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LATIN AMERICA: THE NEXT TRANSITION

What comes next in Latin America, if the long *momento neoliberal* is coming to a close? Unlike earlier passages of external and internal realignment, the current one has no clear direction. This is a moment of radical uncertainty, with monsters poised to take the stage, proclaiming the virtues of harsh measures and mega-prisons. At the same time, left governments of different stripes hold power in some of the region's largest economies—Brazil, Chile, Colombia, Mexico. In their classic study, *Dependency and Development in Latin America*, Fernando Henrique Cardoso and Enzo Faletto examined the transition from the export economies of the oligarchic era of 1850–1930 to the new epoch of domestically oriented industrialization, pivoting around the post-1929 Depression.[1] Another transition would take place in the 1980s: from the era of industrial development and dictatorship to that of electoral democracy and neoliberalism.

In retrospect, the 1980s turn had clear compass points and lines of orientation. Some came from within—a desire to send despots packing, to resist resource exploitation, to raise popular living standards. Some came from without—above all, pressure from world markets. But broadly speaking, the restoration of democracy and the return to market orthodoxy were a package, no matter how messy the democracy or how imperfect the markets turned out to be. After 1999, there was a more partial shift: from the Washington Consensus to the national-populist governments of the 'pink tide' in Venezuela, Brazil, Bolivia, Argentina and Ecuador, bringing important milestones in constitutional inclusion, redistribution and the expansion of public goods. Latin America is now well past the transition associated with the end of authoritarian rule; but the 'pink tide' of the early 2000s is over too. The new governments of the left that have come to power in Mexico City, Santiago, Brasília and Bogotá face very different conditions to their predecessors in the first decade of the millennium.

The post-Cold War 'neoliberal moment' is spent. It boasts no obvious successor. One might say that this is good news: there is no script for a new Washington Consensus to be rammed down Latin American throats. But this cleaner slate also comes with severe constraints. The region confronts profound uncertainties about what will drive economic growth, as globalization evolves away from traditional commodity value chains; it is contending with an unprecedented demographic transition and monstrous new forms of right-wing politics, which feed upon insecurity. At the same time, the absence of an orthodoxy, whether neoliberal or developmental, should widen the spectrum of alternative strategies available to the new left wave. To clarify their situation, it may be helpful to set the present conjuncture in the *longue-durée* perspective of Latin America's political-economic cycles.

Regional re-alignments

In *Dependency and Development*, Cardoso and Faletto contoured the relationship between the region's location in the world economy and the alignment of its ruling blocs, arguing that conditions of dependency shaped the formation of elites and their prospective allies. Since then, a school of Latin American social science has examined the linkages between economic cycles and political systems, debating the relations between external, global conditions and internal, regional possibilities. We follow this tradition, while acknowledging that there is never an automatic, one-to-one relationship between models of economic growth and political regimes; rather, as global waves of integration ebb and flow, domestic coalitions shift and coalesce in response to the currents of capital and commodity.

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[1] Fernando Henrique Cardoso and Enzo Faletto, *Dependencia y Desarrollo en América Latina: una interpretación sociológica*, Mexico City 1971; in English, *Dependency and Development in Latin America*, trans. Marjory Mattingly Urquidi, Berkeley and Los Angeles 1979.

Focusing on the first liberal moment, the era of the belle époque, Cardoso and Faletto mapped a correlation between export-led booms, expanding domestic markets and the push to experiment with different modes of selective inclusion, ranging from democratic welfarism in Uruguay to paternalist machine politics in post-emancipation Brazil. The form of external economic dependency—and whether it widened the scope for social mobility and autonomy for local elites and middle classes—shaped the opportunity structure for inclusive or exclusive regimes. After 1929, when the Great Depression undermined Latin America's export pillars, 'bourgeois' alliances collapsed and the region turned inwards. Industrialization for domestic markets—plus a war-time boost from US demand—was combined with experiments in popular inclusion, ranging from Perón's labourism in Argentina to land reform in Guatemala or Peru, and encompassing welfare expansion, public housing and trade-union rights.

Through to the 1960s, Latin American governments largely relied on domestic markets to power economic growth, aligned with political regimes that were for the most part more inclusive than the ones they replaced. There were exceptions, especially among the smaller countries of Central America and the Caribbean, where local markets were too small, shallow and fractured to turn inwards, and where US interests ensured that extraction was privileged over inclusion. But even there, attempts to create regional common markets in the 1960s represented efforts to reduce reliance on traditional exports of primary goods to North American markets. In general, the tripod of growing industrialization, domestic consumption and popular inclusion provided the 'legs' of a model that lasted through the developmental era.

By the time Cardoso and Faletto began reflecting on these long cycles in the mid-1960s, the inward turn and inclusionary strategy were unwinding, under both domestic and international pressures. On the eve of the 1968 upheavals—Cordobazo in Argentina, crack-down in Brazil, Tlatelolco massacre in Mexico—the two sociologists ended their analysis with the question: could socialism provide the outlines of a successor to technocratic-developmental elitism for mass industrial society?[2] The answer came with the spread of military dictatorships from Brazil, Argentina, Uruguay and Chile to Bolivia, Ecuador, Peru, Guatemala

[2] Cardoso and Faletto, *Dependencia y Desarrollo en América Latina*, p. 213.

and Honduras, matched by the authoritarianism of Mexico's Partido Revolucionario Institucional. They marked the end of a long cycle of deep reform—a break with the model of inclusionary inward-oriented development—but also of the possibility that socialism might be more than enclaves in Cuba and Nicaragua.

There followed dark decades of repression and exclusion across much of South America, civil war in Central America and the slow decomposition of the two-party pact regimes in Colombia and Venezuela. By the 1980s, Latin America was in a vice. Struggling governments had borrowed money on Eurodollar markets to mask their fiscal gaps and subsidize consumption—until the bubble burst when the Fed hiked interest rates to crush inflation in the Volcker Shock. The cost of borrowing soared. By 1982, Latin America's ratio of foreign debt to GDP surpassed 50 per cent. With countries unable to meet the service payments (never mind the principal), never-ending negotiations simply rolled debts over. The net resource transfers were staggering; by 1987, debts had reached $400 billion; service payments alone soaked up most of the region's exports.[3]

To bookend the analysis of Cardoso and Faletto: by the 1980s, apostles of 'structural reform' and the neoliberal agenda of austerity, privatization and decontrol looked upon the post-1940s model with disdain. They held the likes of Perón and Brazil's Getúlio Vargas responsible for steering Latin America away from the region's natural place in the world economy, as exporter of commodities and importer of capital. Armed with this narrative, they set out to realign world and domestic markets, local and transnational elites.[4] One alternative, as in the 1930s, would have been to default and stop the bloodletting. There were then, as now, advocates of default.[5] But the asymmetrical power of a banking cartel, wielding syndicated loans, mediated by the IMF, and the certainties

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[3] Jeremy Adelman, 'International Finance and Political Legitimacy: A Latin American View of the Global Shock of the 1970s', in Niall Ferguson et al., eds, *The Shock of the Global: The 1970s in Perspective*, Cambridge MA 2010.

[4] John Williamson, 'The Strange History of the Washington Consensus', *Journal of Post-Keynesian Economics*, vol. 27, no. 2, Winter 2004–05, pp. 195–206.

[5] Anatole Kaletsky, 'When the Debtors Say No', FT, 28 December 1983; Anatole Kaletsky, *The Costs of Default*, Brookings Institution, Washington DC 1983; Jerome Roos, *Why Not Default? The Political Economy of Sovereign Debt*, Princeton 2019, esp. Parts II and III.

of a new orthodoxy kept debtors on their hind feet, hoping desperately that capital would flow back in. It did not. The 1980s were the stage for the most dramatic economic crisis in the region's history; few countries were unscathed.

A new dependency?

Economic restructuring formed the backdrop to the restoration of parliamentary democracy in Latin America. The coup wave that began with the 1964 military takeover in Brazil was thrown into reverse. One by one, martial regimes fell. In 1980–85, civilian governments entered office in Peru, Bolivia, Argentina, Uruguay and Brazil. In December 1989 the democratic tide reached Chile, with Pinochet's electoral defeat at the hands of Patricio Aylwin. Even an old *caudillo* like Paraguay's Stroessner was evicted from the presidential palace. Yet the newly elected governments had to rebuild constitutional systems and state capabilities while imposing austerity and economic restructuring. Triumphalists pointed to Latin America as a showcase for the natural affinity of markets and ballots, re-combining economic and political dimensions of liberalism in a new synthesis. Behind the scenes, the prolonged economic shock meant that Latin America was exporting up to 6 per cent of its GDP every year to creditors, grappling with hyperinflation, and ceding public authority to local bosses and their henchmen. In these conditions, as the Argentine political scientist Guillermo O'Donnell would point out, the quality of the rule of law—a central pillar of the liberal-democratic model—was compromised; the region's elected national governments coexisted with undemocratic sub-national systems in what O'Donnell called 'brown areas'.[6]

Nevertheless, in some respects the new market-democracy synthesis represented a change in fortunes for Latin America. Most significantly, after fifteen years of financial compression, the US Treasury instituted a system of debt rescheduling and forgiveness, bringing some relief from the constant drain of domestic economies to pay foreign creditors. With loss provisions for US banks (starting with Citibank in 1987), this ratcheted back loan principals, acknowledging that repayment was impossible. One of the side effects of the Brady Plan, named after

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[6] Guillermo O'Donnell, 'The Quality of Democracy: Why the Rule of Law Matters', *Journal of Democracy*, vol. 15, no. 4, 2004.

Bush's Treasury Secretary, was the creation of a liquid market for Latin American bonds, unimaginable as long as the region was a creditor's pariah. Now rebranded as 'emerging markets' by a World Bank official to de-stigmatize debtors, foreign direct investment began to trickle back into the region, reversing years of drainage. Hot capital flows surged upwards from the early 1990s, leading some analysts to speak of Latin America's 'capital inflow problem'.[7] When Clinton's Treasury Secretary Robert Rubin hiked interest rates again in 1995, the flows reversed, leaving 'emerging markets' around the world exposed to currency crises and dollar-denominated debt.

After the 'lost decade' of the 1980s, followed by the spending cuts and privatizations that were the quid pro quo of the Brady Plan, many Latin American countries reached the late 1990s in deep social crisis. Unemployment and poverty rates soared with the 1998–2002 economic crash; Andean countries like Bolivia and Ecuador faced a growth crunch that further inflamed mass protests. From Caracas to La Paz, Buenos Aires to Quito, popular revolts against the Washington Consensus policies brought a new generation of radical leaders to the fore. In 1999 Hugo Chávez was swept into office in Venezuela, followed in 2003 by Lula in Brazil and Néstor Kirchner in Argentina. In 2005, Tabaré Vázquez took power in Uruguay, joined in 2006 by Evo Morales in Bolivia, Manuel Zelaya in Honduras and Michelle Bachelet in Chile, and in 2007 by Rafael Correa in Ecuador. Though these governments had differences, some substantial, they shared at least one distinctive feature: a national economic discourse with a strong social component, often appealing for a return to the more inclusive heritage of the 1945–1970 developmentalist era.

On 4 November 2005, Kirchner took centre stage at the fourth Summit of the Americas in the coastal city of Mar del Plata, 300 miles south of Buenos Aires. The Bush Administration aimed to push through a

[7] 'To many analysts this sudden change from capital scarcity and negative resource transfers to foreign capital overabundance was surprising and reflected a surge in speculation in international markets. To others the fact that merely a dozen years after a major crisis these countries were able to tap the international market reflected the success of the market-oriented reforms. If the market is willing to reward these countries with plentiful funds, the argument went, it must mean that the reforms are bearing fruit': Sebastian Edwards, Francisco Gil Díaz, Arminio Fraga, 'Capital Flows to Latin America', in Martin Feldstein, ed., *International Capital Flows*, NBER, Chicago 1999, p. 12.

hemispheric free-trade agreement, as an extension of NAFTA. With the streets rocked by protesters against the FTAA as well as the US invasion of Iraq, the atmosphere was tense as Kirchner delivered his opening remarks, watched by a scowling Bush. Kirchner spoke out against the negative impact of the Washington Consensus and urged his fellow leaders to find alternative ways to increase popular well-being in Latin America. The FTAA was duly rejected by Brazil, Argentina, Venezuela, Uruguay and Paraguay. In place of a hemispheric order, forged under the leadership of the United States, a new wave of regional integration gained momentum. Attempts to foster multilateral relations drew Brazil into the informal BRICS network, and the whole region into new dialogues with Russia and, above all, China. For many, the 2005 Summit seemed to mark the start of a new developmental strategy for Latin America, led by governments that the English-speaking media soon dubbed the 'pink tide'.[8]

The sense of an upturn in fortunes was buoyed by the recovery in Latin America's earnings from its export basket, a turnaround that only really began with the new millennium.[9] Earlier cycles had been powered by the commodity boom of the late nineteenth-century or by state-primed domestic markets after the 1940s. Latin America's Great Depression of the 1980s and 90s saw real commodity-export prices languish at 37 per cent of what they had earned when debts were racked up in the 1970s. Their 2003–13 recovery was closely correlated with the rapid industrialization of East Asia, which helped to fuel a frenzied if short-lived primary-staple super-cycle, powerful enough to restore Latin American commodity dependence, especially on oil, minerals and grains like soya and maize. It also saw, as José Antonio Ocampo noted, a 're-primatization' of the region's exports, as the surge in foreign-exchange rates choked local manufacturing and service exports.[10]

Regional growth rates were striking: GDP per capita in Bolivia under Morales rose from $6,764 to $8,911, between 2006–19; in Ecuador

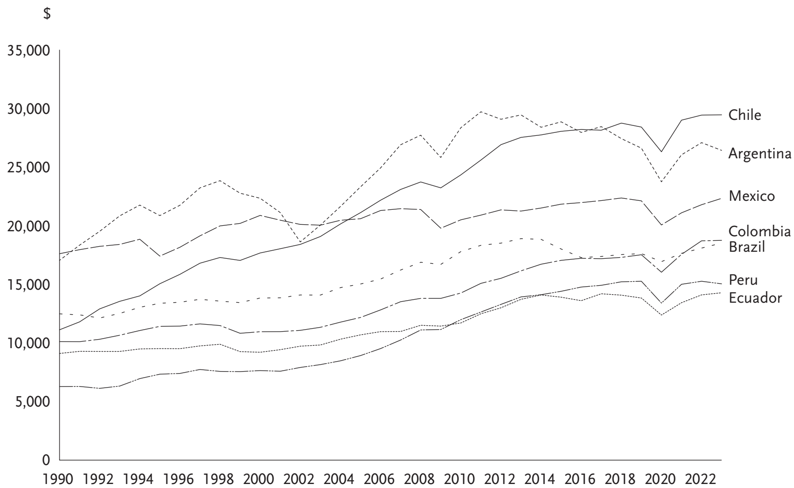
[8] 'They are not so much a red tide as a pink one', reported a *Times* correspondent in one of the first uses of the term: Larry Rohter, 'With New Chief, Uruguay Veers Left, in a Latin Pattern', *NYT*, 1 March 2005.

[9] José Antonio Ocampo and Mariángela Parra-Lancourt, 'The Terms of Trade for Commodities since the Mid-19th Century', *Revista de Historia Económica / Journal of Iberian and Latin American Economic History*, vol. 28, no. 1, 2010.

[10] José Antonio Ocampo, 'Commodity-Led Development in Latin America', *International Development Policy*, no. 9, 2017, p. 56.

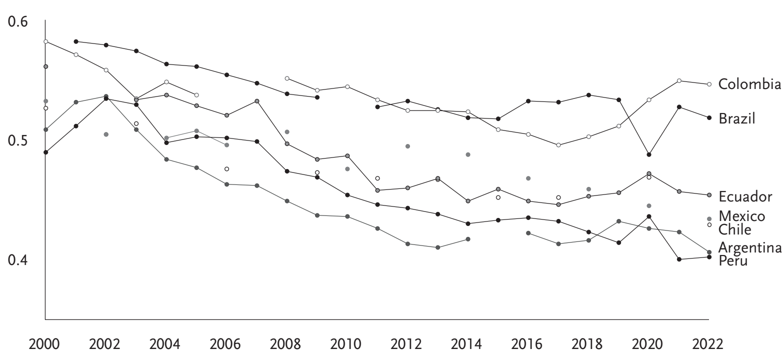
under Correa, it rose from $10,998 to $14,215, for 2007–17; in Brazil under Lula, from $14,103 to $18,355, for 2003–11 (see Figure 1). The 2003–13 commodity boom was potent enough to make this one of the few decades when inequality rates in the region declined, albeit briefly

Figure 1: *Comparative GDP per capita, 1990–2023*



Source: World Bank; dollar at 2021 levels.

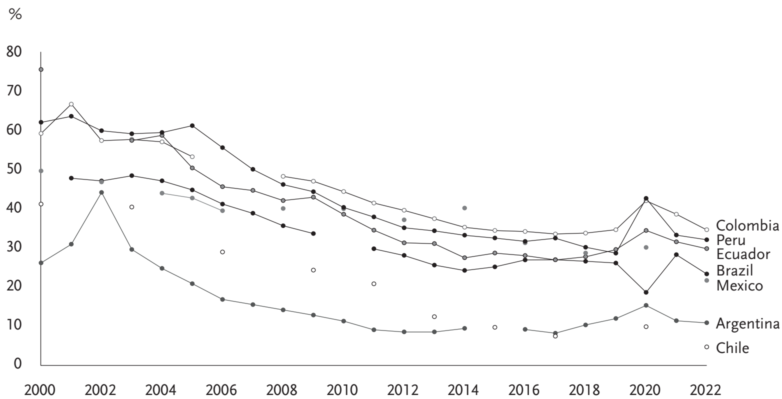
Figure 2: *Gini Coefficient, 2000–22*



Source: World Bank

(see Figure 2), helped by the new social-welfare policies introduced by the governments of the 'pink tide'. The growth surge translated into an expansion of fiscal capacity, funding programmes like Brazil's Bolsa Família which aimed to cover informal workers, whose numbers had increased over the neoliberal decades. Regional poverty levels declined significantly (see Figure 3).

FIGURE 3: *Share of People Living below $6.85 per day, 2000–22*



Source: World Bank[11]

Politics of frustration

At its height, the 'pink tide' seemed to be moving the region towards a virtuous path of sustained economic growth and development. Government recognition of long-standing demands for indigenous peoples' rights—included in the 2009 Constitution of the now Plurinational State of Bolivia—signalled an advance for historically marginalized populations. The growth of the feminist and LGBTQ movements in countries like Argentina, Mexico, and Chile pointed towards a gradual expan-

[11] The data from the World Bank, including the seven larger Latin American economies, follows the selection made here: Luis Bértola and José Antonio Ocampo, *The Economic Development of Latin America since Independence*, Oxford 2012. Instead of Venezuela we have included Ecuador's data, due to the lack of up-to-date information from the former. In the case of Argentina, due to high inflation, income poverty should be complemented with other variables for a more accurate picture.

sion of civil liberties, leading to same-sex marriage and, eventually, the legalization of abortion. But while there were notable achievements, all the 'pink tide' governments in their different ways allowed themselves to be buoyed up by the export boom, without seeking to build a new model of economic development or to grapple with the fiscal challenge of their vast informal economies. The result was a new structure of dependency. As China's economy slowed in 2013–14, the commodity fever broke and prices began to sag. By then it was clear that the 'tide' was receding. Growth stagnated; poverty levels began to climb again (see Figures 3 and 2, above).

The gradual loss of economic steam after 2013 confronted the region's 'pink tide' governments with a series of challenges. On the one hand, rapid expansion had offered fertile ground for rent seekers and corruption—notoriously exploited in the infrastructure-boom contracts sought by the Brazilian construction giant, Grupo Odebrecht, which bribed government officials in at least ten countries, on a massive scale. On the other, millions still lived on minimal incomes, in conditions of poverty, while even those whose quality of life had improved remained insecure. As the path toward upward social mobility became fogged with uncertainty, the 'pink tide' governments were whiplashed by popular frustration.

One outcome of that frustration has been a vicious cycle of accelerated political turnover, with the ejection of incumbents, gridlocked legislatures and a downward spiral of public confidence in state institutions.[12] In Brazil, as the economy flagged at the end of the commodity boom in mid-2013, a spike in bus fares in major cities set off massive demonstrations. Anarchist-inspired activists adapted anti-globalization 'black bloc' tactics against the PT government of Dilma Rousseff; regional governments responded with often excessive force, which led to swelling demonstrations against police violence. Millions took to the streets of São Paulo to denounce the cocktail of austerity, corruption and gendarmes. Far-right groups joined the fray, and the powerful parliamentary right pounced on the malaise and upheaval to push through Dilma's impeachment. Quite stable since the restoration of democracy in 1985, Brazil

[12] Daniela Campello and Cesar Zucco, *The Volatility Curse: Exogenous Shocks and Representation in Resource-Rich Democracies*, Cambridge 2020.

joined the club of turbulent polities. Elsewhere, frustration turned into open anger in 2019, as protests and unrest erupted in Chile, Ecuador, Peru, Honduras, Puerto Rico, Bolivia and Venezuela.

The politics of frustration came to define the second half of the 2010s in Latin America. The unfulfilled promises of the 'pink tide' gradually obscured its merits, leading many to question the whole enterprise. An elite coalition, with corporate-media backing—an alliance of orthodox 'liberals', institutionalists and conservatives who abhorred the populism of the 'pink tide'—had opposed these governments from the start. The novelty was the growing opposition among those who, with different levels of identification, had voted for and supported these governments in the past. Large victory margins for the left in Argentina, Brazil, Bolivia, Ecuador and Venezuela in 2010–13 suddenly evaporated.[13] Over the next few years, Peronism lost the 2015 vote in Argentina to Mauricio Macri, Dilma barely won reelection in 2014 before getting impeached, Nicolás Maduro won by less than a percentage point in 2013 and clings to power through naked fraud. In Ecuador, Lenín Moreno was elected in 2017 after a heavily contested second round, only to cut ties with Correa, his patron, sending the country into a political tailspin. Morales managed to stay in power but won only 47 per cent of the popular vote in 2019; a short-lived coup toppled him days after the election. Against this backdrop of growing discontent, with the unravelling of 'pink tide' alliances, far-right figures like Jair Bolsonaro, Javier Milei and Nayib Bukele were swept into office, while others like José Antonio Kast in Chile got very close. Then came Covid, which ravaged the region like no other.[14]

Structural impasses

As the veil of the past half-century lifts, some underlying patterns become clear. First, the idea that globalization can retrospectively be traced back to the rise of neoliberal orthodoxy in the 1970s, triumphing with Reagan and Thatcher in the 1980s, requires qualification. There

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[13] In Argentina, Cristina Kirchner won reelection in 2011 with 54 per cent of the popular vote. In Brazil, Dilma Rousseff got 56 per cent in the second round in 2010. In Bolivia, Morales won 64 per cent in 2010 and 61 per cent in 2014. In Ecuador, Correa was reelected with 57 per cent in 2013; Chávez won his last election in 2012 with 55 per cent.

[14] ECLAC, *Social Panorama of Latin America and the Caribbean*, Santiago 2023.

was a long hiatus between the arrival of market fundamentalism on the stage and the bonanza from trade and financialization associated with full-throated globalization; if anything, industrial restructuring in Latin America as well as the Global North placed the costs well ahead of the returns. The green shoots of a new alignment only began to appear in the late 1990s—and in Latin America, as we have seen, they were then blasted by the 1998–99 crises. What is more, once the commodity boom did take off, it never produced the same transformative effects that the earlier models of export-led or inward-oriented growth examined by Cardoso and Faletto had done. Globalization did more to dismantle the earlier political economies than yield new integrated successors.

There are exceptions. Mexico has been something of an outlier, benefiting since 2016 from the US drive to near-shore American supply chains from China; so, to some extent, has Costa Rica, where Intel has expanded its chip-making footprint to 'de-Asianize' its empire. Trade has been booming in key metals for electric vehicles and decarbonization—copper in Peru, lithium in the Andean borderlands of Argentina–Chile–Bolivia. But the main point holds: globalization mapped out the contours of a new dependency, but without the *primum mobile* of earlier structures. The same applies to capital flows. After the turn of the millennium, borrowing rates for the region finally dipped below the 3 per cent threshold, unleashing bond finance. A flood of investment washed in during the early 2010s, as portfolio flows eclipsed direct investment in response to the ultra-low interest rates of the post-financial crisis era. But again, debt did not become a pillar of growth as it had in earlier fevered cycles, like the 1920s or the 1970s. Now that real interest rates have climbed to a new equilibrium, debt markets have lost their shine and credit conditions have become more adverse.[15]

The redirection of Latin American dependency towards China has done nothing to resolve the absence of a developmental motor. Much is now made of the region's 'orientization'; some twenty countries have signed up for Belt and Road initiatives or joined the Asian Infrastructure Investment Bank. China has emerged as the top trading partner for nine Latin American countries; with Mexico excluded, Chinese trade with the region reached $247 billion in 2021, surpassing the US by 30 per cent.

[15] ECLAC, *Capital Flows to Latin America and the Caribbean: 2022 Year-in-Review and Early 2023 Developments*, Santiago 2023.

Latin America is one of the few regions where the balance of commodity trade runs a surplus with China. Recently, however, there have been signs that this cycle too is losing steam. Chinese demand for staples has been in decline since 2018 and is increasingly concentrated in a few extractive industries, especially lithium and molybdenum, along with fisheries. Meat exports and staples like soy have been flat.

Peru is the poster child of this new alignment; a third of its exports go to the PRC. But almost 90 per cent of this consists of one commodity: copper ore—lucrative and strategic, to be sure, but with a very low rank in economic complexity.[16] The case for a geo-strategic transformation of the region is mainly made by American analysts, prophets of a new world order, who fret about 'losing' Latin America to their Asian nemesis. But this is simply not unfolding.[17] What one might say is that the 're-orientation' has brought a widening of Latin America's export markets, making them less dependent on traditional North Atlantic ones, while at the same time redoubling the region's dependence on rents from a small basket of commodities.

In a *longue-durée* perspective, the neoliberal moment that opened in the 1980s made Latin America's growth dependent on international commodity and capital conditions because domestic markets have been anaemic. It fell short of the transformation that its proponents promised. The upswings have been anything but predictable or sustained; in international terms, the region fell further behind. For the past forty years, its average growth rate has been half that of the world's. The pattern persisted after the financial crisis: while the rest of the world grew by nearly 4 per cent after 2009, Latin America limped along at half that rate—barely more than population growth. Each of the past two generations has experienced a 'lost decade': the notorious 1980s and now the 2010s, after the commodity boom gave way to a lengthy hangover.[18] In the past thirty years, the gap between most of Latin America and the club of wealthy countries has widened. Chinese GDP per capita leapfrogged that of Colombia and Brazil in 2018 and is poised to overtake Mexico (see Figure 4).

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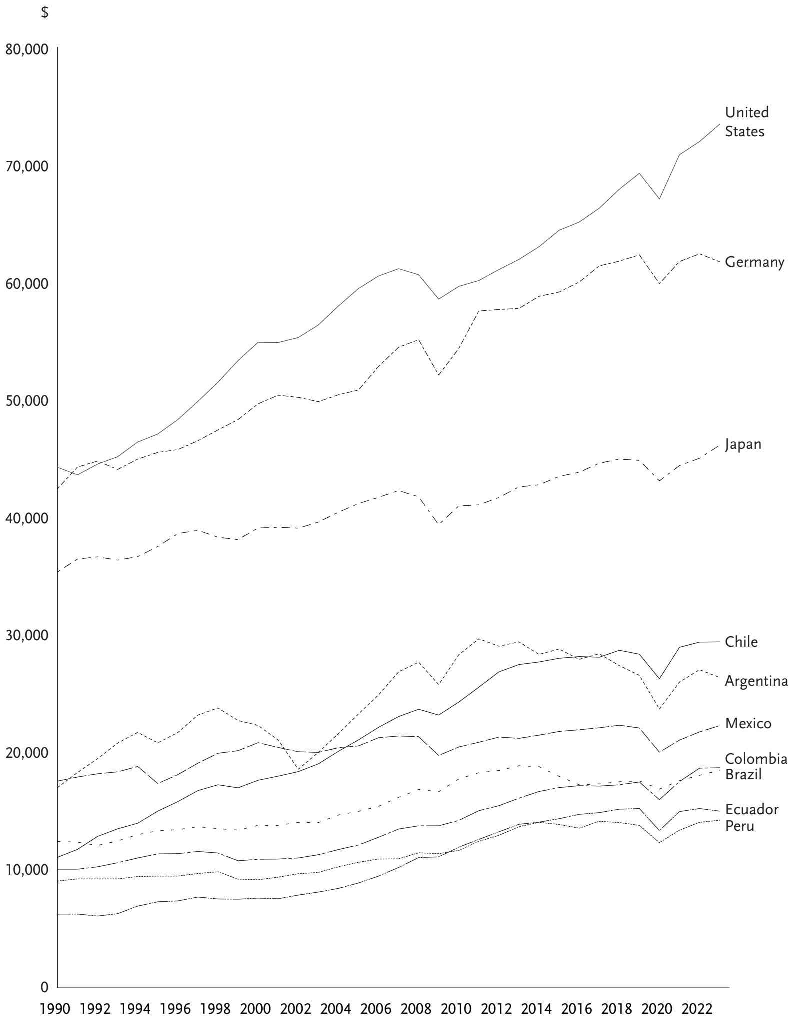
[16] Observatory of Economic Complexity, Peru–China bilateral comparison.
[17] Diana Roy, 'China's Growing Influence in Latin America', Council on Foreign Relations, 15 June 2023.
[18] Brian Winter, 'Latin America's Decade-Long Hangover', *Americas Quarterly*, 9 April 2019.

Figure 4: *Comparative GDP per capita, 1990–2022*

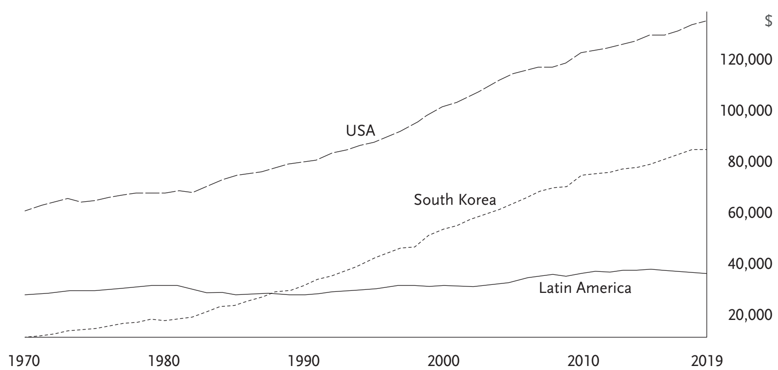


Source: World Bank; dollar at 2021 levels.

Two structural problems, untouched by 'pink tide' policies, help to explain the region's underlying weakness. The first is an elite formation that not only thwarts efforts to reduce inequality but hampers innovation and productivity. Dynamic sectors tend to be dominated by large private *grupos*, family-controlled conglomerates that benefit from high rates of market concentration and wield enormous influence over public-sector contracts.[19] They have adapted to volatility and external incentives by preferring fluid assets over fixed investments. Competition agencies are notoriously toothless, enforcement is feeble and policymakers are vulnerable to 'lobbying', a euphemism for the conglomerates' almost-unchecked power to shape regulation. Beneath the recognizable family potentates are masses of small, unproductive firms. Fully 70 per cent of Latin American workers are now self-employed or work in firms with ten workers or less; roughly 57 per cent of the non-agricultural sector works informally. As a recent World Bank report underlines, this is a recipe for stagnant productivity: cartelization at the top and cut-throat competition below strips away incentives to adopt new technologies or invest in human capital.[20]

Over the past decade, productivity has flatlined (see Figure 5). What growth the region has seen has depended on additional supplies of

Figure 5: *Comparative GDP per capita, 1970–2019*



Source: FT, ECLAC; dollar at 2019 levels.

[19] For recent case studies of Chile, Mexico and Peru, see Laura García-Montoya and Pilar Manzi, 'From Economic to Political Power: Economic Elites and Policymaking During Times of Crisis', *Journal of Politics in Latin America*, vol. 15, no. 2, June 2023.

[20] 'Share of Workers Informally Employed in Non-Agricultural Workplaces, 2022', *Our World in Data*, accessed 1 August 2024; William Maloney et al., 'Competition: The Missing Ingredient for Growth?', *Latin America and the Caribbean Economic Review*, World Bank, Washington DC, April 2024.

labour and owed nothing to rising productivity. A comparison of Brazilian and Korean labour productivity for 1950–2010 revealed that productivity-growth rates were neck-and-neck until 1980, with a sharp divergence thereafter. Brazil's labour productivity *declined* with the onset of neoliberal reforms, while Korea's grew by leaps and bounds.[21] Decades of lagging investment in education, lack of business support for universities and weak backing for higher value-added services in medicine and pharmaceuticals meant that private riches accrued without an ability to produce autochthonous wealth. The region is thus stuck in a low-growth, low-productivity trap; spurts of growth remain enclaved, too spasmodic to disrupt the equilibrium.

The low-growth, low-productivity trap is converging with another structural problem: the looming crisis in Latin America's social reproduction of labour. Workforce expansion is tapering off, as fertility rates fall and emigration ticks up—intersecting in turn with higher rates of dependency. Latin American demographics are beginning to resemble those of Europe and East Asia, but without the buffers of high GDP per capita or rising productivity. In 2016, Latin America passed the demographic-transition tipping point, as the birth rate dropped below 2.1 births per woman, not enough to replenish the population—and down from 5.9 in 1960. By 2022, according to World Bank data, it had fallen to 1.8—slightly higher in the Andean countries, with Bolivia at 2.6, Peru and Venezuela 2.2, Ecuador 2.0; but as low as 1.6 in Brazil and 1.5 in Chile.[22] At the same time, life expectancy rates continue to inch up. The trend is widespread, but the speed of the transition here is striking. Analysts have pointed to rising female labour-force participation rates, anti-poverty campaigns directed at thwarting teen pregnancies, or the overall effects of low growth and youth dislocation in urbanized societies. The result is overdetermined: Latin America's over-65 population is due to double in 28 years, compared to the 58 years it took the United States.[23]

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[21] José Gabriel Palma, 'Why Has Productivity Growth Stagnated in most Latin American Countries since the Neo-liberal Reforms?', Cambridge Working Papers in Economics, no. 1030, July 2011, p. 11.

[22] Brazilians were shocked in 2023 when census-takers found the country had only 203 million people, not the 208 million predicted by statisticians; Argentinians were informed that in 2024, there would be 30 per cent fewer 4-year-olds entering preschools than in 2020: Paul Constance, 'Latin America's Fertility Decline Is Accelerating', *Americas Quarterly*, 4 January 2024.

[23] 'Plunging Fertility Rates Are Creating Problems for Latin America', *Economist*, 18 January 2024.

Meanwhile, out-migration from the region consists almost entirely of working-age men and women, plus their children. Emigration rates have doubled since 1990; a total of 25 million Latin Americans have left for North America, and another 5 million for Europe. There has been a steady trickle in, though most is way-station migration as people from Asia and Africa find overland routes to the United States. Rising internal migration has mainly been fuelled by flight from Venezuela: some 7.7 million have left the Bolivarian Republic seeking homes across the border, mainly in neighbouring countries.[24] Latin America is no longer a 'young' region. It is ageing—fast—and putting intensifying pressure on under-funded pension schemes. The conventional pay-as-you-go model is not braced for the speed at which the demographic shift is occurring, while the swelling ranks of the informal sector have almost no protection. Demography thus adds a heavy social undertow to economies still skewed by oligarchic capture and informal labour.

Manodurismo

In this context, criminalization of the one pan-regional sector that has boomed without a bust—cocaine—only adds to the pressure on states and societies, since a non-trivial share of the youth are caught up in the traffic in drugs, weapons, stolen vehicles, humans and laundered money. Indeed, it is the entanglement of all these *sub rosa* trade networks that makes them so buoyant and hard to control. Cocaine exports have doubled since 2013, production frontiers spreading from the heartlands of Bolivia, Peru and Colombia into Venezuela and Central America, where ungoverned valleys have sheltered new fields. Once they take root, coca farms have proved hard to eradicate. The expansion of the commodity frontier has been closely linked to migration within the region—Venezuelans to Chile, Colombians to Central America—creating an increasingly integrated trans-national market serviced by dense networks of illegal traffic. Trade routes have multiplied, with new export corridors along the Amazon and down the River Plate, becoming more complex and diversified, combining and compartmentalizing traffic in drugs with other tradables, a lot of them lawful.

Booming commercial-crime syndicates have been as much a feature of globalization as mammoth container ships—whose size and volume

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[24] Marie McAuliffe et al., *World Migration Report 2024*, International Organization for Migration, Geneva 2024.

are what enable operators to camouflage high-value, tightly wrapped bricks of Andean powder among the bananas and furniture.[25] The same infrastructures and technologies that sustain legal trans-national markets also enable the illicit ones. The cocaine trade is repositioning Latin America within an evolving world market, with new hubs expanding in Hong Kong, Ivory Coast and Turkey. European consumption has eclipsed American demand; Antwerp has become the hub for Balkan clans' trucking networks, control over piers and money-laundering.

When the FBI arrested Mexican drug lord 'El Mayo'—Ismael Zambada García—in El Paso in July 2024, they hoped to decapitate a syndicate that shipped tonnes of fentanyl, methamphetamine, cocaine and heroin across the US border. The syndicate had made use of long-distance tunnels, airlift operations, Chinese money-launderers, chemical shipments from Thailand and an archipelago of meth and fentanyl labs—creating free-trade corridors for dark money and narcotics that had turned northern Mexico into a warzone.[26] The capture of El Mayo was supposed to eliminate the mastermind behind the violence that sustained the business. But decapitated empires only collapse when they are already crumbling, which is not the case here. Taking out the leadership of distributed commercial-crime syndicates is like smashing a ball of mercury with a hammer, scattering it into hundreds of parts.[27] Removing the boss simply opens up opportunities for others, creating a vacuum for a bloody succession struggle that will drag in the Mexican authorities and cast a shadow over Claudia Sheinbaum's newly elected administration.

With the escalation of crime, embattled Latin American governments have turned to militarizing the crackdown on illicit trade, with dramatic flashpoints where illegal *grupos* have come into direct confrontation with the state. Peru, Bolivia, Guatemala and El Salvador have jammed twice as many into gaol as the facilities were designed to house—turning prisons into bloated recruitment centres for crime cartels in the one demographic category that Latin America is going to need for growth: young men and women, aged 17–34. This only aggravates the crisis of the reproduction of labour.

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[25] 'Drug-Trafficking Networks Are Expanding into New Territories', *Economist*, 6 July 2023.

[27] See the *Financial Times* video, 'Chinese Brokers Launder Hundreds of Millions for Global Crime Groups', *FT*, 27 June 2024.

[27] Editorial Board, 'Calderón, El Mencho, Beltrones . . . políticos, militares y narcos tiemblan con la detención del Mayo Zambada', *Proceso*, 25 July 2024.

It would be hard to exaggerate the current panic around crime. One result has been to turn the region's 'brown areas' and weak rule of law, worsened by austerity, into an opportunity for the rise of a new cohort of strong men. The best example of the *mano dura* trail was blazed by Nayib Bukele of El Salvador, who declared a permanent state of emergency in March 2022. Bukele's *manodurismo* meant detaining around 1.7 per cent of the country's population, by far the highest incarceration rate on the planet. Homicide and crime rates plunged, and Bukele's popularity has soared. So have fictions about his model. Untold numbers have yet to be charged and brought to trial after the arrest waves. The prisons have thus become massive conscription centres for the gangs, which have captive pools of defenceless recruits. When the day comes for the mega prisons to disgorge their uncharged thousands of innocent detainees, they will walk free tattooed and ready for business. The gruesome alternative is to turn these sites into giant disappearance chambers, living cemeteries—protected by an officially sponsored rhetoric of indifference and forgettability.[28] Still, Patricia Bullrich, Argentina's new Security Minister, has toured the mega prison on the volcanic plain of Tecoluca—said to be the world's largest, with a capacity for 40,000 inmates sardined into four-tiered bunks, with grated metal floors to enable 360-degree surveillance—and vowed to import the model. Daniel Noboa has also promised a Bukele-like response to crime in Ecuador.

There is a problem with the Bukele model of 'brown-out by design'. El Salvador's gangs were extortion rackets that grew out of the street-brawling associations of 1960s Los Angeles—not the diversified commercial networks straddling Europe and Asia that emerged in the 1990s. The Salvadorean gangs have been relatively easy to contain, albeit at a high human toll. By contrast, Ecuador's 'gangs', Los Lobos and Los Choneros, are tethered to extensive Albanian and Mexican syndicates; Ecuador now accounts for approximately 60 per cent of cocaine shipments to Europe, mostly via Antwerp. Their scale was on display in January 2024, when two rival outfits coordinated an uprising across Ecuador's prisons, with assaults on universities, hospitals and companies, culminating in an invasion of TC Televisión's recording studio, with the live broadcasting of a hostage-taking by masked men waving shotguns and sticks of dynamite, while reporters pleaded in front of cameras not to be killed.

[28] Graham Denyer Willis, *Keep the Bones Alive: Missing People and the Search for Life in Brazil*, Berkeley and Los Angeles 2022, pp. 7–9.

Noboa, the scion of a family conglomerate, inaugurated as president just a few months before, declared a state of emergency. He named as prosecutor César Suárez, already tasked with probing police social-security corruption charges. Gangs responded immediately by capturing policemen and prison guards. Several days later, Suárez—who had been denied police protection—was gunned down while driving to work in Guayaquil. It remains unclear whether it was gang members or the police who had him killed. The appalling social costs of counter-narcotics operations in Colombia and Mexico in the 1990s and 2000s, ending in stalemates, yield an important lesson about gang-led civil warfare: when belligerents have access to autonomous sources of rent, they are much harder to contain and defeat; all the more so when the rent-seeking is illicit, driving the business itself underground. The informalization of the global economy facilitates the informalization of war.[29]

Three paths

In hindsight, Latin America's 'pink tide' fell short of delivering what it promised: a new, and more egalitarian, democratic path for the region. It was too dependent on a short-lived commodity boom and did not focus on an alternative growth model with augmented labour productivity at its core. Whether these regimes—most of them confronted from the start by hostile media corporations and adversarial elites—had room to do otherwise remains a moot point. Despite some concrete improvements in living standards, especially for the poor, with the faltering of the commodity boom they lost their allure. Now confronting deeper fiscal and financial constraints in the aftermath of the pandemic, the region has divided into three different groups.

The first might be dubbed broken democracies. Venezuela is an obvious example, especially after the 2024 election; over the last decade, millions of people have voted with their feet. Meanwhile, the Ortega government in Nicaragua has imposed a crackdown, persecuting opponents with arbitrary detentions and keeping a tight hold over the local media. Bukele made his name as a dynamic young mayor of San Salvador. He began his first presidential term in 2019 with a crackdown on the gangs, using both legal and illegal methods. From there, he extended a tight

[29] Mary Kaldor, *New and Old Wars: Organized Violence in a Global Era*, Stanford 2012, 3rd ed., pp. 107–13.

grip over the Salvadorian state, silencing opponents, forcing critical journalists, like those of *El Faro*, into exile and lavishing gifts on his supporters—to win re-election in 2024 with 85 per cent of the vote. These regimes retain the trappings of elections, rely on the public purse to reward allies and punish critics, and spin disinformation to justify muzzling opponents. The sustainability of this strategy hangs in the balance; it is unclear how long Maduro will be able to stay in the Miraflores when his coffers are bare. On the other hand, their track record shows remarkable resilience.

They also reveal the contradictions of US foreign policy. While championing democracy in the stand-off with Russia, the Biden Administration—like Trump's before it—has been decidedly ambivalent when it comes to the western hemisphere. Without an ideological rival of the Soviet type, and with China's penetration focused on extraction, Washington seems to have narrowed its strategic concerns to its own southern border. In a way, this allows more autonomy for Latin America while blunting whatever force the US might apply in support of a more democratic alignment. Too much regional turmoil runs the risk of aggravating the migrant flow to *El Norte*, so the option of promoting 'regime change' is not without hazards. Biden's stand on Bukele's *manodurismo* has been muted. Ortega gets his knuckles rapped and 1,400 of his cronies face visa restrictions, but not much more. In the recent Venezuelan elections, the Biden Administration openly backed the opposition but left it to local dissidents to manoeuvre against the Bolivarian regime. The fact is that these elected despots, relying on polls, street bullying and specialized security forces, are more 'coup-proof' than the authoritarian systems of old.

The second group consists of countries where democracy has largely decomposed but the economy remains buoyant, governed by a radical brand of neoliberalism under which public institutions are skeletal but the market thrives. Peru is the standard-bearer of this kind of regime. Instability has defined its political landscape since the 1980s, under the constant risk of a comeback by the powerful Fujimori clan. In 2022, outsider Pedro Castillo was elbowed aside by Dina Boluarte, who became the sixth president in seven years; massive demonstrations against her inauguration were met by repression, leaving over fifty dead. Ecuador, under greater economic pressure, also belongs in this group. After Lenín Moreno's victory in 2017, his approval ratings slumped as he signed an IMF bailout agreement with severe conditions. An escalation of protest, repression, political assassinations and corruption charges ground public administration to a standstill. The 2021 election brought former banker and Coca-Cola executive Guillermo Lasso to power, to order fatal fire on protests against food price hikes—triggering impeachment moves against him. A snap election in October 2023 then brought Noboa to power; as we've seen, he ran into the gang-state uprising and now promises Bukele-style rule but without the political or social machine to support him.

A third group, comprising Colombia, Chile, Mexico and Brazil, has seen the renewal of 'pink tide' governments: 2022 saw the accession of former student leader Gabriel Boric as President of Chile, Lula's defeat of Bolsonaro in Brazil and Gustavo Petro's win in Colombia; in 2024, Claudia Sheinbaum succeeded her Morena comrade Manuel López Obrador as President of Mexico with a landslide victory.[30] How far will they be able to deal with Latin America's structural challenges while keeping their coalitions intact? Lula's win over Bolsonaro was accomplished by razor-thin margins—and this after a calamitous four-year reign, with 700,000 deaths from Covid and ecocide in the Amazon. Lula cannot take the pillars of the PT for granted, especially where the party has lost significant ballast in the country's more prosperous south; it remains to be seen whether the left's rising star, Guilherme Boulos, will become a successor after Lula's retirement, now widely expected in light of his age (78) and the clear need for fresh leadership in what is now an established party-movement.[31]

In Chile, Boric was weakened by the referendum defeat of the new post-Pinochet constitution in 2022. Despite the popular support for reform, the proposed charter came under attack from the right as too radical; having made participatory policymaking a cornerstone of his platform, Boric had to face the opprobrium of social movements that had emerged during the 2019 protests. Things have not been easier for Petro in Colombia. Key legislation on health, education and labour

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[30] For background, see Camila Vergara, 'The Battle for Chile's Constitution', NLR 135, May–June 2022; Forrest Hylton and Aaron Tauss, 'Colombia at the Crossroads', NLR 137, Sept–Oct 2022; André Singer, 'Lula's Return', NLR 139, Jan–Feb 2023; Tony Wood, 'Mexico in Flux', NLR 147, May–June 2024.

[31] See Guilherme Boulos, 'Struggles of the Roofless', NLR 130, July–Aug 2021.

reform was blocked or watered down in Congress. In April 2023 he re-shuffled the Cabinet, ejecting figures such as the Liberal Party economist José Antonio Ocampo, brought in as Finance Minister to reassure the markets. Petro has adopted a more radical rhetoric even as his coalition narrows. Mexico's new government faces the best prospects, aligned as it is with Washington's geostrategic shift towards near-shoring and its nervousness about instability south of the border that might stoke a great wave of immigration. Sheinbaum inherits a state with enough capacity, and an economy with enough dynamism, to consolidate a new order for Mexico. Yet to curb the entrenched infrastructure of violence built around narcotics would require a degree of state autonomy from economic *grupos* not seen since the 1930s.

The fate of Argentina might offer a warning to the neo-pink tide. For a long decade, left Peronism served as its emblem. After a short-lived neoliberal interregnum under Mauricio Macri in 2015–19, Alberto Fernández led the Peronists back to power. Having navigated the global pandemic with modest but sound results—in terms of defending jobs and avoiding a health crisis on the scale of Peru and Brazil—Fernández's coalition fractured over how to manage Argentina's foreign debt and the fiscal deficit. Paralysed by internal conflicts, the government failed to attend to macroeconomic stability; inflation topped 200 per cent. The 2023 elections saw it humbled. In the vacuum, a right-wing coalition faced off against a firebrand libertarian and TV celebrity, Javier Milei. Long-standing popular frustration with Argentina's economic turmoil helped Milei into office. His disdain for democracy is no secret, while his Vice President, Victoria Villarruel, has strong ties with officials of the former military dictatorship. Economic deregulation, and the pulverization of real wages that followed the devaluation of the peso in December 2023, suggest that Milei might want to transform Argentina's economy along the lines of the 'Peruvian model'. Although it is hard to predict the road ahead, the catastrophic end of Fernández's term, and the failure to reckon with the new structure of dependency, should remind the neo-pink tide governments of the need for an alternative economic model as a condition for a new social alliance.

In any event, they face unexplored territory. The reorganization of the global economy after 2008 offered an ephemeral injection of commodity rents, while cloaking the start of a demographic transition and obscuring decades of declining productivity and persistent financial dependence.

Neoliberalism did more to dismantle the inheritance of integrated, diverse economies than it did to create vibrant new ones. In many countries, the past two decades will be looked upon as a missed opportunity to develop an alternative when the rents were there to invest. What is left are frustration, fatigue and the temptation to reach for desperate solutions. Institutional deterioration and the demise of traditional politics have divided the region.

Yet in contrast to previous historical conjunctures, there is little in the structure of the world economy to determine Latin America's domestic alignments. The region has some breathing room. It is far from Eurasia's searing conflicts and close to a United States keen to redirect its manufacturing facilities from China, yet with a weakened 'manifest destiny' appetite.[32] The rivalry between the US and China offers bargaining opportunities for the region. Demand for primary staples can yield export rents which could be invested, though these are far from the boomtimes of earlier export bonanzas. Will these external factors compensate the impasses of an ageing population and lagging productivity? Petro, Boric, Lula and Sheinbaum will need to persuade jaded electorates and fraying coalitions that a different type of 'structural adjustment' is necessary. The dilemma is that the rents and savings that might have been invested socially have been mopped up by closed elites and sterilized by foreign debt. If this needle—finding opportunities for growth that translate into social investment—cannot be threaded, the fraternity of Mileis, Bukeles and Bolsonaros lies in wait.

[32] Brian Winter, 'A (Relatively) Bullish Case for Latin America', *Americas Quarterly*, 17 October 2023.