



## *Latin America and the Caribbean*

# Little progress to be seen

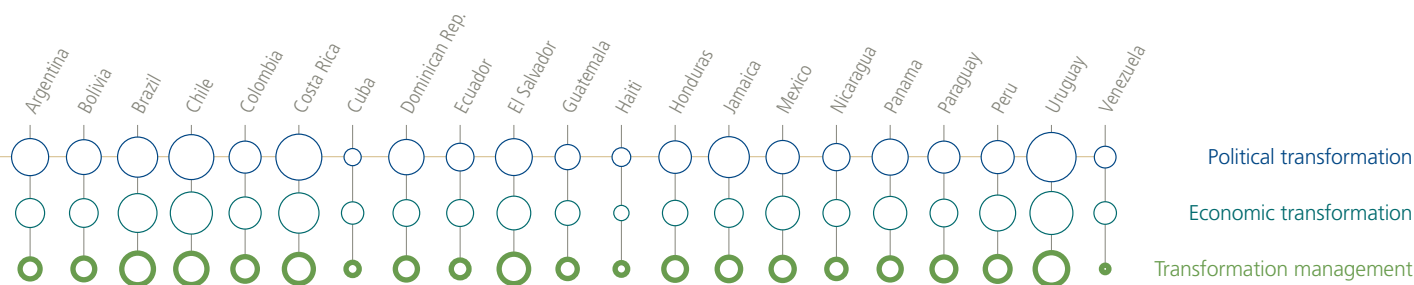
The protests in Chile and Brazil underscore the fact that, even in the most advanced countries of Latin America and the Caribbean, there is a mismatch between social demands and elites' responsiveness. And this is not the only problem challenging the region.

Aside from East-Central and Southeast Europe, Latin America has established itself as the only BTI region that broadly adheres to the guiding principles of democracy constituted under the rule of law and a market economy equipped with sociopolitical corrective measures. However, most countries in Latin America have in recent years taken few steps forward in consolidating democracy and the market economy. Problems such as high levels of social inequality, the fixation on commodity exports and the erosion of stateness persist as strongly as the incongruity – varying by country, to be sure – between social demands and the responsiveness of the political system.

The social protests in Chile and – after the end of the current BTI review period – in Brazil were a manifestation of this glaring mismatch, although in these countries they could also represent a beginning and opportunity for a deepening of democracy. In other countries, however, particularly in the Andean region and in Central America, the increasingly palpable political, economic and social challenges have driven governments to the limits of their performance capabilities. In addition, the “third way” of essentially mixed systems in Bolivia, Ecuador and Venezuela remains in place, as does Cuba's state socialism. In Haiti, the country's political system remains extremely fragile three years after the earthquake.

Apart from the ouster of President Lugo in Paraguay, no dramatic discontinuities in the transformation process were evident. Rather, Latin America's transformation track record from the beginning of 2011 to the beginning of 2013 documents a stalled state of affairs. At 6.83 points, the average value for political transformation remains at exactly the level of the BTI 2012. A significant positive development is recorded only in the case of Colombia (+0.50 points), whereas Guatemala, Panama and Paraguay show declining trends.

The average value for economic transformation also remained virtually unchanged (–0.04 points, now 6.23), though here too the region shows a broad spectrum of vari-



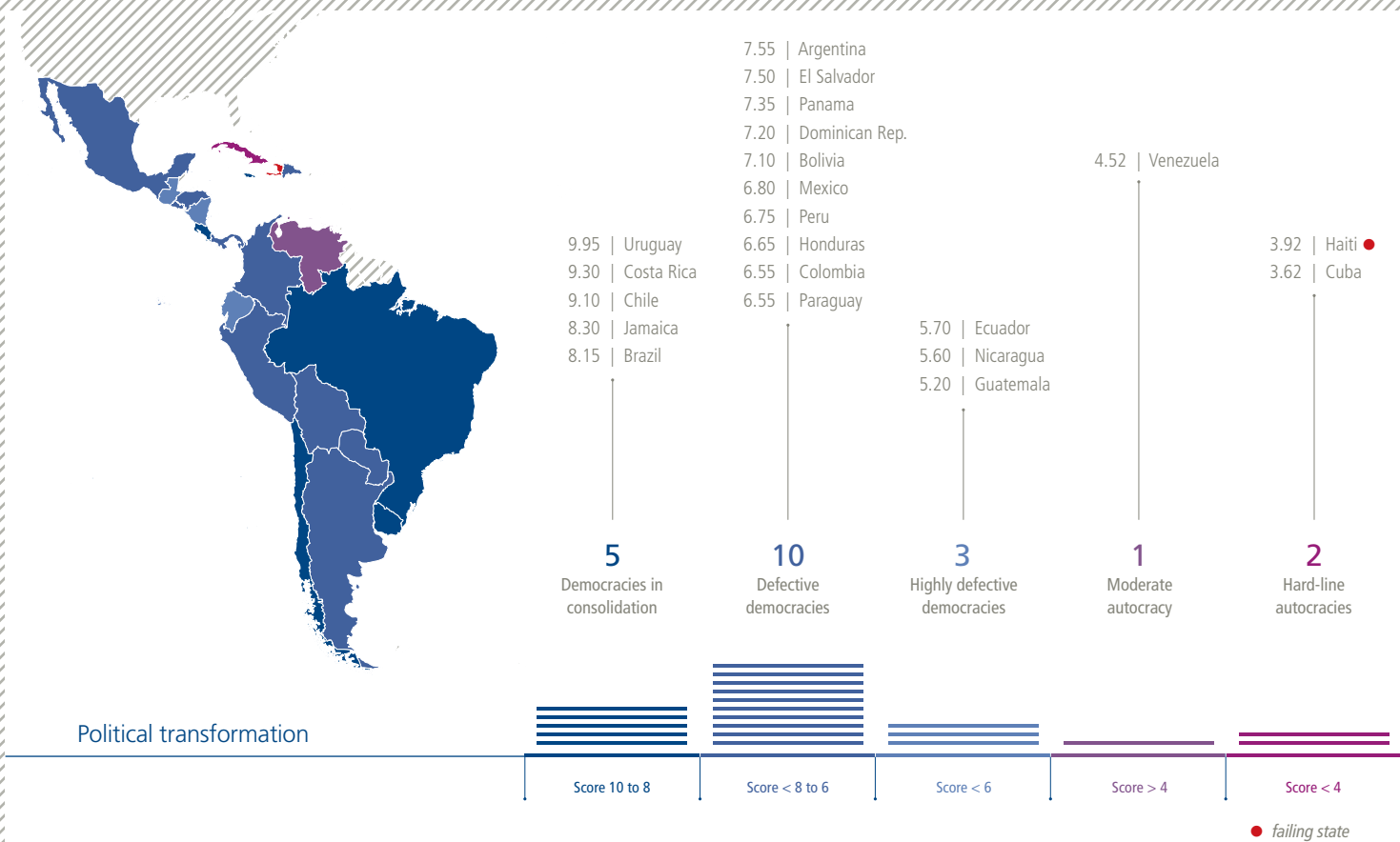
ance. At the top are the developed economies in Chile, Costa Rica and Uruguay, while the middle-range countries of Bolivia and Ecuador succeeded in improving their respective level of socioeconomic development. By contrast, the countries of Central America and the Caribbean suffered almost without exception from (in some cases significant) losses – a consequence in part of export economies fixated exclusively on the U.S. market. Persistent budget deficits exacerbated the problem, as seen in the Dominican Republic, which lost 0.43 points in the dimension of economic transformation.

A number of retrogressive tendencies appear even more significant when viewed from a long-term perspective. In political

terms, the strengthening and deepening of the rule of law remains a pending task in many places, while elites once again incline more strongly toward bypassing democratic institutions for the purposes of power. Compared with the BTI 2008, the 21 countries of Latin America and the Caribbean have lost 0.19 points with respect to democratic transformation, while in the economic realm, the region has shown a retrogressive tendency since 2010.

It is questionable whether policymakers, in a context of essentially stalled or even diminishing governance quality, can respond appropriately in the long run to increasing social conflicts and the growing mistrust of elites and institutions. While

the Latin America and the Caribbean region stands in second place behind East-Central and Southeast Europe in the Management Index, the average score of 5.48 (BTI 2012: 5.49) shows a rather mediocre level of quality. Notable positive trends at the country level were observed during the review period in Colombia (+0.50 points) and Peru (+0.23). Venezuela, despite an improvement of 0.38 points, remains far behind the rest of the region. Guatemala (−0.53), the Dominican Republic (−0.50), Paraguay (−0.46) and, once again, Argentina (−0.22), by contrast, show a clear decline in the quality of political management.



## Democratic deficits on the rise

There are only three autocracies in Latin America and the Caribbean. However, the democratic deficits in political participation and institutional stability observed in many of the region's countries have grown increasingly acute.

Since the return to democracy in Latin America, the fact that regime change has generally taken place through constitutional means is cited as a particular strength in the region. Even when faced with deep social crises, these governments are as a rule determined through free and fair elections. In this way, a development path characterized by frequent coups and military governments has been left behind. At first glance, this relative normality of polyarchy was also manifest in the seven elections taking place during the review period. In four cases, the incumbent or the government party was returned to office, while voters called for a change in power three times. In addition, three particularly important elections were held shortly af-

ter the review period's end. In Venezuela, President Maduro was elected to succeed Hugo Chávez in the course of disputed elections – a result that opposition candidate Capriles refused to recognize. Since then, political and social divisions in Venezuela have deepened. The 2013 presidential and parliamentary elections in Ecuador returned Rafael Correa with a significant majority and brought his PAIS Alliance (Alianza PAIS) party a majority of nearly three-quarters thanks to the provisions of a new electoral law. In Paraguay, the interim presidency following the removal of President Lugo ended in April 2013 with the return of the Colorado Party to the power it had been forced to give up for the first time in 60 years in 2009.

No dramatic changes were reported during the review period. The strongest regression apart from in Panama and Paraguay was noted in Guatemala, already the region's weakest democracy (–0.35 points). Against the background of a nearly eroded state monopoly on the use of force, political and civil rights remain insecure, democratic institutions unstable and the commitment of elites to democracy largely instrumental. The 2011 elections were overshadowed by suspicions of illegal campaign financing, links between candidates and drug trafficking, and electoral violence. After taking office, President Pérez Molina deployed the military for internal security tasks following his electoral promise to pursue a hard-line (“mano dura”) anti-crime policy. Social

protests were in some cases suppressed by force.

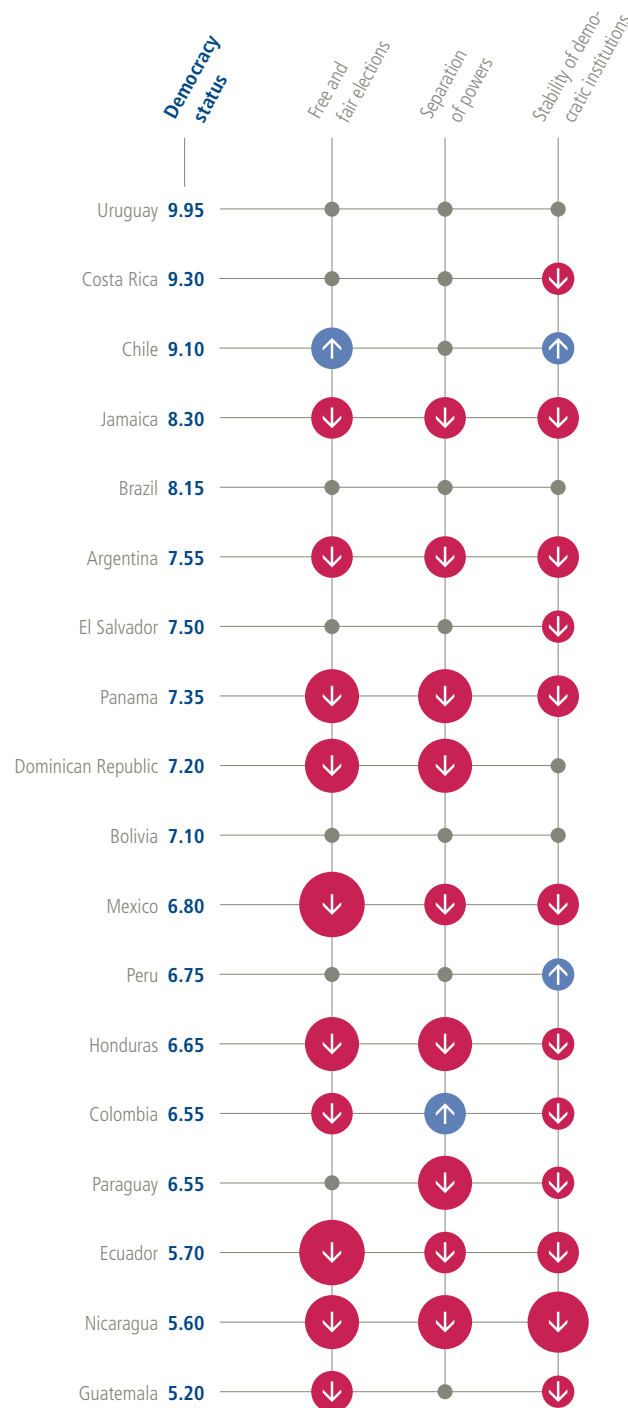
In contrast, Colombia under the Santos government is the only country with a markedly positive democratic development (+0.50) since the BTI 2012 as well as the only country able to show a significant jump in quality over the past eight years (+0.70). This longer-term perspective also shows that since the BTI 2006, only four more of the 18 democracies – Bolivia, Brazil, El Salvador and Uruguay, the latter of which is already at the top level – display positive trends.

Conversely, the level of democracy declined over the last eight years in 12 instances, five of which – Ecuador, Guatemala, Jamaica, Mexico and Nicaragua – were particularly marked. Stateness, the rule of law and press freedoms in particular were seriously impaired in Mexico by the escalation of the war on drugs, and in Guatemala by the dominance of informal power structures. The further erosion of the foundations of democracy in Ecuador and Nicaragua was grounded in their respective presidents' strategies of undermining the separation of powers and disabling or circumventing accountability mechanisms. In Jamaica, a country with the region's only parliamentary system of government and which has been democratic since independence in 1962, democratic institutions are being eroded by the rising influence of the drug trade, persistently high levels of corruption and criminal networks.

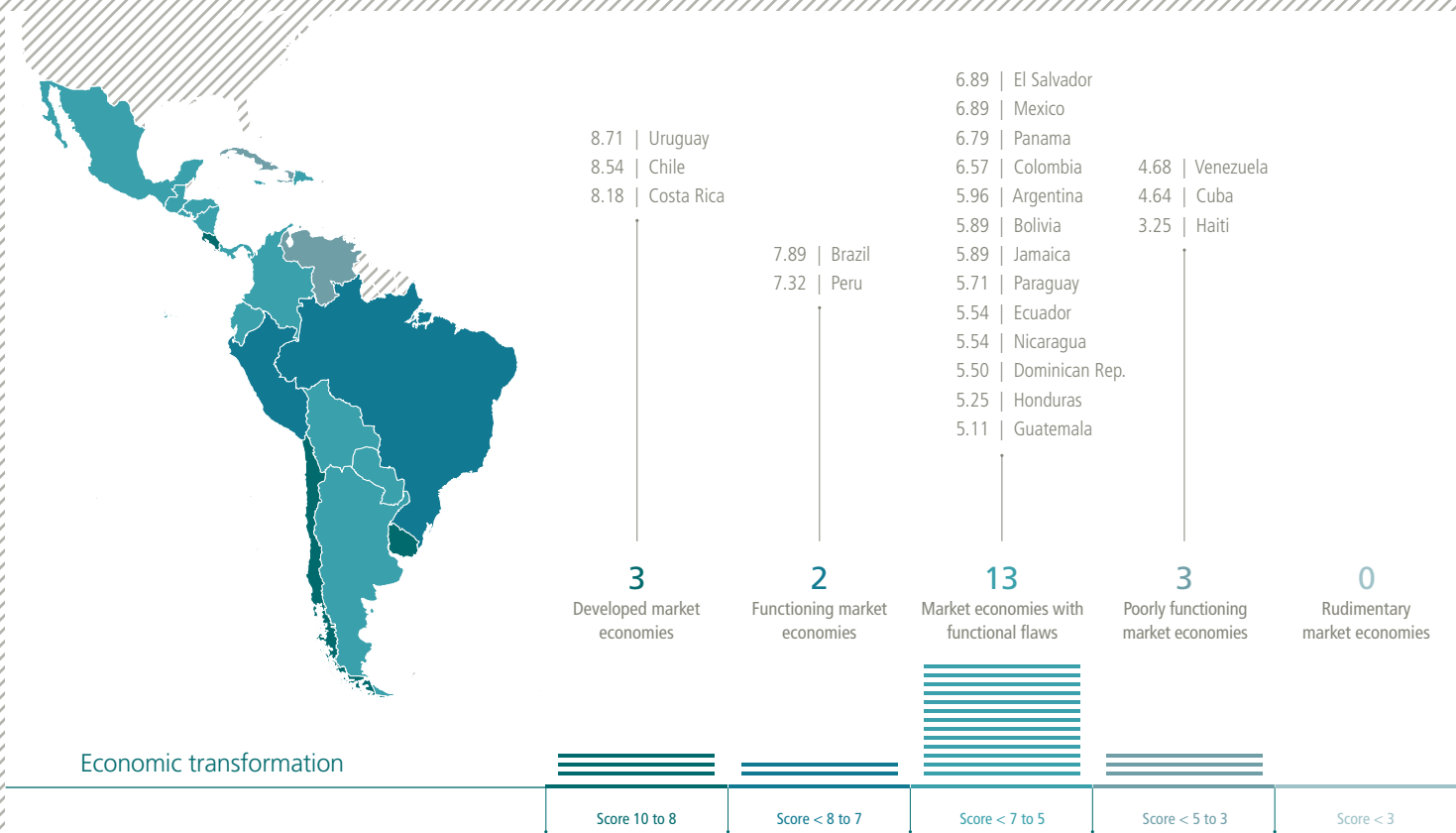
Two trends emerging since 2006 are particularly noteworthy. In 10 of the region's 18 democracies, constraints on free and fair elections and the power of veto actors have increased in significance. The political participation criterion reflects this erosion of polyarchy's substance through a decline of 0.34 points. The functionality of democratic institutions – as well as elites' commitment to them – has diminished even more strongly. Although Nicaragua under Daniel Ortega is the chief cause of the 0.47-point decline in the regional average value for the stability of democratic institutions criterion, 11 countries overall were subject to a similar problem. The

rather weakly pronounced rule of law completes the picture of systems in which elites bypass justice with the help of informal back-door arrangements or corruption. Only Brazil and Colombia show relatively positive developments.

#### Majority of Latin American countries decline in democratic quality



Score changes in key aspects of democratic quality, BTI 2006 – BTI 2014



## Too early for praise

Despite the presence of solid economic systems and a growing middle class, Latin America and the Caribbean is still by a significant distance the region with the highest levels of social inequality in international comparison.

Of the region's 21 countries, economic conditions in 11 have deteriorated. In this regard, a clear subregional center of gravity can be perceived; this is because – aside from Argentina (–0.39 points), which is badly led from a regulatory perspective – the greatest losses were experienced primarily by Central American and Caribbean countries, above all the Dominican Republic, El Salvador, Honduras, Jamaica and Panama. A look at the individual indicators shows that all these countries show a weaker economic performance than two years previously, with the Dominican Republic being a particularly prominent case. This is attributed in large part to the fact that this subregion, with its relatively small domestic markets, is in contrast to South America

markedly oriented toward the United States in its economic relationships. However, an additional subregional weak point is entirely “homemade,” consisting of governments’ lax fiscal policies. Consequently, the BTI attests to significantly weaker macroeconomic stability in six countries, with Costa Rica, the Dominican Republic and Jamaica standing out in this group.

Yet even if the Central American-Caribbean region shows a particular vulnerability to economic fluctuations in the United States, the region as a whole has been less dynamic than expected in the past eight years. This is reflected both in the aggregate Market Economy Status and its individual components, and in the development trajectories of the individual countries. Since

2006, economic transformation status has improved by an average of just +0.21 points, and the trend since 2010 has been retrogressive. In explaining this, it immediately stands out that performance – a stand-in for the relative track record of various macroeconomic data, from growth to unemployment – has decreased significantly since its peak in the BTI 2008. By contrast, assessment of the banking system is conspicuously positive, with a significant gain of 0.81 points since the BTI 2006.

Prospects for environmental sustainability are somewhat clouded, as a number of governments aim to stimulate economic growth through major environmentally questionable projects. This is particularly the case in Ecuador and Peru, but even coun-

tries such as the Dominican Republic and the environmentally exemplary Costa Rica struggle with renegotiating the tradeoffs between economic growth and ecological concerns.

As previously, the region suffers under the severe defect of social inequality. Despite overall solidly configured economic systems in many countries, and although the boom of the 2000s did reach broader levels of society, in most cases this has not led to a substantially higher level of socio-economic development. Since 2006, only five countries have improved in this regard, two of which, Bolivia and Ecuador, did so in the BTI 2014.

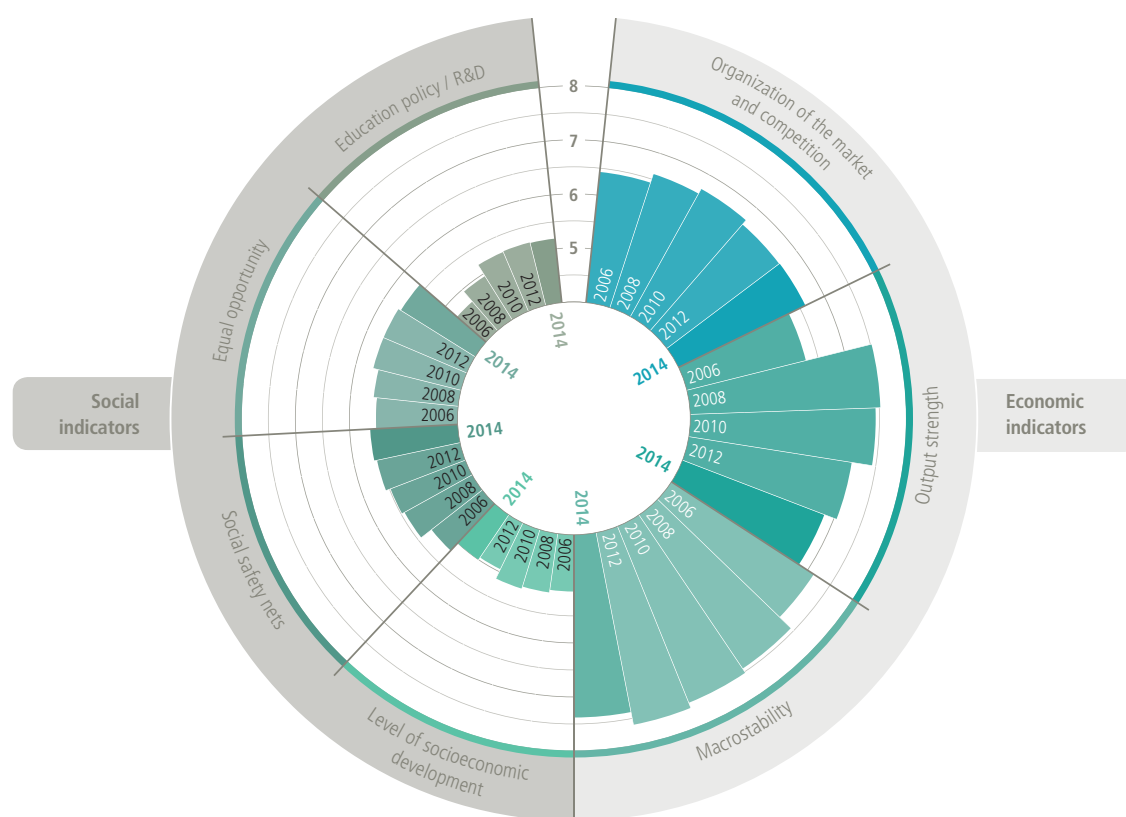
This finding stands somewhat at odds with assessments describing inequality in Latin America as having significantly decreased. “Gini back in the bottle,” reported The Economist in October 2012, an evaluation seemingly also supported by Economic Commission for Latin America and the

Caribbean (ECLAC) data. Indeed, according to this source, the regional Gini index value declined over the course of 10 years, from about 0.55 to about 0.50 in 2011. This picture fits with the significant decline in poverty, from 43.9 percent of the population in 2002 to 28.8 percent in 2012.

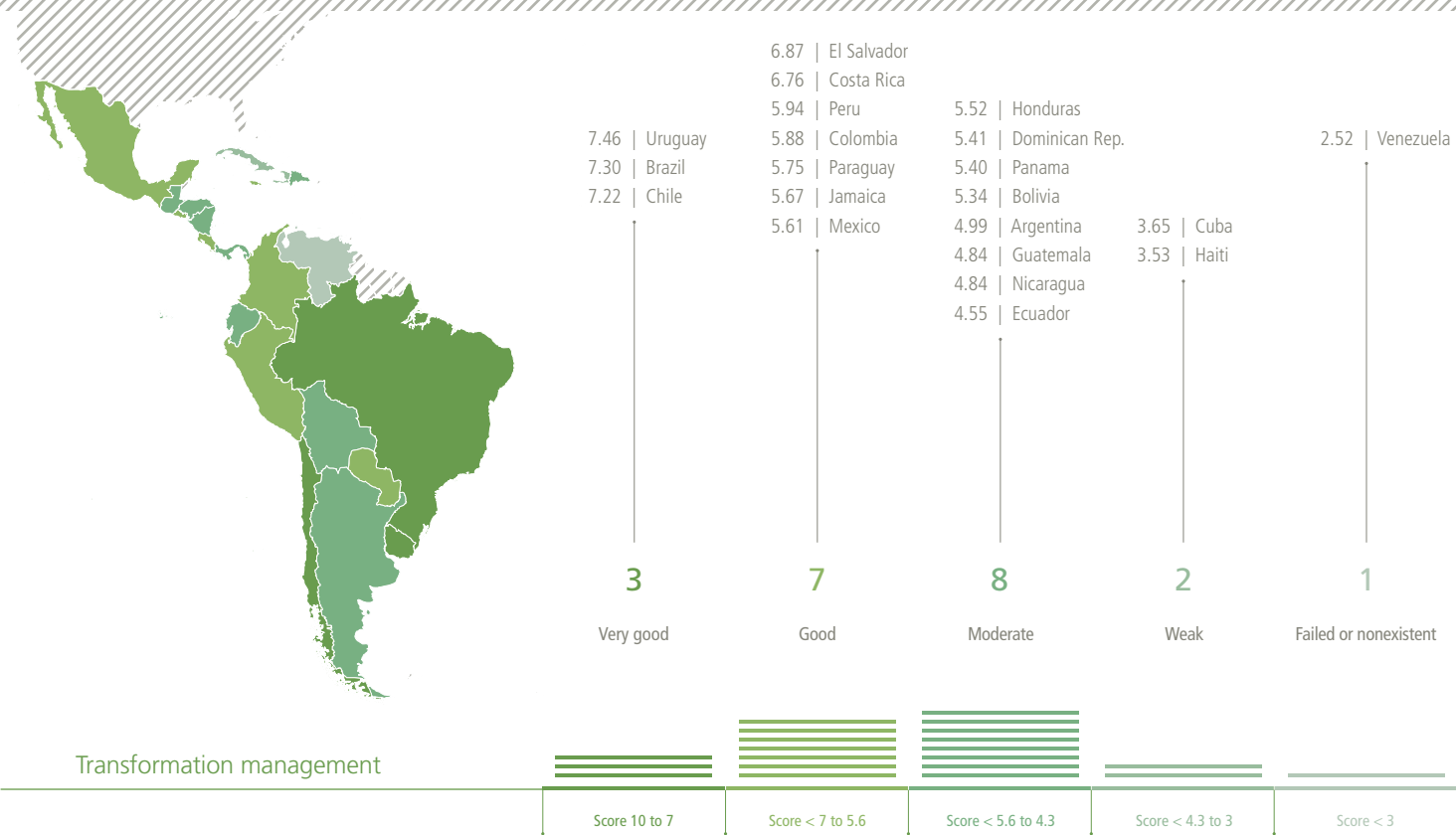
And yet Latin America and the Caribbean is still by some distance the region with the highest levels of inequality – even sub-Saharan Africa on average achieves a Gini index score comparable to that of Uruguay, traditionally one of the most egalitarian countries in the region. In addition, the degree to which recent positive developments are due to government decisions or simply fortunate circumstances, such as favorable world market conditions, remains somewhat controversial. Although welfare state measures have slightly improved over time, focusing more strongly on the fight against poverty, a significant portion of the reduction in inequality is 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 today. Finally, the fact that existing structural barriers persist unchanged means that the praise for the region’s reductions in inequality appears premature. Among these barriers are low taxation ratios with a high share of indirect taxes as well as the fact that government expenditure in the 2000s had a neutral or even regressive effect in most countries. The most significant bottlenecks, however, remain educational systems. Despite increased spending, quality here is rather poor except in Costa Rica, Cuba (which shows a downward trend) and Uruguay. The transition from secondary to tertiary education in this respect establishes the crucial threshold that makes social advancement difficult – and thus reinforces inequality.

No trend reversal yet: social inequality remains the biggest problem



Regional average scores for selected criteria and indicators, BTI 2006 – BTI 2014



Transformation management

## Wanted: a new relationship with the people

The region's putative model countries face far-reaching political and cultural changes. Governments have found no answers to the demands of populations acting with increasing self-confidence.

Once again, political and economic management in Brazil, Chile and Uruguay was rated in the BTI 2014 as strong. However, this does not mean that the Rouseff, Piñera and Mujica governments have excelled in all areas; moreover, comparison with the OECD states yields more mixed results. As the results of the Bertelsmann Stiftung's Sustainable Governance Indicators (SGI) show, Chile – aside from Mexico, the only OECD member from Latin America – lies in the lower-middle ranks. On the other hand, significant learning processes with respect to government organization are taking place in Chile and Brazil (as well as in Mexico, specifically in the area of economic management). Thus, Chile's management performance in the SGI 2011 is already better-

rated overall than those of EU countries such as Belgium, France or Spain.

In Chile, a process of what might be called "catch-up democratization from below" has continued; above all, the relationship between long-established political and societal elites and a population long viewed as apathetic has changed. The increasing self-confidence shown by civil society is somewhat reminiscent of the political and cultural upheavals in European countries or the United States in the 1960s, which showed that new political conflicts, provided that they can be handled through institutional channels and that elites respond appropriately, can in the end strengthen democracy.

This upheaval is no isolated case, as the nationwide protest movement mustered

in Brazil in June 2013 showed. President Dilma Rousseff and her government were not the only ones to be visibly surprised. More than 25 years after the last major mass protests took place in the course of the transition, the social changes of the last 10 years – including the emergence of a new middle class – are resulting in new demands on the political system to which a Brazilian elite grown used to success apparently has yet to adjust.

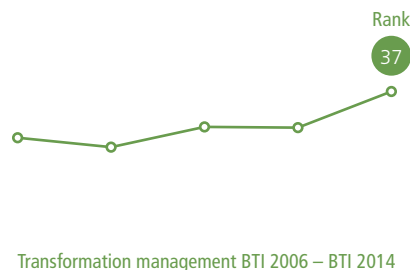
Uruguay, the regional leader in the Management Index since 2010, has in recent times declined somewhat in its governance performance, a trend that has manifested itself particularly in terms of setting priorities and coordinating in the area of targeted administrative reforms. This led to an over-



Population: 47.7 mn

Life expectancy: 73.6 years

GDP p.c. PPP: \$ 10,587



Transformation management BTI 2006 – BTI 2014

all score weaker by 0.20 points, even though the country nevertheless retains second place among all BTI countries in the Management Index behind Taiwan and ahead of Brazil.

The majority of countries in Latin America and the Caribbean are grouped, however, into the good or moderate transformation management categories – though with a large span between countries that approach the very good management category, as in El Salvador (6.87 points) and Costa Rica (6.76), and Ecuador (4.55), which falls just above weak management. Colombia's climb (+0.50 points) is due to the new policy course under President Santos, which marks a clear break from the confrontational and sometimes semi-legal governing style of his predecessor, Uribe. Mexico, which slipped in 2012, once again just cleared the threshold of the good management category. Conversely, the Dominican Republic (–0.50 points) and Panama (–0.20 points) fell back to the moderate management category. In the case of the Dominican Republic, this was largely due to a disastrous fiscal policy, which in turn has weighed on the country's international credibility. In Panama, however, it is due to the confrontational policies of President Martinelli, which are oriented toward a concentration of power. The reduced management performance of Guatemala and Paraguay (–0.53 and –0.46 points, respectively) is associated with political elites' previously mentioned undermining of democratic institutions. Finally, with an eye to the parliamentary elections in 2013, Argentinean President Fernández has also continued her policy of confrontation as well as her increasingly nontransparent financial conduct and generally erratic style of politics. Since she took office in 2007, Argentina's management score has fallen from 5.81 (BTI 2008) to 4.99 points.

Conversely, Cuba, which in the BTI 2006 was still under the charismatic state socialism of Fidel Castro, has quite significantly

improved in the Management Index (+1.11 points). To be sure, more gridlock than that having characterized the late phase of the Fidel Castro era is hardly possible, and the basic orientation of the system has changed little under Raúl Castro. But there is today unmistakably more dynamism and order in the way the state is being led. In Ecuador and Haiti, too, the governments and elites of eight years ago governed their countries either badly or almost not at all. With this in mind, the management of Ecuador's Rafael Correa in particular is noteworthy. Although it follows the BTI's normative goals only partially at best, its strengths – especially in the areas of steering capacity and resource efficiency – represent a marked break with the corrupt and incompetent predecessor governments. The case of Paraguay, however, shows that even significant improvements in management cannot rule out large setbacks if the institutional foundations are too weak or time is too short to strengthen them.

## Colombia's path to peace

Staying the course was Juan Manuel Santos' 2010 campaign promise. Once in office, he quickly broke this promise – going against the will of his predecessor and fellow party member Alvaro Uribe, but bringing about positive changes for the country.

Three key developments contributed to the 0.50-point increase in Colombia's BTI 2014 transformation management score: First, President Santos, a former defense minister, lived up to his reputation as a hard-liner by carrying out attacks on high-ranking FARC commanders while, at the same time, he resumed – despite internal resistance – long-stalled peace negotiations with the country's largest and oldest guerrilla group.

Second, tensions between the executive and other branches of government that developed during Uribe's presidency have eased since the introduction of judiciary reform in 2012.

Third, Santos resumed diplomatic relations with Ecuador and Venezuela, eschewing his predecessor's populist tone while signaling a desire for greater regional integration. Pointing to a growing learning capacity on the part of the government, the BTI attests to more consistency in aligning policymaking with the capacity to implement individual policies. This is clearly demonstrated by the government's approach to resolving the armed conflict with FARC rebels, which precipitated the progress made in the months following the end of the BTI review period.

Indeed, Santos' success as president is inextricably linked to the outcome of peace talks currently underway with the FARC guerrillas. Moving things forward will require significant political and social reforms if the country is to do away with the underlying problems fueling the conflict. Land reform is one such area. Other reforms would involve targeting issues related to inequality and the drug trade. To a lesser degree, reforms in the political system are also needed. In the medium term, the challenge is to conclude the peace talks with the means to demobilize armed combatants and diffuse the conflict.





# A mere pause?

As immense as the economic and political gains made in Latin America over the last three decades are, the current widespread slackening of the transformation dynamic cannot be overlooked. Outside Chile, Costa Rica and Uruguay, the institutional foundations are not yet firmly established. Small or large crises, as last seen in 2011 in Paraguay, are in fact typical of Latin America's defective democracies. They testify not only to the latent vulnerability to populist solutions, but also express a certain lack of direction and political will to deepen the transformation. Similar tendencies were recently observed in the Dominican Republic, Guatemala, Jamaica and Panama, as well.

In addition, the structural problems persist. In the political realm, these lie particularly in a creeping erosion of stateness, a continuing weakness in the rule of law, and inadequate intermediary structures between society and the political sphere. In the economic sphere, deficits lie above all in the areas of the social welfare state and the education system. But to take countermeasures here, such as with a fairer tax system, would mean compelling the wealthy classes to commit more strongly to a more socially just system. However, Latin America's elites are comfortably satisfied with the status quo and their own social reality.

It complicates matters that the concerns of an invigorated civil society, expressed in demonstrations and protests, are not (or, in some cases, cannot be) adequately addressed by policymakers. As a result, social conflicts threaten to overburden institutions as well as to provoke mistrust and short-term political perspectives. In this way, the circle

is closed, as income distributions perceived to be unfair are particularly closely related to deep mistrust of state institutions. In other words, defective democracies, unbalanced economies and social segmentation feed off each other.

The "left-populist" development paths in Bolivia, Ecuador and Venezuela, which have also been partially followed in Argentina, in Nicaragua and, until the impeachment of President Lugo, in Paraguay, all fit into this rather skepticism-provoking picture. The case of Paraguay in particular has made it clear that long-established elites possess a strong potential to hinder reforms that threaten their privileges and sinecures. In this sense, the polarizing "revolutionary" strategies of Morales, Correa and Chávez had and have a historically and sociopolitically legitimate core. However, the record shown by these countries is more than ambiguous, as the BTI 2014 again shows: The upheavals have indeed led to less social inequality and a somewhat higher development level, but only at the cost of institutional stability. Even after the death of Hugo Chávez, little in this regard will change in the medium term, at least as long as the exploitation of resources continues to fill coffers.

Or is Latin America's current immobility only a pause for breath taken by the region in order to find its way out of its various development dilemmas? A calm before the storm? At the very least, we see changes in political culture emerging, as many of the region's societies move away from a culture of subjection to authority and toward a civic culture. Even citizens' deep-seated mistrust

of elites could be interpreted as the beginning of a movement that demands more responsiveness from the political sphere (as well as more financial sacrifice from the upper classes). All the more necessary in this case would be solid transformation management.

The danger of authoritarian retrogression must always be reckoned with given the presidential-populist tradition found in this region. For this reason, there needs to be greater emphasis on a consensus that goes beyond a general commitment to democracy and the market economy to encompass concrete reform agendas, including welfare state compromises. This process of consensus-building would involve stakeholders and civil society in equal measure in order to ensure that compromises would survive changes in government. In the 1990s, Chile has demonstrated paradigmatic approaches in this regard concerning reforms of the welfare regime and the rule of law. At the moment, it appears that Mexico's new government in particular is conscious of the necessity of such fundamental compromises in order to overcome more than a decade of persistent stagnation.



This summary is based on the Latin America and the Caribbean regional report by Peter Thiery, available at [www.bti-project.org/lac](http://www.bti-project.org/lac)



Full reports for each country in the region available at [www.bti-project.org/countryreports/lac](http://www.bti-project.org/countryreports/lac)

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**Esteban Valenzuela Van Treek** is Director of the Institute for Political Science and International Relationships at the Jesuit University Alberto Hurtado in Santiago. He has served as Director of Public Policies and Knowledge Management for Promudel, a German-Swedish program in Guatemala that works with Mayan municipalities. In addition to his academic work, he has authored several novels and essays, was mayor and congressman for the city of Rancagua, and has served as General Secretary of the PPD. Teo Valenzuela has been a member of the Transformation Thinkers network since 2007.



## Interview

### *“The majority wants a new constitution”*

Esteban Valenzuela Van Treek on Chile's structural paradoxes – and the goals of the different protest groups

*As a recently joined member of the OECD, Chile is a politically stable and economically powerful country. But, in recent years, students, the indigenous Mapuche minority and concerned citizens have expressed their dissatisfaction with developments through massive protests. What happened to Chile as a model case?*

Chile is indeed a country with strong institutions, low levels of corruption and impressive economic growth. But three structural paradoxes remain: low poverty levels combined with high income inequality and an expensive education system; steady economic growth rates and a high dependence on copper; and, finally, fair elections and a sound rule of law combined with an overly centralized system lacking adequate indigenous representation. The student protests, the Mapuche demonstrations and the regional movements express a discomfort with these paradoxes. These groups strive to inspire change and build a new consensus.

*What happened to civil society under 20 years of Concertación government? Why was it so passive for so long?*

The growing levels of discomfort and protests underway since 2000 have been neglected by many observers and undervalued in terms of their significance. The demonstrations we are witnessing today are just the culmination of an opposition in civil society to an overly dominating, centralized and unjust state.

*What are the protesters demanding?*

Generally speaking, many people want a more participatory political system and a fairer share of burdens. Politically, they question the strictly majoritarian system and want real indigenous political power; they want to elect regional governors. Socioeconomically, they criticize the low levels of state investment in the periphery, which in part accounts for high poverty rates in the Mapuche region. Struggling with high fees for energy, water, health and education, many citizens are dissatisfied with the low levels of state investment in infrastructure. Measures to improve fairness would include reforming a tax system that is based on low rates for business but high consumption and income tax rates. A popular demand is for companies, especially in the mining sector, to pay more in taxes. Reform-oriented political leaders like former President Bachelet intend to increase taxes and call for free university education, improved health services and higher pensions.

*Do the – in some cases violent – protests bring with them the danger of delegitimizing democratic norms and processes? After all, the majority of young Chileans do not vote.*

Ninety-nine percent of youth protesters are peaceful. They are unhappy with the Concertación governments but do not favor the right-wing coalition. They see the center-left Concertación as having introduced only minor changes to the political and economic model originally designed by Pinochet and call for a more radical alternative. This is why they support new political forces, such as the Democratic Revolution. The regions want elected governors (“intendentes”) and constitutionally guaranteed federal revenues following the Peruvian example. The Mapuche people, the only native nation undefeated by the Spanish, want autonomy – including the official use of their language and real political power. They also demand control of their territory, including control over decision-making processes regarding the large pine plantations, biodiversity conservation and support for small farmers. In terms of discrimination, Chile also has far to go in order to achieve gender equity.

*Michelle Bachelet is planning to run again in the 2014 presidential elections. As former secretary general of the Party for Democracy (PPD), a key Bachelet supporter, what is your opinion on her candidacy? Will she be willing to take up the fight against the cartelistic structure of party blocks you recently referred to as “the junta”?*

Chile has been a good example of continuous improvement, but now a solid majority in society wants a new constitution with more democratic and non-authoritarian features. The Chilean center-left electorate is pluralistic and wants a new coalition able to address their diverse needs and bring about real change more resolutely than Concertación. There is much talk about the New Majority, which is comprised of various parties on the left, the Christian Democrats, environmentalists and regional and youth movements. I hope that Marco Enriquez' Progressive Party (PRO) will also join the new coalition. I advise Bachelet on issues of decentralization, and she is determined to press for meaningful reforms in that area. Society has demanded reforms, and we will ultimately seek cohesion and integration that can overcome the cleavages in Chilean society while creating a more open-minded country, both domestically and internationally.