

# LATIN AMERICA MOVING FORWARD

## GOOD NEWS WITH MANY CHALLENGES

*José Miguel Insulza*

**I**N the past decade, Latin America enjoyed an extended period of good news. After the many dictatorships that plagued it in the 1970s and 1990s, and after the continued economic crises that affected several countries until the turn of the twenty-first century, this good news brought along a new sense of optimism.

The primary reason for this optimism has been economic and social growth. After the fears and uncertainties triggered by the 2009 Great Recession, the region's economies soon began to show vigorous growth, with higher figures than those prevailing prior to the crisis, and with all countries showing positive figures (though much more vigorous in some than in others). All in all, growth in Latin America has been substantial, and has been coupled with the considerable strengthening of democracy.

It is not only the period of growth that is the cause for celebration, but the fact that our region continued to grow during trying times for the global economy. From 2003 to 2008, the region had already grown by over five percent a year on average; after 2009, though rates were lower, Latin America successfully escaped the Great Recession. The fact that its pace of growth bounced back so quickly spurred optimism. All told, Latin America grew, from 2003 to 2012, more than in the two previous decades put together.

Higher economic growth has made it possible to reduce poverty and enlarge the prospects for a better life for many of the continent's inhabitants. During the past decade, we saw poverty rates drop significantly. Tens of millions of Latin Americans moved out of poverty and a large number of jobs were created. A vigorous, industrious middle class also emerged, a key factor of Latin America's progress over this decade.

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Recent reviews of the Millennium Development Goals by a group of United Nations agencies, coordinated by its Economic Commission on Latin America and the Caribbean (ECLAC), reveal that important advances have been made in most indicators, although it appears that some of the poorer countries are being left behind.

A large part of this success has to do with the political situation, which was one of the reasons most frequently cited for our inability to cope with previous crises. Though democracy had steadily returned to the region throughout the previous decades, there were several political conflicts, and many governmental terms ended prematurely. In the framework of a much improved environment of political stability, the quality of the macroeconomic policies developed by our governments before and during the Recession greatly improved. With few exceptions, most countries acted with fiscal prudence and accumulated reserves needed to implement anti-cyclical policies to mitigate the impact of the economic slowdown and loss of jobs. The Latin American banking sector proved to be much less exposed than U.S. and European banks. As a result, major rescue operations entailing excessive government spending were not necessary.

In other words, as almost never before, the crisis came from outside, and internal public policies played a positive role in

mitigating it. In addition to the fact that this is an important reason for the reigning optimism, it shows that, with all the weaknesses of our respective governments, their action is not only indispensable, but it can also be effective in dealing with approaching challenges. This time, government may be part of the solution.

### DEMOCRACY ENTRENCHED

**T**he opportunity before us comes at a time when democracy has unquestionably been on the rise in our region. In the last four Summits of Heads of States and Governments of the Americas, all the leaders that were present had been elected democratically. That is a far cry from previous decades, when the "national security" dictatorships that constituted a majority in South America and the civil wars in Central America filled the region with a majority of illegitimate governments, where human rights violations were rampant. Coinciding with the end of the Cold War, a large process of democratization took place in all Latin America, with democracies appearing or reappearing all over the region.

The first key requirement for democracy—without which the others are meaningless—is that the legitimacy of government originates with and is based on the will of the people. Democracy involves elections and democratic practices on the part of elected officials. From this perspective, we can say that the Americas represent the other democratic continent

in the world, together with Europe; this, in and of itself, is the greatest historical achievement of recent decades. Governments are freely elected, and power regularly changes hands among different political groups, without resulting in significant disruption. I can speak from experience here, since in just the past nine years, the Organization of American States (OAS) has observed over 100 elections of all kinds in different countries of the region. Every single one of them has more than fulfilled the requirements for a democratic election.

However, the extension of the democratic ideal has given the concept a broader content—one that also includes a series of values related to the organization of the state and the rights of citizens. The recognition of this extended concept of democracy was the result of the democratic consensus that arose in the region in the late 1980s and early 1990s. After the “democratic wave,” democracy was no longer defined as an “aspiration” of the peoples of the Americas, but as a “right” of those peoples and an obligation of all their governments.

This has been the trend since the adoption of the Declaration of Santiago by the Assembly of the OAS in 1991—

strengthened by the signature of the Inter-American Democratic Charter (IADC) by all its member states in Lima, Peru, on September 11<sup>th</sup>, 2001. Democracy is now defined as being based on both origin and practice: in order for a government to qualify as democratic, it must be democratically elected and must also govern in accordance with the principles of democracy.

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The IADC includes among those principles, *inter alia*, periodic, free and fair elections based on secret balloting and universal suffrage, respect for human rights, exercise of power in accordance with the rule of law, a pluralistic system of political parties, the separation of powers and independence of the branches of government, freedom of expression and of the press, and transparency of government activities.

Probably no democracy in the world fully meets the standards set forth in the IADC. Actually, the IADC was conceived as a standard-setting document—as an ideal that we aspire to and that can always be improved upon. It enables us to compare its principles with the actual political situation in our region, to see how far we have gone in building democracy and democratic practices

among citizens, and to see whether the risks of backsliding or destroying it are still present or not.

The historic development of democracy is not linear, but sprinkled with advances and setbacks, which in many cases are normal symptoms of a complex process, whereas in others, may constitute actual breaches of the foundations of democracy.

In a region that has always spoken about democracy but has practiced it much less, it is only natural that many processes seem flawed or insufficient. This should not discourage us, but rather make us persevere in our goals and try to achieve them through cooperation and understanding—and not by coercion, which has always proved negative in the Americas.

We have already said that electoral processes have made considerable headway. Real power centers still remain in part, especially in the economic arena, but are greatly reduced in military and religious spheres. Even if inequalities of race and gender persist as objective factors of poverty and discrimination, there has been considerable headway in almost completely eliminating them from our laws. From the 1990s onwards, basic consensuses were formed, giving rise to democratically elected systems, to respect for minorities, and to significant advances in the area of human rights.

In recent years, governments have also increased their staying power. A few years ago, many of them ended before the conclusion of their term of office. From 1990 to 2005, 18 elected governments ended their mandates prematurely (by coups, resignations in the midst of severe upheavals, or impeachments). From June 2005 to the present day, only two such events have occurred. These two situations were exceptional and different from each other; but the balance of the past decade shows that governability has greatly improved in Latin America.

However, big challenges remain. In the rest of this essay, I will put some of them forward. The size and relevance of these challenges may seem to cast a shadow on the progress we have proclaimed. This would be a wrong interpretation. Latin America is now a much stronger region than it was at the beginning of the twenty-first century. It should be able to confront its challenges with stronger democracies and improved governance.

#### SUSTAINING GROWTH

The first challenge is achieving stable sustainable growth. The present cycle of growth, though supported by good economic policies, has been based on the good prices of commodities that have grown at a much larger pace than the general economies.

This trend seems to be coming to an end. The ECLAC recently lowered its estimate of growth for the region this year to 2.2 percent, following similar predictions by other international economic organizations. Even though forecasts for next year are mildly better, those rates are the lowest in several years—except for 2009—and are below those projected for the world economy as a whole, and for other emerging and developing economies in particular.

All this has happened before in Latin American history; periods of high growth followed by long periods of stagnation or low rates of growth. Several reasons have been given for those negative cycles: lack of sustained internal investment, adequate infrastructure, and a well-trained labor force; accompanied by excessive accumulation of wealth by a small upper class more prone to consumption than to productive investment.

Most of these limitations still exist in the region today. Savings and investments are still inadequate, and have negative repercussions on job creation. Even though exports have grown enormously in the past period, Latin America is not yet fully inserted in the global economy, and sub-regional economic integration processes seem to have stagnated in the past decade.

Export diversification, improving productive sector competitiveness, and

debt sustainability are essential to the region's long-term growth prospects. Strengthened horizontal cooperation, sharing of best practices, and the adoption of initiatives geared toward improved public policies and institutional capacity building are key to supporting the advancement of national development objectives. So too is ensuring that micro, small and medium-sized enterprises (MSMEs)—which account for more than 90 percent of all businesses in the Hemisphere and employ close to 70 percent of workers—are fully integrated into the productive fabric and development calculus of countries.

Trade has also grown substantially over the past 20 years. Over 80 free trade agreements have been signed by the countries of the Americas since 1994. The success of intra-regional trade agreements is such that by 2015 these agreements will have freed more than 95 percent of the covered products at the regional level.

Moreover, the sum of exports and imports of goods and services as a percentage of GDP has risen significantly, particularly among the larger economies, which were relatively closed in the early 1980s. Expressed as the export and import share of GDP, the trade openness of Latin America and the Caribbean increased from 23 percent in 1980 to 51 percent in 2010. Central America stands out for its greater degree of openness (83 percent in 1980 and 94 percent in 2010), followed by

the Caribbean (approximately 65 percent in both years) and Mexico (16 percent in 1980 and 65 percent in 2010).

To reap the benefits of the deeper trade integration achieved within the Hemisphere and with the world over the past 20 years, Latin American countries must achieve greater productive integration. The region has had little involvement in international production chains. Intermediate goods account for only 10 percent of exports to destinations both within and outside the region. In contrast to East Asia and Southeast Asia, intra-regional trade in Latin America remains dominated by trade in final goods. The rapid growth of Asian intra-regional trade has been closely linked to the increasing geographical fragmentation of production along value chains, and has therefore been characterized by strong growth in trade in parts and components.

This pattern places Latin America outside the arrangements for industrial organization that prevail worldwide. Global value chains also offer opportunities for small and medium-sized enterprises (SMEs) to enhance their participation in the segmentation of production now underway in the world economy. Through such participation, SMEs can expand their horizon of activity, diversify risks and investments, create jobs, and reduce their dependency on domestic markets.

On the trade front, we are now experiencing a new phenomenon in Latin America: a desire for deeper economic integration associated with stronger ties with Asia. This is the case in the emerging markets of Peru, Colombia, Mexico and Chile, who together launched the Pacific Alliance in April 2011. The main objective of the Alliance is to move towards the free movement of goods, services, capital and people among member countries, and to strengthen trade and investment ties with Asia. With a population of 215 million people, these four countries last year accounted for 35 percent of Latin America's GDP and 55 percent of its exports. Its members are among the fastest growing emerging markets of the Hemisphere, expanding above the regional average growth. If Mercosur is able to pick up speed again in the next years and join forces with the Pacific Alliance in a constructive way, Latin American insertion in the world economy would be greatly improved.

Nevertheless, none of these conciliated efforts mean that Latin America will not continue to be the most important mining, energy and agricultural exporter in the world. The region has been blessed with an enormous endowment of natural resources. Some of those resources are renewable: we have the largest reserves of water in the world, fertile agricultural lands and great biodiversity. Several of our countries enjoy proven large reserves

of minerals, natural gas and oil. There is no reason why we should not exploit those resources for the economic and social development benefit of our peoples.

But this resource abundance carries also a great responsibility, with regards to the future of our peoples and our duties with the world society at large. This is why sustainability is such an important issue for Latin America in these times. While the region is by no means the one faced with the most serious environmental problems, it is clear that deforestation, the melting of glaciers, air and water pollution and other hazards continue to grow, menacing the quality of life of our peoples. The pace of urbanization has given rise to megalopolis in several countries, and this concentration of population, together with the vast deterioration of water and sewage systems in the cities, is a serious challenge the region must face.

**POVERTY AND INEQUALITY**

Poverty and inequality continue to be the prime factors holding Latin America back. For many years now, we have been contending that, in addition to the weaknesses that still exist in our institutions and political practices,

the full exercise of democracy in the Americas suffers from severe inequality, which is not only undermining democratic coexistence but also preventing sound growth.

We are long past the time when it was thought that the interaction between democracy and the market economy would reduce inequalities. On the contrary, the huge injustice prevailing in our countries in terms of the distribution of wealth and access to social assets does grievous harm to the democratic fabric. Although over the past decade the number of poor persons has declined substantially, many of those who have taken this important step out of poverty must still tackle extremely precarious conditions.

A recent study by Nancy Birdsall and Nora Lustig estimates that one-third of Latin America's entire population lives in households with incomes ranging from \$ 4 to \$ 10 a day. These "strugglers" have already left behind the poverty that still afflicts more than 167 million Latin Americans, but to call them "middle-income" sectors, as some do, makes little sense. In fact, there are many millions of "non-poor" people who are in an income range that still makes them extremely vulnerable.

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As we shall see, a large part of the recent alarm about inequality has focused on its economic aspects, especially income distribution. But although the way in which material resources are being distributed lies at the heart of inequality and exclusion, it must be pointed out that these issues also encompass other areas of social activities, whose origins oftentimes do not lie in greater or lesser poverty. The social subordination and exclusion of the indigenous peoples of the Americas, for example, did not arise from any prior economic backwardness, but were the result of the violent appropriation of their wealth and the use of force to dominate them.

The fact is that over a quarter of Latin Americans continue to live in poverty, and this is not consistent with a region of our level of development. One must add the fact that a very small minority of the population accounts for the largest part of national income, which does not fit with our democratic discourse. Neither tax systems nor labor laws have been reformed to provide for better distribution of wealth, as shown by recent OECD studies on the virtually zero change in the Gini Coefficient after taxes in Latin America.

Poverty is accompanied by discrimination; poverty is associated with race, gender and other conditions. In Latin America, the indigenous poor, the Afro-American poor, poor persons with disabilities, and poor female heads of household are the true reality of our poverty.

As political democracy develops, segmented and unequal societies are being defined on a social and economic plane, on common ground where some observe the ostentatious consumption of others and lack the capacity to imitate them. The higher-income minority enjoys the benefits of education, health, and private security, to which the rest do not have access while being aware of them as social goods. Such categorical differences are per se a permanent and systemic threat to a political system such as democracy, based on social mobility and equal opportunity. And since these types of inequalities can be found in all of the Americas, and seem to be growing both in the North and the South, they qualify as the main challenge for democracy, not only for Latin America, but for the whole hemisphere.

**CRIME AND DRUGS**

Latin America has remained, for the last 80 years, a continent of peace. A few skirmishes among neighboring countries cannot obscure this great achievement. The region is also fully respected as a Nuclear Free Zone. But while war is not a threat and most probably will not be in the future, several countries in the region are plagued by crime.

A general feeling of public insecurity has become a major concern of citizens in our Hemisphere. The rates of crime across countries are very uneven, but some Latin American and Caribbean countries have crime rates four times

as high as the global average. The increase in drug trafficking, with its related crimes of money laundering and other highly lucrative criminal pursuits, such as arms trafficking and trafficking in persons, has given rise to actual criminal corporations that are in conflict with each other for control of areas of our territory, while also defying the monopoly of force of the police and military.

Drug trafficking has been mentioned as the main factor for the increase in crime, especially organized crime. And it is true that in the Americas the drug business covers the whole cycle, from the crops of coca leaves in the South to the big money and consumption in the North. The drug cartels and its associates generate a total income of \$ 151 billion every year. Their illicit activity has given rise to large criminal networks that have expanded their activity to areas beyond the production and sale of drugs, and including illegal gun sales and smuggling, piracy and contraband, human trafficking, prostitution, illegal mining, kidnapping, extortion, and other illicit activities. These criminal actions derive into mass murder, executions, money laundering and corruption—severely affecting governance and creating public fear, especially, but not only, in the areas in which they operate.

We must stress once again that this is not, by far, the situation in all Latin America, for many countries have lower

crime rates and are more able to cope with these threats. But it has become a major political problem everywhere, mainly because the people are afraid and concerned about it. And this fear is as much a threat to democracy as the danger itself, should democratic governments not persevere in their recent efforts to control crime, and specifically the action of organized crime, with efficiency and a much larger coordination among them.

### INSTITUTIONAL FRAGILITY

While our democracies are stable, the institutions are still very fragile, and this is a crucial problem for democratic governance. Latin American governments are under financed to properly tackle the serious problems they face. Our governments, in response to their citizens' needs (and exaggerated electoral promises), take on social and security responsibilities that they are not in a position to fulfill, because they lack the necessary resources, as well as strong and reliable institutions.

Government reform should, therefore, start with fiscal reform that will increase government revenue and, at the same time, become a legitimate method for redistribution of revenue, as occurs in the developed world. But this is often hampered by other weaknesses of democratic rule. The paradox here is that—while the majority of the people recognize the need for public policies—public trust for governments continues to be low.

In the context of a legitimate political struggle, the democratic fallacy that the majority has the right to change the system as it sees fit has been gaining force, and so leaders and parties tend to accumulate power and disregard the participation and rights of minorities. The justification for this temptation is always the need to “complete a task” or to deal with urgent crises in society. But if institutions and laws are changed for this reason, institutions are weakened, as is ultimately the democracy they claim to defend.

Several Latin American countries are in a constant process of review of their respective political institutions, and it gives cause for concern that this does not occur as a result of a legitimate desire to create a broader consensus and greater stability, but rather to exploit electoral advantages to preserve or enhance an administration's power.

As the late Guillermo O'Donnell pointed out some years ago, many of our politicians have great respect for democratic elections, but are uncomfortable with the notions of limits and accountability that are essential to democratic rule. Especially worrisome is the attempt to control the branch of government on which the very subsistence of the rule of law relies: the judicial branch. The tendency to judicialize politics is negative in and of itself, but if a political sector controls the judiciary,

it leaves its opponents defenseless and illegitimately alters the political equilibrium of society.

Similarly, control of the media poses a serious risk to democracy in societies in which effective freedom of expression depends on it. The first negative factor is the lack of access for the majority of citizens, due to the concentration of property in the hands of just a few persons or firms. Another one is the introduction of types of control that eliminate free opposition, on the legitimate pretext of breaking the monopoly of the media. Laws that fully guarantee the free circulation of ideas by all citizens can also set objective limits on the degree of concentration of the media that disseminate information in society.

Although political success has to do with results, these results cannot be the sole justification for changing the rules and seeking any way to prolong an administration in power. In a democracy, all power must have limits; otherwise, leaders would replace institutions, giving rise to new forms of *caudillismo*, which we have already seen too many times in our history. This period of our democracies has also seen, in most countries, a weakening of political parties and a centering on individuals. And even if these leaders are democratic, their successive reelections are not the best path to stable democracy in the long run.

## INSTITUTIONALIZING DEMOCRACY

Sustained growth and integration, poverty and inequality, security, rule of law and development of strong democratic institutions are the main challenges for success to be consolidated in Latin America in the time ahead. The word “challenges” must be emphasized, because what we need is to sustain and strengthen the positive path that we have started. The word remains as a positive assessment and a warning.

In one of his last publications—a book that bears the simple title *Democracy*—the eminent Charles Tilly referred to three large-scale processes that give form to democracy or, on the contrary, can represent historical setbacks destructive to democracy when they are prolonged or reappear. These are: suppression of power centers outside the government, elimination of inequalities between categories—i.e. rigid divisions between social sectors—and the generation of “trust networks” within society. Taken together, they can sustain or retard a process of democratic institutionalization.

There is no doubt that Latin America has made important progress on the road to democratization. Many limitations can be attributed to the still short

time in which all these events have developed; democratic governments have taken a long time to develop in other regions of the world, and there is no reason to expect full success in the Americas in a few decades.

Nonetheless, the risks of de-construction (destruction) are there. The privileges that some people enjoy and the existence of social systems (health, education, and security) that are differentiated in terms of access and quality lead to the creation of distinct categories of citizens. Criminal groups today are a seed of independent power; they control their own territories, define their own laws and impose on others outside the authority of the state. In some countries, previously existing consensuses are giving rise to extreme political polarization, and this is not a good foundation for the urgent reforms required in Latin American states.

In short, although democracy has achieved major gains in the region, based on many constructive elements, the elements of its destruction exist alongside this strengthened democracy. Interaction between the two on the political front will determine whether our region takes advantage of the major opportunities offered by its recent successes. ●