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FEATURED Q&A

How Is the Social Contract in Latin America Changing?



Social protests exploded last year in several Latin American countries, including Chile, pictured above. // File Photo: Carlos Figueroa via Creative Commons.

Q Following a wave of violent and destructive protests across Latin America and the Caribbean in the final months of 2019, some of which have continued this year, the leaders of several countries in the region have acknowledged they must re-examine their social policies, with some even questioning the social contract fundamentals of their countries. In Chile, protesters have looted stores, big and small, and have also vandalized restaurants and set fire to hotels. How has the explosion of social tensions changed Latin American nations' business environments? To what extent have countries' private sectors seen increased hostilities as a result? What role should private companies and business leaders play in reframing social contracts in the region?

A José Miguel Insulza, member of Chile's Senate and former secretary general of the Organization of American States: "Between 2003 and 2012, Latin America had better growth rates than those of the two previous decades put together, while poverty fell from 42 percent to 28 percent. This increased the size of the 'new middle class,' not poor but still vulnerable and prone to fall back in times of crisis. At the same time, all the region had democratically elected governments; this was a true novelty. The much lower pace of growth that started after 2008 was much more visible five years later. In spite of the promises of change, Latin America continued to have a large dependency on the export of commodities and basic products, and when these declined in volume and prices, the subsistence of this dependency was evident. A larger middle class has different needs and a larger

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TODAY'S NEWS

POLITICAL

Brazilians Appear at Windows in Protests Against Bolsonaro

Brazilians homebound because of the coronavirus outbreak appeared Wednesday night at their windows and on balconies, banging pots and pans in protest against President Jair Bolsonaro, who is accused of not taking the pandemic seriously.

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BUSINESS

GM to Furlough All Brazil Workers

The automaker plans to furlough all of its employees in Brazil starting March 30 and reportedly lasting at least until April 12.

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ECONOMIC

Argentina Reaches Debt Swap Deal With Domestic Bondholders

The government and domestic bondholders have reached a deal to swap some \$3.2 billion in local currency debt, said Economy Minister Martín Guzmán.

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Guzmán // File Photo: Argentine Government.

POLITICAL NEWS

Brazilians Appear at Windows in Anti-Bolsonaro Protests

In major cities, Brazilians quarantined at home appeared at their windows and on balconies on Wednesday night, banging pots and pans and shouting "Bolsonaro out!" in a large-scale demonstration against President Jair Bolsonaro, who initially labeled the coronavirus pandemic a "fantasy" and is accused of not taking the outbreak seriously, MercoPress reported. Brazil has more than 500 confirmed cases of Covid-19, the most of any country in Latin America, and four people there have died of the disease, according to data compiled by Johns Hopkins University. Worldwide, there are more than 222,000 confirmed cases and more than 9,000 deaths. Bolsonaro has said he tested negative for the disease twice, but 14 people in his delegation that visited Florida, where Bolsonaro and other Brazilian officials met with U.S. President Donald Trump, have tested positive, Reuters reported. On Wednesday, Bolsonaro and members of his cabinet, all wearing face masks, announced new emergency measures to contain the outbreak and fortify the economy, including support for the aviation industry and assistance for poor families. Brazil's financial markets have been among those that have been pummeled amid the global crisis. The country's Bovespa stock index plunged 10 percent on Wednesday, while bond yields spiked and Brazil's currency hit an all time low of 5.2 reals per U.S. dollar. Central bank measures in foreign exchange and in the country's bond market pared some of the declines. Bolsonaro also closed Brazil's border with Venezuela in an effort to fight the spread of Covid-19 and said he was considering closing all of the country's land borders. The closure of Brazil's border with Venezuela does not apply to trucks hauling cargo or humanitarian aid, Reuters reported. Elsewhere in the region, Colombia's government said Wednesday that it would spend 14.8 trillion pesos (\$3.65 billion) on emergency measures

related to the virus, adding that it will not take on new debt to finance the economic measures. The government is planning additional payments under its social welfare programs and an accelerated plan to return value-added tax to needy Colombians, said Finance Minister Alberto Carrasquilla. In Chile, President Sebastián Piñera declared a 90-day state of catastrophe as Covid-19 cases grew to 238. The declaration gives the government broad powers to restrict freedom of movement and assure basic services and supplies of food. The 90-day measure takes effect this morning, and a military official will oversee it. "This state [of catastrophe] is aimed at ... preparing ourselves to confront what lies ahead," said Piñera, Reuters reported. As many countries have done, Chile has closed schools, shut its borders and limited public gatherings. Chilean lawmakers this week started to consider postponing a referendum on a new constitution, which had been scheduled for April 26. Cases of coronavirus continued to rise in several other countries. Among them, Panama's health minister said the country had registered 109 cases, up from 86 the day before. Costa Rica's health minister announced the country's first death from Covid-19, an 87-year-old man who had been hospitalized west of San José. "We stand in solidarity with his family," Costa Rican President Carlos Alvarado said in a posting on Twitter. "Only together and with solidarity will we will overcome this national emergency." [Editor's note: See [Q&A](#) on Latin American countries' response to the pandemic in Tuesday's Advisor.]

ECONOMIC NEWS

Argentina, Domestic Bondholders Reach Debt Swap Deal

The Argentine government has reached a deal with domestic bondholders to swap nearly 200 billion pesos (\$3.2 billion) in local currency debt in a major planned auction today, Economy Minister Martín Guzmán told

NEWS BRIEFS

Mexican Judge Issues Arrest Warrant for Former Investigations Chief

A Mexican judge has issued an arrest warrant for Tomás Zerón, the former head of investigations for the attorney general's office, for alleged violations of the case of 43 college students who disappeared in 2014, officials said Wednesday, the Associated Press reported. Another five former officials are also facing charges, which include torture, forced disappearance and judicial misconduct. Three have already been detained, and the three others, including Zerón, are still at large.

Brazil's Central Bank Cuts Rates to Record Low

Brazil's central bank on Wednesday cut its benchmark interest rates by 50 percent to a record low of 3.75 percent, seeking to protect the economy from a likely hit due to the coronavirus pandemic, Reuters reported. The decision was unanimous and comes amid a worsening forecast for Brazil's economy, pointing to a recession. Goldman Sachs on Wednesday revised down its 2020 outlook for Brazil to a 0.9 percent contraction, down from a forecast of 2.2 percent growth in January.

Venezuela Banking Shutdown Leads to Spike in Crypto Trading

The shutdown of Venezuela's national banking system, part of the country's response to the coronavirus pandemic, has led to a spike in cryptocurrency trading in the Andean nation, Cointelegraph reported today. After declining for three weeks, local trading activity between the bolívar currency and LocalBitcoins, a peer-to-peer bitcoin marketplace, rebounded above \$3.4 million, Cointelegraph reported. Trading with LocalBitcoins has also reportedly increased elsewhere, including in Peru and Colombia.

Reuters. The planned swap, which will offer new instruments that expire between 2021 and 2024 for others maturing this year, is part of the government's strategy to gain more time to make payments amid a severe debt crisis. "The goal is to roll-over a significant portion of the peso-debt at sustainable interest rates," Guzmán told the wire service. "We expect to change about 200 billion of short-term peso debt in this first round," he added. Guzmán is also handling separate negotiations with international bondholders to restructure about \$70 billion in foreign-law debt, talks which have been complicated by the coronavirus outbreak, S&P Global Platts reported.

BUSINESS NEWS

General Motors to Furlough All Employees in Brazil

U.S. multinational automaker General Motors will furlough all its employees in Brazil starting on March 30, the company said in a statement to Reuters on Wednesday. The move suggests that GM's production in South America's principal car market will come to a halt amid the coronavirus outbreak. A union source told Reuters that the extraordinary measure is initially scheduled to last through April 12. Brazil's car manufacturers had been bracing for disruptions in their parts supply chain from China. GM did not mention the chain supply issues in the statement, instead emphasizing that it was furloughing workers to "align production to market demands." General Motors, along with rival car maker Ford, are reportedly in talks with the administration of U.S. President Donald Trump to "help find solutions" in response to the pandemic, Axios reported. "[We] are already studying how we can potentially support production of medical equipment like ventilators," a GM spokesperson told the Financial Times. The announcement came after General Motors, as well as Ford and Fiat Chrysler, agreed to shutter all North American factories at least through March 30.

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capacity to respond, even if responses are of a populist nature. Latin America is not a poor region anymore; it is an unfair region. Inequality in wages and in the quality of social services, from health to education, from housing to police protection; labor informality; and miserable retirement pensions clashed with the promises of improvement that could not be fulfilled. The political class

“ Latin America is not a poor region anymore; it is an unfair region.”

— José Miguel Insulza

that made those promises has lost legitimacy. The violence has to do with indignation for the incapacity and aloofness of governments, with the numerous corruption cases that have plagued most countries and with the search for a dignity that people felt they were earning a decade ago. And much of the violence also has to do with the large rates of crime and drug traffickers' appropriation of urban zones in which the presence of authority is nonexistent.”

A **Nora Lustig, professor of Latin American economics at Tulane University and nonresident fellow at the Center for Global Development and the Inter-American Dialogue:**

“Private companies and business leaders must be ready to play a crucial role in reframing social contracts in the region. Tensions, conflict and violence will not subside with changes at the margin. Changes in places such as Chile will need to be quite radical. Business leaders will need to be ready to let the state become a key player in education, health and pensions. They will need to accept regulatory frameworks that curb their ability to accumulate large profits. They will need to be ready to give up some of their vast personal wealth. In Chile, the top 1 percent captures 22 percent of the

national income, while more than 40 percent of pensioners receive incomes that are below the poverty line, and 79 percent receive pensions below the minimum wage. Experts claim that reforms resulting in decent levels of social protection and education do not imply expropriatory levels of taxation, but taxes will need to increase. The choice is clear: accept a peaceful and coordinated transition from a neoliberal to a social democratic state or face the consequences.”

A **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** “Protests in Latin America have nothing to do with social policies but with institutional development. Except for Chile, Costa Rica and Uruguay, all nations in the hemisphere have failed to supplant the institutional framework created by Phillip II of Spain which was designed to extract rent from the newly discovered markets. In order for rent extraction to be effective and efficient you need to limit participation to the elites commanding heights. This is what is known in development literature as corporatism. As trade modifies societies and the Internet brings into every cell phone images of democratic participation worldwide, civic expectations to partake rise. When restricted by an institutional straight jacket, civic revolt is assured. The remedy to this malaise, of course, is to engage in the creation of a new social pact. Most Latin Americans believe constitutions to embody a social contract. This is not only wrong but also hurtful to institutional development. What needs to be done is to reorder state responsibilities among municipalities, which today are destitute and powerless, the provinces or states, and the central government, and indeed distribute the national budget accordingly. Democracy is a grassroots operation that cannot thrive under central command. Lenin's theory of democratic centralism was yet another unreachable target cleverly used to hide the totalitarian nature of socialism.

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In Chile, protests are the result of the same middle class frustration with lack of modernization as that exhibited by French students in 1968. The destructive strength, however, reflects infiltration by radical groups that still believe Cuba to be a model to imitate.”

A Manuel Agosin, professor in the school of economics and business at the University of Chile: “Indeed, there is widespread discontent with many aspects of Chilean social policy, centering on pensions, health and education. There is a perception that the rich have access to good services and that others, even middle-class families, don’t. Many complain about living in geographically segregated cities and about inequality of treatment generally. However, most of the people who have expressed these discontents through massive marches and demonstrators are doing so peacefully. Small groups of people, who conceal their identities, have engaged in violence: burning shops, hotels and subway stations, and looting supermarkets and pharmacies. It has been difficult to identify these individuals, and the violence continues on a daily basis. It has not been calmed by the social programs the government has sent for

congressional approval, nor by the call of the government to hold a plebiscite on the drafting of a new constitution on April 26. Violence itself has become a serious issue in Chile over the past five months. In this environment, it isn’t surprising that business

“There is a perception that the rich have access to good services and that others, even middle-class families, don’t.”

— Manuel Agosin

investment is down, more than 300,000 people have been left unemployed and the future, as far as one can foresee, looks unpromising. The government must recover control over the application of force, and it must do so soon. Otherwise, Chile is in for grim medium-term prospects, even in the event that the plebiscite is indeed held on April 26.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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LATIN AMERICA ADVISOR

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