



FIVE-YEAR REGIONAL OUTLOOK

Latin America and the Caribbean

NIC-2021-02480

The potential for rising social and political volatility in Latin America and the Caribbean during the next five years will threaten democratic values and provide openings for outside actors. Climate-driven food and water insecurity, slow economic recoveries, and violence are likely to sustain steady migratory flows to the United States. Inequality in Latin America and the Caribbean and serious challenges to governments' abilities to meet popular demand for improved economic opportunities are likely to set the stage for growing political polarization, public protests, and declining faith in democratic governance. Authoritarian leaders in Cuba, Nicaragua, and Venezuela will continue to rely on repression to maintain control, and potential political successors probably will come from dominant parties rather than the opposition.

The judgments in this paper were made by the National Intelligence Council in consultation with outside experts and Intelligence Community analysts and do not reflect official US Government policy or the coordinated position of the US Intelligence Community.

KEY TRENDS

Latin America and the Caribbean—already beset by anemic economic growth before the COVID-19 outbreak— will face a slow, uncertain recovery and rising social and political volatility during the next five years. Pandemic-related job losses, including in the region’s large informal sectors, lower prices for commodity exports, and reduced tourism revenues pushed the region to an 8.1 percent contraction in regional growth for 2020, its most serious recession in a century. The IMF projects that the region as a whole, which has suffered some of the world’s highest COVID-19 death rates, will not return to pre-pandemic GDP levels until 2023. Weak economic recoveries in the United States and China, Latin America’s largest trading partners, would further constrain the region’s recovery.

Looming Economic and Social Hurdles

- **Poverty and Inequality High and Enduring.** Income inequality in Latin America and the Caribbean, which is the highest in the world, will fuel protests and political instability in much of the region. Already high rates of crime and narcotics trafficking are likely to grow as poverty increases and resources for police and judiciaries shrink. The middle class, which grew from about one-fifth of the population to one-third between 2003 and 2014, is shrinking. Weak economic prospects are likely to push poverty rates to more than 53 percent of the population, including the 15.5 percent of people living in extreme poverty, for a total of 327 million persons, according to a UN commission. Many will move into already large informal sectors, which will further reduce government revenues and governments’ abilities to respond to rising and competing social demands. Brazil initially bucked these trends by distributing the largest fiscal response to COVID-19 in Latin America, much of it to the most impoverished parts of the population. However, Brazil’s government debt approached 100 percent of GDP in 2020, increasing the country’s financial vulnerabilities.

Mexico has rejected IMF recommendations to increase public spending as a means to soften the economic blow of the pandemic and as a result, is suffering a steeper downturn in its economy.

- **Lack of Structural Reforms Weakening Economic Prospects.** Insufficient progress toward tackling bureaucratic obstacles, corruption, rigid labor laws, inadequate public services, and the rule of law will affect the region’s ability to attract needed foreign direct investment to revive its economies. Latin America and the Caribbean depend on foreign borrowing and commodity exports—making the region particularly vulnerable to external shocks from declining commodity prices and external financing. Improved growth prospects would require an increase in the supply of skilled labor and productivity—a development largely dependent on the availability of enhanced educational and training opportunities—for the region to take advantage of the emerging global momentum relocating supply chains and expanding technology sectors. Increased government spending on public services such as education and infrastructure would help improve the investment climate but would add to already high government debt levels, which the IMF expects will reach 79 percent of GDP this year on average for the region.
- **Inadequate Preparations To Deal With Demographic Trends.** Slowing population growth in the region because of falling fertility rates and outmigration, as well as increasing life expectancy, will accelerate the aging of the population and reduce the percentage of working-age persons available to support dependents and the broader economy. While this is a longer-term trend, measures such as substantially increasing work opportunities in the formal sector, especially for women and unemployed youth; improving worker training and skills; and instituting individual or pay-as-you-go pension options would have almost immediate benefits as well as better

position the region for future development. Such programs are largely underfunded, preventing most of the region from enhancing economic growth by capitalizing on its current abundance of workers relative to dependents.

- **Climate Change.** The effects of climate change on the region's agricultural lands and water resources probably will exacerbate longstanding food and water insecurity and potentially escalate the political and economic pressures associated with income inequality and the rise of popular unrest. Rising temperatures, shifting precipitation patterns, and increased incidences of extreme weather are likely to reduce harvests, worsen water shortages, and raise the risk factors to public health through contaminated water and vector-borne diseases such as dengue and malaria. Recurring and intensifying tropical storm activity will continue to batter Caribbean economies, already devastated by the collapse of tourism revenues because of the COVID-19 pandemic.
- **Rising Migratory Pressures:** Climate change-driven food and water insecurity, slow economic recoveries from the effects of COVID-19, persistent violence, and political instability probably will drive spikes in migration to the United States, particularly from northern Central America and possibly Mexico. Economic stagnation and political repression will continue to spur migrants to flee Venezuela and, to a lesser extent, Cuba, Haiti, and Nicaragua.

Factors Challenging Regional Stability...

The catalytic impact of COVID-19 on socioeconomic inequality and economic stagnation, increasing use of social media, and public pressure for more effective governance and economic growth are likely to further enflame the region's politics and test democratic institutions. Protests, outside challengers, and frustration with incumbents and traditional parties will fuel polarization as political systems struggle to adapt to

socioeconomic reversals. The authoritarian regimes in Cuba, Nicaragua, and Venezuela are likely to respond to these increased pressures through a mix of economic pragmatism and political repression. These trends also provide openings for China and Russia to build influence in the region and populist regimes and political movements to weaken pro-market policies and blunt US influence.

- **Impatient for Results.** The gap between public expectations and governments' abilities to deliver results—especially in public health—will fuel political unrest over limited resources. The poor are likely to protest for redistribution and the middle class for better governance, including less corruption and more competent policing, and both will look to scapegoat economic and political elites perceived as nonresponsive.
- **Growing Impact of Social Media.** Regional quarantines and lockdowns have accelerated the shift from the majority of people relying on newsprint to accessing news through Internet-enabled social media and communication apps. As of 2018, 70 percent of individuals in the region's larger and more prosperous countries were using the Internet, indicating rising working-class usage. One-third of citizens in less wealthy countries, such as Bolivia and Haiti, regularly accessed the Internet, according to UN statistics. While greater access to the Internet and social media have provided platforms for coordinating protests and political movements, a growth in domestic, regional, and global disinformation campaigns has also accompanied the rise in connectivity.
- **Regional Security Threats.** Drug trafficking cartels, organized crime gangs, and local armed groups are likely to continue to fuel the region's high levels of violence, including homicides, contract killings, drug use, and extortion. Governments' use of the military and police to assist in managing pandemic-related responses will diminish capabilities to restrain coca

cultivation and production; perform interdictions, investigations, and arrests; and combat domestic drug use. Restoring these capabilities almost certainly will require outside aid.

- **Weaker Public Support for Democracy.** The fall in support for regional democracy from about 66 percent before 2016 to about 58 percent in 2019 correlates with economic stagnation—support being weakest among poor and less educated people who are also most affected by COVID-19, according to the AmericasBarometer.

...Will Unsettle Regional Politics

These factors will test the region's democracies as mainstream leaders from established political parties struggle to meet demands amidst protests, personalist leaders circumvent checks and balances, and polarization grows between the regions' left and right political sides. Regional fissures will prevent achieving consensus on many complex policy issues that require cross-ideological cooperation. The role of security forces as political arbiters is likely to grow as they defend presidents from protests, take sides in electoral disputes, and confront threats from organized crime.

- **Struggling Mainstream Leaders.** Presidents who rely on established parties for backing—such as those in Argentina, Colombia, Chile, and Panama—will continue to struggle as they try to balance competing demands, uncooperative or fragmented congresses, street protests facilitated by social media, and attacks from populists often allied with political outsiders.
- **Personalist Presidents.** Personalist presidents, such as those in Brazil, El Salvador, and Mexico, may try to increase their power at the expense of institutions and use social media instead of parties to connect directly with their bases. In some cases, they may also look to entrench themselves or their movements in power to ensure a lasting legacy that will not be overturned by political rivals.

- **Political Polarization.** Democratic politics are likely to polarize as leftist movements use social media to capitalize on growing inequality and demands for social services, and rightists fan middle-class fears of crime and poverty and appeal to evangelicals and conservative Catholics.
- **Weakening Institutions.** Many leaders will try to placate restive publics by circumventing or coopting judiciaries and legislatures to tout immediate gains toward economic and security goals. This could lead to democratic backsliding, stalled reforms, and a rise in impunity and corruption. Most worryingly, the military's role in politics in some countries could increase as publics and politicians call on them to support presidential power grabs or facilitate their ousters, which would set back decades of armed forces professionalization.
- **Vulnerable Authoritarian Regimes.** In the next five years, Cuba's ongoing leadership transition away from Castro-family rule could lead to increased debates within ruling circles about the country's direction and new perspectives on relations with the United States. Nicaragua and Venezuela could face leadership changes through challenges from regime insiders that leave Sandinista and Chavista party structures largely intact and dominant. Authoritarian leaders will continue to rely on repression, censorship, some attempts at economic pragmatism, and deepening partnerships with China, Iran, and Russia to address economic decline, public dissent, and Western sanctions.
- **Lack of Regional Leadership.** The region's inward focus, political polarization, and regional rivalries are likely to make it difficult to forge a unified approach to Venezuelan dysfunction, elevated migration, democratic backsliding, transnational crime, and climate change. The lack of regional leadership also exposes vulnerable countries to outside powers seeking to exploit pressing economic needs, often by extracting economic or political concessions in exchange for trade or investment deals.

KEY UNCERTAINTIES

Key domestic and external factors will have an outsized effect on our assessment of the region's future.

Ability of US Global Rivals to Exploit Vulnerabilities

The precarious position of traditional politicians, personalists' potential resentment of Western criticism, and the isolation of authoritarian regimes provide openings for China and Russia, and to a much lesser extent, Iran, to increase their regional presence or weaken pro-Western leaders. The extent of US rivals' influence will depend on their ability to deliver trade and investment deals, bolster allies through economic and security largesse, or exploit societal divisions and political polarization to ensure favorable political outcomes. The West's willingness and capacity to provide concrete alternatives adds to the uncertainty.

Potential for Violent Instability in Venezuela

Under the current regime's mismanagement, Venezuela probably will slip further into dismal economic conditions, severe humanitarian privations, and brutal repression. If the oil sector—which once provided nearly all the country's export earnings by value—were to collapse, the Venezuelan economy would be pushed into an even deeper crisis and threaten the regime's hold on power. If massive protests broke out, numerous pro-government armed gangs probably would try to intimidate dissenters or initiate violence throughout the country to prevent or undermine a leadership change that threatened the regime's primacy. A government resulting from a successful democratic transition might face continuing resistance from these groups, as well as the principal task of restoring relationships with international financial institutions to access the \$20-30 billion in annual financing the country probably would need during the first five years of a recovery.

PLAUSIBLE GREEN SHOOTS OFFER SOME ROOM FOR OPTIMISM

Some bright spots in the region's recent history suggest the challenges of the next five years might be surmountable. Two key areas hold promise: a demonstrated capacity for economic resilience against strong headwinds, and an undercurrent of public support for politicians who push pragmatic reform.

- **Capacity for Resilience.** Latin America and the Caribbean have defied conventional wisdom by delivering notable recoveries in the past—their most significant GDP growth per capita in the region's modern history occurred during the global financial woes of the early 2000s. Such a performance suggests that during the next five years the region might rally to defy predictions of a slow recovery and political volatility. Trends during the past 20 years that would support this outcome include a more mobilized middle class and the 40 percent growth in enrollment in higher education that now puts many graduates at the height of their careers. This new generation of upwardly mobile graduates has the potential to improve the region's long-stagnant productivity rates, which probably would serve as a growth engine. Low interest rates and heavy mobile technology use might also encourage greater domestic investment and allow the region to skip some stages of technical development, particularly in new modes of payment.

- **Rewards for Orthodoxy.** Voters may respond to socioeconomic challenges, chaotic governance, or presidential overreach by putting their support behind competent, reform-minded politicians seeking to bring about major policy change. Brazil's landmark pension reform passed in 2019—after some 20 years in the making—and is likely to begin shoring up public finances in the region's largest economy. Chile could set a regional example for peaceful and democratic reform in the coming year if its constitutional reform process puts in place a new social compact that balances equality and growth. Politicians who use the COVID-19 crisis to pass structural reforms could reap political benefits if they reduce inequality, limit corruption, or boost economic growth by enticing Western companies in need of an inexpensive, well-trained workforce outside China. Regional access to external financing, loans, and grants will be crucial to facilitating this path.