Along with Brazil, significant civil-society participation occurred only in **Uruguay** (through mechanisms such as the National Dialogue on Social Security), and to some extent in **Costa Rica** and (despite strong political bias) Evo Morales' **Bolivia**. However, more than a third of Latin American countries have severe difficulties with or even reject civil-society participation.

Both **Canada** and the **United States** by contrast have a long tradition of participation and societal consultation across a diverse range of issues. In Canada, this centers most significantly on the annual budget; however, major exceptions with regard to inclusion in this process are evident particularly in the case of the indigenous population. In the United States, consultations are even more densely organized at various stages of the policy cycle, though the presidents may have different strategies vis-à-vis civil society (ranging from comparatively polarizing, as was the case under the second Bush, to a more consensus-based orientation, as sought by Obama during his first term).

Projections (2015-2030)

Strategic capacity & efficiency

The group of good performers will likely not experience any problems in terms of public budget management, with the exception of the United States, whose debt and regulatory problems will persist if not worsen. In the case of the runner-ups, improvement will to a great extent depend on external conditions, and particularly growth within the global economy at large. In countries with major flaws, **Bolivia** and **Ecuador** show the best prospects, again assuming that revenues remain strong and international raw-materials prices avoid a dramatic decline.

Socio-environmental conflicts have been common throughout Latin America, and are likely to increase in frequency in the coming years, particularly since environmental concerns will remain subordinated to economic growth and/or social progress. The **United States** and **Canada** are not good examples in this regard. These conflicts will mainly be linked to FDI projects in extractive industries and large-scale agriculture. No country has been free of such c conflicts in recent years, with controversial projects having effects such as the contamination of soil, rivers and seas, and the destruction of sustainable sources of work.

There are some positive trends regarding sustainability, but these are concentrated mainly in a few small Central American countries. **Costa Rica** leads here, followed by **El Salvador** and **Guatemala**, which have committed to a gradual change in energy-production pattern toward cleaner forms such as wind-energy systems and geothermal, hydropower and solar energy.

Consensus-building

With regard to public budgeting and the management of public funds, some good examples of using innovative mechanisms to promote greater societal participation are evident, despite obvious counterexamples such as **Venezuela** and **Argentina**. In some cases, this has been a result of mass demonstrations expressing dissatisfaction with existing macroeconomic policies or the improper use of national funds. The question here is whether these innovative practices will be able to put an end to or at least mitigate negative trends in the social and environmental spheres.

The progressive implementation of information technologies is leading to stronger external monitoring of government actions and more public participation, both in the social and economic realms. Social networks, new digital-media organizations, citizen journalism and the progressive digitization of government records will contribute to more transparency and accountability. However, states are operating in an increasingly complex global environment, rendering the design and implications of public policies correspondingly complex, particularly with regard to interactions between governance and the market economy. This may diminish the influence of citizen initiatives over time.

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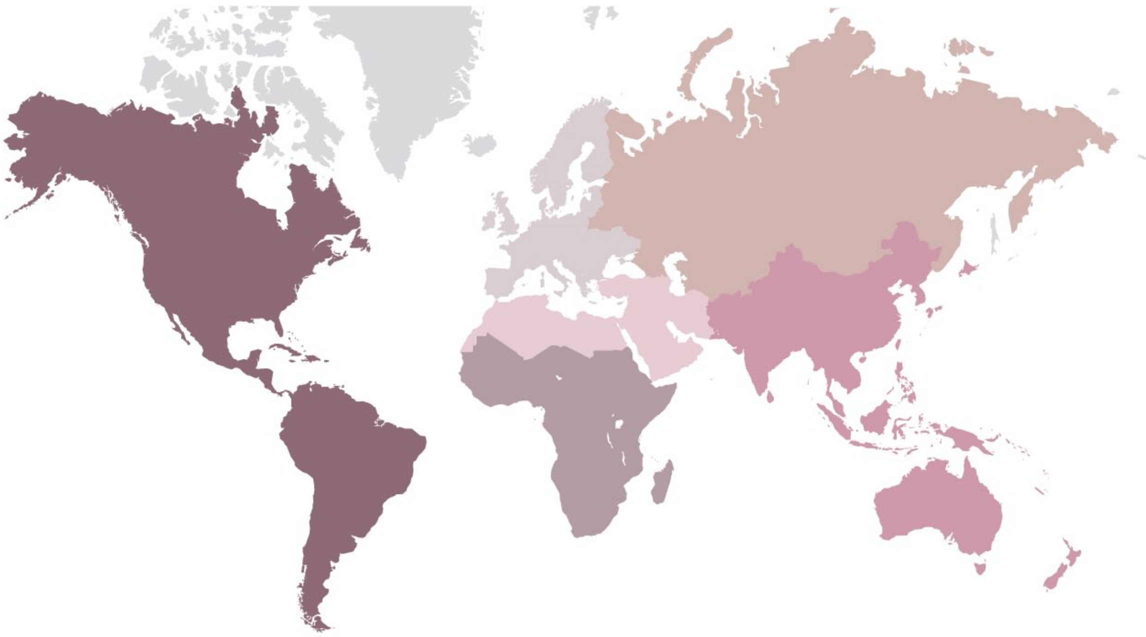

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