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## FEATURED Q&A

# Will Social Unrest in Latin America Lead to Populism?



Social grievances in Latin America, including in Colombia, have worsened as countries grapple with how to pay costs related to the Covid-19 pandemic. // File Photo: Remux via Creative Commons.

**Q** In the face of the Covid-19 pandemic and its disruptive economic impact, most Latin American and Caribbean governments have increased spending to deal with the health emergency and to provide relief to the most vulnerable segments of the population and the businesses struggling to stay afloat amid lockdowns. At the same time, social grievances have been heightened, as exemplified by recent demonstrations in Colombia, which were sparked by a controversial tax reform plan aimed at ensuring the nation's debt sustainability but turned to widespread protests about a litany of issues including rising poverty and unemployment. Which Latin American and Caribbean countries are facing the most severe fiscal scenarios? What tools do governments have to make up for increased spending over the past year? In the face of potential social unrest, is there enough political will in the region to push through reforms necessary to shore up countries' finances, and what are the medium- and long-term implications of failing to implement such measures now?

**A** Mercedes Araoz, former vice president of Peru: "All Latin American and Caribbean countries are facing severe fiscal scenarios, including those from the Pacific Alliance (Chile, Colombia, Mexico and Peru), which were the good performers of the region. They used to have, in general, smaller deficits and better credit ratings than most countries in the region. The pandemic has stressed their possibilities beyond expected limits. Some countries were in a very bad fiscal position before Covid-19 (Venezuela, Argentina

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S&P Global Ratings lowered Colombia's credit rating to junk status following the government's withdrawal of its tax reform proposal.

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The union representing workers at the Escondida copper mine in Chile said it was preparing for a strike if it did not reach a "fair and equitable" agreement in upcoming contract talks.

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## Brazilian Police Raid Environment Minister Salles' Properties

Brazilian police agents raided properties belonging to Environment Minister Ricardo Salles in an investigation connected to the alleged illegal export of lumber. Salles denied wrongdoing.

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Salles // File Photo: Brazilian Government.

## POLITICAL NEWS

## Brazil's Environment Minister Targeted in Federal Investigation

Brazilian federal police agents on Wednesday raided properties linked to the country's environment minister, Ricardo Salles, and dozens of other locations in connection with an investigation into alleged illegal exports of lumber, Folha de S.Paulo reported. In all, approximately 160 police officers were deployed in the far-reaching raids to execute 35 search warrants in Brasília, São Paulo and the state of Pará, The Wall Street Journal reported. Brazil's Supreme Court authorized the raids and also removed from office Eduardo Brim, the head of Ibama, the country's environmental protection agency, the Financial Times reported. The high court also removed several other high-level environmental officials in connection with the wood-smuggling investigation. Authorities launched the probe in January "based on information obtained from foreign authorities reporting possible misconduct by Brazilian public servants in the timber export business," the federal police said in a statement. Documents released Wednesday by the Supreme Court showed that Pará state had previously

informed U.S. authorities about five shipments of wood to the United States, as well as one to Denmark and one to Belgium, that lacked authorization and proper documentation from the state, The Wall Street Journal reported. In a video released by aides, Salles said accusations against him were unfounded and that he and other officials targeted in the probe would have cooperated with investigators if they had been allowed to do so. There was "no substance" to the allegations, said Salles, adding that the matter would be resolved quickly, the Financial Times reported.

## ECONOMIC NEWS

## S&P Cuts Colombia to Junk Status After Tax Reform Pulled

S&P Global Ratings on Wednesday lowered Colombia's credit rating to junk status following the government's failed attempt to reform the country's tax system, Bloomberg News reported. S&P lowered the Andean nation's foreign currency sovereign rating by one notch to BB+ with a stable outlook, the credit ratings agency said in a statement. The move took away the country's investment grade rating, which Co-

## NEWS BRIEFS

## Ramírez Tapped as Colombia's Foreign Affairs Minister

Colombian Vice President Marta Lucía Ramírez will take over the country's foreign affairs ministry in addition to her duties as vice president, President Iván Duque announced Wednesday. Claudia Blum, who had served as foreign minister since 2019, resigned last week amid massive protests in the Andean nation that left more than 40 dead, according to human rights groups. The demonstrations, initially against a now-canceled tax overhaul, also prompted the resignation of former Finance Minister Alberto Carrasquilla.

## Colombian Judge Sentences Venezuelans for Plot Against Maduro

A judge in Colombia on Tuesday sentenced three Venezuelan men to six years in prison for their involvement in a plot aimed at removing Venezuelan President Nicolás Maduro from office, the Associated Press reported, citing an attorney for the three co-defendants who spoke to the AP on Wednesday. The sentence was the minimum allowed for the crimes. The men pleaded guilty to working alongside former U.S. Green Beret Jordan Goudreau and rogue or former Venezuelan military members in a bid to overthrow Maduro's government.

## Crusading Ex-Guatemalan Tax Agency Chief Arrested

Guatemalan authorities on Wednesday arrested Juan Francisco Solórzano Foppa, who was known for building cases against powerful families as head of the Tax Administration Superintendency, Reuters reported. Solórzano Foppa, who was forming a new political party, was arrested on accusations of falsifying official documents. "This does not give me any shame," he said in court. "This shows we are touching the powerful people of this country."

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and Ecuador, for example). Their situations have worsened. The pandemic has shown that problems such as inequality, informality and poor public management and service provision should all be addressed. Some of the countries still have debt space, but they definitely should return, in the medium run, to the fiscal path of small deficits. So, it will be necessary to increase revenues and make expenditures more efficient in order to satisfy population demands. This may require some tax reforms that don't excessively charge the middle class. Tax avoidance, exceptions and evasion should be checked. Expanding the tax base will mean also reduc-

ing informality but with the right incentives, including initial tax breaks and cutting red tape so that small and medium-sized enterprises can actively participate. Moreover, state reforms that can improve the provision of services such as health care, education, water and sewages and infrastructure are necessary. These will need better planning and execution; the use of government delivery units would be a big help. The great risk is the degree of populism that can be seen in the region, which can lead to bad use of fiscal resources and damage the opportunities of a better livelihood for our people."

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lombia had held for more than a decade. “The downgrades follow the withdrawal of a fiscal reform introduced to Congress in a context of high spending pressures, which has resulted in a significantly lower likelihood of Colombia improving its fiscal position following a recent and market deterioration,” S&P said in a statement, Bloomberg News reported. President Iván Duque’s government had presented a tax overhaul that it said was necessary to maintain fiscal sustainability after a sharp increase in spending over the past year to deal with the health and economic crises caused by the Covid-19 pandemic. But the controversial plan was widely unpopular, sparking massive and deadly protests and a nationwide strike that has continued into its third week. JPMorgan and Morgan Stanley said today that they expect Fitch to also downgrade Colombia’s credit rating to junk before the end of the year, Reuters reported. Fitch rates Colombia at its lowest investment-grade rating, while Moody’s Investors Service rates it at two notches above junk status. Following S&P’s statement, new Finance Minister José Manuel Restrepo said the government will focus on driving economic growth and job creation, as well as bringing stability to public finances and securing funding for aid programs “in order to maintain the confidence that markets have historically had in our country,” Reuters reported.

## BUSINESS NEWS

### Workers at Chile’s Escondida Mine Eying Strike: Union

The union representing employees at the Escondida copper mine in Chile said on Wednesday that it was preparing for a strike if owner BHP did not change what it said was a historically “awful” attitude toward its work force and reach a “fair and equitable” agreement in upcoming contract talks, Reuters reported. The discussions are set to start in June, and the union said it was preparing a contract proposal as well as building a contingency fund to help workers financially in case of a strike. A poten-

## SUBSCRIBER NOTICE

### Barbara Kotschwar Joins the Advisor Board

We are pleased to announce that Barbara Kotschwar has joined the board of advisors of the Inter-American Dialogue’s daily Latin America Advisor publication.

Kotschwar is the executive director of the Visa Economic Empowerment Institute, where she heads a team of experts in the fields of payments, economic policy, technology and security with the goals of advancing digital equity, inclusion and growth. She also represents Visa on the World Economic Forum’s Global Future Council (GFC) on Economic Growth and Recovery and has previously served as a member of the GFC on Trade and Investment.

Prior to joining Visa in 2018, Kotschwar was head of the World Bank’s investment policy portfolio on international investment agreements, regional integration and services. She also worked as a coordinator for the development bank’s investment policy in Eastern, Central and Southern Africa, and she served on the World Bank’s Trade & Competitiveness Diversity & Inclusion committee.


Before that, Kotschwar was a research fellow at the Peterson Institute for International Economics, where she focused on trade, investment and regional integration.

She also previously worked as chief of the Foreign Trade Information System at the Organization of American States and has experience advising governments in Latin America and the Caribbean and other regions.

Kotschwar has taught courses on economics and Latin American studies at Georgetown University since 1998.

Her work has been featured in The Economist, the Financial Times, The Wall Street Journal and The New York Times, among other international media outlets, and she has been a commentator for the Latin America Advisor on issues including finance, trade and China-Latin America relations.

Kotschwar holds a Ph.D. and a master’s degree from the Johns Hopkins University School of Advanced International Studies (SAIS) and a bachelor’s degree in economics and political science from McGill University.



Kotschwar

tial strike would not occur until at least August, which is when the current Escondida workers’ contract expires, Reuters reported. The union said it would enter talks with an open mind but warned that, if BHP did not do the same, it would lead a strike equivalent to or longer than the historic 44-day stoppage in 2017, which upended global copper markets. “We insist and

reiterate our total willingness to engage,” the union said, the wire service reported. Copper prices were up 0.6 percent on the London Metal Exchange today as a softer U.S. dollar and concerns over a potential strike in Chile spurred purchases, Reuters reported. However, prices for the red metal are down 6 percent since hitting a record peak earlier this month.

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**A** **Gabrielle Trebat, managing director for Brazil and the Southern Cone at McLarty Associates:** “The economic impact of the pandemic has been more devastating to Latin America than almost any other developing region. Health care spending, economic relief measures and massive vaccination campaigns, coupled with the drop in government revenue, have aggravated already vulnerable fiscal realities. Public debt increased more than 10 percent across the region from 2019-2020, with Brazil and Argentina experiencing the most significant increases, the latter in the context of a debt restructuring. Countries have had limited fiscal room to provide urgent economic relief and emergency health spending. Some, such as Colombia, tried to raise revenue by raising taxes, which proved destabilizing in the political and socioeconomic context. Others, such as Chile, passed relief measures that came up short, resulting in the passage of three pension withdrawal bills approved with support from both left and center-right parties. Chile is now embarking on a constitutional reform process in the context of a continued health care crisis, high unemployment and widespread discontent with existing political and economic structures. The crisis in Chile that first erupted in late 2019 with widespread protests over poverty and inequality may well be a bellwether for the region, signaling a breakdown of trust between the public and political classes over economic management and political representation. Similar themes are dominating the political discourse in Peru ahead of the June presidential runoff, with discussion of a constitutional reform amid strong anti-establishment sentiment and demand for change. While fiscal consolidation reforms are needed to ensure long-term sustainability, this requires broad political consensus and a long-term view that is lacking almost across the board in the region given the acute health care and economic crises. In

this context, the political temptation to focus on short-term needs given election cycle realities may set the region up for a difficult decade ahead.”

**A** **James Bosworth, author of the Latin America Risk Report:** “Latin America is in a crisis in which ‘fiscally responsible’ reforms are both bad politics and bad policy. Governments should spend more and spend now. After one of the most brutal recessions in the region’s history, governments that attempt to increase taxes on the middle class

“**While delaying a crisis is rarely preferable, the alternatives in this case are worse.”**

— James Bosworth

or cut spending on social programs to shore up their fiscal situation should expect to be punished by voters and protesters. Governments should be willing to take on and potentially renegotiate debt so they have the resources to defeat Covid, feed hungry populations and get kids back in school, all things that will benefit the region for decades to come. Unfortunately, kicking the fiscal can down the road is going to mean multiple countries in the region will face some serious economic crises over the next five years. Seeing protests and populism play out, governments, businesses and investors should understand that while delaying a crisis is rarely preferable, the alternatives in this case are worse. Governments need to do everything they can to help their populations recover today and then deal with those fiscal challenges later.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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