

ECONOMIC CRISIS & ELECTIONS:

A Recipe for Turbulence in Latin America

By Jimena Blanco

Latin America experienced the second biggest pandemic-induced economic contraction of any region in 2020, just behind the Euro-zone,⁸³ and Verisk Maplecroft's Recovery Capacity Index—which measures more than a dozen factors that determine a region's ability to recover from the crisis⁸⁴—puts Latin America below all but Africa in recovery capability.

The resulting social and economic distress has worsened longstanding inequalities and acted as a catalyst for civil unrest. Despite restrictive lockdowns, the pandemic crisis and economic shock sparked demonstrations across the region throughout 2020 as governments proved unable to meet even the most basic needs of their populations.

A string of general elections scheduled for 2021 will take place against a backdrop of a surge in poverty and unemployment, setting the stage for another unstable year. With forecasts from the International Monetary Fund projecting the regional economy unlikely to recover to pre-pandemic levels until 2023, and household incomes not until 2025, this situation will continue.⁸⁵

Falling tax receipts will cripple governments' ability to address spiralling demands from already impoverished workers likely to be pushed into even lower-paid, unstable, and informal jobs.⁸⁶ Young people and informal workers who average 60 percent of the regional labour force, on data from the Organization for Economic Cooperation and Development, will continue to be disproportionately affected.⁸⁷

Dissatisfied and often disenfranchised, these sections of society can be particularly restive, able to mobilise fast in political or anti-establishment protests.

ELECTIONS RISK FUELLING RATHER THAN FUNNELLING DISCONTENT

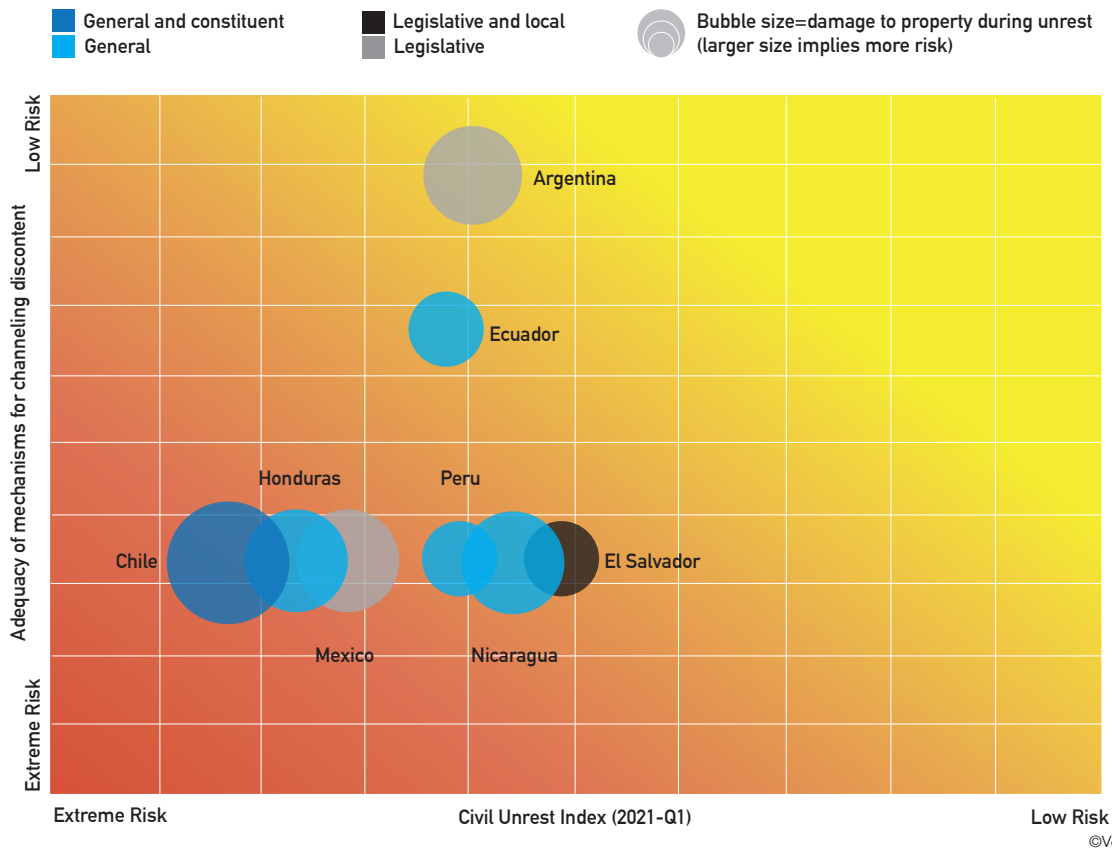
The painful post-pandemic economic recovery will likely inflame existing public dissatisfaction with governments. By late 2022, 34 countries—predominantly in Europe and the Americas—are likely to experience a spike in protests.⁸⁸

Amid this context, 15 scheduled votes will take place in Latin America during 2021, including five general elections (in Ecuador, Peru, Chile, Nicaragua, and Honduras), three mid-term legislative ballots (El Salvador, Argentina, and Mexico), a vote to elect a new constituent assembly in Chile, and several local and regional elections in other countries.

All the national-level votes occur in countries with high or extreme risk of civil unrest (see chart), with the majority also having inadequate mechanisms—such as trade unions or civil society organisations—to properly channel discontent. With voters disillusioned with electoral politics (and, in some cases, democracy itself), there is a potent risk that upcoming elections will fuel, rather than funnel, social unrest.

CIVIL UNREST RISK IN LATIN AMERICAN COUNTRIES WITH 2021 ELECTIONS

High risk of protest-related property damage



Chile is a key country to watch. Despite a slew of participatory processes in 2021, including a move towards constitutional reform in direct response to the major unrest of 2019, public demonstrations remain frequent, with heavy-handed police responses often resulting in fatal violence.

While protestors do not directly target private property, city center business and financial districts are invariably at high risk of violent disruption and damage during these incidents. As such, businesses need to ensure that adequate mitigation plans and contingency measures are in place.

RISING POLITICAL INSTABILITY WILL DOMINATE LATIN AMERICA IN THE EARLY 2020s

In addition to increasing the potential for supply chain disruption, the region's civil unrest risk makes for a more volatile political landscape, undermining the stability of elected governments across the region. Governments remain on the back foot as the pandemic has further eroded public support for high-profile presidents and emboldened legislatures and other institutions to challenge these executives.

Verisk Maplecroft's Political Stability Index indicates that 77 percent of the 26 countries in the Americas included in the dataset are likely to see an increase in political

instability during the Index's two-year timeframe.⁸⁹ The Index, which measures the stability of a country's executive authority to implement laws and policy priorities, considers an executive's risk of being challenged by other institutions and the risk of disruption arising from the civil unrest.

At the executive level, the main threat to stability in 2021 will be along the Pacific coastline of South America. Chile, Ecuador, and Peru all experienced extended social unrest and political instability in 2019 and 2020, which threatened or succeeded in toppling the governments.

Chile and Peru have seen the most unstable cabinets in a generation, and the ministerial revolving doors have all but eliminated the effective implementation of government policies. In Peru, the legislative branch forced a change in the executive in November 2020, which then triggered mass mobilizations that forced yet another change in government.

In Central America, Honduras is also set for an uncertain political landscape, with a two-thirds risk (64 percent) of social protest against a president under U.S. accusation of involvement in drug trafficking. Primary elections on March 14 will kick off an extended political season in the run up to a general election scheduled for November 28, with high expectations of public mobilizations on the capital, Tegucigalpa, and the main business hub, San Pedro Sula. Connectedly, in Argentina, President Fernández saw his approval rating nosedive between



The COVID-19 crisis has put Latin America's fragile democracies and civil societies under the most strain in some 30 years. Further turbulence lies ahead, driven by unemployment and a heated political climate, obliging businesses to closely sense-check regional engagement strategies.

During the next two years, governments in Latin America will need to ensure continued support, through economic growth and formal employment, to vulnerable communities. Failure to do so will exacerbate popular discontent with political elites, undermining political stability and increasing the risk of "outsider" candidates seizing power. Such candidates lack the experience and political machinery to deliver effective change. Citizens taking to the streets to denounce the failure of political elites to meet their needs may find the ultimate result is not what they bargained for.

Guillermo Nielsen, Special Envoy of the Government of Argentina speaking at the "World Economic Forum Annual Meeting" World Economic Forum is licensed under CC BY-NC-SA 2.0

March and December 2020.⁹⁰ A key concern for future governability is whether this drop will translate into larger demonstrations and poor performances at the ballot box for each respective coalition in the 2021 midterms.

Lastly, and although not facing general ballots until 2022, the outlook on Brazil and Colombia is an additional cause for concern. In Brazil, projections estimate a 98 percent probability of an increase in the risk of unrest during the next two years—this is due to a deepening executive versus congress confrontation driven by President Jair Bolsonaro's hard-line policy approach. The apparent move toward economic populism with the sudden replacement of the CEO of Petrobras in late February will only increase tensions and the prospects of political volatility.

Meanwhile, Colombia is seeing the most violent start of a year since the 2016 Peace Agreements.⁹¹ Rising social tensions will continue to drive dissatisfaction with the conservative Duque government. Projections forecast a near seven in ten chance of heightened civil unrest in Colombia in 2021-2022.

TACKLING POVERTY AND INEQUALITY: THE KEY TO DEFUSING POLITICAL VOLATILITY

Although exacerbated by COVID-19 and the economic malaise it inflicted, protests continue to arise primarily from domestic structural issues such as socioeconomic inequality, the rising cost of living, and the rise in nativism and populism. Indeed, we [at Verisk Maplecroft] expect 2020 not to go down in history as an outlier, but rather a harbinger of things to come—not just within the next two years, but for much of the coming decade.

⁸³International Monetary Fund, "Latest World Economic Outlook Growth Projections", World Economic Outlook, October 2020, <<https://www.imf.org/-/media/Images/IMF/Publications/WEO/2020/October/English/weo-map-oct-20-social-eng.ashx>> (accessed February 22, 2021).

⁸⁴"Recovery Capacity Index," Verisk Maplecroft, <<https://www.maplecroft.com/>> (accessed February 22, 2021).

⁸⁵International Monetary Fund, "World Economic Outlook."

⁸⁶"Social Panorama of Latin America 2019," Social Panorama of Latin America, The United Nations Economic Commission for Latin America and the Caribbean (ECLAC), December 2019, <<https://www.cepal.org/en/publications/44989-social-panorama-latin-america-2019>> (accessed February 22, 2021).

⁸⁷OECD, "Covid-19 in Latin America and the Caribbean: Regional Socio-Economic Implications and Policy Priorities," <<http://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-regional-socio-economic-implications-and-policy-priorities-93a64fde/>> (accessed February 24, 2021).

⁸⁸Verisk Maplecroft, Civil Unrest Index Projections, accessed 3 March 2021, <https://www.maplecroft.com/>.

⁸⁹Verisk Maplecroft, "Political Stability Index Projections," <<https://www.maplecroft.com/>> (accessed February 24, 2021).

⁹⁰Management and Fit, "Mas del 50 percent de los argentinos desaprueban la gestión de Alberto Fernández y crece la imagen positiva de Horacio Rodríguez Larreta," *Infobae*, November 22, 2020, <<https://www.infobae.com/politica/2020/11/22/mas-del-50-de-los-argentinos-desaprueban-la-gestion-de-alberto-fernandez-y-crece-la-imagen-positiva-de-horacio-rodriguez-larreta/>> (accessed February 24, 2021).

⁹¹"Colombia seeing a significant increase in violence this year," *Euronews*, January 1, 2021, <<https://www.euronews.com/2021/02/01/colombia-seeing-a-significant-increase-in-violence-this-year>> (accessed February 24, 2021).

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