South America’s economic and political landscape: recent developments and trends

By Alcides Costa Vaz

Executive summary

South America has experienced important domestic political and economic changes while facing important external challenges over the last 10 years. It took advantage of the favourable international economic environment before the 2008 crisis to strengthen national economies, promote growth, fight poverty and diminish economic and social inequality, although the corresponding reform of long-standing political practices and institutions proved highly contentious and a source of domestic instability in many countries. However, those achievements have been challenged by two trends: economic dynamism has been lost with the exhaustion of development strategies and the global financial crisis; and more demanding societies have increasingly criticised the performance of political institutions, mechanisms of political participation, government policies and politicians. This report analyses these trends and their differing expressions and impacts on the region to identify the most important defining features and challenges of its immediate and medium-term scenarios. It focuses on the region’s internal and external economic performance together with major political developments, particularly those derived from electoral processes and from growing societal outcry and criticism in regard to political institutions, practices and policies. The region’s political and economic prospects, and major immediate and medium-term challenges in both realms, are presented in the conclusion.

Over the past decade, South America has experienced important domestic political and economic changes while facing important external challenges such as the reassertion of U.S. hegemony, its shifting foreign policy priorities and patterns of regional engagement, the rise of China as a global economic power, the intention of emerging powers to reform global political and economic institutions and regimes, the 2008 economic crisis, the uncertainties regarding the prospects of economic and political integration in the European Union, greater demand for renewed and strengthened regional and global governance mechanisms, and the crisis of multilateralism. If, on the one hand, the region was able to take advantage of the very favourable international economic environment before the 2008 crisis to strengthen national economies, promote growth, fight poverty and diminish economic and social inequality, on the other, the corresponding reform of long-standing political practices and institutions proved to be a highly contentious issue and a source of domestic instability in many countries. Even so, the regional political landscape was significantly transformed by the upsurge of leftist governments, and new development strategies and instances of regional cooperation were successfully introduced. However, those achievements have been challenged by two major simultaneous trends: the gradual loss of economic dynamism dictated by the exhaustion of development strategies pursued over the last decade and the externalities of the global financial crisis, on the one hand; and the growing criticism by more demanding societies of the performance of political institutions, mechanisms of political participation, governmental policies and politicians, on the other.

This report describes and analyses these trends and their differing expressions and impacts in the region in order to identify the most important defining features and challenges of its immediate and medium-term scenarios. It is thus divided into two major sections. The first focuses on the region’s economic performance over the past decade and the domestic and external challenges it faces in this realm; the second considers major political developments, particularly those derived from electoral processes and from growing societal outcry and criticism in regard to political institutions, practices and policies. The major future challenges and the conditions that restrict the region’s prospects are presented in the conclusions.
An overview of South America’s economic performance: facing old and novel trends and challenges

South America achieved an average of 4% growth in gross domestic product (GDP) from 2003 to 2012 (ECLAC, 2014a), a performance largely based on the dynamism of its export markets, namely those in Asia, and on very favourable terms of trade performance associated with increasing commodity prices. The region’s very positive economic performance in that period was not severely affected, in immediate terms, by the 2008 global economic crisis; in fact, although regional GDP growth fell in 2009, it rebounded to an impressive rate of 5.9% in 2010, providing grounds for optimism about the region’s economic resilience and its immediate and medium-term prospects (ECLAC, 2014a). Since then, however, South America’s economic performance has continuously lost momentum: GDP growth declined to 4.5% in 2011, 3.9% in 2012 and only 2.6% in 2013, less than half the rate achieved three years earlier. Current forecasts for 2014 vary significantly, with some optimistic estimates of 3% growth while more cautious ones point to 2% or even less (OECD, 2014). This marked growth deceleration has brought with it an important repositioning of the rankings of most dynamic economies in the region: currently, the economies with higher GDP growth rates in South America are Paraguay, Peru, Chile and Colombia. The two largest economies, on the other hand, have experienced 0.8% or less in 2014; Argentina and Venezuela are going through economic recession.

Most analyses of this loss of economic impulse concur in attributing it to a combination of external and domestic factors. Externally, three major forces are shaping changes and have been widely acknowledged as powerful determinants of the current pattern of economic slowdown: declining trade performance globally and regionally; falling commodity prices; and uncertainties regarding external monetary and financial conditions (OECD 2014: 15). These factors have contributed directly to a gradual, moderate deterioration of the external economic indicators, notably in the largest economies. Therefore, the total value of South American exports has stalled, or even reduced by 2.4% if Brazilian exports are excluded (ECLAC 2014b:6), while trade surplus has dropped sharply as imports have grown in both volume and value, bringing about the previously mentioned deterioration of terms of trade in the last three years. Underlying the difficulties regional exports have faced is the net effect of monetary policy measures taken by the U.S. on exchange rates and the financial uncertainties posed by the eurozone crisis. Such trade performance, along with rising remittances and expenditures abroad, has directly contributed to evolving current account deficits that have been financed by a still positive but diminishing flow of foreign direct investment (FDI).

FDI flows to the region as a whole had kept an expansive pace until 2012, when they reached a record figure of $141.2 billion (ECLAC, 2014c: 34). In 2013, however, these flows decreased by 6%, reaching a total of $133.2 billion. It is also important to highlight the disparity among countries in their receipt of FDI: in 2013, FDI flows to Bolivia, Ecuador and Suriname grew by 35%, 20% and 86% respectively, while those to Argentina, Chile and Guyana fell by 25%, 29%, and 27% respectively. Most FDI has been channelled to areas such as natural resource exploitation and services, whereas manufacturing industry has attracted significantly lower amounts. Therefore, countries offering a better economic environment and better economic prospects in these two sectors have benefited the most from FDI flows. FDI flows within the region, in turn, also decreased in 2013, notably those originating from Brazil and Chile, a trend that is expected to continue in 2014 (ECLAC, 2014c: 9–11).

Despite the moderate optimism about regional FDI, ECLAC’s 2013 foreign investment report asserts that most such investments are significantly concentrated in the primary sector and secondarily in acquisitions or mergers of service corporations, with the industrial sector attracting lower amounts; therefore, this prevailing pattern of FDI flows tends to have a minor impact on job creation and employment in the short and medium terms (ECLAC, 2014b: 14).

In the domestic realm, resilient structural challenges undermine the prospects for short and medium-term economic growth, among them production structures heavily dependent on the export of commodities, low capital and labour productivity, persistent infrastructure bottlenecks and the slowdown of regional manufacturing. These challenges require immediate and effective responses by national governments, since the expansion of domestic markets and higher domestic consumption have stalled as major drivers of economic dynamism.

Most South American economies derive most of their GDPs from services – especially in the financial and real estate sectors – followed by mining and oil exploration activities, and then public services and administration. All countries in the region have experienced a sustained economic expansion but none has gone through any significant change in GDP composition, with the notable exception of Brazil, where manufacturing has been losing its share in GDP and exports while agribusiness and mineral commodities production gain strength. As previously mentioned, the slowdown of the industrial sector is a core feature of South American economies, one with a strong impact on the prospects of employment.

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1 Even though the prices of major minerals and foodstuffs remain higher than before the 2008 crisis, commodity prices are 25% lower than in 2011, thus bringing about a deterioration of terms of trade since then for the whole of Latin America. See ECLAC, 2013:21.
2 ECLAC’s data exclude Guyana and Suriname from South America’s reports, and include these two nations in the Caribbean. If these two countries are added, FDI flows to South America would have increased 3% from 2012 to 2013 and not decreased 6% as mentioned. In absolute terms, the total FDI for 2012 is in the order of $142.526 billion, and $130.217 billion for 2013, which means an absolute difference of $12,309 million less. See ECLAC, 2014c: 32.
In fact, unemployment rates have stabilised, which might signal the end of an era of sustained and expansive economic growth (ECLAC, 2013). Paraguay is currently the only country where unemployment has grown, from 7.1% in 2012 to 8.1% in 2013. Colombia, on the other hand, continues to have the highest unemployment rate in the region, 10.6%, but a steady decline has been in course since the 1998 record of 19.4%. However, ECLAC’s report on the employment situation in Latin America and the Caribbean raises doubts about the short-term sustainability of the past positive performance regarding employment and labour issues, given the trends of modest economic growth and slow employment generation rates. The report also points out a worrying increase in unemployment among women and young people, and highlights the importance of strengthening social safety nets and social programmes, such as those for conditional cash transfer3, as they contribute to creating jobs and increasing labor formalisation. Providing dynamism to labour formalisation and job creation is crucial. However, it also stresses the need to address the vulnerabilities that the beneficiaries of these aid programmes would still be exposed to when the programmes are reduced or even come to an end (ECLAC-ILO, 2014: 21).

These data demonstrate that societal structures are still resilient to anti-poverty initiatives, substantial FDI flows and high economic growth and employment rates, as has been the case in South America for the past decade. As will be seen in the next section, despite the positive developments in terms of poverty reduction throughout the region in that time, economic and social inequality remains an important issue, contributing to increasing criticism of politics and mounting dissatisfaction with democracy.

Therefore, it is not only the tenets of the economic development strategies pursued over the last decade that are at stake. Critical challenges in this realm still remain, and new ones dictated by the interplay of reconfigured domestic and external dynamics arise. Also at stake are the ability of national political institutions to respond to these challenges and to the new and more compelling demands for efficiency in the provision of public services and public goods that have followed the lifting of millions of people into consumption markets and into the actual and full exercise of citizenship. It is important, for this reason, to assess recent major regional political developments in this regard.

Political continuity and the rise of new demands and criticism: an unchanging political landscape?

Less than a decade ago, the South American political landscape was marked by the so-called “rise of the left”, a phenomenon associated with the election of leftist presidents in Venezuela (Hugo Chávez in 1999), Argentina (Nestor Kirchner in 2003), Brazil (Lula da Silva in 2003), Uruguay (Tabaré Vázquez in 2005), Bolivia (Evo Morales in 2006) and Ecuador (Rafael Correa in 2007). Chile was also part of the process, though its hegemonic political force, Concertación, had been in power since 1989. Peru, Colombia, Paraguay, Guyana and Suriname were, by then, the only countries where leftist political parties were not leading forces in power. However, Paraguay also experienced a meaningful political shift with the election of Fernando Lugo to the presidency in 2008, and Peru elected Ollanta Humala later in 2011. All these leaders embraced, although to different extents, the task of countering political, economic and social inequalities and exclusion through a deep review of state institutions – in some cases amending the constitution – public policies, development models and foreign policy strategies. Because of their breadth and scope, these reformist efforts often met strong opposition from conservative forces, in some cases resulting in an acute political polarisation domestically and in a governability crisis, particularly in those countries where the intended reforms were carried out under the umbrella of “state rebuilding” (Gruzel and Riggiorozzi, 2012), such as Venezuela (2004), Bolivia (2005) and Ecuador.
[2010]. The strengthening of presidential powers, the reliance on the support of the armed forces and the intention to weaken opposition forces raised doubts about the very fate of democracy in such cases.

Despite widespread fears about the re-emergence of authoritarianism and populism across the region (Roberts, 2007: 3), South America has not experienced any significant setback to the rule of democracy. Regular elections have been a pivotal source of political legitimacy for governments, and support for democracy has increased significantly over the last decade, according to data from Latinobarometro (2013). In all seven South American countries where support for democracy has been assessed since 1995, an increase in that support over the average historical rate was registered in 2013, with Venezuela and Ecuador achieving the highest figures (ibid.: 6). Uruguay, paradoxically, is the only country in South America where that support decreased (ibid.: 17), but, at the same time, it is the country where citizens are most satisfied with democracy, as seen below.

The current level of support granted to democracy, however, does not translate into corresponding levels of satisfaction with that system at present. In fact, only 42.4% of South American citizens are satisfied with democracy and only three countries (Uruguay, Ecuador and Argentina) show figures higher than the regional average in this regard. In the remaining countries, over 60% of the population is dissatisfied regardless of economic and social improvements they have experienced in the past decade. It has been argued that, to a great extent, this paradox reflects the very low credibility of traditional mechanisms of political participation and representation, namely political parties and parliaments, and, therefore, the high dissatisfaction of citizens with them (Carrera, 2012: 186). The loss of credibility of the basic institutions of representation and participation is certainly an important explanation. It must be viewed and interpreted in association with a broader phenomenon: a strong evolving mismatch between citizens’ expectations and demands and the responses provided by the political system. This mismatch is feeding higher levels of dissatisfaction with democracy, which has as one of its expressions the huge street protests that took place in key countries such as Brazil, Argentina, Chile and Venezuela in the past two years.

A common explanation of that wave of street protest asserts that, because political and socio-economic changes were successfully implemented under the rule of democracy, consequently a great number of previously excluded people were empowered. They have new expectations and demands about the quality of public services as well as an increasingly critical view of what they widely regard as slow and inadequate responses by governments and political institutions to those demands. At the core of this explanation lies a positive assessment of political and economic developments across the region, as increasing political mobilisation by social movements and citizens to demand greater responsiveness and efficiency of governments in delivering public services can be regarded as a favourable outcome of the policies pursued over the past decade (Santana and Silva, 2013: 15). A less optimistic assessment, however, emphasises the persistence of inequalities as the major driver of popular dissatisfaction, exacerbated by institutional weakness, loss of confidence in the political establishment and an increasing sense of insecurity (Machado, Scartascini and Tommasi, 2011).

These alternative interpretations do not exclude one another and a more in-depth analysis of dissatisfaction with democracy and of motivations for street protests in specific cases will include elements of each. Taken altogether, they clearly demonstrate that what is happening is a meaningful change in the political mood of large segments of South American societies regarding the responsiveness of their political institutions in general in dealing with their immediate demands and expectations and in countering economic and social inequalities at a faster pace. The attitude towards governments is ambiguous: if, on the one hand, they continue to enjoy sufficient levels of support to remain in power, as analysed below, that support, on the other, relies increasingly on actual performance and achievements rather than on a sense of loyalty based on preferences dictated by ideological preferences or by long-standing traditions. At the same time, that support tends to be directly linked to a steady demand for changes in the profile and behaviour of politicians, at the core of the search for more effective instruments and agents to carry out the intended political, economic and social transformations.

It is against this background that the latest cycle of presidential elections in South America will be completed. From 2013 to the end of October 2014, eight South American countries will have held presidential elections (Ecuador, Venezuela, Paraguay, Chile, Colombia, Uruguay, Brazil and Bolivia).

Therefore, it is already possible to describe the basic features of the region’s political landscape emerging from this electoral cycle. So far, its outcomes show that dissatisfaction with democracy has not been a major driver of change in this regard. On the contrary, there is considerable continuity, as in only two cases (Paraguay and Chile) so far has a political shift occurred; but that does not represent any meaningful departure, as in both cases long-standing political forces (the Colorado Party in Paraguay and the former Concertación in Chile), which had been in power until 2008 and 2010 respectively, managed to return to office. An eventual defeat of Brazil’s president, Dilma Roussef, would be a significant exception in this regard, even though the Brazilian electorate is not willing to support rightwing parties, as demonstrated by electoral pools. Thus, the political landscape of South America might continue to be characterised by the hegemony of leftist forces in the short and medium terms. In fact, the most important drivers of political changes are associated with
the conditions of political governance and with the agendas the newly [re]elected governments must face, which bring normative and institutional challenges to the forefront. The reinvigoration of the mechanisms of political representation does not exclude the search for new forms of effective participation in the political process. Thus, virtually all South American governments are facing, to significant extents, the challenge of dealing with the highly sensitive institutional and normative issues that constitute the agenda of political reforms in which new ethical standards should be laid down and met to update and consolidate democratic governance; simultaneously, governments are expected to respond more assertively and effectively to the demands of newly empowered citizens that they perform better in such core public policy areas as health, education, public security, housing, sanitation and transport.

So far, the results of the electoral process at the presiden-
tial level indicate a clear preference by the electorate for ongoing governments to lead the quest for renewed and more efficient democratic governance. At the same time, as the quality and roles of political parties, parliaments and other mechanisms of political participation are at stake along with growing economic and social demands, the ability of the newly re-elected governments to embrace those simultaneous challenges emerges as a key determinant of the political prospects of the region in the short and medium terms. On the other hand, the ability of major political and societal forces to engage constructively in the political debate will be a key element in defining the prospects of democratic political governability in the years ahead. As for its impacts at the regional level, the prominence of the left has not translated into a more politically homogeneous context. Even though most of the leftist forces have strongly agreed on the need to pursue political, economic and social reforms in the wake of what was interpreted as the failure of liberal policies pursued in the 1990s and the beginning of the twenty-first century, important differences and cleavages among them and the governments they represented or supported remain, particularly regarding the extent and depth of intended political changes to be pursued at the state level, development strategies, relations with the productive sectors and the economic and social establishment, and strategic alignments within the region and at the global level.

The real differences among leftist governments, the acute polarisation of the political spectrum domestically, recur-
rent governability crisis (particularly in the Andean coun-
tries) and important bilateral frictions within the region as observed in the last decade did not prevent governments from forging genuine South American institutions to host political dialogue and cooperation initiatives; on the other hand, political divisions have become an important restraint on the functioning and consolidation of such institutions, as expressed in the recent difficulties the South American Union of Nations (UNASUR) has faced in giving actual content and political weight to many of its own institutions. For other key regional organisations, the outlook is no different. Ideological convergences have not provided enough ground to overcome long-standing constraints on their effectiveness as cooperation and integration arrangements. The major advancement in this regard has been the consolidation of UNASUR as the setting for political dialogue that has been really important to overcome some domestic and bilateral conflicts. However, such political dialogue has not embraced extra-regional issues, which have remained largely in the hands of national diplomatic corps. From the perspective of major regional organisations, the region is still far from reaching a desirable balance of nationally defined interests and objectives and the requirements of effective regional cooperation and integration (Carrión Mena, 2013).

Concluding remarks

The signs of recent changes in South America’s political landscape are to be found not in the ideological profile of governments, but rather in the domestic and external contexts in which policy initiatives will be implemented, as well as in the contents of such policies, notably those pursued in the economic realm. From the economic perspective, there are clear signs that the present domes-
tic and external conditions of regional politics have become more restrictive because of the conjunction of trends such as the very slow pace of global economy recovery, the rise of important sources of political and economic uncertainty worldwide, the exhaustion of development strategies pursued in the region, the growing economic dominance of primary industry rather manufacturing and services and, from the political side, more critical stances of citizens regarding politics and politicians. Besides that, recent domestic and external developments, discussed in the first section, also signal that national governments in South America are increasingly likely to embrace economic orthodoxy to counter developing domestic and external imbalances.

Even though the [re]introduction of economic orthodoxy can be regarded as a pragmatic or even a necessary course to address or prevent developing macroeconomic imbal-
ances, it poses the immediate risk of triggering a gradual erosion of the political support granted to the present governments. To this must be added the mismatch between ideological frameworks and political platforms, on the one hand, and the more immediate impact of strict economic policy measures upon redistributive policies, on the other.

This prospect, however, affects individual countries differently. For those where macroeconomic problems are large, such as Argentina and Venezuela, or where a gradual sustained deterioration is in course, as in Brazil, such risks are more immediate, as poor economic performance might work both as a source and a catalyst of political dissatisfaction. Countries that have enjoyed better economic
performance in recent years, though pursuing rather different economic strategies, such as Peru, Colombia and Ecuador, may not be exposed to such risk in the shorter term but in no way are they immune to the negative externalities brought about by the conjunction of a more adverse economic environment and mounting political discontent in the medium term. In those cases, a tangible, though moderate, loss of political support to their respective governments has already been expressed, for example in the small margin of votes that granted the victory to President Santos in Colombia, in the victory achieved by the opposition in Ecuador’s major cities in the February 2014 municipal elections and in the sharp drop in popular approval for Peru’s president, Humala, over the last year. Chile, Uruguay and Bolivia are, in this context, the countries where no dramatic changes in political and economic governance conditions should be expected in the short and medium terms. Bolivia’s president, Evo Morales, is certainly bound to be re-elected and enjoys strong popular support; Chile’s recently elected Michele Bachelet also enjoys high levels of credibility and popular support. Moreover, in both countries economic performance tends to reinforce the political capital of their presidents. But it is important to remark that facing issues of redistribution and inequality remains a major task for both countries, one that, if not properly addressed, may erode or eventually disrupt the basis of popular support they enjoy.

Summing up, South American governments are immersed in a more awkward political and economic regional context which defies their ability to preserve enough credibility and the support of more demanding societies at a time when they are also required to address mounting economic problems while facing unprecedented normative and institutional challenges in strengthening political governance and restoring confidence in democracy.
References


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