

Development Challenges in Latin America

OUTLOOK FOR LATIN AMERICA, IN TIMES OF CRISIS

Despite remarkable economic dynamism and poverty reduction over the past decade, Latin America must still overcome many socioeconomic challenges to achieve sustainable development. Against a backdrop of less favorable economic circumstances for emerging countries, the second edition of the analysis published in the *À savoir* series (No. 24)—updated and enriched with new contributions—takes a close look at the economic and sociopolitical realities of a region undergoing massive changes.

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Keys to the recent economic success of the continent

In the 1980s, neoliberal policies advocated by the “Washington Consensus” (deregulation, privatization, opening up to international finance) were applied to the institutions and fragile economies of indebted countries in Latin America. This plunged the region into an unstable economic situation. Following this “lost decade,” financial instability continued into the 1990s, and successive currency crises occurred at the turn of the century (in Argentina, Brazil, Ecuador, and Uruguay). The result was a growth in inequalities in the continent.

The past 10 years have seen a change in prospects that was both salutary and expected, during which the region gained back a healthy pace of economic growth (4% of GDP on average between 2003 and 2012). This dynamism, backed up by strong resilience to the international economic crisis, has enabled spectacular reduction in poverty (-33%), indebtedness, and unemployment (which dropped from 11% to 6%). Growth in real wages, employment, and access to credit, combined with innovative social policies that increased access to social services, has thus promoted the emergence of a Latin American middle class.

How can we explain this success? We must first point out that the countries of Latin America have often learned lessons from past problems and have improved the institutional framework of their economic management. These positive results can also be attributed to reduction in the vulnerability of the financial sphere, control over inflation, and implementation of appropriate macroeconomic policies—all this despite the economic crisis. Further, regional integration movements have been remarkably intense over the last 20 years (CAN, Mercosur, ICA, ALBA, UNASUR, CELAC, Pacific Alliance, etc.). These have helped strengthen trade by combining open regionalism centered on free trade with more political integration, even though certain polarizations do exist. And if the region is displaying good economic performances, it is also largely due to particularly favorable economic circumstances.

In addition to the demographic dividend that increased the proportion of the working-age population (a mostly advanced demographic transition), the region has benefited from an international environment that has boosted

LATIN AMERICA	PERCENTAGE OF POOR			PERCENTAGE OF DESTITUTE		
	Total	Urban	Rural	Total	Urban	Rural
2002	43.9	38.3	62.4	19.3	13.4	38.4
2008	33.5	27.7	55.0	12.9	8.1	31.0
2011	29.4	24.2	49.8	11.5	7.2	28.8

SOURCE: CEPAL

growth. Raw materials (hydrocarbons, natural gas, and especially minerals) abound in Latin America, and their exports have increased thanks to strong growth in Chinese demand, sustained good prices on international markets, and improvement in currency exchange conditions. Finally, Latin American countries' access to international financing has also expanded, along with the inflow of foreign capital and investments.

Future challenges

Despite the progress made, Latin American countries still face many challenges to achieving sustainable development:

INSTITUTIONAL GOVERNANCE

Following past excesses of neoliberalism and the growth in violence on the continent, the State can be seen to be coming back to the fore in a large number of Latin American countries. Local populations have called for greater protection and regulation, leading to many leftwing governments coming to power and to renewed economic interventionism.

However, despite this new dynamism in public action, the authorities still face significant institutional challenges. The foremost of these is democratic consolidation: modernization of political systems, improvement of decision-making processes, and limitation of populist forms of government. Some countries are very polarized ideologically (e.g., Venezuela), creating quite deep divisions in society, and political stability remains fragile there. Governments are demonstrating remarkable ability to react to and to provide occasionally innovative public responses to the various problems. However, they are handicapped by inadequacies in administrative structures, which lack the resources and competences to deal with the considerable difficulties in nationwide application of the taxation system, this against a backdrop of persistent cronyism and corruption. Finally, even though the local structures for

implementing national decisions are often weak and local funding remains an open question, the decentralization process, which began in the 1980s, has made it possible to develop autonomy and public action in more than 16,000 local governments, to modernize the big cities, and to strengthen ownership of democracy and of the notion of citizenship.

STRUCTURAL ECONOMIC WEAKNESSES

The Latin American economies are facing structural problems in an economic environment that is less favorable than before. The growing weight of activities linked to the export of raw materials represents a certain danger: that of the "reprimarization of the economy." In times of economic crisis, contraction in international demand more greatly affects manufactured goods. Latin America was thus able to resist well (as seen by the 2.9% average growth in GDP between 2009 and 2012) thanks to reliance on this export of raw materials. However, this strategy also presents the problem of deindustrialization as well as of lack of economic diversification—and thus of dependence on international demand and increased sensitivity to the especially volatile prices of raw materials.

Further, despite recovery in recent years, investment in Latin America remains weak (20% of GDP) compared to other emerging regions.

Finally, the significant reduction in poverty has unfortunately not been accompanied by a comparable reduction in inequalities. In 20 years, the continent's average Gini coefficient has hardly changed, and the Latin American countries (and especially Brazil, Chile, and Colombia) continue to figure among the most inegalitarian of the world. Big gaps exist: between regions, between cities and urban areas, and between the wealthy and working classes (the poorest 40% of households receive 15% of income, and the richest 10% corner 32%). Poverty, moreover, remains significant in some countries, especially in Central America, where it can exceed 50%.

IN LATIN AMERICA THERE WERE
600 OF **80 %**
 MILLION WHOM
 PERSONS IN 2013 WERE LIVING IN CITIES.

URBAN DEVELOPMENT

Considering that Latin America is characterized by strong urban growth (there will be an estimated 500 million urban dwellers in 2015) and that some of the largest urban centers of the world can be found there (Mexico City and Sao Paulo), urban development is one of the great challenges to be taken up by the region. One of the effects of decentralization policies has been that the city level has gradually asserted itself in the ownership of sustainable development issues. In this way, Latin American cities have become theaters of encouraging and innovative political policies in urban mobility (public transportation: BRT, subway, metrocable); of massive investment in housing and construction of public housing, as well as of urban reclamation and regeneration (redensification of historical city centers, renovation of housing projects, rehabilitation of under-integrated neighborhoods).

These initiatives, which need long-term support, run up against two major issues that cities also have to face: urban services (especially water and waste management) that must be improved, and lack of infrastructure. While average urban rate of connection to water mains exceeds 90%, existence of a municipal water system does not guarantee a regular and sufficient supply of water. Significant inequalities in access to good-quality water persist. As for waste management, which is closely linked to environment and public health, the most frequently adopted solution has been that which is the simplest

and least costly: burial in landfills. However, due to urban growth, the technical equipment of Latin American cities has rapidly become outmoded. Infrastructure, which is closely linked to the issues of traffic, pollution, and insecurity, also requires special effort. It is often obsolete and insufficient, especially at the regional level. Lack of infrastructure development will limit the competitiveness of large cities, which are the new centers of economic activity.

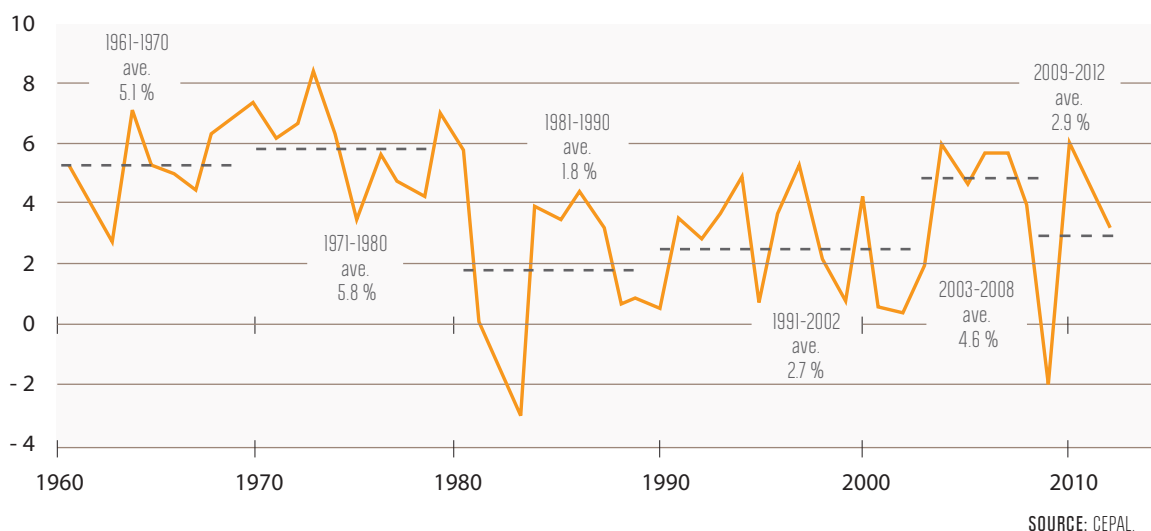
SOCIAL POLICIES AND VIOLENCE

Anti-poverty programs, which have increased in number in Latin America over the last decade, are the driving force behind social policies implemented by governments. They are internationally popular thanks to their diversity and to the positive results they obtain, often through innovative approaches. They often involve direct monetary transfers to the most disadvantaged populations, and these transfers come with conditions entailing use of basic social services (educational, medical, professional-insertion). This makes it possible to tackle all the dimensions of poverty. And while there are always specific difficulties in applying these programs, they do target the underprivileged classes quite effectively, thanks to the parallel development of social information systems that have many benefits for local administrations.

Nonetheless, significant inequalities remain in access to health care and education. The education system

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Jean-Michel BLANQUER (ESSEC, President of IdA), Klaus BODEMER (GIGA-Hambourg), Elodie BRUN (CERI), Marco CEBALLOS (Universidad Andres Bello, Chile), Jean-François CLAVERIE (IHEAL-LOCAL), Maria Eugenia COSIO-ZAVALA (IHEAL), Olivier DABENE (OPALC), Diana GOMES (LOCAL), Bruno LAUTIER (IEDES), Jean-Louis MARTIN (Crédit Agricole), Catherine PAQUETTE (IRD), Yves SUREL (CERSA), François-Michel LE TOURNEAU (CNRS-CREDA), Laurence WHITEHEAD (Oxford University).

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Eric JOURCIN, Economist, Latin America and Caribbean Department, AFD

reproduces strong regional gaps, for which huge qualitative differences can be observed. And access to higher education remains unequal despite overall expansion (the number of students nearly tripled between 1995 and 2012). There is disconnection between several prestigious institutions active in the international arena and other universities that have deteriorated, as well as a growing role for the private sector, which is now responsible for the majority of higher education institutes in many countries (Brazil, Chile, etc.). Finally, despite their positive contributions, the social policies have not resolved the endemic problem of violence on the continent. This violence takes on many forms and is related to issues that are sometimes quite different and thus require differentiated treatment. The rise in public insecurity is directly related to the challenges that arise from urbanization, and the organized crime that develops from drug trafficking calls for global responses organized at the regional level. This is a huge challenge for Latin American countries if we look at the economic, political, and social costs violence represents. Yet, institutions do not always seem to be well equipped to respond to it (problems of justice efficiency, weak resources, and police corruption).

ENVIRONMENTAL ISSUES

Latin America has a great wealth of natural spaces and biodiversity. More than one third of the planet's inland water is found in Latin America, even though it represents only 14% of land mass. However, this unique environmental heritage is subject to significant human pressure that is

threatening its preservation and posing questions concerning the sustainability of the Latin American development model. Agricultural pressure, waste discharge from urban areas and the logging industry are eating away at natural spaces and raising the issue of exhaustion of natural resources.

Furthermore, mining—sometimes conducted illegally—generates such great income that the search for profitability often prevails over consideration of the environmental degradation it causes. However, the societies of Latin America are increasingly sensitive to such environmental issues, even if these latter are often secondary to economic and social concerns. In many countries (Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, and Uruguay), people are mobilizing to preserve their means of existence and to demand better distribution of land and income derived from the exploitation of natural resources. Despite the weakness of institutional measures in this area and fledgling legislation, active policies to expand protected areas have been carried out for the last 20 years (their surface area has doubled, to reach 20% of Latin America).

Conclusion

Latin America has enjoyed exceptionally favorable conditions over the last decade. However, it is unlikely that they will continue or contribute to the same extent to their economic performances as before. A slowdown in regional activity is already observed, despite good resilience to the economic crisis. The next decade will probably see more constraints (loss of the demographic dividend, recessionary context predominant in Europe, weak economic activity in the United States, slowdown in emerging countries and in international demand). This will put the current Latin American development model to the test on many fronts.

To ensure sustainable development in this less promising context, the Latin American countries will need to overcome the previously mentioned challenges. They will have to increase productive diversification, strengthen the industrial sector, and develop infrastructure, all the while pursuing the crucial objective of reduction of poverty and inequalities, which are the breeding ground of the violence and political instability in the region. The countries of Latin America seem to have realized the importance of these challenges. The significant effort many of them are investing in education (to which nine countries devote more than 4% of their GDP) bears witness to this desire to prepare the future. While the upcoming years are not expected to be as prosperous as the last decade, the forecasts for medium-term growth in the region (3.25% from 2013 to 2017, according to the IMF) nonetheless remain positive. ■

FOCUS

Brazil and Mexico, two economic giants

With more than half the population of Latin America, Brazil and Mexico together represent 2/3 of the region's GDP (41% and 21% respectively).

Their economic performance thus has a decisive impact at the regional level. In recent years, their growth has been lower than the Latin American average, sometimes overshadowing the healthy growth of some neighboring countries.

Their economic prospects will depend above all on their capacity for reform. Mexico seems to have started up in-depth reforms and may have the resources to pick up again. Brazil's path seems more uncertain.

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Publication Director: Anne Paugam · Editor-in-Chief: Alain Henry · Agence Française de Développement · 5, rue Roland Barthes · 75598 Paris Cedex 12 ·

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