

Divisions growing, consensus eroding

For the sixth BTI edition in a row, the level of democracy in Latin America and the Caribbean has been on the decline. The number of autocracies in the region has reached an all-time high, and the economic performance and innovative strength seen in most countries is too low to sustain hopes of economic opportunity and social inclusion. Doubts about democracy are growing – as is the intensity of political and social conflicts.

Humanitarian chaos and state terror in Venezuela; the violent suppression of riots in Nicaragua; the return to banana republic status of Guatemala and Honduras; the rise of an overtly right-wing extremist and populist to the office of president in Brazil; the ongoing crisis in Argentina; the ceaseless spiral of violence in Mexico; and, last but not least, a fragile peace process in Colombia that could collapse at any moment: The news from Latin America and the Caribbean during the period under review for the BTI 2020 does little to raise hopes. These developments beg the question: Is the region turning its back to the future and resorting to past tactics in dealing with political conflicts?

After analyzing the data gathered in its 2017 survey, the Latinobarómetro spoke of an “end of the third wave of democracy,” a statement which the current BTI data and analyses also support. Following the authoritarian regressions in Guatemala and Honduras, the region now has six autocracies, while in the early 2000s, Cuba was considered the last teetering bastion of authoritarianism.

Democracies in the region are also having to wrestle – each in their own way – with upheavals in their political structures, most of which are the result of pent-up problems, a lack of responsive policymaking, and a wealth of populist promises bandied about in a Twitter-saturated political culture. This tumult distracts from the fact that elections held in the region during the period under review – with the notable exception of Honduras – were actually competitive and carried out in a relatively free and fair manner. This tumult also distracts from the fact that, despite growing support for authoritarian solutions, the military coups of earlier days are now unlikely. However, the question remains as to how resilient the region’s democracies are given the immense challenges they face, which include a gaining-in-traction conservative counterrevolution led primarily by evangelical churches promoting fundamentally illiberal positions.

The BTI 2020 also offers little cause for hope in terms of economic transformation in the region. On the one hand, the economic decline driven largely by bad governance in Cuba, Nicaragua and Venezuela has not only led to further social misery; it has also created growing migratory pressures, which must then be absorbed by neighboring countries. On the other hand, economic stagnation and its attendant symptoms of poverty, unemployment and a basic lack of economic opportunity – particularly among the younger generation – continue unabated. The region’s average GDP per capita growth over the two-year period was 1 % (excluding Nicaragua and Venezuela), which was too little to generate any of the much-needed momentum for development and meet people’s expectations, particularly in the “big three” countries of Argentina, Brazil and Mexico.

Of course, this political and economic environment – accompanied by an eroding confidence in democracy and politics – makes governance more complicated. In addition, transformation projects capable of achieving a consensus are increasingly difficult to develop given the complex and divergent interests at play. Democratic governance is also burdened by illiberal forces and the ongoing – and growing – political polarization found in several countries, including Brazil and Colombia. Nevertheless, aside from

the decidedly transformation-adverse regimes, the governance score in Latin America and the Caribbean is still relatively stable by BTI standards.

An intraregional comparison shows the ongoing drift underway in the region between those countries – primarily in South America – featuring relatively solid institutions and those countries located in the drug corridor from Venezuela to Mexico. For example, Chile, Uruguay and – albeit with a growing number of problems – Central America’s Costa Rica are among the best-rated countries in the BTI, while the region continues to be home to a number of “worst performers” in the areas of political transformation (Cuba, Venezuela), economic transformation (Haiti, Venezuela) and governance (Nicaragua, Venezuela).

The petty and organized crimes associated with drug trafficking continue to pose a key problem. With the exception of war zones, no region in the world is more violent than Latin America and the Caribbean. Based on official statistics relating to each country’s homicide rates, well over a quarter of a million people were murdered during the two-year period up to January 2019, with the largest numbers being found in the most populous countries, Brazil and Mexico. Growing crime levels have caught the public’s eye, even in relatively peaceful Uruguay. Nonetheless, no stringent solutions to the surge in violence and crime have been presented at national, let alone regional levels.

Political transformation

Backsliding and resilience

Representation deficits, the growing influence of ultra-conservative evangelical churches, and declining approval ratings for democracy: A whole range of developments in the region are fueling authoritarian tendencies. Despite all this, substantial progress is also being made.

For the sixth time in a row, the average quality of democracy in countries in Latin America and the Caribbean has dropped. If we exclude the robust and newly added democracy of Trinidad and Tobago, we see a 0.48-point dip in the quality of democracy since the BTI 2008. In addition, two countries, Guatemala and Honduras, regressed into authoritarian rule. As a result, the BTI 2020 now registers six autocracies in the region – a new low.

What’s even more disconcerting is the lack of international protests against the dismantling of democracy in Honduras and Guatemala, and the fact that presidents Juan Orlando Hernández and Jimmy Morales are courted rather than ostracized in diplomatic circles.

For example, while U.S., Canadian and Mexican governments recognized Hernández’s wafer-thin victory in the Honduras presidential election of December 17, 2017, and while the EU essentially accepted the official narrative of a “technical error” in the suspicious failure of one particular server at the election data center, the Organization of American States (OAS) spoke of widespread irregularities, questioned the validity of the official results, and concluded that new elections were necessary. It was this cautious response on behalf of most international partner countries that emboldened the Honduran government to violently suppress post-election protests. In addition, the executive branch and the legislature controlled by Hernández’s National Party (PNH) largely eliminated checks and balances at the expense of the judiciary – a move that nearly escaped notice.

In the meantime, Guatemala experienced what one observer aptly called a “slow-motion coup d’état” – one that almost completely eroded that country’s separation of powers. This erosion can be seen in the neutralization of the U.N.-backed International Commission against Impunity in Guatemala (CICIG), which had made spectacular gains in the fight against corruption and impunity since 2006. For this very reason, the commission had provoked sharp criticism from Guatemalan elites – especially those in the orbit of the scandal-plagued president. In January 2019, the government unilaterally terminated its cooperation with the CICIG. This, in turn, ultimately led the CICIG to end its work in September 2019.

The region’s negative trend is exacerbated even further by a significant increase in repression and human rights violations in Nicaragua and Venezuela. The protests in Nicaragua – which were initially sparked by the pension reform announced by President Daniel Ortega, but then expanded into broader demonstrations critical of the regime– were put down with a degree of harshness rarely seen in Latin America since the era of military dictatorships. Similarly, the further hardening of Nicolás Maduro’s regime in Venezuela led to more active anti-regime protests, which in turn were met with more severe repression.

Yet even in the region’s democracies, large parts of the population are increasingly perceiving the system as a kind of elite project. Is democracy wasting away, or are there efforts underway to counteract this trend? To be sure, the declining transformation scores in Guatemala, Honduras, Nicaragua and Venezuela tend to obscure the fact that active oppositions are mobilizing against authoritarian trends at home and have gained renewed strength in Nicaragua and Venezuela, in particular. At long last, local opposition movements in these countries are finally receiving firmer regional and international support. Second, the four above-mentioned autocracies are the countries primarily responsible for significant declines in the region’s quality of democracy. Only Mexico – a country long-plagued by drug wars and corruption– has seen as much of a drop in the quality of democracy over the longer term. In other words, despite fluctuations, the 15 democracies available to the BTI time series have on average shown an almost astonishing level of stability since 2006.

Among the region’s democracies, we observe substantive progress being made in the legal prosecution of corruption (+0.73 points since the BTI 2006), despite the fact that these measures often prompted allegations of politicized judiciaries. The case of Lula versus Moro in Brazil is only the most notable of many such instances. Even more ambivalent was the finding that the rise in the score for the “interest groups” indicator (+0.47 points) exactly mirrored the decline in the score for the “party system” indicator (–0.47), which suggests more fragile patterns of representation are at work, and that they can be more volatile, particularistic and unbalanced. Profound shifts in the aggregation and articulation of interests are also reflected in the growing influence of religious dogma; in the region’s 15 democracies, there has been a 0.87-point decline for this indicator since the 2006 edition of the BTI, a decline that has been particularly strong over the past two years.

The growing influence of evangelical churches, along with the continuing reach of the – in some countries – deeply conservative Catholic Church, accounts for these developments. The evangelical churches are advancing a kind of conservative revolution in which they essentially claim to defend and strengthen Christian family values. A good half of the region’s BTI 2020 reports address the growing influence these churches have on politics. For example, in Costa Rica, the evangelical lay preacher Fabricio Alvarado more or less succeeded in making the 2018 presidential elections a referendum on gay rights. As the debate over values – as propagated by evangelicals – fosters polarization within society, some observers are already speaking of a re-emerging line of conflict between conservative and anticlerical forces not seen since the 19th century. At the same time, the approval ratings for democracy in the

region's democratic countries has literally plummeted over the past decade (–1.07 points). Overall, political cultures in the region are increasingly marked by illiberalism and polarization, both of which threaten to fuel authoritarian tendencies.

Economic transformation

Informal over innovative

The resource boom has long since passed, and the region's structural economic problems are increasingly apparent. At the heart of the matter is a lack of productivity, and failed modernization policies have only helped sustain an informal sector that stands in the way of development.

Driven by a resource boom that began in the 2000s, Latin America and the Caribbean reached its highest level of economic transformation in 2010. However, things have only gone downhill since then as part of a trend largely determined by one indicator: economic performance. Fiscal stability has also been severely affected by the sharp decline in export revenues since late 2014, with many governments struggling to ensure balanced fiscal and debt policies in an unfavorable global environment.

The strengths and immense structural deficits found within most of the region's economies are reflected in the BTI 2020 data. For example, most of these economies largely operate within a market order, feature reasonably sound economic institutions, and are geared to provide sociopolitical corrective mechanisms. What they lack, however, is a sound and comprehensive economic strategy that could lead them out of the dilemma caused by their lack of productivity. As a result, the situation in most countries remains essentially unchanged. They find themselves caught in the so-called middle-income trap, which is characterized by low productivity and other deficits, such as low-level investment, slow growth in the secondary sector, limited industrial diversification and unfavorable labor market conditions. The region's "big three" countries – Argentina, Brazil and Mexico – have not been able to pull themselves out of their own crises. However, on the other hand, the clearly negative developments observed during the period under review are limited to three countries – Cuba, Nicaragua and Venezuela – where the logic of these countries' political regimes continues to have a profound impact on how their domestic economy functions.

One thing remains unchanged in almost all countries: They rely by and large on resource-driven growth, which in turn depends on cheap labor and capital, and rarely involves any effort to foster high productivity and innovation. The BTI data suggests that education systems, in particular, almost completely fail to meet these demands; only Brazil, Costa Rica, Cuba and Uruguay achieve a passable standard of 7 points each in terms of the "education policy /R&D" indicator.

The weak state of this resource-driven development model and its current weak economic performance – combined with poverty, inequality and a lack of educational opportunities – lead to a vicious circle that can apparently only be alleviated during favorable economic phases. One aspect of this stagnation – which is structurally linked to it – is the scope of the informal sector, which, according to data from the International Labour Organisation (ILO) for informal employment in the non-agricultural sector, runs between 23.6 % (Uruguay) and 77.3 % (Bolivia). Approximately 140 million people in Latin America – that is, the equivalent of 53 % of the workforce – make their living in the shadow economy. According to the International Monetary Fund, in 2017, informal work on the subcontinent exceeded that of sub-Saharan Africa for the first time.

The BTI reports show that the informal sector has a significant impact on how Latin American and Caribbean economies operate and on their output levels, both of which are reflected in several BTI indicators. This applies to market organization and competition policy, but also to economic performance, fiscal policy and social indicators. For example, no country with an informal employment rate of more than 40% in the non-agricultural sector achieves a good score of 8 or more points in the BTI's market and welfare regime criteria. Conversely, the eight countries in which more than 60% of employed citizens are in the shadow economy almost consistently remain below the moderate BTI score of 6 points in both criteria.

Given the immense size of these informal sectors, any efforts targeting a systemic means of social cushioning – to the extent that such efforts are even part of a government's policy arsenal – have remained mostly piecemeal. Only Chile, Costa Rica and Uruguay have reasonably consistent social welfare systems. The remaining countries have been more or less successful in establishing a patchwork of social welfare measures; traditional social welfare programs target the formal sector, but they are accompanied by a range of other measures, such as basic state support and programs aimed at people who are informally employed, the unemployed and other focus groups. Some governments have been able to maintain and even extend the social security systems established in the boom years; indeed, the related regional average has increased from 5.19 to 5.62 points since the BTI 2006. Still, the high share of marginalized workers is a persistent and serious structural problem in most countries.

Stagnating development is a key factor accounting for the widespread dissatisfaction felt in Latin American societies with regard to governance. It is also driving the growing ambivalence toward democracy. In the wake of the export boom of the 2000s, a new, yet somewhat "precarious" middle class emerged, which contributed to growth by stimulating domestic demand. In recent years, however, this development has noticeably faltered. Although Bolivia, Ecuador and Peru have slightly improved in terms of their socioeconomic development, roughly a third of countries – and Cuba and Venezuela, in particular – have suffered from a worsening state of affairs.

Governance

Spinning out of control

Growing social demands and increasingly acute conflicts are complicating governance in the Latin American and Caribbean democracies. Nonetheless, in most cases, they are maintaining a stable baseline, while the region's six authoritarian countries are increasingly characterized by bad governance.

Governance in Latin America and the Caribbean is increasingly shaped by illiberal tendencies. Actions taken by governments at the cost of consensus-building are increasingly justified by claims of remaining steadfast and improving efficiency. Similarly, many governments are accentuating national self-interest at the expense of international cooperation. Unsurprisingly, the governance track record for the BTI 2020 is once again negative, as several downward trends from previous years have continued into this period under review while governance in otherwise functioning democracies has become more difficult in a context of growing societal demands and worsening conflicts. And, yet, a closer look at the details is also required here.

The fact that bad governance is a prominent feature among autocracies is hardly surprising. However, there are notably significant differences here, too. For example, governance in Cuba, particularly when

compared to that of the Fidel Castro era, has made some progress in terms of steering capability and international cooperation. Among the autocracies, Cuba has the greatest capacity for reform, though certainly not to the extent that the system itself would be called into question.

In terms of the quality of governance, the region's democratically governed countries stand out significantly compared to the six authoritarian countries, although the two regional heavyweights, Brazil (–1.30 points since the BTI 2006) and Mexico (–0.98 points), have lost considerable ground in this regard. In addition, we see illiberal forces – and the polarization often associated with them – gaining traction in recent years, a development with negative consequences for consensus-building.

In most countries, the consensus among elites remains solid, with a relatively strong basic consensus (7 to 10 points) in 13 of the region's 16 democracies including the newly added Trinidad and Tobago); only in Bolivia, Brazil and Ecuador is it less pronounced. However, a look at the countries with relatively good governance scores also suggests that, given the growing social and political challenges these countries face, we can expect skepticism among observers and stakeholders regarding forward-looking transformation measures and strategies.

We can also expect a climate of skepticism particularly when it comes to trustworthy political leadership. The current situation in Argentina is especially precarious, with Mauricio Macri's government enjoying only moderate success in its efforts to achieve more stable economic and social conditions after the country's economy had been run down by his predecessor, Cristina Fernández de Kirchner. Above all, the Macri government has also in no way been able to diffuse the always explosive "social question" – an issue being leveraged once again by Peronism for political gain.

Argentina currently embodies the trend towards polarization that has also gripped other democracies, including Bolivia (the renewed and controversial nomination of Evo Morales), Brazil and Mexico (strong left/right polarizations), Colombia (disputed peace process) and Peru (pro/anti-Fujimorismo). Even two of the region's strongest democracies – Chile and Costa Rica – are being exposed to polarizing forces. While the conflicts that took place in Costa Rica in advance of the presidential elections revealed a marked gap between liberal and deeply conservative values, the gradual farewell to the post-Pinochet era has been well underway in Chile for many years, starting with the 2011 student protests. The emphasis on consensus-driven solutions promoted by the once-prevalent "democracia de los acuerdos" (democracy by agreements) model has dissipated as the Pinochet era fades into the background and a more self-confident younger generation emerges. This is particularly evident in efforts to formulate a new constitution, which are subject to heated debate as the issue is linked to the question of a new social order.

In addition to the highly polarized situation in Brazil, Colombia also remains a cause for concern. The reconciliation process actively sought out with the FARC guerrillas brought the government under Juan Manuel Santos significant international recognition. However, in the runup to the 2018 elections and also since the inauguration of the new president, Iván Duque, it has become increasingly clear that the political forces around former President Uribe – who resolutely opposes the agreement – are going to further burden efforts to implement the accord. While Duque promised to maintain the peace agreement, he also insisted that changes be made, though he did not present any clear or precise ideas as to which items of the agreement should be revised. In addition, there is no plan to tackle the power vacuum left by the FARC, which has led to continued violence in some areas of the country. Finally, although stipulated by the peace agreement, the various projects and measures targeting former combatants' reintegration into society have not been provided sufficient financing or resources to make them succeed. In short, the peace process as a whole is in danger.

However, in spite of all of these setbacks, governance has remained reasonably solid in the region's 15 democracies. The average scores in the relevant criteria for these countries remain relatively stable – with slight fluctuations – though they are not particularly high. This might be an indication that, despite various deficits, the strengths of democratic governance in the region are consolidating. In addition to a slight increase in resource efficiency, evidence of such consolidation is particularly registered in the levels of consensus-building, which remain solid in interregional comparison. For this criterion, the 15 democracies in the region record an average of 7.23 points, which means that they are not far from the average of East-Central and Southeast Europe (7.36 points). If we take into account the fact that the large downward trends in Brazil and Mexico are dragging down the scores for governance in Latin American and Caribbean democracies, we may conclude that democratic governments are not doing so poorly despite the growing economic and social challenges they face.

Outlook

Regression and adaption

The fact that Brazil – once praised by Stefan Zweig as the “land of the future” – and most of the entire Latin American subcontinent have never quite met their political and economic promises remains a subject of continued interest. Today, the BTI 2020 leaves no doubt that the region – once celebrated as the pioneer of the “third wave of democratization” – has navigated itself into troubled waters, a situation due in no small part to failures in formulating and implementing development policies and agendas.

Nevertheless, the future is not uniformly bleak, and while the BTI findings point to regression in some countries, they also underscore the capacity to adapt that is thus far found in most of the region's countries. Although political transformation has reached a low point as a result of the authoritarian setbacks in Guatemala and Honduras, there is very little to indicate that further authoritarian regressions are on the horizon. Institutions in the remaining democracies seem to be sufficiently resilient to such regression, although they are clearly not immune to majoritarian-populist experiments. In the coming months and years, Brazil and Mexico are likely to draw the most attention in this regard, as their relatively new presidents, Jair Bolsonaro and Andrés Manuel López Obrador, came to power with strident promises of a fundamentally new approach, but are now facing strong resistance from established structures and have so far proved unable to deliver a coherent concept of political transformation.

In the medium term, it is likely that the “conservative counterrevolution” spurred on by increasingly influential and politically mobilized evangelical groups will have a lasting impact on the sociopolitical foundation of democratic structures in most countries. These movements offer conservative parties – which rarely have a mass base in Latin America – a chance to expand their flock and win majorities. What may be seen in one way as a development allowing for the inclusion of hitherto excluded parts of the population can also be seen as fueling the erosion of democracy's liberal foundations. The fact that many politicians – from Chilean President Sebastián Piñera to his Mexican counterpart, López Obrador – are actively courting these groups and parties would appear to be further evidence of a far-reaching political-cultural paradigm shift.

The ultimate strength of this paradigm shift will largely depend on the nature of economic development. To be sure, economic policy objectives throughout the region largely follow market-based economic principles and target social equity. At the same time, most economic institutions in the region have grown increasingly stable. However, growth rates are still too low to provide enough jobs and sustain

hopes of economic opportunity, which is why many across the region often see the informal sector or migration as their only options. Any kind of tangible push toward modernization designed to increase international competitiveness by means of appropriate structural policies (e.g., in education, technology, infrastructure and industry policy) has largely failed to materialize. Given the uncertainties associated with the global economy that, in combination with uniquely national problems, will continue to lead to investment deficits, we are unlikely to see any shifts away from the current stagnation in the medium term.

Of course, any efforts to steer toward transformational progress in the six autocracies would require a regime change, which seems unlikely at the present time. In the remaining countries, governance and steering capabilities are affected by internal and external factors, each in varying degrees. Initiatives such as the Lima Group, which works to defend democracy in Venezuela (and thus, implicitly, in Latin America) and the consolidation of the Pacific Alliance suggest that at least some countries have recognized the need to present a more cohesive image in global political and economic arenas. The free trade agreement between the EU and Mercosur is, in principle, a step forward, but there are still several details subject to negotiation, and it is unclear which veto groups will ultimately jockey themselves into position. At the same time, the ongoing trade dispute between the United States, China and the EU is wreaking havoc with the international framework that the Latin American and Caribbean region depends on because of its export-oriented development model. This troublesome situation is just as worrying as the erratic policies of the Trump administration, many of which seem dogmatically focused on halting migration. The Trump administration's policies and actions – from Trump's efforts to cultivate a close alliance with Brazil's right-wing populist Bolsonaro to his extraordinary moves against Mexico and the Central American states on migration issues – show how little it grasps the transformation challenges facing the region.