Unraveling the Current Political-Economic Landscape of LAC and Potential Scenarios for 2024

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Introduction

A paper presented by ECLAC, on the sociodemographic impact of Covid in LAC, in analyzing the three key focal points crucial for monitoring compliance with Agenda 2030 (fertility, mortality and migration), points out that the health effects on the LAC population have been among the world's worst (ECLAC 2022: 17). Subsequently, geo-economic turmoil induced by the war in Ukraine undermined the economic stability of the region as well, which was subjected to continuous micro and macro shocks, as reported in the conclusions of a recent UNPD report:

> The economic shockwaves of war and sanctions are highly relevant for Latin America and the Caribbean despite Russia and Ukraine's relatively small share of global GDP and their geographical distance from the region. This is a consequence of their role in commodity markets that are highly important for Lac, and the impact of the war for economies in Europe, which is a key export market for LAC's goods and services (UNDP, 2022:15).

To this macro context of 2023 should be added the "super election cycle" (2021-2024), which is reshaping the political trajectories of some Latin American countries[1]. Given the fragmentation of political representation, and the heterogeneity of candidates, a runoff was often necessary: over the past three years, the outcomes of nearly all elections have been determined in the second round. Bolivia stands as an exception, where Luis Arce secured victory without needing a second round. Meanwhile, the political fates of Paraguay and Venezuela, which lack a runoff system, were shaped in the initial round of elections. As highlighted by Daniel Zovatto: "from 1978 to today, there have been 98 elections in Latin America; of these, 61.2% went to a runoff. But in the elections of the last three years, that trend rose to 100%" (LA NACIÓN 2023). Nevertheless, despite securing victory in the runoff, the newly elected presidents find themselves without a parliamentary majority, as the composition of the congress is determined in the first round. This circumstance, once again, leads to

[1] Due to space limitations, in this article, since we cannot focus on all Latin American countries, reference will be made only to a few cases deemed relevant to this analysis.

the re-emergence of the initial fragmentation[2] resulting in a cycle that fuels distrust and democratic erosion, severely undermining governability.

This article delves into the intricate web of Latin America and the Carribean's present political and economic dynamics, unraveling the multifaceted challenges and opportunities shaping the region. By examining current trends, policy trajectories, and socio-economic indicators, the narrative navigates through the complexities of Latin American governance and economic landscapes. Moreover, the discussion extends into the realm of prospective scenarios for the pivotal year of 2024, exploring potential shifts in political paradigms, economic trajectories, and their collective impact on the region.

Navigating "pink tide 2.0" and macroeconomic resilience

The phenomenon commonly labeled as the second "pink tide" commenced with the election of Gabriel Boric in Chile in 2021, followed by Gustavo Petro in Colombia in 2022, and gained further momentum with the triumph of Lula da Silva in Brazil in 2023. However, in differing from the first "pink tide 1.0", the present left-leaning governments in Latin America are commonly believed to encounter greater constraints compared to the past:

> unlike a decade ago, prices of the primary commodities that make up the region's chief exports are more volatile. In some countries, economic growth has dropped to a trickle as global recession looms and the Covid-19 pandemic has taken a toll. Geopolitical shifts away from U.S. hegemony require successfully playing off the often indirect global competition between Washington and Beijing (FARTHING 2023: 2).

Certainly, following a period often referred to as a "lost decade", during which economies in LAC experienced stagnation, a renewed sense of optimism seems to be emerging in specific regions – particularly Brazil and Mexico (ROSATI, AVERBUCH 2023) – as well as in specific sectors such as energy, agribusiness, and nearshoring. As the IMF (2023) pointed out, after a robust recovery from the pandemic and sustained resilience in the early months of 2023, it is anticipated that the economic growth in LAC will moderate, dropping from 4.1% in 2022 to 2.3% at the end of the 2023. Headline inflation in the region, excluding Argentina and Venezuela, has been on a downward trend and is expected to reach 5% in 2023, a decline from the 7.8% recorded in 2022.

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[2] Following months of negotiations and a reshuffling of alliances, Lula ended up leading a government with thirty-eight ministers from eleven political parties, a coalition known as the big "centrão".

Thanks to enhanced macroeconomic management and increased Foreign Direct Investment (FDI) the region is now better positioned: in 2022, LAC attracted $224.579 billion in FDI, indicating a 55.2% increase compared to 2021 levels. This represents the highest recorded value, as reported by ECLAC (2023).

As for the sector receiving the investment inflows in 2022, the services sector constituted the largest portion at 54%, followed by manufacturing at 30%, and natural resources at 17%. Despite the adverse impact of the pandemic on investments in manufacturing and natural resources, all three sectors experienced growth in 2022. Notably, natural resources, which had been on a declining trend since 2010, witnessed a resurgence with a substantial growth of 79%, aligning with the average levels observed between 2015 and 2019. In fact, it emerged as the fastest-growing sector in terms of percentage increase in 2022. This resurgence was driven by heightened investments in most countries, particularly in Brazil, where there was a noteworthy surge in inflows related to oil and gas extraction. However, Mexico experienced a decline in flows after more than doubling in 2021. The growth in natural resources inflows in Colombia, on the other hand, contributed significantly to this overall expansion (228%), primarily driven by increased investments in the oil, mining, and quarrying sectors (ECLAC 2023: 34-35). These increases in FDI were also made possible by renewed macroeconomic management (and yet the claim remains true that the great Latin American challenge is neither macroeconomic management nor convergence but sustainable and inclusive growth). Such management concerns a few factors. Currently, eight countries in the region have flexible exchange rates, another ten use *soft pegs*, and only six have fixed or managed exchange rates in a less transparent manner. The loss of independence of central banks for much of the 20th century has been reversed in the last 30 years; presently, 13 countries in Latin America have independent central banks. In 1998, no Latin American country had explicit inflation targets, whereas at least 11 countries have adopted such regimes today. Only two countries use targets for monetary aggregates, while eight countries employ exchange rate anchors, mainly small and open economies.

The management of public debt has professionalized in the region, especially in the larger countries of the Southern Cone and the Andean region. Advancements encompass all areas of debt management, including institutional and governance models, coordination with macroeconomic policy, debt management and sustainability strategies, data availability, risk management, and issuance processes. Seven Latin American countries, including the largest ones (Argentina, Brazil, Chile, Colombia, and Mexico), have adopted or are on the path to adopting Basel III standards.

Regarding inflation, although many countries in the region experienced double-digit inflation in 2022, it is widely acknowledged that central banks reacted quickly and decisively by raising interest rates a year before the US Federal Reserve began to do so. As a result, inflation has started to recede in a significant number of countries.

Latin America has transformed from being the emerging region with the lowest level of reserves in relation to short-term external debt in the 1990s (ranking just above Sub-Saharan Africa) to becoming the second-largest emerging region with the highest reserves, surpassed only by the MENA region. The growth in reserves in this region is attributed to its concentration of oil-producing countries. The significant increase in reserves, coupled with the improvement in the debt maturity profile (reduction in short-term debt), serves as a buffer against abrupt disruptions in access to international capital markets, which have historically triggered crises in the region. Public debt in foreign currency has decreased and continues its downward trend, contributing to reducing external vulnerabilities.

In Latin America, on average, only 11% of debt issuance between 2017 and 2021 has been in foreign currency, a notably lower figure compared to other emerging regions. In terms of accumulated debt volumes, the most significant countries in the region exhibit very low levels of foreign currency debt, with only Peru and Argentina having elevated ratios.

Emerging LAC investment sectors to consider in "permacrisis" era

The extent and diverse expanse of Lac territory hinders a uniform analysis and a comprehensive projection of future data and growth prospects. A dynamic complicated by the well-known "permacrisis"[3]. It is therefore clear that a reevaluation of the political-economic agenda is needed, incorporating significant factors inherent contemporary development: expanding digital connectivity offers a possibility to make progress on several fronts as "the full potential of wiring the region for growth and inclusion remains untapped" (THE WORLD BANK 2023: 4). What has been called "the necessary big push" (THE WORLD BANK 2023) consist in investing in both physical infrastructure and a diverse array of digital and traditional human capital, along with other complementary assets and it is essential to fully unlock the potential of digital connectivity. Specifically, this multidimensional big push could be advantageous in the areas of healthcare and education. Telemedicine, involving the delivery of healthcare services through digital platforms, and the adoption of electronic health record systems enable patients to save both time and money. This proves especially advantageous for individuals with limited financial resources and residents in rural areas. On the other hand, with regard to education technology (or EdTech), governments' endeavors to

[3] Other scholars, instead, emphasize how MENA is the most vulnerable area: since the beginning of the 21st century, in fact, there is no reason to continue thinking that Latin America – excluding Argentina and Venezuela – is a region more inclined to pursue economic policies that trigger more macroeconomic alerts than the other top 50 emerging economies. See: RUIZ 2023.

broaden coverage and disseminate digital devices can serve as a foundation for enhancing the quality of educational services, particularly in rural and remote areas, as well as in vulnerable and marginalized communities. Moreover, these efforts can bolster the resilience of education systems in the face of future shocks. For this reason, we emphasize the significance of fostering collaboration – particularly in the critical areas highlighted for Latin America's growth prospects– with countries like South Korea, which promotes collaboration and knowledge transfer with the Latin American region, holds the potential for fruitful outcomes. As stated by IBD (2022: 40):

> […] both economies face an era of intense turbulence and disruption in the world economy. […] Cooperation is needed in several domains: to preserve a rules-based international trade system amid growing geopolitical tensions; […] Korea's latest five-year strategy (2021-2025) aims to double the ODA budget and focuses specifically on some of those areas which […] are key to helping the two parties use their relationship to ride out the disruptions currently shaking the global economy into a sustainable future. These key areas are digitalization; climate change; infrastructure; health; education; agriculture and fisheries; and water; sanitation, and hygiene.

Emphasizing the prospects for collaboration that open up in Latin American territory, especially in certain sectors such as those mentioned, allows us to be able to identify sectors where both investment and know-how transfer would appear fruitful and beneficial in 2024 as certain economic or service activities may have more impact on development prospects.

Conclusion

In 2023, LAC grappled with challenges from the ongoing pandemic to disruptions in the global economy. The rise of a new "pink tide" brought progressive leaders to power, facing constraints like volatile commodity prices and geopolitical shifts. Despite these hurdles, the region experienced economic growth, attracting record FDI in 2022, especially in the natural resources sector, notably in Brazil. Macroeconomic management, guided by Basel III standards, played a crucial role in reducing public debt in foreign currency, enhancing resilience.

Looking forward, LAC must address persistent challenges in productivity, investment, and labor market flexibility, physical and digital infrastructure. Collaborative efforts, particularly with partners like South Korea, offer opportunities for knowledge transfer and growth.

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