Global supply chains are shifting. How can Latin America seize the opportunity?

A SPECIAL REPORT
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The Stars Are Aligned. Almost.

A changing world, and a wave of new governments, could fundamentally alter Latin America’s place in global supply chains.

It may sound like hyperbole, but it’s true: Today offers the best chance in a generation for Latin American economies to change the way they interact with the world, and with each other. The lessons from the pandemic, the war in Ukraine, and a growing ideological alignment among governments in the Americas have all made “nearshoring” and regional integration the buzzwords of the moment.

The opportunity is clear. Only 15% of Latin America’s overall trade happens within the region, compared to 38% in North America and 55% in the European Union. Some of the region’s economies, particularly Brazil, Argentina and Colombia, have among the world’s lowest ratios of trade to GDP. Any effort to integrate economies will help produce quality jobs, and generate growth, at a time when both are acutely needed in the wake of covid-19.

Challenges abound. As Shannon O’Neil writes in this issue’s cover story, governments will have to address a legacy of poor intraregional infrastructure (only one highway in South America connects the Atlantic with the Pacific), maddening bureaucracy, and longer-term challenges to competitiveness like education, which has been dealt a devastating setback by the pandemic. Many global companies moving production out of China are so far betting on other Asian countries like Vietnam and Thailand instead of El Salvador, Brazil or Panama.

But it’s important not to exaggerate the obstacles, or indulge in defeatist rhetoric like “Latin America never misses an opportunity to miss an opportunity,” as our editors heard more than once while putting together this issue. In fact, many nearshoring projects are already happening. Colombia’s incoming foreign minister cited regional integration in his first message following his nomination, one of several signs that politicians understand the moment at hand. This issue provides a partial roadmap to help make it a reality.
A Unique Opportunity
As firms deal with shortages of components, logistics jams and empty shelves, Latin American countries have a chance to reimagine their role in the global economy.

Where do the possibilities lie?
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**IN OUR NEXT ISSUE:**
Millennials are flocking to politics—and prompting a change of the guard. AQ will take a deep look at the new generation of politicians reframing policies across the region.
CONTRIBUTORS IN THIS ISSUE

Shannon K. O’Neil

O’Neil is the vice president, deputy director of studies and Nelson and David Rockefeller senior fellow for Latin America Studies at the Council on Foreign Relations. She is a member of AQ’s editorial board and the author of The Globalization Myth: Why Regions Matter (October 2022).

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Tell us what you think. Please send letters to Brian@as-coa.org

AQ’s Editor-in-Chief Brian Winter, top left, leads a conversation on green finance and climate adaptation in Latin America, launching AQ’s special report on the Summit of the Americas. Reina Irene Mejía Chacón, top right, executive vice president at the Inter-American Development Bank, was joined by Laura Segafredo, bottom left, global head of sustainable research, ETF and index investments at BlackRock, and José Daniel Madrigal, bottom right, economics specialist at the Honduras Resident Coordinator’s Office of the United Nations.

Richard Lapper
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Vary good take from Brian Winter on Bolsonaro. Despite Everything, Bolsonaro Could Still Win
americaquarterly.org/article/despite... via @amerquarterly

Jose Ignacio Hernández G.
@joseignacio

A very good piece by @BéticoManzana for @AmarQuarterly, with three steps towards migration during the Summit. The third step: countries should consider some standard definitions. I agree: we need to work in an Inter-American Convention on human mobility
americaquarterly.org

The Summit is a Great Chance for Better Cooperation on Migration
At the Summit of the Americas, leaders should take three steps towards a joint hemispheric approach to the crisis.
Matthew J. Zinsli
@MatthewJZ Great piece from @AmerQuarterly When I lived in Honduras in the 2010s, people frequently used the phrase "Cuando vino el Mitch" to demarcate a lost period of hope for their country’s future. We can expect more Mitches as climate change intensifies.

Hari Seshasayee
@haricito Fascinating piece by @CedeSilva perfectly blending politics & the Lollapalooza music festival. Only @AmerQuarterly comes up with such colourful stuff, to the credit of @BrazilBrian

Santiago Bedoya Pardo
@sanbedoyapardo Excellent piece by @AMoncada_C analysing the impact & reactions to the Russian invasion of Ukraine in Latin America. Will Russian influence in Latin America grow in 2022? - via @AmerQuarterly

Maria Alexandra Velez
@marialexvelez "Petro is more a populist than a leftist" Miguel Silva. Do not miss Miguel’s analysis of Colombia’s upcoming presidential elections, particularly Gustavo Petro’s candidacy in this AQ Podcast: Petro’s Race to Lose in Colombia?

Alexandra Orozco
@AlexaOrozco Replying to @AmerQuarterly and @JohnOtis @JohnOtis gracias por este artículo que nos da esperanza y nos llama a actuar para ayudar a Centroamérica en el proceso de adaptación al cambio climático.

Federico Burone
@_FedericoBurone A very good piece by @AmerQuarterly worth reading by those like us @IDRC_CRDl supporting local researchers to contribute with evidence about the transformative nature of collaborative approaches including PS actors and experience in valuing farmers strategies adapting to C.change

Philip Leventhal
@PhilipLeventhal @DavidKurnick’s illuminating and beautifully written, THE SAVAGE DETECTIVES REREAD is reviewed in @AmerQuarterly. https://bit.ly/38UQESX #Rereadings @ColumbiaUP
Gustavo Petro, Colombia’s recently elected president, scores a penalty kick during a friendly soccer match in Bogotá in early June. Petro has served two terms in the lower house of Congress and one in the Senate, and was the mayor of Bogotá from 2012 to 2015.

PHOTO BY DANIEL MUNOZ/AFPI Getty
Sally Beltran participates in the women-only DJ course taught by experienced Cuban DJ Xander Black, the first in 10 years, on a rooftop in Havana, on May 30. Although the DJ scene in Cuba is fundamentally male, women have begun to gain ground based on talent and effort.

PHOTO BY YAMIL LAGE/AFP
A migrant runs as part of a migrant caravan in Huixtla, Chiapas, in Mexico on June 9. The caravan from Huixtla to Mapastepec had a contingent of around 3,000 migrants. Some were processed by Mexico’s National Institute of Migration and granted freedom of movement through Mexican territory for 30 days.

PHOTO BY JACOB GARCIA/ANADOLU AGENCY/GETTY
Indigenous Mapuche women work on a weaving more than half a mile long in Puerto Saavedra, Chile. The project broke the record for the longest loom weaving in the world. It involved around 400 women and took over a year of planning.

PHOTO BY MARIO QUILODRAN/AFP/GETTY
Experts and policymakers join AQ’s Editor-in-Chief Brian Winter to discuss the issues currently shaping Latin American politics, business and culture.

“There is no ideology behind autocratic people. We’re seeing the same thing in López Obrador’s Mexico as what we’re seeing Bukele doing in El Salvador. Both got to power through elections and, once in, turned their backs on judicial independence, on the free press, on the work of civil society.”
—Raúl Stolk, director of the news site Caracas Chronicles

“We’re going to see some sanctions relief, but I think that from the political side we’re never going to see a different discourse, because chavismo is not going to change.”
—Tamara Taraciuk Broner, acting Americas director at Human Rights Watch

“The truth of the matter is that Gustavo Petro is not a radical thinker, he is not a radical reformer. When he was mayor of Bogotá he was not very good at doing big changes. But what he did, very thoroughly, was be a good politician.”
—Miguel Silva, founder of Galileo 6, a strategic communications and crisis management firm based in Bogotá, Colombia
Economist Camila Uribe, 29, is a director at Casa de las Estrategias, a hands-on think tank in Medellín, Colombia, that looks to act as a bridge between policymakers and at-risk youth.

by Cecilia Tornaghi

AQ: What is Casa de Las Estrategias?
Camila Uribe: Casa is a policy research center looking at violence and youth. Recently we published a book, Ciudades Sin Miedo, in which we suggest policy initiatives to curb the high number of homicides of young people across Latin America. But we also made a decision to act on our findings ourselves and open our office in Comuna 13, a low-income neighborhood, to young people from the community. Our objective is to give them a place and tools to express themselves.

AQ: What kind of tools?
CU: We run three cultural houses we call Moradas, with a radio, blogs, podcasts and art projects. We partner with professional journalists who guide the teenagers on the basics: searching for a topic, interviewing multiple people, how to gather information. They then create their own editorial line and search for stories in their communities.

AQ: Who are the kids at Moradas?
CU: We try to reach kids hailing from the most excluded circumstances. Some don’t study or work, many were incarcerated. We try to help dispel the myths of criminal life as cool or a sign of rebellion. We do refer them to job training or education. But our focus is to first give them a voice, to help them immunize themselves against injustice, against the tricks that life throws at them. When as researchers we sit across the table from policymakers or private-sector players, this first-hand knowledge allows us to serve as a bridge between these two worlds.

THIS INTERVIEW HAS BEEN EDITED FOR CLARITY AND LENGTH
Why Latin America Lost at Globalization—and How It Can Win Now

A case for greater intraregional trade in a changing world

by Shannon K. O’Neil
GL O BALIZATION HAS BEEN the watchword of the last 40 years, credited with boosting economic growth and bringing hundreds of millions out of poverty — while also charged with increasing inequality and destroying jobs and communities. Yet as trade, services, data, people and ideas internationalized, they didn’t do so uniformly or consistently. Some countries and regions did better than others. Latin America, unfortunately, has been one of the losers.

Most of Latin America hasn’t really “globalized” or even internationalized. Brazil and Argentina remain two of the most closed economies in the world, with trade amounting to less than 30% of GDP. Latin America and the Caribbean as a region is a full 11 percentage points below the global average (45% versus 56%) in terms of the importance of trade for their economies, and far from emerging market stars and commercial competitors where trade flows can rival overall GDP in size.

To be fair, only about two dozen nations around the world have truly opened up over the last 40 years, with trade to GDP doubling or more. Still, few of these are in the region: Mexico and Paraguay made this jump, as did Argentina (but only because it started from such a low base). Meanwhile, Colombia, Chile, Guatemala, Costa Rica and much of the Caribbean saw little change in trade’s economic importance. And in Panama, Peru and Venezuela, trade as a percentage of the economy actually shrank during that period.

The international exchanges aren’t particularly inclusive or sophisticated. Over the last 50 years Latin American economies have, on average, gotten less diverse in terms of what they produce. Outside of Mexico, manufactured goods in particular have been hit by what economists call “premature deindustrialization,” or the shrinking of manufacturing as a percentage of the economy and workforce before per capita incomes have adequately risen. Instead, exports from these nations increasingly tend to come from a handful of industries that are less productive or less technologically driven: mining, agriculture and other raw materials (as opposed to processed goods or advanced manufacturing). Even Chile, which has developed significant fish, fresh fruit and wine exports, hasn’t been able to diversify away from minerals and in particular from copper, which still represents over half of what it sends out to the world (though it has managed commodity booms and busts better than its peers).

These economic doldrums stand in stark contrast to nations that were once its peers. Mexico, Brazil and Argentina have been lapped by South Korea, Singapore, Malaysia and Hong Kong, as well as many Eastern European nations. Not coincidentally, many of these countries have closed the wealth gap with the developed world, while Latin America as a whole has remained stagnant.

So what happened? Why hasn’t Latin America been able to thrive in a more connected world? There are lots of reasons, to be sure. Weak governance, inequality, informality and insecurity all play a part. Still, a vital but overlooked factor is the lack of regionalization — the exchange of trade, money and knowledge within Latin America itself. This is where today’s opportunity lies. If Latin American countries can build and expand their links to one another in the new global context that is taking shape in the 2020s, they may yet be able to capture the economic and commercial dynamism that has helped drive growth and prosperity in other parts of the world. But doing so will require significant changes in areas like education, automation and public investments, and in some countries, a change in mentality.
Weak intraregional ties

Scholars of global supply chains, or as they call them “global value chains,” show how being part of international manufacturing and production attracts investment and technology, teaches workers new skills, and enhances managerial capacity. It opens space for local factories and companies to upgrade their processes and make more sophisticated and higher-priced components or goods.

These studies also show that without strong commercial ties to nearby nations, workers and consumers tend to be left on the less productive and less valuable ends of global supply chains, limited to sending out raw materials and bringing in finished products — a reality that sounds all too familiar to Latin American ears. When regional supply chains are limited, these imports tend to have little local content. They compete with, rather than support, domestic suppliers and companies. This diminishes national output and in the longer term caps potential economic growth.

In Latin America, less than a fifth of trade takes place within the region itself. Not coincidentally, these countries have grown more slowly than many other emerging markets with stronger commercial links to their neighbors.

Many reasons keep these economies and businesses siloed and separate. Politics is an important one. Latin America’s leaders have long lauded regional integration, over the years creating well over a dozen multilateral organizations to tout this lofty goal. Yet after decades of photo ops, little has changed on the ground, as leaders have remained too politically divided or too internally focused to put into place policies to nurture a more regional economic approach. Integration remains rhetoric, not reality.

The region’s free trade agreements (FTAs) are too weak or riddled with exceptions to deepen regional flows. When the U.S. signed FTAs, trade with its new partners rose overall and relative to non-treaty countries. Europe, too, saw its regional trade jump after forming the European Economic Community and then later the European Union. Yet in Latin America, trade agreements have done little to increase regional commercial ties in absolute terms or relative to that with other nations.

Mercosur, fashioned as a customs union between Brazil, Argentina, Uruguay and Paraguay, had a decent start in the 1990s, when trade and investment at first outpaced the rest of the world. But by the start of the 21st century, currency devaluations had taken a toll and a proliferation of exceptions, exemptions and non-tariff barriers drastically diminished trade among the partners even as their trade with the rest of the world rose.

The Pacific Alliance, too, stated big integration ambitions. The 2011 agreement between Chile, Colombia, Mexico and Peru eliminated visas and most tariffs, and pushed financial integration by tying together each nation’s stock exchanges. But now, over a decade later, little has changed: trade, financial and community ties haven’t grown apace. The Central American Common Market, Andean Community of Nations and Caribbean Community all similarly failed to spur commercial integration as tariffs and non-tariff barriers remained relatively high, leaving trade and investment ties largely stagnant.

Physical barriers and bureaucratic costs are another set of problems. It is expensive if not infeasible to move things easily between Latin America’s nations. There are just four crossings along the 3,300-mile border between Argentina and Chile, with the only train passing through the northern Socompa Pass. Just one major highway connects the Atlantic to the Pacific in South America through Brazil and Peru.

Most of Latin America hasn’t really “globalized” or even internationalized.
And the Panamerican Highway, which runs from Argentina to Alaska, is fit more for adventurers than cargo carriers, with many stretches unpaved or virtually impassable.

The skies, too, provide limited commercial connections. According to a study by the Development Bank of Latin America (CAF), just one-third of flights connect Latin America’s cities to one another, curbing available cargo space in aircraft holds for regional trade. Logistical hubs around airports often lack warehousing and cold storage facilities, raising costs and limiting the types and amount of goods in transit. Overall, Latin America’s air freight lags all but Sub-Saharan Africa in weight.

Ports, which dot both the Atlantic and Pacific coasts, could help solve some of these problems. But many facilities have been slow to upgrade. Berths are too small for the bigger ships coming through the wider Panama Canal, and cranes too few to load and unload containers speedily. Shipping companies are much more likely to sail in and out of the region than to ports in between, as that extra day or more at dock costs money. Fewer calls at ports make it harder and more expensive to link nations commercially.

Burdensome customs paperwork, sanitary and health checks, and numerous other certifications and inspections layer on further expenses for regional trade. Overall, a report from the Inter-American Development Bank found Latin America’s logistics cost twice as much in time and money as they do in higher-income OECD countries. And, over time, it has become more rather than less expensive to trade with one another, particularly in South America. For companies in the region that do export, it is usually more profitable to go elsewhere.

Mexico is the proverbial exception that proves the rule. Its economy has globalized — trade as a percentage of GDP rose from 22% to 78% between 1980 and 2020. And it has diversified, with advanced manufactured goods such as vehicles, electrical machinery and electronics making up the lion’s share of what it sends out into the world today, avoiding the deindustrialization plaguing South America. Unlike the rest of Latin America, it has indeed regionalized, turning to its North American neighbors.

### Latin America has another chance

Many of the forces that left Latin America on the economic sidelines during the last round of globalization are now shifting. Automation is making low-cost labor less of a draw in many sectors, even as aging demographics in China, especially, and Asia more broadly, are raising wages across the Pacific. The pandemic highlighted the vulnerabilities of far-flung supply chains as logistics expenses skyrocketed and unexpected delays multiplied. Climate change, too, is shaking up established transportation hubs and channels as weather events and natural disasters increase in numbers and intensity. Climate pledges are changing business as usual, making the higher emissions of lengthy supply chains costly for multinational companies looking to go carbon neutral. Meanwhile, consumer expectations of ever faster delivery raise the cost of the extra week or weeks of even uninterrupted cross-ocean voyages. COVID-19 and the logistical snarls that ensued during the pandemic accelerated and added to these shifts already underway by driving home the cost and uncertainty of distance.

Just as important, geopolitical tensions are threatening existing production and trading networks. U.S.-China divisions in particular are opening up space for other countries to gain manufacturing market share as multinationals search for alternative suppliers. Russia’s invasion of Ukraine and consequent financial sanctions abruptly cut off a whole set of commercial exchanges, forcing companies to quickly shift sourcing and suppliers.

More broadly, globalization was always a choice, and many nations are no longer embracing it. A good number of policymakers, including those across the political spectrum in the United States, are turning away from free markets, looking to actively shape their economies through a mix of industrial policies including tariffs, export controls, and all sorts of subsidies for sectors deemed strategic. Finding themselves unable to do everything domestically, governments and companies will search for allied alternatives.

As companies and suppliers look for new commercial options, Latin America has advantages that could and should be a big draw. Proximity to the United
Latin America’s
Skills and Trade
Challenges

Students in Latin America are far behind in their education compared to other regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Average PISA score (math, reading and science)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>506</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>483</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>415</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>399</td>
</tr>
<tr>
<td>Latin America</td>
<td>399</td>
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</tbody>
</table>

**Sources:** World Bank and OECD

Some Latin American countries are among the world’s most closed to trade

Overall trade as a percentage of GDP, select nations

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Average</td>
<td>52%</td>
</tr>
<tr>
<td>Latin America</td>
<td>47%</td>
</tr>
<tr>
<td>Argentina</td>
<td>30%</td>
</tr>
<tr>
<td>Brazil</td>
<td>32%</td>
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<tr>
<td>Colombia</td>
<td>34%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>42%</td>
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<tr>
<td>Peru</td>
<td>43%</td>
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<tr>
<td>Uruguay</td>
<td>46%</td>
</tr>
<tr>
<td>Chile</td>
<td>58%</td>
</tr>
<tr>
<td>Panama</td>
<td>74%</td>
</tr>
<tr>
<td>Mexico</td>
<td>78%</td>
</tr>
</tbody>
</table>

**Sources:** World Bank

Intraregional trade within Latin America badly lags other regions

The percentage of each bloc’s overall trade that happens within the bloc itself

<table>
<thead>
<tr>
<th>Bloc</th>
<th>% of trade</th>
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<tbody>
<tr>
<td>Latin America</td>
<td>55%</td>
</tr>
<tr>
<td>Mercosur</td>
<td>38%</td>
</tr>
<tr>
<td>Pacific Alliance</td>
<td>12%</td>
</tr>
<tr>
<td>European Union</td>
<td>15%</td>
</tr>
<tr>
<td>North America</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Source:** CAF, Note: Data is from 2018
A new border bridge is being built over the Paraná River to link Brazil and Paraguay. Currently, there is only one international connection over the river, the Friendship Bridge.
The region has work to do to turn the current possibilities into realities. To start, it needs a fundamental shift in mindset.

States is the first, Latin America enjoying a Goldilocks middle for those nervous about spread-out international production: Not too close but not too far.

Add to that preferential access. The United States doesn’t have a lot of FTAs, but those it does have are mostly in the Western Hemisphere. Thirteen nations have the advantage not just of fewer tariffs but also other lowered trade barriers and established rules of the road for intellectual property and arbitration that make it easier and more attractive for international companies to come and invest.

While not what it once was, Latin America also still has a demographic advantage. In China, already more workers are leaving than entering the labor market each year, and the drop-off is accelerating; the government estimates the workforce will shrink by 100 million by 2055. While Argentina, Brazil and Chile have spent much of their “demographic dividend,” working age populations as a part of the whole population on the decline, they don’t face as steep a cliff as many Asian rivals. Others, including Mexico, Peru, Colombia, Bolivia and Central America, still have some years of labor market growth ahead.

And the region starts in a strong initial position in the green transition. Over half of the electricity produced already comes from clean sources, and many nations are blessed with abundant sun, wind and geothermal reserves. The next commodity super cycle will lean green and the region is bountiful in lithium, copper, graphite, cobalt, nickel, manganese and other minerals essential for these technologies. Latin America has the potential to be an answer for multi-nationals looking to meet climate pledges and reduce their global carbon footprints.

Yet the region has work to do to turn the current possibilities into realities. To start, it needs a fundamental shift in mindset. This means moving away from 20th century resource nationalism and embracing the 21st century green transition. It means upgrading traditional industry and industrial relations to encompass and promote technological adoption, adaptation and innovation. It means leaving behind protectionism and opening to the world. And it means finally deepening commercial and business ties within the region.

This should start by protecting and building upon its clean energy bonafides. At the moment, Latin America’s two biggest economies are going in environmental reverse. Mexico is doubling down on fossil fuels unlike almost any other nation around the globe, including OPEC members, ensuring its electricity supplies will be dirtier and less reliable for consumers and manufacturers in the future. Brazil’s deforestation has made it an international ESG pariah, leading many existing investors and companies to cut financial ties and end commercial sourcing, and discouraging others from coming. To attract businesses and buyers, this has to change.

Whether on the shop floor, in the warehouse or at the office, Latin America needs to automate. As mechanization sweeps across global factories, those in Latin America need to do the same. Here the region lags far behind: Mexico, Argentina and Brazil count just tens of thousands of robots in action, mostly in automotive and machinery industries, while their economic rivals boast many times more across many more industrial and commercial sectors. In South Korea and Singapore, robots now add 5% or more to the overall workforce.

Schooling, too, needs to change to meet the needs of a 21st century workforce. Despite significant setbacks during the pandemic, over the last 50 years Latin American nations did a good job of getting kids into schools and keeping them there longer. The challenge remains what they are, or are not, learning. On international tests such as the Programme for Inter-
Regionalization has helped many Asian and Eastern European nations climb the socioeconomic ladder; it could do the same for Latin America.

National Student Assessment (PISA) administered by the OECD, students in the region trail those in Asia, Eastern Europe and the Middle East in math, science and reading.

World Bank surveys show the skills gap between employer needs and worker capacity is the worst in the world, with a particular scarcity of engineers and production technicians, as well as those working in manual trades and sales. These are categories multinationals looking to relocate a portion of their supply chains will need to fill. They are also skills domestic firms need to make more sophisticated inputs and components to feed into international production chains. A lack of local talent pools will limit international corporations from relocating and national ones from supplying them.

**Strengthening regional ties**

Overall, governments need to encourage trade. Numerous studies by the World Bank and International Monetary Fund calculate that increasing international commerce boosts economic growth. For more closed economies, including Brazil and Argentina, GDP could grow by over 1 percentage point a year if their economies opened more.

Only 24,000 of Brazil’s 4 million legal firms send goods or services abroad. In the rest of South America, the numbers are just as stark. Mexico is only slightly better, with far less than 1% of its businesses connected internationally.

Firms that export tend to pay better, last longer and be more productive — economic and commercial qualities in too short supply today in Latin America. And Latin America has niches to exploit, including more processing of the minerals and other commodities it mines, expanding into organic vegetables and prepared foods, and forging specialized alloys and steels. Many nations have strong chemical, pharmaceutical, manufacturing and software bases to build upon and scale.

As they look outward, they shouldn’t look only to faraway shores. Latin America suffers from weak regional networks of manufacturers, parts makers, service providers and logistics operators. But by buying and selling more from and to each other, Latin American companies would help ensure more production and jobs are created within the region rather than outside of it. That would also increase the chances of technological adoption and adaptation, of labor specialization and advancement, of industrial learning and innovation, and of economic diversification and development. Regionalization has helped many Asian and Eastern European nations climb the socioeconomic ladder; it could do the same for Latin America.

At a recent high-level international economic forum in Panama, panelist after panelist laid out the once-in-a-generation opportunity to reform, revive and revitalize Latin American economies and workplaces that the current fluidity in global sourcing and production offers. But few saw Latin America doing much to grasp the moment. Without big investments in infrastructure, skills and training, without a push to automate and green their economies, and without significant actions to deepen regional commercial ties, this round of global change will also pass Latin America by.

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O’Neil is the vice president, deputy director of studies and Nelson and David Rockefeller senior fellow for Latin America Studies at the Council on Foreign Relations. She is an expert on Latin America, global trade, U.S.-Mexico relations, democracy and immigration. Her book *The Globalization Myth: Why Regions Matter* will be published in October.
AQ asked key thinkers from around the region: What is the most important thing Latin American countries can do to take advantage of shifting global supply chains?

Here are their thoughts.

José Antonio Meade
economist, former Mexican minister of foreign relations, finance and energy

Adriana Arreaza
acting head of knowledge, director of macroeconomic studies, Development Bank of Latin America (CAF)

Blanca Treviño
CEO, Softtek

Magdalena Bas Vilizzio
professor of public international law, University of the Republic of Uruguay, member of Uruguay’s National Researchers System, postdoctoral fellow, University of Monterrey, Mexico
We need more trade, not less; we need stronger democracies, not weaker institutions. But we also need greater participation in the benefits of growth.

José Antonio Meade

economist, former Mexican minister of foreign relations, finance and energy

It wasn’t that long ago that globalization seemed here to stay. Liberal democracies across Latin America could show important degrees of success by raising people out of extreme poverty and creating opportunities that resulted in growth and wealth accumulation. The Pacific Alliance, with its drive for greater mobility of capital, people and goods, generated excitement and promise. Dialogue ongoing between the Alliance and Mercosur made Latin American integration seem attainable. Colombia’s peace process and Cuba and U.S. rapprochement allowed us to believe that a conflict-free and global America was not only conceivable but almost inevitable.

That optimism was unfounded, and soon discontent made itself evident. Populism and challenges to democracy are now the norm, and it is deglobalization that seems here to stay. The most important thing we can do in Latin America is to try to understand what happened. What did we do well? Where did we fall short?

As we do, I believe our tragic flaw will be found in lack of access to education. The life expectancy of a Mexican without high school education is five years shorter. We need democracy and globalization, but we also need them to do better. If our democracies and policies do not result in inclusive and sustainable growth, we will fall short yet again. Nearshoring affords us great opportunities. We need more trade, not less; we need stronger democracies, not weaker institutions. But we also need greater participation in the benefits of growth. There is no other — or better — path than through access to education.
Economies in Latin America and the Caribbean lag in standardization, harmonization, digitalization and simplification of international trade procedures.

Adriana Arreaza
acting head of knowledge, director of macroeconomic studies, Development Bank of Latin America (CAF)

While a significant degree of uncertainty persists regarding the future of global value chains, Latin American economies could clearly benefit from increased nearshoring. CAF’s recent publication “RED 2021: Pathways to integration,” suggests three pillars to enhance intraregional trade within existing agreements.

The first is trade facilitation. Economies in Latin America and the Caribbean lag in standardization, harmonization, digitalization and simplification of international trade procedures. Initiatives that standardize information, such as “Single Windows” (SWs), can ease and expedite international trade procedures. SWs do not require agreements with trade partners, but their joint implementation can further reduce costs.

The second is improving infrastructure. Transportation costs outweigh even tariffs in some countries. It is necessary to improve infrastructure to minimize delays related to congestion or low-quality roads and reduce storage costs at ports or airports. Logistics corridors should be prioritized to support value chains from start to finish. Investing in maintenance, not just new projects, is also crucial.

The third pillar is productive integration. Participation in global value chains is low in Latin America, with Mexico being an exception. In contrast, Central American countries add up to 20% of the total added value of the products traded within the region. The situation is no different in Andean and Mercosur countries, incorporating 27% and 34%, respectively, into the total added value of regionally traded products. Stringent rules of origin in trade agreements can prevent firms from efficiently incorporating imported inputs into their exports. Instead, introducing “cumulation rules” allows firms to include inputs produced by other countries that are members of a trade agreement into their products while preserving their originating status. This could infuse more dynamism into exports and regional value chains. Securing foreign direct investment and removing barriers to tradable services would also favor productive integration.
The nearshore model has proven to be an extremely valuable strategy, like having an adjacent shopping mall with familiar brands.

When visiting one of our company’s new offices, right before the pandemic in January 2020, I was very pleased by how convenient the location is. The office, a global software development center, was on the 15th floor of a modern building, adjacent to a shopping mall with a Starbucks, a Pizza Hut, an Apple store and several well-known fashion outlets.

This office is in Wuxi, China. And yet, very similar arrangements occur at our centers in Mexico City, as well as a former office in São Paulo, Brazil. The overall experience (outside of signs and passersby using the local language) is completely interchangeable.

Latin America can be the cream of the crop when it comes to near-shoring. When we introduced the concept of nearshore IT services, back in 1997, we thought of it as a complement to the prevailing India offshore outsourcing model. At the time, India had already established its position as a premier provider of high-quality information technology services. Our proposition was not to replace India, but rather to leverage proximity and cultural similarities to help our clients in the U.S. do the things they couldn’t do effectively with teams on the opposite side of the world.

Throughout the years, the nearshore model has proven to be an extremely valuable strategy, like having an adjacent shopping mall with familiar brands. And it is already happening for many of us.
First and foremost, the region needs to overcome its internal fragmentation.

Hyper-globalization has been in retreat since 2008, and the COVID-19 pandemic, the Russia-Ukraine conflict and the persistent crisis of the global supply chain are driving the world towards a new era in globalization. To face this scenario, Latin American countries need to improve communication with civil society as well as put human rights at the center of all trade and investment agreements. But first and foremost, the region needs to overcome its internal fragmentation.

Disagreements over the recent Mercosur–EU agreement constitute one of the best-known examples of regional division. Other symptoms include regulatory inefficiency, declining intra-regional trade and the lack of common positions in multilateral organizations (for instance in relation to the Russia-Ukraine conflict).

Overcoming these disagreements would allow us to better address issues of interest to the entire region: climate change and the transition to green energies, low economic growth — projected at just 1.8% in 2022 according to ECLAC’s April projections — or health emergencies such as COVID-19, cholera or dengue fever. Moreover, it is also an opportunity to discuss and coordinate other public policies that impact economic and security issues. Examples include front-of-pack nutrition labeling, where Mexico and Chile are regional leaders, and supply chain ethics regulation such as the recent German Supply Chain Act requiring companies to follow ESG requirements when selecting suppliers.
Betting on “Made in the Americas”

While talk of shifting supply chains from Asia to Latin America has remained just that for many firms, some companies have expanded their operations in the region in recent years. Most already had a foot in the door and built on existing investments. Below are five recent examples of manufacturers expanding in Latin America to be closer to their customers.

by Emilie Sweigart

In March, the world’s second-largest toymaker announced that it would expand operations and invest approximately $47 million in its Montoi plant in Monterrey, where it employs 3,500 people. Mattel plans to prioritize production at its Mexican hub over factories in Asia. In an announcement, Mattel CEO Ynon Kreiz stated, “Montoi plays a central role in our reimagined global supply chain operation, providing a strategic footprint for our network in the Americas.” Demand for real estate and industrial parks in northern Mexico has risen sharply in recent years as other manufacturers have sought to set up shop close to the U.S. border.

In June, the Japanese autoparts company announced its plan to move production closer to North American clients, starting with a $10 million plant in Guatemala. This factory is set to begin production in January 2023. Yazaki also plans to invest another $110 million in Guatemala and El Salvador by the end of 2026. The firm credited USAID and U.S. Vice President Kamala Harris’ Call to Action program for Central America with helping them get connected in the region.
**E L S A V A D O R A N D H O N D U R A S**

**Intradeco**

Miami-based textile company Intradeco Holdings is investing $100 million to expand its reach in Central America and increase its solar power capacity. In early 2022, Intradeco started operations at the Central American Spinning Works, a ring-spinning mill in Honduras, and established a new production facility in El Salvador that manufactures 100% recycled yarn. With these projects, Intradeco seeks to create 1,000 jobs in El Salvador, Honduras and the U.S.

**C O S T A R I C A**

**Intel**

Intel has operated in Costa Rica since 1997, and opened a microchip assembly plant the following year. The company closed the plant in 2014 and laid off 1,500 workers, but announced in late 2020 that it would reopen the facility. An initial $350 million investment in the plant was expanded to $600 million. Intel also plans to create 600 jobs and invest an additional $40 million in its Costa Rican research and development center.

**D O M I N I C A N R E P U B L I C**

**Jabil**

Global manufacturing company Jabil began operating in the Dominican Republic in September 2018 and produces medical equipment at its facility in the PIISA Industrial Park free trade zone. By April 2021, Jabil had completed construction on a 60,000-foot expansion of its health care product manufacturing plant, which has 400 manufacturing employees. Jabil announced plans to hire an additional 250 workers in 2021. The plant includes COVID-19 rapid PCR tests approved by the U.S. Food and Drug Administration among its medical products.
When the Music Stopped

Where will the unraveling of decades of commercial relations take us?

When considering the push toward modern globalization, I am reminded of the early 1980s. At the time, we were feeling the effects of inflation, high interest rates and (of course) high energy prices. Everywhere you turned, there were imbalances as emerging market countries ran high fiscal and current account deficits. Bank credit was abundant.

Then the music stopped, and countries needed to adjust their economic policies. They had to reduce their deficits, restructure their debt and return to growth. In the most simplistic of terms, this required new sources of foreign exchange. Foreign trade and investment became imperative in this new reality.

In many countries, the framework for foreign direct investment was liberalized and they negotiated trade agreements to ensure access to markets as well as preferential sale of their products abroad. Companies shifted production to the lowest-cost provider — in many cases to China and other Asian countries. With time, emerging markets became more and more dependent on China as an important purchaser of raw materials. In return, China provided the much-needed foreign exchange to keep these emerging markets competitive in the global market. In the intervening 40 years, the world and supply chains have become more integrated, and more interdependent, than ever before.

No one could have predicted a global pandemic that would interrupt international supply chains and expose the fragilities of global integration. And the rise of China as an economic power happened much more quickly than many expected.

Now we see the political world order being redefined yet again, for better or worse. We’ve learned that we cannot depend solely on distant international supply chains. Priorities have shifted from low-cost production and foreign exchange creation to finding dependable, reliable and secure paths to market.

And so, a march toward deglobalization has begun. We just don't know where it will end.
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Anti-Corruption: Still Alive, Despite the Setbacks

An index shows fighting graft remains a key priority for many governments.

by Geert Aalbers, Brian Winter and Emilie Sweigart

Every time somebody declares the anti-corruption efforts in Latin America dead or in retreat, along comes reality to suggest otherwise. Consider June’s elections in Colombia, where voters ranked corruption the country’s most pressing challenge — ahead of poverty, crime and unemployment. The runner-up ran on the slogan “Don’t steal, don’t lie, don’t cheat and zero impunity.” The winner, Gustavo Petro, also made the issue a centerpiece of his platform, vowing to create an independent, UN-sponsored anti-corruption body similar to the one that led groundbreaking investigations in Guatemala last decade, among other initiatives.

Indeed, we see variations on this story throughout much of Latin America today. Despite the widely held view that corruption has been relegated to a second-tier issue by the COVID-19 pandemic, rising inflation and the continued backlash against investigations in countries such as Brazil, anti-graft efforts have remained a key element of the region’s politics. Also in June, Peruvian President Pedro Castillo appeared in front of prosecutors as part of an investigation into whether he led an alleged criminal conspiracy involving bribes for public works contracts (Castillo denies wrongdoing). Ecuador’s President Guillermo Lasso issued a decree in May creating an Anti-Corruption Secretariat that will be a Cabinet-level position. Corruption is also expected to be a major issue in elections in Argentina and Paraguay next year.

This continued mobilization forms the backdrop for the fourth annual edition of the Capacity to Combat Corruption (CCC) Index, released in June. Rather than measuring perceived levels of corruption as other studies do, the CCC Index evaluates and ranks 15 Latin American countries based on their ability to detect, punish and prevent corrup-
tion. The index, which is jointly published by Control Risks and the Americas Society/Council of the Americas (which publishes *AQ*), draws on publicly available data as well as a proprietary survey that asks in-region experts to assess a variety of factors, including the independence of courts, the strength of democratic institutions and the freedom of investigative journalists.

This year’s index paints a mixed picture, in which some Latin American countries made progress in improving the anti-corruption environment, while others — including the region’s two largest countries, Mexico and Brazil — saw new setbacks for key institutions.

Indeed, both Mexico and Brazil have seen significant cumulative declines in their scores since the index was first launched in 2019 — by 13% and 22%, respectively. Presidents Andrés Manuel López Obrador and Jair Bolsonaro, while different in many ways, have, in practice, both taken steps to undermine independent institutions that are key to preventing graft, preferring instead to emphasize what they bill as their own personal rectitude. In Brazil, continued scrutiny of the perceived abuses of the Lava Jato investigation in the late 2010s, and the political revival of former President Luiz Inácio Lula da Silva (2003–10) after corruption charges against him were overturned or dropped on formal grounds, have made anti-graft efforts a comparatively minor issue in the campaign for October’s presidential election. Guatemala showed the biggest decline in score, as several prominent anti-corruption figures fled the country alleging they were being persecuted for their work.

Elsewhere, though, there were stories of resilience and progress. Peru retained its relatively high ranking, as courts and investigators continued to show independence even after investigating multiple presidents in recent years, including the current one. The Dominican Republic showed the biggest increase in its score, up 18% since 2021, as President Luis Abinader proposed a law to promote greater transparency in public contracts, among other reforms. Uruguay remained the country with the highest overall score in the ranking, despite a relatively minor decline, followed by Costa Rica and Chile. Although Argentina again scored below the regional average in key variables like the independence and efficiency of anti-corruption agencies, its strong performance on indicators measuring the strength of civil society, investigative journalism and overall quality of democracy allowed it to retain a relatively solid position in the overall ranking.

It’s interesting to examine why the issue has refused to go away. Some have argued that the focus on anti-corruption in Latin America is destructive and pointless, contending that it tends to produce unqualified outsider candidates who, once elected, make little progress against graft, and often end up undermining democracy as a whole. Some point to Bolsonaro as an example. But this strikes us as an overly fatalistic view that unfairly discounts the possibility of progress in Latin America. It would be a disservice to ignore the efforts of prosecutors, judges and others who have successfully strengthened institutions and the rule of law since democracy returned to most of the region in the 1970s and 1980s. Many in the current generation are bravely pushing back against the authoritarian winds blowing again in some countries today. And they retain the support of the general public in many places.

Indeed, the same factors that led to the rise of the anti-corruption push in the mid-2010s — the spread of democracy, the changing values of a rising middle class, and the prominence of social media — are still present today. Perhaps we will look back on the COVID-19 pandemic as a temporary disruption in the anti-corruption trend, rather than a permanent change. Even in Brazil, where there are some disturbing signs of graft schemes resurfacing, and some companies are more closely scrutinizing spending on compliance programs and teams, the overall business and regulatory environments are still clearly less tolerant of corruption than they were prior to Lava Jato. As so often in Latin America, progress can be halting, and even experience extended periods of retreat. But progress does occur — and politicians, executives and others forget that at their own peril.

Aalbers is a partner at Control Risks and head of its Brazil and Southern Cone business. Winter is the editor-in-chief of *AQ*. Sweigart is an editor at *AQ*. 
IN JUNE, Americas Society/Council of the Americas and Control Risks published the fourth edition of the CCC Index. Rather than measuring perceived levels of corruption, the CCC Index evaluates and ranks countries based on how effectively they can combat corruption. The index covers 15 countries, which together represent 92% of Latin America’s GDP. Countries with a higher score are deemed more likely to see corrupt actors prosecuted and punished. Continued impunity is more likely in countries at the lower end of the scale.

The 2022 Capacity to Combat Corruption (CCC) Index

Assessing Latin America’s ability to detect, punish and prevent corruption
Overall Scores

Variation 2021-2022

Uruguay: -0.38
Costa Rica: +0.66
Chile: +0.37
Peru: +0.81
Dominican Republic: +0.12
Argentina: +0.41
Panama: +0.06
Colombia: +0.05
Ecuador: -0.31
Brazil: +0.38
Paraguay: -0.20
Mexico: -0.46
Guatemala: +0.14
Bolivia: +0.23
Venezuela: +0.23

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Still Betting Big

With Latin America’s startup sector once again under pressure, the story of venture capital pioneers Hernán Kazah and Nicolás Szekasy shows why patience is key.

by Rich Brown
Mercado Libre is Latin America's original “garage-to-Nasdaq” story. The iconic e-commerce and financial technology (fintech) startup was built from scratch in 1999 and became a regional giant with a net income of $7 billion in 2021. But its cofounder Hernán Kazah and its ex-CFO Nicolás Szekasy believe one of the company's most important legacies is that it inspired people across the region to take the risk of building startups.

Kazah and Szekasy founded Kaszek Ventures in 2011 to invest in those people, during an era when the venture capital (VC) world was largely ignoring Latin America's potential. They have stayed on as Kaszek’s two managing partners, and the firm has since become one of the region's largest early-stage investment funds, raising upwards of $2 billion. It has invested in more than 100 companies, including 16 of the region's 42 unicorns — startups that have grown to a value of over $1 billion.

Kazah and Szekasy, both from Buenos Aires, credit their success at recognizing startups' potential to their own experience as entrepreneurs, which they have leaned on to develop their investing strategies.

“We've been in the trenches since the beginning of the technology boom,” Szekasy told AQ.

Their story, and their insistence on taking the long view on Latin America even during times of crisis, has added meaning today as the region's startup world endures a new wave of turmoil. As international financial markets reel, tech stocks plunge and fears of recession grow, startups throughout the region are laying off hundreds of employees and what's left of their teams are bracing for lean years. Yet Kazah and Szekasy remain bullish. Their experience has taught them that Latin America's outsized macroeconomic and social challenges tend to inspire entrepreneurs focused on equally outsized solutions — and that rewards can accrue to investors who are patient enough to ride out the inevitable storms.

Indeed, from the trenches at Mercado Libre, Kazah and Szekasy weathered the tech bubble collapse of 2000 and the global financial crisis of 2008. They operated for over five years without turning a profit, at times unsure whether the company would survive.

But they believed in the region's potential and in themselves. Szekasy, now 57, credits his parents for instilling that drive in him. His mother fled the Nazis in Germany in 1936 and his father fled the Soviets in Hungary in 1948. “When you have to start from scratch in a new country, you're an entrepreneur at heart,” he said. “The spirit of having to rebuild your life — thinking long-term — is part of what I saw and breathed at home.”

He graduated from Stanford Business School in 1991, before the internet revolution, and went to work for PepsiCo. But when Kazah asked him to join Mercado Libre when it was just getting off the ground, Szekasy quit his comfortable job with “no doubts at all,” he said.

Kazah had connected with Szekasy through the Stanford Business School network, having graduated at a very different time: 1999, with the inter-

“We’ve been in the trenches since the beginning of the technology boom.”
"Everyone at Stanford was talking about technology (and) starting businesses," said Kazah, who is 51 today. “Professors were board members of startups and my classmates were students and founders of companies. It was terrific.”

Kazah and Szekasy said the crises they endured as the market oscillated wildly in the 2000s taught them three key lessons they deploy as investors and impart to startup founders: avoid shortcuts, think long-term and minimize dependence on external capital. “They’re not going to get fooled by the grow-at-all-costs (mindset),” Carlos García, the founder of Kavak, one of the unicorns in Kaszek's portfolio, told AQ. “What’s really constant with (Kaszek) is that no matter where the tide is, (they always) clear out the noise and focus on fundamentals.”

The region is especially ripe for disruption due to its deep social inequities.

VC investment in Latin America exploded in 2021, briefly making the region the hottest VC market in the world. That VC investment peaked in the second quarter of 2021 at an astronomical $7.3 billion, more than the previous four quarters combined.

But the tide receded almost as quickly, as inflation and interest rates climbed and fears of recession deepened. Yet Kazah and Szekasy see an era of opportunity ahead despite a litany of global challenges on top of Latin America’s chronic volatility. “We’re sure that many Mercado Libres will emerge over the next 10 to 15 years in Latin America,” Kazah said. “In five or 10 years from now, I’m sure we’ll pass the mark we reached last year.”

They have already found success in a market that major U.S. venture capital firms overlooked a decade ago. “Kaszek had great timing going into Latin America, which the big VCs in the U.S. were ignoring,” said Gabriel Gruber, an Argentine entrepreneur, former central banker and co-founder of Exactly Finance, another Kaszek investment.

Ten years ago, Gruber went to Silicon Valley to raise money for a startup. “I went to see a couple of the big VCs and the answer was, ‘Latin America is too small for us, we don’t care about Latin America,’” he told AQ.

Kazah said the region is especially ripe for disruption due to its deep social inequities. Industries from health care to education to food leave huge swaths of the population behind, he said, putting creative use of technology and capital at a premium. Tech companies are seeking to cheaply and efficiently connect students to teachers, patients to health care providers, consumers to efficient supply chains and lower prices.

Startups often aim high because the problems they seek to solve are so profound. The idea for Kavak, a Mexican car sales platform, was born when García, its founder, got ripped off selling his car and then again when he bought a used one. Kavak has since become a hub for buying, selling, financing, servicing and insuring used vehicles throughout Latin America and in the Middle East. "We built like a super-app approach to do all this," García said, “because the prob-
These kinds of big solutions to big problems are being built on a foundation of smartphones and fintech, which is helping middle- and working-class families in Latin America start to gain access not only to better services but to credit. “Almost everything comes down to fintech” in the tech and startup space, Kazah said.

Kaszek invested in Nubank — today the world’s largest fintech bank and another unicorn in their portfolio — when it was just founder David Vélez and his PowerPoint. Kazah and Szekasy saw the potential to tap into demand for credit from the large number of people in Brazil who had been overlooked by traditional providers.

But Nubank’s rise to challenge the region’s biggest banks was anything but certain. “We were concerned about what the central bank would do because fintech is highly regulated,” Kazah told AQ. However, he said, the country’s fintech policies showed that Latin American institutions have the potential to create models for both the Global South and the Global North.

Brazil’s central bank “has been very forward-looking, really focused on this mission of democratizing access to financial services” and facilitating competition while also protecting users from scams, Kazah said. The steps it took are likely to be replicated throughout the region, and Kaszek intends to fund the entrepreneurs who respond to the new opportunities this would create.
“What has happened so far is beyond anything we thought could happen.”

Upside of the downside

The inevitable waves of instability in Latin America, like the current one, can also have their upside. Too much VC liquidity splashing around often harms startups by encouraging them to raise funds based on concepts and potential as opposed to fundamentals. In flush times, teams can be tempted to push their products or services through marketing and other inorganic means instead of building a self-sustaining consumer base.

This is part of what Latin America saw in 2021, Szekasy told AQ. Now, he said, “the teams that have focused on doing the right things and building solid infrastructure will be there for the long term. Others that have been at all the conferences and panels and have been very visible but haven’t necessarily spent the time building their companies will be in a tougher spot.”

“It’s not that it’s always fair,” Kazah said. “But importantly, most companies will emerge stronger out of this.”

Gruber of Exactly Finance even speculated that layoffs in the Latin American tech and startup sectors will lead to more startups as talented people find time to develop their ideas. “I think there’s going to be a new generation of great entrepreneurs and great startups starting in 2022,” he said.

Kaszek is now deploying its fifth early-stage fund, of $475 million — perhaps the largest ever in the region, according to TechCrunch — and its second Opportunity Fund, of $525 million, for later-stage investing and to explore new investment vehicles. These include its first SPAC — special purpose acquisition company — in partnership with Mercado Libre, which Kazah expects will set another regional trend as SPACS become more common.

A SPAC is essentially a shell company that undergoes its own IPO so that it can then buy another company that becomes public almost automatically. SPACS often draw criticism for skirting regulations and due diligence and for the fees that their managers rake in. But Kaszek’s SPAC has “the right incentives,” Kazah said. “All the fees that you have with SPACS, in our case only kick in if we add value over time and the stock appreciates. If it doesn’t appreciate, we get zero.”

Beyond the inequities to be bridged, favorable central bank programs and the rise of fintech, Kazah and Szekasy see one more key indicator that Latin America’s tech and startup sectors will far surpass expectations: a profound cultural shift.

“If you go to a graduating class of engineering students in Brazil, 90% aspire to become entrepreneurs or join a startup, and very few want to become bankers or corporate managers,” Szekasy told AQ. Mercado Libre, Nubank and others have proven “the Silicon Valley metaphor that three kids in a garage could launch a company that would one day challenge the biggest incumbents, even in Latin America,” Szekasy said. “This would have been considered crazy not so long ago.”

The surging interest among young people in technology and startups will encourage them to try to tackle urgent global problems rapidly, Kazah said. “We are very proud of the technology ecosystem (that Kaszek helped to create) in the region.”

“What has happened so far is beyond anything we thought could happen,” Kazah said, “so we expect the coming years will continue to be extraordinary.”

Brown is an editor and production manager at AQ.
Elena Rodríguez chops vegetables for the community kitchen where she works in Pamplona Alta. Rising food prices have put meat and other proteins out of reach for many.
Struggling to Get By

Pressure on food and fertilizer prices have hit vulnerable Peruvians hard—and triggered political unrest.

PHOTOGRAPHS BY DANIEL BECERRIL

FAR AWAY FROM THE FIGHTING, the war in Ukraine is taking its toll. With inflation already rising amid post-COVID pressures on global supply chains, the Russian invasion in February sent prices skyrocketing—and left thousands of Peruvians simply unable to afford meat and other staples. In Pamplona Alta, a low-income neighborhood on the outskirts of Lima, residents have banded together to try to make do. But they are quickly running out of options—and taking to the streets to demand solutions from their under-fire president, Pedro Castillo.
The kitchen where Rodríguez works is one of more than 3,000 “common pots” in Peru providing meals to vulnerable communities. Lunch here used to cost one Peruvian sol (about 27 cents), but has risen to 1.5 soles in recent months due to increasing food costs, according to Reuters. “Things like vegetables and potatoes used to be cheap. Now they are super expensive,” said Rodríguez.
A wall separates Pamplona Alta from the wealthy Lima suburb of La Molina. Peru has registered the most deaths per capita from COVID-19 of any country in the world, according to some estimates, but saw a return to economic growth in 2021 of 13.1%. Even still, inequality remains high, with over 28% of the population living in poverty.
Residents of Pamplona Alta bang pots in a call for government support and more accessible food prices. Local community kitchens have seen a drop-off in donations as NGOs and other supporters deal with their own inflation challenges. Surging food and fuel prices, especially, have sent Peruvians of diverse economic backgrounds to the streets in protest. Meanwhile, strikes and roadblocks by truck drivers and transport companies—facing sharply increased costs—have put additional pressure on the food supply.
“Common pots” like this one in Pamplona Alta use mostly donations and support from local residents to provide free or low-cost meals to the surrounding community. But rising costs for meat and poultry have made standard meals like chicken soup mostly a thing of the past. To address surging consumer prices, the government of Pedro Castillo raised the minimum wage by 10%, and in April passed a bill to exempt certain basic foods from sales tax.
Esther Vasquez of Team Tlahui practices shooting a hoop before a game during the patron saint festival for the Assumption of the Virgin Mary on August 16, 2018. This is the organizer Alicia is in touch with.
STRUGGLING TO GET BY

200 apio pavo
480 remate y calcete
130 pizzetas
130 papeles

Americas Quarterly • issue 3, 2022
Rodríguez buys ingredients for her community kitchen. Food prices in May were more than 13% higher than the same month last year, according to BBVA Research, and market prices for potatoes and other basic goods can change drastically from one day to the next. "I don’t know what to do anymore,” Rodríguez said.
STRUGGLING TO GET BY
Protesters demand action from President Pedro Castillo in the face of rising food and fuel prices. In April, Castillo responded to widespread demonstrations against his government by declaring a state of emergency and imposing a curfew in Lima and other cities. The curfew was largely ignored by citizens, and Castillo quickly backed down—but pressure on his government continues.
Four Scenarios for Argentina’s Inflation Crisis

History suggests that inflation’s path will determine the outcome of the 2023 elections.

by María Esperanza Casullo

Neuquén, Argentina — It would be an understatement to say that Argentina has a pathological relationship with inflation. Going back to the mid-20th century, hardly any country in the Western Hemisphere has a worse track record. After hyperinflation in 1989, a currency peg during the 1990s held back price increases until they spiked again in 2002 — and ever since, inflation has been the main macroeconomic issue. But inflation has not always represented a political problem.

Now it does. Previously running around 50% per year, inflation is set to hit 70% in 2022, presenting a massive challenge for the fractious Peronist coalition led by Alberto Fernández. With the 2023 elections approaching, outsider figures like libertarian Javier Milei have emerged as contenders, bringing with them ideas for radical solutions to inflation, such as dollarization of the economy. What does inflation have in store for the Argentine government?

The macroeconomic causes of inflation are still debated in Argentina, but its political effects are clear and concrete: They can end the electoral prospects of governments, and even threaten its immediate survival.

But there’s a caveat. Argentine society and its political system can tolerate inflation rates that would cause riots elsewhere. High inflation is electoral kryptonite, but annual rates of 20% or even 30% might be acceptable to the voting public, if activity and real wages are seen to be keeping up. Anything beyond that level can doom the electoral prospects of whoever is in power, even causing a presidential crisis and the fall of the government.

But inflation also provides opportunity: If a government can bring the rate down, or even if it is perceived as having done so, this can be a tremendous political boon.

Looking to Argentine history, four possible scenarios emerge for the current government.
Hyperinflation and government failure

Raúl Alfonsín’s trajectory represents the worst-case scenario for the government. Elected in 1983, Alfonsín was met with a wave of enthusiasm as the first democratic president after seven years of the worst dictatorship in Argentina’s history. But he faced daunting constraints: the aftermath of the 1982 debt crisis, heavy foreign debt, high prices and falling wages. His government implemented a stabilization plan, called the “Plan Austral” in June 1985, which included a devaluation, the creation of a new currency and price controls.

The Austral plan was a success. It lowered inflation to around 2% per month within its first three months, and Alfonsín rode the ensuing wave of popularity to a victory in midterm elections in November 1985. Encouraged by the electoral results, Alfonsín launched a new political movement with lofty goals. But inflation started to rise again, spiraling out of control in 1988. In 1989, the monthly inflation rate reached a peak of 194% as food shortages and supermarket looting hit several cities. Alfonsín was forced to change the election date from October to June and the opposition candidate, Carlos Menem, won handily.

Political stability with high inflation

Cristina Fernández de Kirchner came to power in 2007, a year with an annual inflation rate of 26%. (The precise rate is hard to know, since the official
index was unreliable.) The inflation rate fluctuated during her eight-year tenure, but she was able to keep it from spiraling out of control. Still, inflation was perceived as the number one economic problem of her tenure and was one of the key factors in Mauricio Macri’s victory, after he promised that “bringing down inflation is the simplest thing to do.”

But inflation never threatened the stability of the Cristina Fernández government. This was due to three key elements: high but relatively stable inflation, the fact that real wages more or less kept up and the creation of new social programs, such as social security benefits for women and a universal child subsidy.

Electoral defeat without political crisis

Mauricio Macri’s government between 2015 and 2019 failed to rein in inflation and paid the price, but without setting off a broader crisis like Raul Alfonsín. Macri’s defeat in his bid for reelection was extraordinarily rare in Argentine politics, which favors incumbents. His central bank set a goal of 10% inflation in 2016, plus or minus 2 percentage points. But the yearly figure was 54% when he left office in 2019, and real wages dropped by 20% during his tenure. His inability to control inflation was one of the main causes of his defeat, but he managed to avoid a full-blown crisis.

“Success” on inflation and at the ballot box

For a leader to appear unable to control inflation is political poison — but an apparent victory over inflation is a guarantee of success. Such was the case with Carlos Menem. He was sworn into office right after the hyperinflationary months of 1989. In 1991, Domingo Cavallo, then Menem’s economy minister, came up with a dollar peg for the peso that brought inflation down swiftly. This allowed Menem not only to win reelection in 1995, but to redraw the constitution and implement structural reforms that changed the nature of the Argentine state.

Chronic inflation menaces Argentina

Recent years have seen high levels creep even higher.

% of annual inflation

Sources: BCRA and Estudio del AMO
Prospects for the current government

The million-dollar question is which one of the previous trajectories Alberto Fernández’s government will end up taking. Currently, he seems mired in the third scenario, headed towards defeat without a crisis. His party lost the midterm elections of 2021, and polls for next year’s elections do not look good. He has not been able to reduce the very high inflation rate he inherited from Macri; instead, it has spiked in recent months, with a monthly rate of 6.7% in March, though it dropped to 5% in May. If the government is not able to at least stabilize inflation, his electoral prospects are dire.

His opponents argue that his government is moving into the first scenario — full-scale crisis. It’s at least true that the very public disagreements between Alberto Fernández and his vice president slow the government down, throw into question much-needed energy investment projects and demoralize the coalition.

But his economic cabinet is betting that once the international context stabilizes, and given that Argentina has signed an agreement with the IMF, inflation rates will come down. In that case, he might see his electoral prospects improve. This would move him closer to the fourth scenario — success on inflation and politically.

It is impossible to forecast which of these scenarios is the most probable. In a few months there will be a clearer picture of both the international context and the internal power dynamic heading into 2023. If the slight drop in the inflation rates of April and May can be consolidated, the government will gain some breathing room. If so, it will be competitive in the next elections, if only because Peronism has a loyal base of support. If rates climb again, talks of a crisis will be renewed.

And if things continue as they are now, the government will limp along until the next election, in which it will lose. Then, inflation will simply become the main problem for a new government.

Casullo is a political scientist and professor at the National University of Río Negro.
A Complex Legacy in Southern Chile

The Mapuche people prevailed over Spanish invaders in the 17th century, reflecting a spirit of independence that has echoes in today’s politics.

by Jacob Sauer

The Parlamento de Quilín, depicted here in a drawing by a chronicler, was one of a series of negotiations between the Mapuche and the Spanish.
oos et Indos an. 1641—qua Indi Hispano Regi manus dederunt.

Indorum ritus in foedere sancto

Cacique Indorum Antesignanus

Marchio de Vaydes
Today’s unrest in southern Chile, where indigenous groups are protesting environmental damage and calling for the return of ancestral lands, has presented a major challenge to the new government of Gabriel Boric. Following numerous incidents of violence, including killings, roadblocks and the burning of homes, trucks and machinery, Boric in May declared a state of emergency to try to restore calm.

Some outside observers may be hearing about indigenous issues in Chile’s south for the first time. But in truth, these are only the latest episodes in a nearly 500-year quest for independence and autonomy in which outsiders have consistently struggled—and sometimes failed—to exert a degree of control.

The Spanish first encountered the Mapuche people, the largest indigenous group in modern-day Chile, in 1537. For the next few years, interactions were limited to small skirmishes as the Spanish set up forts in Mapuche territory. But the Spanish would soon discover they had encountered a fierce and resilient adversary.

In 1553, the Spaniards were taken by surprise by a highly coordinated and devastating attack. The Mapuche killed the Spanish governor in a fort called Tucapel and forced the Spaniards to abandon all but one of their settlements in Mapuche territory.

A Mapuche war chief named Lautaro — formerly a Spanish captive — even led a march on the colonial capital, Santiago. The Spanish were on the ropes for five years, until reinforcements from Peru helped them defeat the Mapuche and retake their settlements. But Mapuche resistance didn’t end there.

It was only the beginning of the War of Arauco, a struggle between Spaniards and Mapuche that lasted nearly a century — and only ended with peace negotiations that heavily favored the Mapuche. Those negotiations established a formal frontier and resulted in an official recognition as an independent people, something no other indigenous group ever received from the Spanish crown.

That set the Mapuche apart. The fierceness of their resistance to Spanish incursions soon attracted the attention of European writers, inspired indigenous revolts as far as 5,000 miles away and continued to serve as a touchpoint for Western Hemisphere independence movements centuries later.

The story of the parlamento — the series of negotiations and treaties enacted between the Mapuche and Spanish exemplified in the Parlamento de Quilín in 1641 — is one of striking indigenous power and agency. As scholars continue to reevaluate traditional notions of European superiority and passive acquiescence by native cultures, what the Mapuche achieved at the Parlamento de Quilín reminds us that the reality is far more intricate and nuanced.

Meeting the Mapuche more than halfway

The seeds of the parlamentos were sown starting in the late 1500s. Near the end of the century, the Mapuche mounted another crippling offensive, killing the Spanish governor for a second time and driving the Spanish north of the Bío Bío River — which became an informal frontier between the Spanish to the north and Mapuche to the south. Both sides would send raids into each other’s territory, and the Spanish sent Jesuit missionaries, too, in an attempt at “baptismal conquest” — though most were killed by the Mapuche.

It was clear that some kind of negotiation was necessary to put a halt to the violence and recognize the facts on the ground: namely, that the Mapuche were simply too strong for the Spanish to colonize successfully. But what form would that negotiation take? The logistics and protocols were undefined, and there were few precedents. The Spanish rarely had genuine negotiations with indigenous communities in the Western Hemisphere — usually, they preferred to dictate the terms themselves. Most treaties were one-sided and conducted with underlying threats of violence.
But the two groups had already had a degree of peaceful contact. A few community leaders had even allied with the Spanish, which gave Spanish leaders insight into Mapuche cultural practices. Those agreements laid the foundation for the *parlamentos*.

However, the two groups had different customs around negotiation. The Mapuche had their *koyagtun*, a meeting in which representatives from different communities met to deliberate over war, peace, trade and exchange. *Koyagtun* took place over multiple days and were deeply influenced by the ritual aspects of Mapuche culture.

Since the Spanish couldn't overpower their adversaries with violence in this case, they had to adopt much of the Mapuche's negotiating culture. The resulting system, the *parlamento*, was a unique, hybrid institution, blending the *koyagtun* with Iberian forms of negotiation. At the first, relatively small-scale *parlamentos*, the Mapuche got to pick the time and place, and the Spanish representative, usually the governor, had to enter holding branches from a *canelo* tree and exchange gifts — all part of the *koyagtun* protocols.

The early *parlamentos* were generally held not too far from Spanish settlements. But the famous and most consequential *parlamento* of Quilin in 1641 was held deep in Mapuche territory — an indication of how much they held the upper hand.

Over 2,000 Mapuche from across the region attended the negotiations at Quilin, and so did the governor of Chile, Francisco López de Zúñiga, Marquis of
Elisa Loncón, an academic from the Mapuche community, was the first president of Chile’s Constitutional Convention.
The Mapuche legacy continued into the early 1800s, when revolutionary leaders invoked their examples to rally support.

Baides. The fact that a Spanish nobleman was negotiating on equal terms with Indigenous groups was revolutionary, especially considering what his participation entailed. A llama was sacrificed in front of him and branches from a sacred tree were anointed with its blood. The llama’s heart was carved out, still beating, and delivered to the marquis. Then, along with the Mapuche chiefs, the marquis drank chicha, a type of corn beer, and both the Mapuche and Spaniards buried their weapons to finalize the pact.

The parlamento had two major impacts. One was formal recognition of the Mapuche as an independent people, and other set the Bío Bío as the southern frontier of the Spanish empire. The Spanish King Felipe IV ratified the parlamento in 1643—offering a level of official recognition by the crown that no other Indigenous group in the Western Hemisphere ever received.

It also set the terms for a long-lasting, if uneasy, peace. Raids continued in both directions across the Bío Bío River, and the Mapuche crossed the river to make a larger attack in 1655 to enforce aspects of the treaty, but no major military offensives were carried out by the Mapuche or Spanish until after Chilean independence, more than 150 years later. And parlamento continued over the intervening decades, showing that the Spanish and Mapuche had devised a workable way of settling their disputes.

A reputation for resistance

The world paid attention to the achievements of the Mapuche in maintaining independence against Spanish incursions—starting even before the parlamentos. Even while the Arauco War was still raging, the Mapuche were attracting fame throughout the Spanish-speaking world. In his 1569 epic poem “La Araucana,” Alonso de Ercilla y Zúñiga, a Spanish soldier, extolled the virtues of the Mapuche in a narrative based on his experiences in the field. “La Araucana” became one of the best-known epic poems of the era and was mentioned by famous authors including Miguel de Cervantes and Jules Verne.

Knowledge of the Mapuche appears to have inspired Indigenous leaders to fight against the Spanish in other parts of the Western Hemisphere. In northern Mexico, a Yaqui Indigenous warrior calling himself Juan Lautaro—possibly named after the Mapuche leader—attempted to lead an offensive against the Spanish and their allies in northern Mexico in the mid-17th century, doubtless inspired by the Mapuche and perhaps due to the fame of “La Araucana.”

The Mapuche legacy continued into the early 1800s, when revolutionary leaders invoked their example to rally support. Writing in 1815, Simón Bolívar extolled the Mapuche “love for independence” and affirmed that those with the same spirit “usually end up winning.” It is this legacy, in large part, that the Mapuche today draw upon in their continuing fight for land rights and autonomy.

Meanwhile, efforts to find new political forms to meet hopes for Indigenous rights are moving in new directions. A proposed new Chilean constitution, which will be voted on in September, includes provisions for Indigenous recognition and return of some ancestral territory. Time will tell whether such arrangement will prove as durable or effective as those set by the Parlamento de Quilín.

Sauer is a senior lecturer in anthropology at Vanderbilt University. He is the author of the book The Archaeology and Ethnohistory of Araucanian Resilience.
ONE YEAR LATER

Mayors Reaching for More

An update from our July 2021 issue on local leaders

by Eugene Zapata Garesché

MEXICO CITY — In last July’s Americas Quarterly special report, we argued that Latin American mayors were poised to become the emerging leaders to follow over the next decade, given a difficult political and economic context marked by polarization and dysfunction at the national level.

Latin America is the world’s most urbanized region, with 82% of the population living in cities. The region’s mayors are especially well-positioned to enter national politics — as showcased by the political maelstrom around the presidential runoff in Colombia, when former mayor of Bogotá Gustavo Petro faced former mayor of Bucaramanga Rodolfo Hernández.

A look one year later at each of the five leaders showcased in the AQ issue — all of whom had to run their cities through the COVID crisis — highlights the innovation and experience local politicians bring to the national table.
Mayor María Emilsen Angulo, on the issue’s cover, leads the port city of Tumaco — one of the 100 most violent municipalities in Colombia. Angulo recently won the Pacific 24/7 Transformative Leader Prize for the coastal region, awarded by the Valle provincial government and the regional TV broadcaster Telepacífico. In May, she achieved the opening of the first local branch of the State University of Nariño, a project that had been stalled for years.

In San Salvador de Jujuy, Argentina, Mayor Raúl “Chuli” Jorge is receiving praise for establishing the Jujuy Entrepreneurs’ Club to combat the generalized economic paralysis caused by the pandemic. Private companies and civil society organizations partnered with the municipal government on the initiative, and in just a few months, more than 400 individuals and startups joined its mission of revitalizing the local economy. Jorge also led San Salvador’s campaign to adapt to the national Yolanda Environmental Law, which establishes ambitious climate and sustainable development targets for municipal officials. These initiatives have already yielded tangible economic gains.

Carolina Leitao, mayor of Peñalolén in the metropolitan region of Santiago, Chile, was central to bringing together the regional government, several municipal authorities and the national police (Carabineros) to create a new Municipal Coordination Department for public safety. In a country where the central government has long reserved law enforcement duties for itself, this is a remarkable result. Like Angulo in Colombia, Leitao does not shy away from national visibility. An outspoken supporter of recently elected President Gabriel Boric, she just helped to launch the first feminist mayor network in Chile to promote “a cultural change in Chile that can only begin at the local level.” This is a welcome initiative in a country where only 60 of 345 mayors are women.

In Brazil, João Campos, the young mayor of Recife, one of the most unequal cities in the country, has pursued digital innovation. The Conecta Recife app launched in 2021, which allows residents to schedule COVID-19 vaccinations without standing in line, has received praise even from political opponents. In May 2022, Campos was unanimously elected by fellow Brazilian mayors to lead the Consórcio Conectar, a network of 2,142 municipalities covering 65% of Brazil’s territory that seeks to address digital challenges. Campos was also invited to join the presidential campaign of former President Luiz Inácio Lula da Silva ahead of the October elections.

Yamandú Orsi, from Canelones, Uruguay, had already announced his dream of becoming the country’s president, and he seems increasingly likely to run as the candidate of the opposition Frente Amplio coalition in 2024. Moderate and always open to dialogue, Orsi has become close with fellow presidential aspirant Mayor Carolina Cosse of Montevideo. This has led to speculation that the two mayors may run together to replace the current conservative government of President Luis Lacalle Pou. And Orsi’s growing national profile is being noticed beyond Uruguay’s borders; Argentine President Alberto Fernández hosted him last December in what seemed to many a disproportionate display of political affection for a foreign mayor.

And other mayors may also be on national ballots come 2023 and 2024. Mexico City’s former Mayor Marcelo Ebrard and its current Mayor Claudia Sheinbaum are both among the favorites to win the country’s presidency in 2024. Meanwhile, in Argentina, Buenos Aires Mayor Horacio Rodríguez Larreta is leading in the presidential polls. A year after we predicted that local leaders were the crowd to follow, it’s clear that Latin American mayors will continue to wield significant influence beyond the borders of their municipalities.

Zapata Garesché is global director for strategic partnerships and head for Latin America and the Caribbean at Resilient Cities Network. He is a member of AQ’s editorial board.
The region’s vast problems may also contain the seeds of its salvation.

by Beto Veríssimo and Juliano Assunção

The recent history of the Brazilian Amazon is one of rapid change. Over the last 50 years, the proportion of original rainforest that has been cut down increased from a mere 0.5% in 1970 to more than 21% as of 2021. The accumulated destruction — totaling more than 205 million acres — covers an area the size of Italy and Spain put together.

Over the same period, the population of the Brazilian Amazon has quadrupled, reaching 28 million people in 2020. Not only has this process taken place in a disorganized manner, it’s also been marked by serious social conflicts — and has resulted in the worst of all possible scenarios: environmental destruction, a low quality of life for the population and an economy that both lacks dynamism and produces extremely high carbon emissions.

The current situation poses huge challenges, no doubt. But it’s also the necessary starting point for any realistic plan that has a chance of turning things around — and matters are far from hopeless. Within each of the factors contributing to the current scenario, there’s something that could be leveraged to take a step towards better, more sustainable regional development.

In crisis, there’s opportunity: You might call this the paradox of the Amazon.

Turning weaknesses into strengths

This paradox has three key elements:

First, there is still a vast area of remaining rainforest. Although accelerating and uncontrolled deforestation puts its future at risk, the Amazon remains the largest tropical rainforest in the world.
The region known as Nova Floresta is deeply deforested along the highway connecting the states of Amazonas and Rondônia.
Second, the region has a potential demographic dividend at its disposal. There is a growing majority of economically active people (those aged between 15 and 64) relative to children and seniors. But so far, the economy of the region has wasted this potential benefit, offering little access to jobs and good salaries for much of the population.

And third, the excessive deforestation of recent years has left behind a vast area, equivalent to the size of California and Oregon combined, of bare and badly utilized land. This area by itself is much more than what is necessary for agricultural production — meaning further deforestation is simply not necessary.

These three factors — the stretches of remaining forest, the presence of underutilized areas, and a young population — are advantages for the Brazilian Amazon region. They should be at the center of plans to ensure the sustainable future of the region.

But to take advantage of the remaining forest, the first priority is to put a quick stop to deforestation. Not only bad for the environment, it generates neither jobs nor value. Quite the opposite: It is associated with theft of public forest lands, predatory logging and other illegal activities. It also contributes to the crisis of violence that is menacing the region, and damages the business environment in the Brazilian Amazon, driving away investment and incurring social costs.

The good news is that Brazil already knows how to control deforestation. The country already does this in an effective and cheap way, by planning and creating protected areas, and also through satellite monitoring and fines for violators. And significantly, as deforestation decreased by 80% between 2004 and 2012, the agricultural GDP of the region increased over the same period.

There are also new opportunities for economic activity that can help in the context of the Amazon paradox. Here, there are at least four possible paths forward. The first is restoring the original forest, which can be done by planting seedlings of native
trees or through allowing abandoned deforested areas to regrow naturally. More than 59 million acres in the Brazilian Amazon are currently deforested and abandoned, not being used for any purpose, and are prime candidates for reforestation.

On the demand side, there’s also a growing market for carbon capture through forest restoration. According to *Time* magazine, the net-zero commitments of companies worldwide require restoring almost 900 million acres worldwide by 2050.

The second option, as we highlighted in a special issue of *AQ* in 2021, is increasing exports of products such as açai, tropical fruits, fish and Brazil nuts that are compatible with the conservation of the forest. The Brazilian Amazon region already produces and exports these products, only in lower quantities (corresponding to less than 0.1% of the global market). The good news is there is already an enormous — and expanding — global market for these products worth more than $160 billion annually.

Another way forward is to pursue the opportunities presented by carbon markets for the parts of the forest that are still standing. A reduction in deforestation, besides being advantageous and strategic for Brazil, can attract new flows of investment to the Brazilian Amazon. One example is the LEAF Coalition, whose approach is to exchange payment for a reduction in emissions from deforestation and forest degradation (REDD+) at the national and subnational level. According to LEAF, stopping deforestation in the Amazon by the end of the decade could generate as much as $18.2 billion through carbon markets at a minimum price of $10 per ton of CO₂. If prices rise to $15, intake could reach $26 billion.

**Making use of already deforested areas**

Finally, there are ample opportunities to increase the productivity of agriculture in the Brazilian Amazon. Only 10% of deforested areas are being used at a level equivalent to the productivity of modern Brazilian agribusiness. There is sufficient area in unused and underused deforested areas to satisfy all the demand for the expansion of agribusiness in the region, and also to allow areas to be reforested for paper or cellulose products or for palm oil plantations. We should concentrate efforts in these areas to increase productivity through adoption of agricultural best practices, access to finance, infrastructure improvement and securing land tenure. The greatest potential to generate employment and value in the rural Brazilian Amazon lies precisely in areas that are already deforested.

The chief demand of people who live in the Amazon is for the opportunity to work. To accelerate job growth, we should invest where people already are. Research indicates that the sectors that generate the most jobs are in cities, far from areas of agricultural activity. And the highest-quality jobs, ones that offer the chance for a better standard of living, are also in cities. For this reason, a priority for the direction of public resources should be urban infrastructure.

But there are at least two challenges. One is education — in need of reform throughout Brazil — and professional education in particular. The other is the challenge of ensuring access to markets across the vast distances that the Brazilian Amazon region spans. Technology is one answer to both problems. Improving internet access has proven efficient in promoting gains in income, productivity and employability in other tropical regions.

The Amazon paradox urgently needs to be addressed. To keep the forest intact, the top priority should be to recover or make more productive areas of forest already cut down, while offering quality education and technology to the people for whom the Brazilian Amazon is home — especially young people. These measures are key for the future of the largest and richest tropical forest on Earth.

Veríssimo is the co-founder of the Amazon Institute of People and the Environment (Imazon), and director of the Amazon Entrepreneurship Center. Assunção is associate professor of economics at the Pontifical Catholic University of Rio de Janeiro, executive director of the Climate Policy Initiative and co-coordinator, with Veríssimo, of the Amazônia 2050 initiative.

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Nonfiction
A critical look back at the glory days of the “pink tide.”

Reviewed by Nick Burns

In the first several months of 2022, talk began to circulate of a “second pink tide” in Latin America. With left-of-center candidates on the ballot in Brazil and Colombia, a progressive president elected in Chile, and left-wing leaders already in office in Argentina, Peru and Mexico, it seemed that the region’s left could have another period of success in store for it.

That’s not out of the question. But as a struggling Gabriel Boric has already discovered, the situation today — with galloping inflation offsetting gains from higher commodity prices — is not the same as the glory days of the original pink tide, when left-wing leaders on a broad spectrum ranging from Hugo Chávez in Venezuela to Luiz Inácio Lula da Silva in Brazil took office promising to make their societies more equal.

A decade after the pink tide began to ebb, it’s worth looking at what generated this shift to the left in Latin American politics — and whether it could happen again. A new book from three left-wing European academics tackles this subject.

For the authors of The Impasse of the Latin American Left, the seeds of the pink tide were sown in the 1990s. As the region transitioned away from dictatorship, the resulting democracies left much to be desired, with economic and political elites retaining control and economic growth remaining weak.

Charging into office from the early 2000s on the force of established social movements, the pink tide governments had a mission to promote progressive change in the region. But they didn’t do what was necessary to achieve it, the authors believe. Instead of reforming the tax system so the rich paid more, many governments were content to fund social programs with commodity gains. The programs didn’t provide a structural
solution to poverty and were vulnerable to the inevitable fall of commodity prices when runaway Chinese growth slowed.

The authors also accuse the pink tide governments of missing the opportunities provided by greater political-economic multipolarity. Instead of focusing on regional integration to achieve economic autonomy, an uptick in trade with China only made the region more reliant on commodity exports.

In Chávez’s Venezuela, much-touted experiments with popular democracy were invariably subordinated to the all-important will of the caudillo. The country remained an oil rentier state and, as the authors do not hesitate to note, its collapse over the past decade has immiserated millions.

The book is a realistic survey, from a left perspective, of the limitations and failures of the pink tide governments. But, a victim of the inevitably slow book production process, it’s already out of date. The bulk of the book seems to have been written sometime in 2019, and the COVID-19 pandemic is mentioned only in a final chapter that seems to have been added later. “Latin America has resumed its former position at the heart of the American geopolitical doctrine,” write the authors at one point: a sentiment which seems far from reality in 2022, as war in Ukraine and renewed concern with Chinese power draw Washington’s attention everywhere but south.

What’s clear is that even despite the recent surge in commodity prices, the global economic conditions that made the pink tide possible aren’t present today. A realistic path to a more egalitarian and prosperous Latin America is difficult to discern. But what seemed like a sure trajectory in, say, 2006, soon proved to be anything but. Whether the next left-wing regional resurgence happens now or later, the authors make a convincing case that lasting change won’t be achieved without a different political approach and economic models that go beyond commodity dependence. You don’t have to be a Marxist to agree with that.

Burns is an editor at AQ

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Fiction

A stark portrait of twentieth-century Guatemala impresses despite a wooden translation.

Reviewed by Chapman Caddell

The president in Miguel Ángel Asturias’s novel Mr. President rarely appears in person. His regime is despotic, his power is boundless, but the man himself is a mystery. We know him by his works: show trials, police roundups, surveillance reports and despairing conversations in prison cells across Asturias’s native Guatemala City. Torture is par for the course. Without any knowledge of the president’s habits, politics, or inner life, we see him most vividly in his citizens’ nightmares.

Asturias finished the novel in 1933 but was prevented from publishing it until 1946 by the dictatorship of Jorge Ubico, whom he feared would identify his own regime with the president’s. But in fact, the novel’s president was modeled on Manuel Estrada Cabrera, whose rule ended in 1920.

Unfortunately, Estrada Cabrera’s authoritarian style long outlived his regime. By the time an English translation of Asturias’s book was pub-
lished in 1963, the United States-backed overthrow of Jacobo Árbenz’s social democracy had delivered Guatemala into new nightmares, eerily similar to the old. The rightist dictatorships of Carlos Castillo Armas and Miguel Ydígoras Fuentes resembled the president’s reign of terror as nearly as Estrada Cabrera’s did. With continued U.S. support, even more repressive regimes would follow.

Perhaps understandably, the book’s portrait of life under dictatorship has resonated more with Latin Americans over the decades than with readers in the United States. Overshadowed in the U.S. by the Latin American literary “boom” of the 1960s, the novel was effusively received by Spanish-language critics after its republication in Argentina in 1948.

Mr. President owes its longevity in part to the way it skirts specific detail. It is primarily a novel of atmosphere — the atmosphere of Guatemala’s bleak twentieth century. Centered on the fall from grace of Miguel Angel Face, the president’s closest confidant, the narrative unfolds in an elegant series of repetitions and tragic symmetries. Miguel Angel Face stages the kidnapping of a prominent general’s daughter to help her father flee into exile. He becomes smitten with the daughter, and — against the backdrop of a purge overseen by the regime’s enforcer, the nameless Judge Advocate — he falls from the president’s favor, into ruin.

The plot is less an end in itself, however, than a vehicle for lyrical depiction of a people under psychological siege. We begin in the company of beggars who witness the murder of an officer. Asturias follows the beggars from the streets into a prison, where they are herded by the police. In the epilogue, an anonymous student, fresh from prison himself, watches a chain gang march the same path. If Miguel Angel Face’s story risks tipping into melodrama, it is saved by the stark, surreal enormity of Asturias’s penetrating vision.

A modernist triumph like Asturias’s deserves a translation of similar caliber. In the preface to his new translation, David Unger purports to correct his predecessor’s errors and omissions. But what he gains in narrow fidelity, Unger loses in poetry. The English text is full of mangled idioms and stilted, sometimes bizarre dialogue. A hypothetical flag is “in titters and tatters,” and a prostitute is nick-named, anachronistically, “Boombox Ears.” A secret policeman exclaims to a friend, “This is my night to be happy, my night to be snappy, I’m telling you, my happy snappy night!”

Still, across the uncanny valley of Unger’s translation, we catch startling glimpses of the original’s brilliant imagery. That so much poetry survives this treatment is a testament to the staggering, lasting beauty of Asturias’s harrowing masterwork.

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It’s no accident that almost everyone in Santiago enjoys a personal connection with Vallejo. For decades, his legacy has been institutionalized and evangelized by the Peruvian state. A photograph of Vallejo hangs in front of the town hall. Schools host competitions where children recite his poems from memory. In 2014, Congress unanimously approved a law that designates Santiago the country’s “Capital de la Poesía.” In other words, the santiaguinos, as the town’s inhabitants are called, have been force-fed Vallejo from infancy.

But despite the imposition, their relationship to Peru’s “universal” poet does seem genuine. Most of the documentary takes place in a theater, where Núñez set up a casting call. Men and women of all ages and vocations stand before a microphone, answering questions about Vallejo that often reveal much about their personal lives. The most compelling participant is Elder, a young saxophonist and aspiring mechanical engineer. As a child, Elder won multiple Vallejo recitation competitions, even scoring a brief stint on TV, where Núñez first noticed him.

Although he still remembers the poems he used to recite, Elder is trying to leave his life in Santiago behind. During much of the film, he waits to hear back about a university scholarship. The amount of attention...
Núñez pays to his plans for departure suggests she is equally — if not more — invested in what drives santianginos away from Vallejo, as in what keeps them connected to him.

Elder didn’t come up with the idea of leaving Santiago all by himself — his family encourages him, too. In one scene, his mom admits she would be willing to bribe government officials to secure his financial aid. It seems fitting, then, that a century ago, Vallejo himself sought the world outside his isolated hometown. He moved to the nearby city of Trujillo to study medicine, law and literature. Then, after several years moving back and forth between Trujillo and Lima, he left definitively for Europe, where he wrote most of his poetry. He never returned home.

Santiago is located in La Libertad region, where a quarter of the population are poor and nearly 75% hold informal jobs, according to the Instituto Peruano de Economía. The local economy is dominated by extractive mining. (The province ranks among the country’s largest gold producers.) Although politics barely surfaces in the film, a strong undercurrent of it can be felt. “Vallejo's poetry belongs to the proletariat, to the poor;” Núñez recently stated in an interview. “He suggested that art should abandon the elite and return where it belongs, among ordinary people.”

In one of the earliest scenes, two boys hang around a cemetery, bickering over the location of Vallejo’s grave. One of them insists the poet lies in Paris, where he died, while the other matter-of-factly notes that he must be there, in Santiago. Núñez refrains from clarifying the situation, although it turns out both kids are, in a way, correct. An exact replica of Vallejo’s gravesite was inaugurated a decade ago in his birth town, encouraging visitors to “relocate imaginatively” to the Montparnasse Cemetery, where his remains were actually interred. Santiago still clings to Vallejo, even as its residents venture away.

Alvarado is a writer and former assistant editor at The Atlantic.
CARLOS “NEGRO” AGUIRRE, COMPOSER, PERFORMER, and originator of musical projects, has been a fabled figure in the world of Argentine popular and folk music for decades. From his home studio in Paraná, in the province of Entre Ríos, about 300 miles up the Paraná River from Buenos Aires, he presides gently over an artist-oriented record label that he started with Ramiro Gallo and Luis Barbiero over 30 years ago. The label’s name, Shagrada Medra, comes from the title of a song Aguirre was playing in a dream Gallo had. The name also sounds vaguely spiritual — “shagrada” is one letter away from “sagrada,” the feminine form of “sacred” in Spanish, while the made-up word “medra” sounds ambiguously Sanskrit.

Shagrada Medra made the leap to digital at the height of the pandemic, in October 2020, releasing their back catalog on streaming platforms for the first time, along with new albums, and launching a series of hour-long conversations on their YouTube channel called La Hora Azul. Initially, Aguirre told AQ, he and his collaborators were reluctant to embrace streaming because of a shared affection for the physicality of the CD and the meanings that the objects add to the albums. One of his early releases featured an original watercolor painting by Pamela Villaraza that evolved over subsequent re-releases, and came with a seed of a tipa tree. But the downtime afforded by pandemic lockdowns allowed them to design a satisfactory way of reaching a wider audience via the internet.

Shagrada Medra’s catalog includes over 90 releases by some 50 artists from all regions of Argentina — which, in the context of the country’s Buenos Aires-centric music industry, makes the label’s focus remarkable. Aguirre explains that, while he always wanted to shine a light on musicians from the whole country, the founding of the project coincided with a period during which he was touring Argentina assiduously. He would
often come back home with new connections, which provided the seed for the label's initial releases. From then on, artists started to coalesce around the initiative.

Shagrada Medra doubles as a kind of musical ecosystem, collecting musicians who share an acoustic sensibility — prominently featuring guitars, voices and accordions in pieces that often draw inspiration from Argentine folk styles. But there's difference within that broader commonality. Styles range from Jorge Jewsbury's elegant versions of classic tangos to Tere González's minimalist songs (which hew closer to pop), to the jazz-inflicted intricacies of Aguirre's own compositions.

A musical genre, chamamé, along with an instrument, the accordion, are typical of the folk music of what is known in Argentina as the Litoral: the region around the great rivers Paraná and Uruguay. Both genre and instrument figure prominently in the catalogue, thanks to artists like Julio Ramírez or the always refined duo of Rudi Flores and Ernesto Méndez. The Litoral is at the center of Aguirre's aesthetic, and he considers it an international space shared by artists from the Southern Cone who work across “open borders,” as citizens of a “much bigger and diverse country.”

Shagrada Medra, too, has room for musical variety, including Flor Sur, a trio of cellos — a very uncommon instrumentation for a popular music group — that approaches songs and folk rhythms through a chamber music lens. Pianist Sebastián Benassi plays swinging folk music in the tradition of fusion pianists like Manolo Juárez or Hilda Herrera.

I believe that this respectful and collaborative approach to music creation and distribution is at the center of the project's enduring success. It's no small feat in an ever-changing music industry that is seldom conducive to the survival of independent players. 

Zubieta is director of the music program at the Americas Society

COURTESY OF SHAGRADA MEDRA

Rudi Flores, left, and Ernesto Méndez, right, play chamamé, a genre of folk music from Argentina’s Litoral region.
Empowering youth and transforming communities in Central America

Young people are the hope and future of Central America. As the region recovers from the COVID-19 crisis and natural disasters, the time to invest in them is now. The Central American Youth Corps is a youth service corps that harnesses the power of young people to drive change and prosper in their own communities. It provides job skills, leadership training, and community investment.

Join us as we create opportunities for young Central Americans to thrive at home: glasswing.org. This program is made possible by funding provided by the Howard G. Buffett Foundation.
Sylvia Palacios Whitman:

“We didn’t have a penny when we arrived in New York. We didn’t know anybody, and I didn’t speak a word of English — my first husband [Chilean artist Enrique Castro-Cid] only spoke a tiny bit. My grandmother sent me what would now probably be $100, and I went out to buy something delicious or special. Then I saw this monkey in a window, and I walked in and I said to the lady, ‘How much is that monkey?’ … I took the monkey home to the Lower East Side where we were living in this tiny little place on Avenue A or B. ... Enrique said, ‘Why did you get a monkey? Now we are all going to starve.’ We were practically starving, and I thought he was right and this poor monkey was going to starve with us. Actually, because of the monkey we had good food for a while. I would take him out on the street and people would give me...
bananas. They thought it was for the monkey, but of course it was for us, too. Eventually one night the bar wouldn’t give Enrique any more drinks … so he took the monkey and gave it to the bartender:"

Palacios Whitman (b. Osorno, Chile, 1941) studied in Santiago before moving to New York City in 1961. After a brief stint as a model, appearing on the cover of Harper’s Bazaar in 1962, she performed in avant-garde art venues and created choreography routines performed by participants without formal training in dance. She lives in Warwick, New York.

Sylvia Palacios Whitman on the rooftop of her White Street apartment, 1972.
Marta Minujín:

“When I arrived in New York it was gloomy, and it scared me because it was all empty and there were cars with gangsters on the road and prostitutes. And on top of that, I went first to a horrible hotel where you picked up the bedsheets and there were cockroaches. So I went to the Chelsea [Hotel], and everyone was crazy. I met a lot of people there. I stayed at the Chelsea until I moved into an apartment with the money from the Torcuato Di Tella Prize. ... I met everyone there, like de Kooning, Carolee Schneemann, Allan Kaprow. They all went to that bar, Max’s [Kansas City]. I started going there every night and eating for free, because at seven in the evening they gave free fried chicken, salad, everything.”

Marta Minujín (b. Buenos Aires, 1943) first traveled to New York in 1966 on a Guggenheim Fellowship. She soon began exhibiting in galleries and museums and connecting with the city’s Pop and experimental art scenes, collaborating with artists like Salvador Dalí and Andy Warhol. She lives in Buenos Aires.
The war in Ukraine and the economic effects of the pandemic have led to hikes in food and fuel prices across the region. Inflation has worsened already heightened levels of food insecurity in most countries.

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