

The Two Latin Americas



Pierpaolo Barbieri

Chief Strategist

Brevan Howard Argentina Fund

Nations that cultivated respect for institutions have reaped the benefits. 2015 will be a watershed year for one that has not.

During the commodity boom that lasted more than a decade, the most transformative idea in Latin America has been rising respect for institutions, both political and economic. At first this might seem like a simple idea, yet the most powerful ones often are. The region that witnessed recurring crises with deep systemic effects in the second half of the 20th century (debt disasters, the Tequila effect, the Argentine meltdown of 2001-02) is now evenly divided in two — and this year will see the beginning of a positive transformation in one of its key economies.

The first of these Latin Americas is best represented by the countries that used the benign economic environment of the 2000s to expand their middle classes, entrenching

respect for market mechanisms while developing social safety nets where there were none. Mexico, Peru, and Colombia are perhaps the best examples of this Latin America, one where local capital markets have boomed and foreign direct investment has helped finance not only needed infrastructure but also jobs and development. In this context, the inequality that had plagued these economies has been reduced, underwritten by political stability.

With the clear exception of drug-related violence in Mexico, this respect for institutions and the deepening of democratic ways has allowed for more peaceful and sustainable development. As a consequence, these countries are much better positioned than most

emerging markets for a time of rising interest rates and less plentiful global capital. Even a cursory comparative look at the front pages of Peruvian or Colombian newspapers a decade ago and today shows the depth of the transformation and the positive effects for their populations.

The destiny of the other Latin America could not be more different. Ecuador, Venezuela, and Bolivia have moved in the opposite direction, driven by populist politics and heterodox economics. The rise of the “new left” regimes in the 2000s was not as benign in

continental figures, they were also politically hegemonic at home. The result is self-evident: the highest inflation rates in the region by far, 1970s-style stagflation, international ostracism and record low foreign investment. In the case of Argentina it even led to a new debt default in 2014, driven by the Kirchner government’s intransigence to deal with its debt holdouts.

Perhaps more worryingly, the late Chávez, like Rafael Correa in Ecuador and Evo Morales in Bolivia, changed constitutions, repressed dissent and fought



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Caracas or Buenos Aires as it was in Brasilia during the governments of Luiz Inacio Lula da Silva. Brazil has somehow remained stuck between the two Latin Americas, with large inflows into the country and impressive growth rates during Lula’s presidency, but dubious progress on curbing systemic corruption, all too obvious in light of the Petrobras scandals.

Under the presidencies of Hugo Chávez and Néstor and Cristina Kirchner, Venezuela and Argentina implemented extremely heterodox policy mixes; these leaders of the new left were not just dominant

freedom of the press, trampling on the very institutions that have thrived elsewhere.

These two Latin Americas have therefore diverged for the better part of the last decade. Yet 2015 will be positively transformational in one key respect: The presidential election in Argentina this coming October will put an end to the Kirchner era. The new government in power as of December will catalyze two separate but intertwined transitions. The first is a legal one, finishing a debt restructuring that has been incomplete for a decade. This is a sine qua non for reversing the

country’s international ostracism. But the second transition is perhaps even more critical. The next government will take decisive steps to rectify Cristina Kirchner’s extremely heterodox and evidently failed economic policy.

After a decade of populism (and depressing comparisons with the “other” Latin America), the Argentine electorate is tired of stagflation, capital controls, foreign currency controls and pressures on the private sector. Opinion polls speak loudly of a desire for change that will begin to be implemented on December 10.

Such deep political transitions do not happen often. The last one that took place in Argentina, in 2003, brought the Kirchners to power. That era is now coming to an end, underwriting the promise of Argentina joining the Latin America of more successful democracy and more sustainable development.