America – The Rise to Prosperity and Missed Opportunities

Demographic and Economic Development in the New World

Berlin Institute for Population and Development

America – The Rise to Prosperity and Missed Opportunities

Demographic and Economic Development in the New World

Berlin Institute for Population and Development

America – The Rise to Prosperity and Missed Opportunities

Demographic and Economic Development in the New World

Berlin Institute for Population and Development
### About the Berlin Institute

The Berlin Institute for Population and Development is an independent think tank concerned with regional and global demographic change. The Institute was founded in 2000 as a non-profit foundation. Its mission is to raise awareness of demographic change, to promote sustainable development, to introduce new ideas to policymakers and to development concepts to solve demographic and development problems.

The Berlin Institute produces studies and discussion and background papers and prepares scholarly information for the political decision-making process.

For further information or to subscribe to our free regular newsletter “Demos” (in German), please visit www.berlin-institut.org.

### Support the independent work of the Berlin Institute

The Berlin Institute receives no public funding. Its successful work is made possible by project grants, research commissions, donations and endowments. The Berlin Institute is a registered charity. Donations and endowments are tax-deductible.

The Friends of the Berlin Institute brings together interested and committed private individuals, companies and foundations who are willing to support the Berlin Institute with ideas and money. You can find out more about the Friends of the Berlin Institute under http://www.berlin-institut.org/foerderkreis-des-berlin-instituts.html

Bank transfers should be made to:
Bankhaus Hallbaum
IBAN DE50 2506 0180 0020 2864 07
BIC/SWIFT HALLDE2H

Contact:
Berlin-Institut für Bevölkerung und Entwicklung
Schillerstraße 59
10627 Berlin
Telephone + 49 (0)30 22 32 48 45
Telefax + 49 (0)30 22 32 48 46
E-Mail info@berlin-institut.org
America – The Rise to Prosperity and Missed Opportunities

Demographic and Economic Development in the New World
This study is the latest in a series of analyses of the economic and demographic potential of various regions of the world published by the GfK Verein in cooperation with the Berlin Institute for Population and Development. Following Africa and Asia, the focus now shifts to the American continent.

The American continent is characterised by its cultural links with Europe. Today, US Americans with European ancestors make up 72 percent of the population of the United States. More than 50 million of them identify their origin as German, while almost 37 million are of Irish stock. One Brazilian in two has European roots, while in Argentina 90 percent of the population comes from a European, mainly Italian, background. In terms of religion, too, the Americas are much closer to Europe than Africa or Asia are. While South and Central America are largely Catholic, Protestants form the dominant religion in Canada and especially in the US.

There are also differences between the incomes of the American populations, on the one hand, and those of Africa and Asia, on the other; and this has an impact on private consumption. While only one in eight of the world’s population lives on the American continent, it is home to one global inhabitant in five with a medium income. In terms of the ranking of income groups within the Americas, North America is way above the rest of the continent, followed by the South American states; in Central America and the Caribbean, average incomes are low. These strong economic contrasts explain why migration from Latin America to the US is one of the world’s biggest movements of people.

The middle classes have grown most strongly in South America in recent years, yet social advancement carries with it the risk of falling into the “middle income trap”, especially in Brazil and Mexico. Rising incomes and higher production costs lead to companies losing out to competition from more developed states with a higher level of education and greater productivity. Under these conditions, the initially rapid and relatively easily achieved economic growth of the early development phase of the emerging economies begins to flag. The faded euphoria over the growth of the BRIC states and other emerging countries must be seen in this context.

If one looks at the market for consumer goods, Asia remains dominant on account of its size. But the ownership of such goods per capita and/or per household is much higher in the Americas. Whereas, with their 60 percent share of the world’s population, the countries of Asia – dominated by China – accounted for 45 percent of the world’s new passenger car registrations in 2014, around 30 percent of the world’s new cars were registered on the American continent by just 13 percent of the global population.

A similar picture emerges with respect to television sales: both Asia and America account for around 35 percent of the televisions sold in 2015, according to data from GfK Consumer Choices. But 4.5 times as many people live in Asia as in America. At 21 percent, the share of televisions sold in Europe is about twice the continent’s portion of the world population. Asia also dominated the market for smartphones in 2015, accounting for half of all phones sold. In North and South America, the share of phone sales, at 22 percent, was twice as high as these countries’ share of the world population.

The world market for household appliances shows a similar pattern: whereas Asians bought 35 percent of such appliances in 2015, Americans and Europeans bought twice as many as the size of their populations would lead one to expect – around a quarter of all household appliances sold globally. In Asia the market is driven mainly by cooling appliances and washing machines, with global shares of around 50 percent, respectively, whereas the American countries, especially the US (16 percent) and Brazil (13 percent), bought a disproportionate number of cookers, as did West Europeans (25 percent).

The enormous contrasts that characterise the American double continent are also illustrated by both the climate of trust and the challenges identified by citizens. Whereas in the US and Canada, between 50 and 60 percent of people said they trusted institutions, people were much more sceptical in Brazil (40 percent) and in Argentina (33 percent). Asked about the problems they perceived, Brazilians gave significantly more answers than respondents in the United States. Healthcare, education, and internal security were the central issues to be resolved for South America’s largest country. In the US, healthcare was also a concern, alongside economic stability, although the issue was raised by far fewer people than in Brazil.

This study conducted by the Berlin Institute addresses in a compact overview the question of how much potential the various countries on the American continent offer for positive demographic and economic development.

Ronald Frank
GfK Verein
The American continent stretches for 15,000 kilometres between the Pacific and the Atlantic oceans. Along the western side, the American cordilleras, consisting of the Rocky Mountains and the Andes, form the backbone of the double continent. The mountain range is interrupted only at the Central American land bridge between the northern and southern continental plates, measuring just 84 kilometres at its narrowest point. Almost a billion people, one in seven of the Earth’s inhabitants, live in America. Geopolitically the continent is divided into three regions. North America comprises the United States and Canada. Each occupies roughly the same amount of territory, but while Canada has a population of only 36 million and hence is very sparsely populated, almost ten times as many people live in the US. Central America comprises the Caribbean islands and Central American mainland states, of which Mexico, with 216 million people, is the most populous. South America occupies an area of almost 18,000 square kilometres and has a total population of 414 million – roughly the same as North America. Central and South America are known collectively as Latin America and are distinct from North America in terms of both their cultural history and their economic and geopolitical significance.

North America: big brother and little brother

At almost 9,000 kilometres, the border between the US and Canada is the longest in the world between two states. Unlike the sealed-off border to Mexico, which is guarded by the US Border Patrol, the frontier between the US and Canada has only a few police checkpoints. Thus it symbolises the more than 200 years of peaceful relations between the two North American neighbours. Yet despite cultural similarities, a common security policy and close trade relations, there are differences. Whereas the US became the first country on the American double continent to achieve independence from the European colonial powers in 1776, Canada did not manage to take this step until 1867, almost a century later, and even today it is still part of the British Commonwealth. Canada’s ties with the “old world” are still evident in many areas of Canadian society. For instance, Canada’s political and social systems are both more similar to their European counterparts than to their US equivalents.

Unequal wealth

The 24 states of the American double continent studied here vary enormously in terms of economic power, ranging from the US, the world’s largest economy, with GDP of 17.4 trillion US dollars, to extremely poor countries like Haiti (8.7 billion US dollars). A comparison of per capita incomes reveals a similar picture. Here, too, Haiti comes in last place, while the US tops the rankings. Smaller, but relatively thriving economies like Trinidad and Tobago, Panama and Uruguay have comparatively high per capita incomes.
Canada is the world’s eleventh largest economy and the third largest on the American continent after the US and Brazil. Its almost uninhabited hinterland is rich in raw materials, such as crude oil, natural gas, uranium and iron ore, the exploitation of which accounts for a large portion of the Canadian economy. The majority of Canadians live in the southern part of the country, however, close to the US border. Despite its relatively small population, Canada is a prominent force in international politics, participating in various military, civilian and humanitarian operations organised by the United Nations and NATO, including those in Afghanistan, Iraq, Nepal and Ukraine.

Until recently, Canada showed little interest in developing political or economic ties with any American country other than the US, the exception being Mexico with which it, together with the US, signed the North American Free Trade Agreement (Nafta) in 1994. In autumn 2015, however, with the signing of the Transpacific Pact (TTP), in which Chile, Mexico and Peru are partners too, the foundations were laid for closer economic ties with the southern part of the continent. Canada hopes that this pact, together with the growth of the middle classes in Latin America, will open up new markets for its products.4 Even today, Latin American labour migrants come to Canada mainly on temporary visas to perform unattractive and low-paid jobs, and they have benefited little from the internationally acclaimed points system that is a cornerstone of Canadian immigration policy. This is why Latin Americans make up such a small minority in multi-cultural Canada, where one inhabitant in five was born abroad.5

Since achieving independence, the US has gradually established itself as the world’s most powerful nation both politically and economically. It still enjoys that status today, despite the challenges posed by a weak economy, growing social inequality, the intensification of international conflicts and the terrorist threat.6 The US economy remains the strongest in the world, producing a fifth of total global annual income.7 Not only does it have one of the largest internal markets, it is also the world’s second-largest exporter after China.8 Following a brief recession in the wake of the financial crisis in 2007/2008, which began with the bursting of the US real estate bubble, the United States, with two percent economic growth, is once again one of the most economically stable of the Western industrial nations.9 At the same time, the US sees itself as a world power with a claim to global leadership. In foreign policy the Western industrial states are important allies, particularly those in Europe. Transatlantic relations continue to be based on the Monroe Doctrine of 1823, which outlawed mutual political influence. The US has adopted a rather different attitude vis-à-vis its American neighbours, however. What the US viewed initially as a sign of the independence of the “new” world from the “old” has, over time, developed into a bid for hegemony over the entire American continent.10 It was on this basis that the US, particularly during the Cold War (1946–1989), pursued a policy driven by its own interests in Latin America, which for a long time was known as the US backyard.

Hence in the second half of the 20th century the US brought about the fall of democratically elected left-wing governments in Guatemala, El Salvador, Chile and Nicaragua, among others, and supported various autocratic systems. Even today, the Latin American Left continues to derive support from people’s anger over US interventions in the state sovereignty of many countries.

North America – the economic giant

The dominance of the North American states is evident when the regional GDP of North America is compared with that of Latin America and the Caribbean and with the eurozone. For the past 25 years, their combined GDP and per capita GDP have been four to five times larger than that of all the Latin American and Caribbean states put together. North America is also stronger economically than the eurozone, and the gap has grown over the past few decades.

GDP in trillions of US dollars

per capita GDP in thousands of US dollars

America – The Rise to Prosperity and Missed Opportunities 5
Latin America: an impressive economic boom

When, 500 years ago, Christopher Columbus landed on one of the islands that today make up the Bahamas, a long history of suffering began for the indigenous population of Latin America. Once advanced civilisations like the Mayas, the Aztecs and the Incas soon fell victim to the European colonial powers’ campaign of conquest. Unlike in North America, this was initially less about settling the region than about exploiting its untold riches. The Spain took up to 220 tons of silver a year to finance its empire, more than half of which came from a single mountain, the Cerro Rico, on the edge of the city of Potosí in today’s Bolivia, in whose mines many thousands of indigenous and black slaves lost their lives. But despite numerous uprisings, most Latin American countries did not succeed in freeing themselves from the colonial powers until the early 19th century. Until into the 1980s, Latin America was considered one of the world’s poorest regions. In 1984, more than 40 percent of the population lived in poverty, 27 percent in extreme poverty. Most countries were ruled by dictators. Civil war, corruption and arbitrary rule were widespread. Countries like Brazil, Argentina and Mexico were able to boast impressive growth rates, but they had borrowed large sums of money from international financial markets to fund their industrialisation. Then the Latin American debt crisis shook the entire region, leading to many of those who have just emerged from poverty with renewed social decline.

Overcoming poverty

Until the turn of the millennium, large parts of Latin America’s population lived in poverty. In Haiti, which was not only poor but also plagued by natural disasters, three-quarters of the population had less than the equivalent of 3.1 US dollars a day to live on. In Ecuador, Honduras and Bolivia the poverty rate was more than 40 percent. Ten years later, the picture – with the exception of Haiti – has been transformed. Critics, however, lament the fact that in many countries the reduction of poverty has not been accompanied by structural change but has been brought about through welfare programmes that involve direct transfers, such as “Bolsa Familia” in Brazil. If state revenues from the extraction of natural resources continue to fall, many states will be unable to sustain these programmes, threatening many of those who have just emerged from poverty with renewed social decline.

Development of the share of the population living in poverty (less than 3.1 US dollars a day) in percent, 1999/2001 and 2011/2013 (most recent available figures)
(Data source: World Bank)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>75</td>
<td>55</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>65</td>
<td>45</td>
</tr>
<tr>
<td>Chile</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>Paraguay</td>
<td>57</td>
<td>10</td>
</tr>
<tr>
<td>Mexico</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>Brazil</td>
<td>45</td>
<td>10</td>
</tr>
<tr>
<td>Colombia</td>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>Peru</td>
<td>35</td>
<td>10</td>
</tr>
<tr>
<td>Bolivia</td>
<td>30</td>
<td>5</td>
</tr>
<tr>
<td>Panama</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Guatemala</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>El Salvador</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Honduras</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Ecuador</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Mexico to go bankrupt and making many other countries dependent on international financial aid. The 1980s went down in history as the “lost decade”, in which growth and development seemed virtually unattainable.

In the course of the 1990s and even more so in the 2000s, however, an increasing number of Latin American countries managed to escape the vicious circle of high debt, weak economic performance and widespread poverty. Today the Human Development Index, the UN prosperity indicator, ranks two Latin American states, Chile and Argentina, as having “very high human development”. Only Haiti, which was destroyed by an earthquake in January 2010, is still rated as having a low state of development. Politically, too, the region has become more stable. Whereas in the late 1970s only three countries – Costa Rica, Venezuela and Colombia – were categorised as democratic, today all the countries of Latin America are considered to be democracies, even if the quality of governance varies. In economic terms, the region can look back on a phase of stable growth, evidenced by a more than doubling of the GDP of Latin America since the beginning of the 1980s from 1.2 trillion to almost 3 trillion US dollars. Particularly in the 2000s, strong global demand for Latin American exports allowed many countries to experience a “golden decade”. Buoyed up by their growing economic and political strength, countries like Brazil, Chile, Argentina and Mexico are appearing on the international stage with new confidence.
In political, economic and geostrategic terms, Latin America for a long time played a subordinate role in the minds of Europeans. Thus, the EU did only about five or six percent of its trade with this region. Conversely, at the end of the first decade of the 21st century, Latin American interest in the “old” continent had tangibly faded as new economic relationships were being forged with Asia, especially China. This enabled the region increasingly to withdraw from the influence of the Western community of states and its institutions, such as the World Bank and the IMF, and to develop its own political models. Latin American Socialism of all stripes – embodied by “Lula” da Silva in Brazil, Evo Morales in Bolivia, Hugo Chávez in Venezuela and the Kirchners in Argentina – has led to a completely new kind of self-image in the south of the double continent since the beginning of the new millennium – albeit an image that has since become distinctly tarnished by crises, mismanagement and corruption scandals.

It was in the course of this development that most Latin American countries once again began to draw on their wealth of ores, precious metals, fossil fuels and agricultural raw materials. This Neo-Extractivism – that is, growth based on sales of raw materials – has, however, been criticised for some years now as economically, ecologically and socially unsustainable: despite subsidies and measures to protect domestic industry, raw materials are still rarely processed in the countries where they are produced, perpetuating a dependence on global primary goods markets and allowing value-added to be generated elsewhere. A collapse in demand, currently observable in the wake of the economic recession in Asia, can thus cause growth to stall in many Latin American countries. What is more, major projects to exploit natural resources or to grow agricultural production as well as infrastructure projects like the construction of dams and roads can sow social discord, because they often fail to take account of the ecological costs and are implemented in the face of massive resistance. Left-wing governments like those of Brazil or Bolivia differ little from conservative ones, such as that of Chile, in this respect. In 2014, there were 210 conflicts in the mining sector alone in Latin America, most of them in Chile, Peru, Mexico, Argentina and Brazil.

Fluctuating growth

In the first decade of the 21st century, almost all Latin American countries were able to enjoy high growth rates. The economy of many Asian countries was booming, igniting demand for Latin American exports like crude oil, natural gas, rare earths and soya. But as the global commodities markets slackened off, so economic growth in the region slowed markedly. Experts expect further downturns over the next couple of years. For Venezuela, which is having to contend with major political unrest in addition to low global market prices, they are even expecting the economy to shrink considerably. In the wake of recent developments, the prognoses for Brazil, the region’s largest economy, look set to be revised downwards too.

The economic boom of recent years has undisputedly led to an improvement in living conditions in Latin America. According to calculations by the World Bank, between 1995 and 2010, around 40 percent of Latin American households managed to advance into the next higher socio-economic class. During this period, the share of the Latin American population of with more than 10-50 US dollars per day at its disposal (according to the World Bank definition, the income bracket of the middle class) rose from 20 to 30 percent. At the same time, the share of people living on less than 4 US dollars a day, and hence defined as poor, fell from 44 to 30.5 percent.
But it remains to be seen how sustained this social change will be. The largest group (38.5 percent) are still those who have an income of between 4 and 10 US dollars a day and who are stuck in the so-called “sandwich” class between poverty and middle income. They are considered to be particularly vulnerable to economic crises and political instability and are in danger of sliding back into poverty. Most of them work in the shadow economy and are not formally employed or socially insured. Indeed, the share of people working in the informal sector excluding agriculture currently lies between 33 percent in Chile and Uruguay and more than 70 percent in Honduras, Guatemala and Bolivia – despite a flourishing economy.

The level of education poses another challenge. Although enrolment rates in primary and secondary schools have improved considerably and now stand at 74 percent for secondary schools, this is still way below the OECD average of 91 percent. The quality of education is likewise far below the OECD average. Pressure on the population for further social and economic reforms and a more equal distribution of wealth is rising in many countries. The political stability of the region will depend on whether individual countries succeed in consolidating their success stories and making education available to broad sectors of the population.

American regional organisations

Ever since the states of the American continent were founded, the idea of pan-American integration has played an important role in relations between states. Thus, regional agreements and alliances are regularly formed with the goal of more political, economic or social integration. Some of them gain little political influence and are soon forgotten. Others are of major significance for international relations within the Americas. The following list is thus limited to the most important regional organisations and agreements that pertain primarily to the American continent.

Nafta, the North American Free Trade Agreement, is the only free trade agreement between the north and south of the continent and is limited to the two states of North America plus Mexico. Nafta came into force in 1994 and is designed to facilitate the exchange of goods, financial resources and services between the three member states. It does not provide for the free movement of labour.

Mercosur, the Mercado Común del Sur, was founded in 1991 as the South American free trade zone and customs union. Argentina, Bolivia, Brazil, Paraguay, Uruguay and Venezuela are permanent members, and they are not permitted to conclude bilateral free-trade agreements with third-party states. This is one reason why Chile, Peru, Colombia, Ecuador, Guyana and Surinam have only associate status. Mexico is currently negotiating to become an associate. Attempts to conclude agreements with the US on a pan-American free trade zone (FTAA) and with the EU have failed for years because of conflicts of interest over such issues as trade in agricultural products. Moreover, Mercosur has to contend internally with rivalries between its members. Projects such as a common currency or a regional bank that is independent of the World Bank and the IMF have been frozen for years.

The Alianza del Pacífico has existed since 2011 as a trade alliance of four Latin American countries located on the Pacific: Chile, Colombia, Mexico and Peru. Costa Rica has been in the process of joining since 2014. Combined, its member states account for more than a third of Latin American GDP. The goal of the alliance is economic cooperation and an opening of its markets to Asia. Besides free trade, the Pacific Alliance has launched other projects aimed at regional integration, such as visa-free travel, a common stock market and shared embassies in several countries.

Olade is the Latin American Organisation for Energy, founded in response to the oil crisis in 1973 and based on the Lima agreement. It now comprises 28 Latin American and Caribbean countries. Olade members receive technical and political support in further developing and integrating the regional energy market with the aim of strengthening energy security in the region.

The Latin American Integration Association, Aladi, is based on the Montevideo agreement and has existed since it replaced the Latin American free-trade organisation lafta and ALALC. Aladi has 13 member states and is devoted to socio-economic development and regional integration. Among its successes to date are regional preferential tariffs and individual agreements between various member states. Its long-term goal is the gradual establishment of a common Latin American market.

Unasur, which stands for Unión de Naciones Suramericanas, is an alliance of all twelve South American states founded in 2008. Its goal is to achieve a degree of economic and political integration like that of the EU by 2025. This will include a common currency and a common foreign and security policy. So far, Unasur has successfully helped to de-escalate various internal political conflicts, and it coordinates humanitarian aid in Latin America following natural disasters such as the devastating earthquake in Ecuador in 2016. But until now it has not played much of a role in international relations outside Latin America.
The Comisión Económica para América Latina (Cepal) is a UN organisation with headquarters in Santiago de Chile whose goal is to promote economic and social development throughout the region. Cepal operates several data banks with a wealth of socio-economic indicators and, besides an annual socio-economic development report, issues various other publications on the economic and social situation in the region.

The OAS, the Organisation of American States, was founded at the instigation of the US in 1948 and comprises all the continent’s independent states. Its original goal was to prevent Soviet influence on the American continent. Today, its interests are promoting democracy, protecting and guaranteeing human rights and furthering economic and social development and cooperation in regional security. Its headquarters are in Washington D.C. Celac, founded by the Latin American states in 2011, is considered to be an alternative to OAS.

Celac, the Community of Latin American and Caribbean states, was founded in 2011 through a merger of several smaller regional alliances. Its goal is to strengthen Latin American integration and to reduce US influence in the region. The chair of the organisation rotates every year between the 33 members of the alliance. This regional organisation is of fast-growing significance. Under the auspices of Celac, several joint position papers have been drafted recently, for example on combating terrorism. In 2016, Celac will assume a mission to monitor the ceasefire in Colombia and is coordinating the Latin American states’ efforts to combat the Zika virus.

Alba stands for Bolivar Alliance for the Peoples of Our America and was founded out of an initiative by the Cuban revolutionary leader Fidel Castro and the late Venezuelan president Hugo Chávez in 2004. It is conceived as a counter-model to the pan-American free-trade zone Alca planned by the US. Its starting point is the ideology of the freedom fighter Simón Bolívar, who in the 19th century had a vision of a great empire of all Spanish-speaking Latin American countries. Alongside the founding members, Cuba and Venezuela, ALBA includes seven Central American and Caribbean states as well as Bolivia and Ecuador. Alba pursues the goal of close political and economic cooperation and in 2010 introduced a virtual common currency, which plays a marginal role only, however. In recent years the organisation has shown a strong presence in international politics, and observers have noted an increasing militarisation.

The middle income trap

Total factor productivity is a measure of technological advancement and efficiency gains. Hence, it tells us how much a country can produce with a certain amount or quality of labour and capital, for instance if employees are highly educated or if a sector becomes more IT-intensive. Factor productivity grew only slowly in most Latin American countries after 1990 and has recently started to shrink again. This means that they are caught in the so-called middle income trap, together with all those emerging economies that have succeeded in freeing themselves from the worst poverty but lack the technological and innovative capacity to compete with the industrialised nations.

(Data source: Rabobank32)
This study covers all countries on the American double continent and in the Caribbean that have a population of more than one million – 24 in all. As well as the very small states, Puerto Rico was excluded from the country comparison. The island archipelago is an outlying area of the United States, for which reason no data are available for some of the indicators used in this study.

The country comparison is based on 20 indicators from five different areas: demographic potential, living standards, politics, the economy and the environment. The number of indicators per area ranges from two (the environment) to six (the economy). For each indicator, the countries received points relative to how they compare with one another, whereby 24 is the highest number of points that can be scored. For the individual areas, a list of rankings was drawn up based on the average score of each country: the country with the highest average score occupies first place. This approach has the advantage that where data for individual indicators are not available, there is no impact on the rankings. The overall rankings are derived from the average of the scores for all five areas, whereby the environment contributes only 50 percent of its weight to the final evaluation.

**Demographic potential**

The bigger the population, the larger the number of consumers. Thus, countries with large populations tend to have greater market potential than those with small populations. But it is not always the case that more people means more sales and more economic development. The age structure of the population has a significant influence not only on productivity but also on demand for various goods. Moreover, whether people live in an urban area or in the countryside helps determine consumer behaviour.

1. **Population size, 2015**  
   (Data source: UN Desa)

   The more people living in a country, the greater the market potential in absolute terms. There are two indisputable population giants on the American continent: the United States with 321.8 million inhabitants and Brazil with 207.8 million. The smallest of the 24 countries covered in this study is the island state Trinidad and Tobago with 1.4 million inhabitants. Other states with a small population include Jamaica (2.8 million), Uruguay (3.4 million) and Panama (3.9 million).

2. **Change in the share of 20–39 year olds in the total population up to 2030 (Index: 2015=100)**  
   (Data source: UN Desa)

   Young adults are considered especially innovative and productive and they are eager consumers. They are more inclined to try out new things and to take risks to satisfy their desires. The demand for consumer goods is especially high among young people who no longer live with their parents. At the same time, the purchasing power of young adults grows the more work experience they have. If this group shrinks as the population ages, economic downturns may follow. Only in a small number of countries covered in this study is the share of 20–39 year olds likely still to be growing by 2030. The strongest such growth – almost four percent – will be in Guatemala, while in Trinidad and Tobago the share of this age group will decline by more than one fifth.

3. **Change in the share of over 64 year olds in the total population up to 2030**  
   (Index: 2015=100)  
   (Data source: UN Desa)

   Even though older people are often significantly healthier and more active today than they were just a few decades ago, a large share of over 64 year olds is still a burden on society. When older people are no longer working, young adults have to provide for them. This functions only when the productivity of an economy grows quickly enough. Most of the countries included in this study, however, are confronted with the enormous challenge of a population that in some cases is aging very rapidly. The country in which the share of over 64 year olds is growing fastest is Colombia: from 7 percent at present to 12.8 percent in 2030. Currently, Uruguay has the largest share of 64 year olds among all the Latin American states (14.4 percent); and the small South American country is only slightly trailing Canada (16.1 percent) and the US (14.8 percent) on this indicator. However, compared with all other American states, Uruguay will see the lowest growth in the share of older people.

4. **Share of the urban population in percent, 2015**  
   (Data source: UN Desa)

   People living in towns or cities often have a higher income than those living in the countryside. Because most of them are unable to grow food themselves, they have to buy it. The larger the share of the urban population, the bigger the consumer potential. In Latin America the rate of urbanisation is high compared with other regions of the world. In Uruguay, no less than 95 percent of the
6. Adult mortality between age 15 and 60 per thousand, 2010–2015
(Data source: UN Desa)

Similarly, adult mortality provides information about the general state of health of a population. At the same time, it reflects the everyday risks that the population faces, for example dying in a road accident or being the victim of a violent crime. The number of deaths per 1,000 inhabitants in this age group ranges from 252 in Haiti to 66 in Canada.

7. Share of population aged 20 to 64 with secondary or higher education in percent, 2015
(Data source: Wittgenstein Centre)

The level of education of the population allows conclusions to be drawn about the social and economic development of a country as well as about its capacity for innovation. Economic development is hardly possible if the population is not sufficiently well educated. While in Honduras the share of the population aged 20 to 64 with at least secondary education is just 31 percent, the corresponding figure for Canada is 98 percent.

8. Income security of older people, 2015
(Data source: HelpAge International)

Aging societies are confronted with major challenges. While the share of older people who have to be provided for is growing, the working-age population is shrinking in relative terms. The more efficient a society is, the better it can deal with this situation – as indicated, among other things, by the income security of older people. Financially secure older people are more likely to take part in the life of the community, and they form their own consumer group. In the Global AgeWatch Index, compiled by HelpAge International, income security is one of four components used to assess the living standards of older people. States with a well-developed social system, like Canada, Uruguay and Brazil, score particularly well on this indicator. In Honduras, however, very few old people receive support from the state. For this reason, the country ranks just 85th in terms of income security among the 96 countries included in the Global AgeWatch Index.

(Data source: World Development Indicators, World Bank)

The Ease of Doing Business Index assesses the world’s countries in terms of the framework conditions for entrepreneurial activity – from registering a business to obtaining licences and dealing with bankruptcy. Among the 189 countries from around the world included in the survey, the US occupies seventh place and scores highest among the states in the Americas. Venezuela and Haiti rank 186th and 182nd, respectively, and thus are at the bottom of the rankings.

10. Rule of Law Index, 2014
(Data source: World Government Indicators, World Bank)

Businesses need to know that they can depend on existing laws and, if necessary, have legal recourse. This requires, among other things, an independent judiciary and a functioning police force. In the Rule of Law Index, the World Bank summarizes the results of various surveys about the quality of legal security. The scale is from +2.5 points for a very high level of legal security to –2.5 points for a very low level. In the international rankings, Venezuela occupies second-to-last place with –1.9 points, ahead of Somalia but well behind Haiti (–1.2). Among countries on the American continent, Canada has the highest score with 1.9 points, followed by the US (1.6) and Chile (1.4).

11. Corruption Control Index, 2014
(Data source: World Government Indicators, World Bank)

Corruption is widespread in many Latin American countries. Because of its concealed nature, it is hard to measure. In the Corruption Control Index, the World Bank summarizes the results of various opinion surveys and expert evaluations. The worst performance on this indicator receives a score of –2.5 points and the best performance +2.5 points. Most countries in the Americas have negative scores. The worst performing is, once again, Venezuela with –1.4 points followed by Haiti with –1.3. At the other end of the scale is Canada with +1.8 points, followed by Chile (1.5), Uruguay (1.4) and the US (1.3).
12. Political Stability Index, 2014
(Data source: World Government Indicators, World Bank)

Without a minimum of political stability, investments in the economy carry a high risk. The Political Stability Index indicates the likelihood of political violence in the form of putsches, political assassinations, civil wars and terrorism, among other things. Like other indices on governance, it summarizes the findings of various sources and its scale ranges from -2.5 points (low level of stability) to +2.5 (high level of stability). Well ahead in the rankings are, once again, Canada with 1.2 points and Uruguay with 1.0 points. Colombia, meanwhile, scores just -1.1 points, while Venezuela and Mexico each score -0.8.

13. Share of internet users in percent, 2014
(Data source: World Development Indicators, World Bank)

In modern societies, economic activity and social cohesion are virtually no longer possible without access to the latest information and communications technology. Thus in order to take part in society on an equal footing, it is necessary at least to have access to the Internet. This means that, on the one hand, the state must provide the required infrastructure and, on the other hand, people must have sufficient resources to make use of the facilities provided. For this reason, the number of Internet users allows conclusions to be drawn about how developed a country is and what the purchasing power of its population is. On the American continent, this number differs significantly from one country to the next. While in Canada and the US as many as 87 per 100 inhabitants used the Internet in the last twelve months, the corresponding figure in Haiti is just 11 and in Nicaragua 18.

14. Average annual economic growth in percent, 2009 to 2014
(Data source: World Development Indicators, World Bank)

Economic data are determined to a large extent by short-term developments. Extreme weather events like El Niño or fluctuations in the world market prices for raw materials can, in any given year, have a negative impact on economic growth, which then goes on to recover in the years that follow. That is why average growth over the past five years offers a better overview of the long-term trend in a country’s economic development. The leader on this indicator is Panama: its GDP grew from 21.3 billion US dollars to 31.8 billion, which yields an average annual growth rate of 8.3 percent. Even smaller economies such as Paraguay and Peru recorded growth rates of between 6.8 and 5.8 percent in this period. The US economy, the biggest on the continent, grew just 2.2 percent over the same period (albeit from a significantly higher base) and occupies the sixth-to-last place in the rankings. The lowest economic growth was recorded in Trinidad and Tobago with 0.4 percent and Venezuela with 1.1 percent.

15. Per capita GDP in US dollars, 2014
(Data source: World Development Indicators, World Bank)

Not only the size of GDP but also its average distribution per inhabitant must be taken into account in order to assess a country’s economic performance. For example, the total economic output of Uruguay is less than one tenth of that of Argentina, but per capita GDP in Uruguay is 30 percent higher than in Argentina. On this indicator, Uruguay occupies fourth place among the countries on the American continent, after the US and Canada, both established economic powers, and the island state of Trinidad and Tobago, which is exploiting its crude oil and natural gas reserves. The lowest per capita GDP – 833 US dollars – is to be found in Haiti. Even in the second-poorest state, Nicaragua, per capita GDP is more than twice as high, at 1,914 US dollars.

16. Gini coefficient median value, 2009–2013,
(Data source: World Development Indicators, World Bank)

The American continent numbers among those regions of the world that have the most unequal distribution of income. This is demonstrated by the Gini coefficient, which measures the gap between real income distribution and a hypothetical equal distribution. A Gini coefficient of zero would mean that all inhabitants have the same income, while 100 would signify that one inhabitant has all the income and everyone else has nothing. Since data are not available for all countries over all the years, the average of all available figures between 2009 and 2013 was calculated for...
this indicator. Old data only are available for three countries: Jamaica (2004), Trinidad and Tobago (1992) and Venezuela (2006). With the exception of Canada, which has a Gini coefficient of 34, all countries covered in this study have a coefficient of more than 40. The Gini coefficient for Haiti is 61, one of the highest worldwide.

17. KOF Index of Globalization, economic dimension, 2015
(Data source: KOF Swiss Economic Institute, ETH Zurich)

Strong economies are closely connected with world markets. It is only in this way that they can secure sufficient sales outlets, attract investors and profit from international know-how. With the help of the KOF Index of Globalization, the ETH Zurich assesses the extent of the country’s economic globalization on a scale of 1 (low) to 100 (high). The index uses various indicators of the current level of trade in goods and money in an economy as well as its regulatory framework. As Central America’s international trading hub, Panama scores highest on this indicator, followed closely by Chile and Trinidad and Tobago. Lagging well behind are Venezuela, Argentina and Ecuador, all of which have pursued a protectionist economic policy in the past three years under their leftist governments.

18. Share of manufacturing industries and services in GDP (in percent), 2009 to 2014
(Data source: World Development Indicators, World Bank)

The economic power of many countries on the American continent is based largely on the extraction and export of raw materials. If the price of raw materials fluctuates on the world market, it has a direct impact on the economic performance of those countries. The larger the share of the manufacturing industries in GDP, the more resilient the economy as a whole and the more jobs created. The expansion of the service sectors – for example, banking and insurance, trade and hospitality – and public services creates new jobs and thus constitutes an important step forwards in the development of a modern economy. In the island state of Trinidad and Tobago, which lives from the export of crude oil, the share of the two sectors combined in GDP is just 47 percent, while the corresponding figure for Bolivia and Paraguay is 63 and 62 percent, respectively. As the strongest economy in the region, the US derives 91 percent of its GDP from these two sectors.

The environment

Stable and sound environmental conditions are a prerequisite for long-term investments. In many of the mainland and island states of the American continent, extreme weather events and natural disasters pose a constant risk, be they tornadoes, torrential rains, landslides, volcanic eruptions or earthquakes. The threats from nature are exacerbated not just by climate change but also by interference in the ecosystems on the part of the local population through mining, deforestation and monoculture in farming as well as through soil sealing of increasing areas of land owing to urban and road construction. The stability of the ecosystem as well as the ability of states to handle environmental risks influences how they promote economic development. In many countries, civil society environmental protection organisations can increase political instability through their protests against interventions in the ecosystem, as in the case of Bolivia and Chile.

19. Ecosystem Vitality Index, 2016
(Data source: Yale Center for Environmental Law and Policy)

Polluted water, deforestation, contaminated soil, shrinking fish supplies as well as monocultures – all these are factors that can have a long-term impact on a country’s economic performance and are included in the Ecosystem Vitality Index. That index shows to what extent countries are prepared to support their resources and ecosystems and how successful they are in that endeavour. The higher the number of points scored, the better a country’s performance is judged to be.

Haiti has the lowest score on this indicator and ranks near the bottom of the index even in the global comparison. The US and Canada, both modern industrial nations, lead the field in the comparison between states on the American continent.

20. Vulnerability to natural disasters, 2015
(Data source: World Risk Index, United Nations)

The more a country is exposed to the risk of natural disasters, the more governments, enterprises and private individuals must invest in protecting not just human beings but also their property and the country’s infrastructure. The World Risk Index of the United Nations assesses how vulnerable a country is to natural disasters such as earthquakes, storms, floods, droughts and sea level rise on the basis of the share of the population that has to contend with these threats. The small Central American countries are especially vulnerable to natural disasters because they have long coastlines, are frequently hit by tornadoes and lie in a zone of tectonic activity. Costa Rica is most threatened, followed by Guatemala, El Salvador and Nicaragua. Chile is the only South American country to be significantly at risk and occupies fourth-to-last place, while those least exposed are considered to be the South American states Paraguay, Bolivia and Brazil.
<table>
<thead>
<tr>
<th>Final Rank</th>
<th>Population size 2015</th>
<th>Demographic potential</th>
<th>Living standards</th>
<th>Politics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index 2015 = 100</td>
<td>Index 2015 = 100</td>
<td>per thousand</td>
<td>per thousand</td>
</tr>
<tr>
<td>Canada</td>
<td>35.9</td>
<td>88.2</td>
<td>145</td>
<td>2</td>
</tr>
<tr>
<td>US</td>
<td>321.8</td>
<td>95.4</td>
<td>140</td>
<td>2</td>
</tr>
<tr>
<td>Uruguay</td>
<td>3.4</td>
<td>96.8</td>
<td>118</td>
<td>3</td>
</tr>
<tr>
<td>Chile</td>
<td>17.9</td>
<td>88.8</td>
<td>160</td>
<td>13</td>
</tr>
<tr>
<td>Argentina</td>
<td>43.4</td>
<td>93.3</td>
<td>120</td>
<td>1</td>
</tr>
<tr>
<td>Cuba</td>
<td>11.4</td>
<td>89.5</td>
<td>164</td>
<td>19</td>
</tr>
<tr>
<td>Panama</td>
<td>3.9</td>
<td>93.8</td>
<td>151</td>
<td>19</td>
</tr>
<tr>
<td>Mexico</td>
<td>127.0</td>
<td>94.6</td>
<td>160</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>207.8</td>
<td>88.0</td>
<td>171</td>
<td>14</td>
</tr>
<tr>
<td>Peru</td>
<td>31.4</td>
<td>91.2</td>
<td>151</td>
<td>9</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4.8</td>
<td>87.4</td>
<td>170</td>
<td>22</td>
</tr>
<tr>
<td>Jamaica</td>
<td>2.8</td>
<td>90.4</td>
<td>149</td>
<td>21</td>
</tr>
<tr>
<td>Dominica</td>
<td>10.5</td>
<td>96.8</td>
<td>152</td>
<td>9</td>
</tr>
<tr>
<td>Colombia</td>
<td>48.2</td>
<td>89.7</td>
<td>182</td>
<td>18</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1.4</td>
<td>78.4</td>
<td>158</td>
<td>24</td>
</tr>
<tr>
<td>Bolivia</td>
<td>10.7</td>
<td>100.0</td>
<td>126</td>
<td>4</td>
</tr>
<tr>
<td>El Salvador</td>
<td>6.1</td>
<td>100.9</td>
<td>141</td>
<td>8</td>
</tr>
<tr>
<td>Venezuela</td>
<td>31.1</td>
<td>93.6</td>
<td>165</td>
<td>12</td>
</tr>
<tr>
<td>Ecuador</td>
<td>16.1</td>
<td>94.8</td>
<td>155</td>
<td>16</td>
</tr>
<tr>
<td>Paraguay</td>
<td>6.6</td>
<td>96.3</td>
<td>144</td>
<td>14</td>
</tr>
<tr>
<td>Guatemala</td>
<td>16.3</td>
<td>103.6</td>
<td>124</td>
<td>5</td>
</tr>
<tr>
<td>Honduras</td>
<td>8.1</td>
<td>101.4</td>
<td>153</td>
<td>17</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>6.1</td>
<td>92.0</td>
<td>175</td>
<td>22</td>
</tr>
<tr>
<td>Haiti</td>
<td>10.7</td>
<td>97.8</td>
<td>135</td>
<td>9</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------</td>
<td>--------------------</td>
<td>---------------------------------------------</td>
<td>------------------------------------------------</td>
</tr>
<tr>
<td>87</td>
<td>2.6</td>
<td>50,271</td>
<td>34</td>
<td>75</td>
</tr>
<tr>
<td>87</td>
<td>2.2</td>
<td>54,629</td>
<td>41</td>
<td>59</td>
</tr>
<tr>
<td>61</td>
<td>5.0</td>
<td>16,811</td>
<td>44</td>
<td>64</td>
</tr>
<tr>
<td>72</td>
<td>4.6</td>
<td>14,520</td>
<td>51</td>
<td>78</td>
</tr>
<tr>
<td>65</td>
<td>4.3</td>
<td>12,922</td>
<td>44</td>
<td>38</td>
</tr>
<tr>
<td>30</td>
<td>2.7⁵</td>
<td>6,848⁴</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>45</td>
<td>8.3</td>
<td>11,771</td>
<td>52</td>
<td>80</td>
</tr>
<tr>
<td>44</td>
<td>3.3</td>
<td>10,361</td>
<td>48</td>
<td>62</td>
</tr>
<tr>
<td>58</td>
<td>3.2</td>
<td>11,613</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>40</td>
<td>5.8</td>
<td>6,594</td>
<td>46</td>
<td>73</td>
</tr>
<tr>
<td>49</td>
<td>4.3</td>
<td>10,035</td>
<td>49</td>
<td>63</td>
</tr>
<tr>
<td>41</td>
<td>k.A.</td>
<td>5,290¹⁴</td>
<td>45¹⁴</td>
<td>67</td>
</tr>
<tr>
<td>50</td>
<td>5.1</td>
<td>6,076</td>
<td>47</td>
<td>58</td>
</tr>
<tr>
<td>53</td>
<td>4.8</td>
<td>7,720</td>
<td>55</td>
<td>57</td>
</tr>
<tr>
<td>65</td>
<td>0.4⁴</td>
<td>18,218¹⁴</td>
<td>40¹¹</td>
<td>79</td>
</tr>
<tr>
<td>39</td>
<td>5.3</td>
<td>3,151</td>
<td>48</td>
<td>57</td>
</tr>
<tr>
<td>30</td>
<td>1.8</td>
<td>3,951</td>
<td>44</td>
<td>60</td>
</tr>
<tr>
<td>57</td>
<td>1.1</td>
<td>16,530</td>
<td>48¹⁴</td>
<td>43</td>
</tr>
<tr>
<td>43</td>
<td>5.0</td>
<td>6,291</td>
<td>48</td>
<td>44</td>
</tr>
<tr>
<td>43</td>
<td>6.8</td>
<td>4,479</td>
<td>50</td>
<td>58</td>
</tr>
<tr>
<td>23</td>
<td>3.6</td>
<td>3,703</td>
<td>52</td>
<td>59</td>
</tr>
<tr>
<td>19</td>
<td>2.1</td>
<td>2,347</td>
<td>55</td>
<td>64</td>
</tr>
<tr>
<td>18</td>
<td>4.7</td>
<td>1,914</td>
<td>46</td>
<td>60</td>
</tr>
<tr>
<td>11</td>
<td>1.9</td>
<td>833</td>
<td>61</td>
<td>49</td>
</tr>
</tbody>
</table>

¹ average growth rate 2009 to 2013 ⁴ 2013 ⁵ 2004 ⁴ 1992 ¹ 2006

America – The Rise to Prosperity and Missed Opportunities 15
The spectrum of the 24 American countries surveyed ranges from the superpower the United States at one end to countries that are still struggling with enormous development problems such as Nicaragua, Honduras and Haiti at the other. In between are major emerging countries like Mexico, Brazil and Argentina, whose development is ambivalent, and smaller but stable states like Uruguay and Costa Rica. Hence the differences between the individual indicators in the five areas covered by the index are similarly large. But where precisely are they to be found? And where is there common ground? And what will be the important developments and challenges on the American continent in the coming years?

**Demographic potential**

**Latin America is aging most rapidly**

Fertility rates have been falling continuously on the American continent for at least six decades and now average 2.2 children per woman in both Central America and the Caribbean, 2.0 in South America and 1.9 in North America.¹ With a few exceptions like Guatemala, Haiti and Bolivia, where women on average still bear 3.3, 3.1 and 3.0 children, respectively, the demographic transition in the American countries is already well advanced. What is more, life expectancy is rising. Whereas, statistically speaking, North Americans can now expect to live 10 years longer than they could in 1950, in Latin America people have gained an extra 24 years on average over the past six decades. This makes Latin America the most rapidly aging region in the world.² How strong an impact the falling fertility rates and rising life expectancy have on age structure varies from one state to another. In the coming years Cuba will see a particularly large shift in the ratio of the working-age population to the younger or older dependents that it has to support: whereas today, there are 57 younger and older dependents for every 100 working-age inhabitants of the communist island state, in 2050 there will be about 98.³ In Chile, Brazil and Costa Rica the dependency ratio will rise markedly, too, in the coming years, as is evident from their relatively low rankings in the demographic section of the index. They will face the challenge of maintaining the positive economic and social developments of recent decades in an aging society. This will require, above all, investment in the educational level of their populations in order to preserve their innovative power and productivity despite an older population or perhaps even benefiting from it. One factor that might prove helpful is the very high rate of urbanisation in the states surveyed, with the exception of Trinidad and Tobago. In cities people often have better access to education and healthcare. At the same time, the infrastructure providing for older people is usually more developed in cities.

From the pyramid to the beehive

At the beginning of the 1960s, the age structure of the populations of Central and South America still had the typical pyramid shape of countries at a relatively low stage of development. Back then, the number of children per woman varied from 2.9 (Uruguay) to 7.4 (Honduras). As living conditions have improved in the region, fertility rates have fallen considerably in each country and now exceed three children per woman only in Guatemala and Haiti. On the continent as a whole Canada and Cuba have the lowest birth rates, at just under 1.6. But in Trinidad and Tobago, Chile, Brazil, Costa Rica, Colombia, the US, Uruguay and El Salvador women have fewer than 2.1 children, in other words fewer than would be necessary in the long term to maintain the current size of the population without immigration. As a result, the shape of the population pyramids for Central and South America will be transformed by 2050 into the beehive typical of countries undergoing demographic transition. The North American population pyramid has already reached the beehive stage, since the demographic transition began earlier there.
Life expectancy is not only an important indicator for forecasting demographic developments, it also allows conclusions to be drawn about living conditions. Thus the fall in infant mortality is connected with better healthcare, a healthier diet and a higher level of education. In Haiti, the poorest state in the country comparison, 47 new-borns out of every 1,000 die before their first birthday – almost ten times as many as in highly developed Canada. The mortality rate per 1,000 among persons between the ages of 15 and 60 varies even more. It is particularly high in countries with a very low per capita income such as Haiti, Bolivia, El Salvador and Guatemala. But an improvement in living conditions does not always lead to higher life expectancy. Trinidad and Tobago, the Dominican Republic and Brazil all exhibit above average mortality among adults, despite their high per capita income. Income distribution, access to education and healthcare as well as security in everyday life decide, too, whether a life is short or long. Latin America is the only region in the world where the probability of dying a violent death rose between 2000 and 2010. More than one million people died in violent attacks during this period.5

---

Population according to age groups and gender in millions of inhabitants, 1960, 2015 and 2050 (projection, medium variant)
(Data source: UN Desa4)
Investment in schools and vocational training was for a long time neglected in many Latin American countries. In the early 1990s nearly all children of primary school age attended school, but an average of 45 percent of children had not attended secondary school, often because it was too expensive or too far away. Hence the share of the adult population with secondary or higher education is rather low in many countries of the region. As economies started to boom in the late 1990s, Latin American governments began to spend more on education and to invest in expanding the school system. The success of these measures is apparent in the school enrolment rates, which had risen to 76 percent for secondary schools by 2013; however, this is still significantly below the average of 88 percent for North America.6

Another problem of the education system in Latin America is the poor quality of education. According to the PISA test of 2012, Latin American school students lag at least two years behind the average educational attainment of their cohorts in the OECD as a whole.7 By contrast, in Canada and the US almost everyone between the ages of 20 and 64 has graduated from secondary school. Yet even in the US the quality of education, at least in the arts and humanities, is below the OECD average.8 In Canada the population benefits from a socially integrative education system, which promotes all children independently of their social origin. This is shown regularly in the above-average results achieved by Canadian school pupils – including those from immigrant families – across the board in international comparisons.

The low level of education is one reason why a large proportion of older people in Latin America are unable to make provision for their old age during their working lives. Older people generally have to rely on help from their families or state support. Panama, Chile and Uruguay have the most extensive state social programmes and have increasingly adapted to the requirements of an aging society in recent years. Bolivia and Brazil have likewise introduced old age pensions, while Argentina has established a system that is notable for its provision and care for older people. In Honduras, by comparison, older people receive virtually no support from the state. Despite the highest per capita income on the entire continent, the US has one of the highest old-age poverty rates – 19 percent – owing mainly to the very low state pensions and a health insurance system that often fails to provide proper care for the sick. Canada, on the other hand, can boast above-average figures for all areas of life affecting older people.9

Where the state provides for its citizens

What the state can offer its citizens in the way of social benefits depends, on the one hand, on how high its revenues are and, on the other, what it considers its responsibilities to be. In Canada and the US, which are both very prosperous countries, absolute per capita social expenditure is much higher than in any other American state. Yet relative to GDP, North American social benefits are average for the American continent. Cubans, Argentines, Brazilians and Uruguayans all receive a high level of social benefits compared with GDP.
Politics

Between consolidation and change

Whereas the US and Canada have been democratic states ever since achieving independence and serve as models of good governance, the Latin American states have a very turbulent political history. South America has experienced many military coups, dictatorships and authoritarian regimes, which have gradually been replaced by democratically elected governments only since the 1990s. In Central America, too, oligarchies, often supported from abroad, were the rule until well into the 1990s. Opposition forces tried to topple these regimes in numerous bloody civil wars. Where they succeeded, the political regimes that followed were no less dictatorial. Nonetheless, over the past 20 or 30 years, Latin America, despite a few setbacks, has experienced the longest stable democratic phase in its history.

The quality of governance varies considerably within Latin America, however. Only Costa Rica, Chile and Uruguay are established democracies. In all other countries the structural shortcomings of the systems of governance have become ever plainer in recent years. Thus, many states are able to guarantee neither the independence of the police and the judiciary nor civil rights; nor, indeed, can they ensure press freedom and freedom of opinion. Arrest without charges or trial, corruption and red tape remain ubiquitous in many countries. States governed by left-wing governments isolate their economies from international markets, furthering a lack of transparency and deterring foreign investors. Compared with their rankings in other sections of the index, Venezuela, Bolivia, Argentina and Mexico perform particularly badly in the field of politics.

People are becoming increasingly fed up with the sorry state of affairs in their democratic systems. The “Cacerolazos” protest marches in Argentina, during which demonstrators bang saucepans and frying pans to draw attention to their discontent, the student riots in Chile and the spontaneous major demonstrations against Brazil’s President Rousseff are all signs of the rebellion of civil society against the political elites. As in the case of Argentina when the Kirchner era came to an end, a change of government seems to be on the cards in some Latin American countries. In the run-off election in Peru scheduled for June 2016, the right-wing populist Keiko Fujimori seems to have the best chance of ousting the left-wing nationalist Ollanta Humala. In Brazil the successor to the legendary left-wing socialist President “Lula” da Silva faces impeachment proceedings, and Venezuela’s socialist government under Nicolás Maduro has become politically ineffective since the death of Hugo Chávez. But unlike in the 20th century, these changes of government are not the result of military coups but have come about through democratic elections, testifying to the growing strength of Latin American civil society.

Democracy has some catching up to do

By the 1990s at the latest, freely elected democratic governments were gradually replacing Latin America’s authoritarian regimes. The quality of governance varies considerably, however. The Democracy Index compiled by the Konrad-Adenauer-Stiftung shows a high level of development in this area in only three countries in the region: Uruguay, Costa Rica and Chile.
The economy
From superpower to poorhouse
In no other section of the index are the differences between the states of the American continent as large as in the economy. Per capita GDP in the US and Canada is 60 to 65 times higher than in Haiti, the region’s poorest state, and roughly three times as high as in Uruguay, the Latin American country with the highest per capita income. For this reason, today’s relatively low economic growth in the two rich North American states does not play much of a role. Economic growth has been strongest in Panama in recent years. The small country benefits from its role as Central America’s trading and finance hub, which gives it the highest ranking in the economic globalization index. Argentina, Venezuela, Ecuador and Brazil, on the other hand, have pursued a deliberately protectionist economic policy in recent years, using high import duties and rigid import regulations to allow domestic production to develop independently of world trade. Yet even today, the economies of these and all other Latin American countries apart from Mexico and Panama depend largely on the export of raw materials, while they are processed in other regions of the world.

The dependence of these economies on the exploitation of natural resources served as an engine of growth in the early 2000s, especially for Latin America’s left-wing governments. Unlike in earlier phases of natural resources exploitation, in the wake of Neo-Extractivism the state assumes a stronger role, claiming a large share of yields by collecting levies and taxes or acquiring stakes in enterprises. Frequently, the governments use these revenues to finance social programmes, securing them support among the population. Whether the exploitation of natural resources damages the environment usually has no role to play, even when citizens protest. Eco-activists are treated virtually as enemies of the state by many left-wing Latin American governments.

Amid the decline in the prices of raw materials, Latin America is experiencing increasing difficulties. Between 2011 and 2015 the prices of metals and fuels like crude oil, natural gas and coal fell by 50 percent and those of agricultural products by 30 percent. As a result, these countries’ growth prospects dwindled, their currencies lost in value and inflation rates rose. Like the US, many Latin American governments are now openly considering raising the base interest rate in order to curb inflation. This would, however, reduce even further the already weak demand in domestic markets and exacerbate social differences. The Gini coefficient, which measures income distribution within a population, already records some of the world’s highest values in Latin American states. In this regard, they differ little from the US, where income inequality is likewise high.

Dependence on raw materials
The share of raw materials in exports has increased considerably in Latin America in recent years. It now accounts for 70 percent of trade with Asian countries, while the share of higher-quality manufactured products is declining. Exports to the EU are likewise dominated by raw materials. Mexican exports account for much of the trade with the US, for the northernmost country in Latin America plays the role of an extended workbench for many US and multinational companies. If Mexico is left out of the equation, the share of raw materials in total Latin American exports to the US almost doubles.
The Environment

Living with risk

Environmental conditions influence the living conditions and the economic prosperity of a region, both of which, however, depend on states’ ability to adapt to these conditions and to ensure that ecosystems remain as stable as possible. The American continent is vulnerable to all kinds of dangers emanating from the forces of nature. Earthquakes, volcanic eruptions, tornadoes and extreme weather, like that caused by El Niño, pose an ever-present threat for the entire continent and in the past have repeatedly devastated whole swathes of territory. Central America, especially Costa Rica, is most threatened, but Chile, which runs along the spine of the Andes, is vulnerable to natural disasters, too, especially earthquakes. However, the financial, technical and administrative wherewithal of these states to protect themselves from the effects of natural disasters differs. Thus, a well-developed country like Chile is less defenceless than, say, Honduras, despite the fact that Chile is more likely to experience a natural disaster.

The ability of a country to protect and preserve ecosystems is shown in the Ecosystem Vitality Index. Economically more developed countries, such as Chile, Brazil and Mexico as well as the two North American states, are better equipped to treat sewage in a way that does not damage the environment, to establish protected zones or to launch reforestation programmes. Thus, they do much better in environmental rankings. States that live largely from intensive agriculture and animal husbandry like Uruguay and Paraguay tend to score much lower in this respect.

Where danger threatens

The United Nations’ World Risk Index measures the danger posed to individual states by the forces of nature. This index takes account only of countries’ geophysical conditions, while all the other sections assess the ability of states to cope with these dangers. Although the exposure to natural disaster is relatively low, the risk for Haiti is nevertheless especially high because of its inability to deal with the consequences of such an event. Honduras and Venezuela are likewise comparatively ill-equipped to deal with natural disasters. Costa Rica, Cuba and Chile, on the other hand, have relatively good structures for responding efficiently to an emergency situation, giving them a better overall score, despite the higher risk.

Evaluation of the American countries according to the four categories of the World Risk Index from 0=low risk to 100=high risk, 2015 (Data source: World Risk Index21)
THE GFK HOUSEHOLDS SURVEY SHOWS WHAT AMERICANS CAN AFFORD

Wealth is unevenly distributed not only between the countries of the American continent but also within countries. Macroeconomic data, however, generally do not tell us what individuals can afford and which purchases pose financial difficulties for them. The GfK-Verein therefore conducted a standardised survey of 13 North, Central and South American countries in which it asked members of randomly selected households how they assessed the income situation of their household. The respondents were asked to choose one of six possible response categories to describe which purchases were possible for their household and which would pose financial problems.

At first glance, the results of the survey yield few surprises. As one might expect, the proportion of households that have difficulty covering even basic expenses like food and clothing is much higher in countries with low per capita income like Guatemala than in countries with strong economies. By the same token, in richer countries a larger proportion of households do not run into financial difficulties until they want to buy a car or their own home. Yet the survey made some major revelations. In Chile and Argentina the proportion of households that already struggle financially to buy food and clothing is higher than would be expected from those countries’ per capita incomes. The share is highest, however, in Venezuela. In the very country that espoused socialism and sought to use oil revenues for the benefit of the population, two-thirds of households said they had problems buying everyday essentials. The lack of a manufacturing base and an economy of scarcity means that Venezuela is heavily dependent on imports, causing the cost of living to skyrocket. Since the drop in crude oil prices, the state has found it increasingly difficult to supply the domestic market with basic goods, which is why supermarket shelves frequently remain empty.

Per capita income in Ecuador is well below half the Venezuelan average, yet in this country located in the Andes, only one household in nine has problems affording sufficient food and clothing. This can be partly explained by the country’s economic structure. In Ecuador a quarter of the population is employed in agriculture and thus in a position to grow its own food; for this reason, they often have sufficient money left over for smaller purchases like clothing or household articles. Among farmers, therefore, the share of households choosing one of the first two response categories was smaller. Nonetheless,

---

The six possible response categories in the GfK households survey

The households surveyed were able to assess the income situation of their household by choosing one of the following six response categories. Households in the two highly developed countries, the United States and Canada, were given only the latter four possible answers from which to select. Around 1,000 households of all income categories were surveyed in each country. The results were weighted according to socio-economic characteristics.

1. We do not have always enough money for food.
2. We have enough money for food but buying clothing is a problem for us.
3. We have enough money for food, clothing and small household appliances. However, buying a TV-set, a refrigerator or washing machine would be a problem for us.
4. We can afford main household appliances. However, buying a car would be a problem for us.
5. We have enough savings almost for everything except for such expensive things as a house, apartment or a country house.
6. We don’t have any financial difficulties.
More wealth does not necessarily mean more consumption

How households assess their own income situation depends only partly on the actual per capita income of the country in question. While US households have the highest average income on the continent, one household in four says that buying major household appliances like a television poses financial problems. The background to this is the relatively large gap between poor and rich households. In Canada, which has a similar level of prosperity, the share is half that in the US. In Central and South America, too, the survey results only partly reflect the population’s actual level of wealth.

77 percent of them said that buying larger household appliances like a refrigerator put a strain on their budget, whereas the average for the population as a whole was 32 percent of surveyed households.

In the United States, on the other hand, income is strongly correlated with the respondents’ level of education. Thirty-seven percent of households that have at most secondary education can scarcely afford to buy a television or a refrigerator. This share is twice as high as that of the group with a university degree. Ethnic origin plays a role, too. Whites and Americans of Asian origin earn much more on average than Afro-Americans or Hispanics. One white person in six said they had no financial problems, whereas only one Afro-American or Hispanic in eleven was in a position to say this.

If the respondents are divided according to age, it becomes more difficult to find a pattern that correlates with financial circumstances. In most Latin American countries it is mainly young people under the age of 19 who say that buying clothes poses a financial problem. This might have to do with the fact that families have to limit their consumption more than childless households. At the same time, young people may have a greater need to consume and therefore perceive their financial situation as more precarious than other age groups. In addition, the survey shows that in countries with comprehensive basic provision for older people like Bolivia, the share of those who selected one of the first two possible response categories tended to be smaller.

Opportunities to consume depend not just on objective factors but also on individual consumer behaviour, the symbolic value of certain consumer goods and their availability. A good example of the last is Argentina, where property – at least in the countryside – is fairly cheap. Buying their own home is therefore less of a factor for Argentinians than for people in other countries. Category 5 was therefore omitted from the survey of Argentinian households.
However, things have changed in Fort McMurray since then: today, flats are standing empty, restaurants report fewer guests and the local airport is no longer full of arriving and departing oil workers day in, day out. The reason for this is the continuing low price of crude oil on world markets, which has made its costly extraction from oil sand increasingly unprofitable. Companies are putting projects on the backburner and laying off workers. While the Canadian economy grew on average by 2.6 percent a year during the period 2009–2014, it slid into recession for a while in 2015 – among other reasons, because the oil industry has been producing and investing less.

Indeed, the low oil price, along with similar declines in the price of many metal ores on world markets, was one of the reasons for the change of government in Canada in autumn 2015. The electorate clearly blamed the former conservative prime minister, Stephen Harper, for the economic downturn. Now his new liberal successor, Justin Trudeau, wants to free the country from its dependency on natural resources through a major stimulus programme. To this day, every third Canadian dollar that companies and speculators invest in the country ends up in the oil and gas sector. Canada has the third-largest proven oil reserves in the world, after Saudi Arabia and Venezuela. They are extracted mainly in the west of the country and the Prairies of the central plain, also home to Canada’s huge agricultural sector.

**Mighty neighbour**

However, the real economic and cultural heartland of the country lies in the south-eastern lowlands. Four out of five Canadians live on a 150-km-wide strip of land that runs along the US border. Located here are major cities such as Toronto, the largest in the country with its 2.8 million residents, the predominantly French-speaking Montreal and the capital, Ottawa. In this part of the country, modern service providers and industrial enterprises such as automobile suppliers and aerospace companies provide a counterweight to the natural resource-dominated part of Canada’s economy.

Here Canada’s mighty neighbour to the south is of major importance. The two economies cooperate closely under the NAFTA free trade agreement and each is the other’s most important trade partner. Even the power grids of the two countries are linked. While US culture exercises a strong influence on the neighbour to the north, Canada’s social system has similarities with the Scandinavian model: the country is an egalitarian welfare state in which the differences between rich and poor are relatively small. In no other country on the American continent is wealth so evenly distributed as in Canada.

As a highly developed industrial state, Canada is a member of the G8 group. It can boast political stability and a high level of legal certainty. In the current overall rankings of countries in the Americas, it occupies top place – ahead even of the US. Canada scores especially well on living standards: the infant mortality rate is low and life expectancy high. In large parts of this huge country, nature is unspoiled – despite the oil and mining industries – or, at least, less spoiled than in any other country on the continent. But it is for the educational level of the population that Canadians regularly achieve top marks in worldwide surveys. More than half of those aged 20–64 have graduated from a higher education institution, a greater share than in any other OECD state.

**Migration as growth driver**

The excellent living standards attract migrants from around the globe. Along with countries such as Israel and Australia, which have a large number of migrants for historical reasons, Canada’s share of migrants is among the highest in the world. Just over one-fifth of the population was born outside the country. Ever since it came into existence, Canada has controlled how many new residents it accepts and from which countries. Since the 1960s, the level of education and the professional qualifications of would-be migrants have been decisive factors, as has the situation on the labour market at any given time. Whereas Canada once sought to attract mainly Europeans, today it is people from South and East Asia who tend to find jobs and a new homeland here. Indeed, the third most-spoken language in the country – after English and French, which is otherwise spoken in Pakistan and northern India – is Punjabi, which is otherwise spoken in Pakistan and northern India. Having taken in numerous boat people from Vietnam in the 1970s and 1980s, Canada is now once again increasingly opening its doors to refugees.
The United States is currently working on two major free trade agreements. The first is the Transatlantic Trade Investment Partnership (TTIP), which it has been negotiating with the European Union since 2013. The outcome is still open because TTIP has been criticised in some European countries. In the meantime, following five years of negotiations, the US signed the Transpacific Partnership (TPP) with 11 Pacific littoral states in February 2016.1 Assuming those states ratify the agreement, this would create the world’s largest free trade zone, accounting for more than a third of global GDP and more than a quarter of all world trade in 2014.2

Superpower with internal tensions

The United States is currently working on two major free trade agreements. The first is the Transatlantic Trade Investment Partnership (TTIP), which it has been negotiating with the European Union since 2013. The outcome is still open because TTIP has been criticised in some European countries. In the meantime, following five years of negotiations, the US signed the Transpacific Partnership (TPP) with 11 Pacific littoral states in February 2016.1 Assuming those states ratify the agreement, this would create the world’s largest free trade zone, accounting for more than a third of global GDP and more than a quarter of all world trade in 2014.2

Since China is currently excluded from the agreement, TPP would enable the US to expand its economic influence in the Pacific region vis-à-vis its continuously growing rival.3 Since the turn of the millennium, the US contribution to the global economy has fallen from 30 to 22 percent. Over the same period, China’s share has quadrupled from 3.5 to more than 13 percent.4 At the same time, China has been able to triple its global exports, while the US share of world exports has decreased.5 However, in drawing these comparisons we should remember that China’s economic performance is driven by a population four times that of the US.

Overcoming the crisis US-style

Thus, the United States is still the world’s undisputed leading economic power, accounting for a fifth of global gross social product6 and responsible for a quarter of all foreign direct investment.7 The US is also one of the world’s wealthiest countries. At almost 55,000 US dollars, per capita GDP is seven times higher than in China.8 Just how robust the US economy is becomes especially evident when times get hard. The economic and financial crisis of 2008/2009 triggered by the collapse of the US property market and financial sector plunged the country into a recession lasting 19 months, yet it managed to get back on its feet more rapidly than other countries. Since 2009, the economy has been growing at more than 2.2 percent a year.9 By comparison: average EU growth over the same period was barely one percent.10 At five percent, unemployment in the US has returned to its pre-crisis level too.11

Through migration the population of the country has been growing by almost one percent a year.13 Indeed, despite the low fertility rate of 1.6 children per woman – the lowest on the American continent – the Canadian population is one of the fastest-growing among the world’s industrial states.14 In the next 15 years alone, the number of inhabitants could rise from 36 million to more than 40 million.15 Moreover, during the same period, the population is likely to age somewhat less than the American average, likewise owing to migration.

In order to integrate the large number of new residents into Canadian culture, the country’s official policy since 1971 has been to promote multiculturalism – by which Canadians mean a mosaic of separate cultures that, combined, constitute Canada’s own. The prime minister responsible for introducing this approach was Pierre Trudeau, the father of the current premier. By integrating migrants under the banner of multiculturalism, Canada ensured more than 40 years ago that it would be fit for the future. Now it remains to be seen whether the country can achieve something similar on the economic front. Meanwhile, in spring 2016 a significant part of Fort McMurray was destroyed in the most devastating wildfires in decades.

US economy dominates

The breakdown of foreign direct investment by origin shows that no country is more important for the Canadian economy than the US. Around half of all investments by people outside Canada came from its neighbour to the south. Numerous US companies have production facilities in Canada, which supply the local market. The disadvantage is that the head offices – and thus the lion’s share of value-added – remain in the US. For this reason, Canada needs to relinquish its status of extended workbench in the foreseeable future and focus more on its own research and development.

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>49.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>9.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.3</td>
</tr>
<tr>
<td>Switzerland</td>
<td>6.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.9</td>
</tr>
<tr>
<td>France</td>
<td>4.9</td>
</tr>
<tr>
<td>Germany</td>
<td>4.9</td>
</tr>
<tr>
<td>China</td>
<td>3.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.7</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.5</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.5</td>
</tr>
</tbody>
</table>

The ten most important country sources of foreign direct investment according to market share, 2014
(Data source: Global Affairs Canada16)
The rapid economic recovery has not been without its costs, however. Two recovery programmes to the tune of 700 billion US dollars designed to shore up or boost the economy have driven up the already high state debt, which reached 123 percent of GDP in 2014. Yet the regenerative power of the US economy also reflects to a large extent the national mentality. A high degree of individual freedom and an above-average sense of personal responsibility are part of the social consensus. Seventy-three percent of Americans say it is important to work hard to get ahead, while only 49 percent of Germans agree with this statement. To achieve these goals, Americans are also prepared to take a flexible approach to employment. They change their job and place of residence more frequently than workers in other countries. The comparatively loose employment protection regulations and the rather thin social security net likewise encourage labour market flexibility.

It is not only the population’s ambition to move up the social ladder that makes the US one of the world’s most innovative countries. It also has an excellent science and research landscape. According to the world university rankings of the British journal Times Higher Education, 14 of the top 20 universities worldwide are to be found in the US. As well as receiving generous state funding, excellence universities like Harvard, Stanford, Yale or the Massachusetts Institute of Technology (MIT) benefit from billions of dollars in private donations, allowing them to expand their knowledge lead and to attract top scientists from all over the world. Thus, half of all Nobel...
Prize recipients to date are from the US. The intense level of research is also reflected in the number of new inventions. In 2014, 578,802 patents were registered in the US. Only in China, with four times the population, was the number of new patents higher, at almost one billion.

Aided by extremely business-friendly conditions, such as comparatively easy access to credit and venture capital, US companies manage to translate good ideas into marketable products especially rapidly. This is illustrated by the large number of small start-ups that have become global players within just a few years: Facebook, Paypal and Google are now household names. Ideas originating outside the US have a good chance of success, too, in the land of unlimited opportunities. For example, a Munich university had developed a driverless car back in the 1990s; such a vehicle is now being produced in the US. In the long term, however, US companies like Google, Apple and Tesla are considered to have the best chance of building a fully autonomous car and thus to revolutionise mobility. Unlike in Germany, cars that drive themselves are already legal in the US, which is why European and Asian auto manufacturers send their models to the US to be tested under real conditions.

Still attractive for immigrants

The myriad opportunities it offers continue to make the US a popular destination for immigrants. According to calculations by the US-based Center for Immigration Studies, since 2000 the total number of immigrants — legal and illegal — has risen by almost 40 percent to 42 million. Indeed, 13 percent of US inhabitants were born outside the country. Immigrants make a disproportionate contribution to economic growth in the US, since apparently some of them are especially willing to take risks: they are the founders of more than a quarter of all new companies and account for more than 20 percent of managers at the country’s 500 largest companies. In Silicon Valley alone more than half of all startups between 1995 and 2005 were founded by people born outside the country.

Immigration together with the fertility rate of almost two children per woman — comparatively high for a Western industrialised nation — means that the population is predicted to grow from today’s level of roughly 322 million to 356 million by 2030 and almost 390 million by 2050. What is more, the population of the US is aging much less rapidly than those of other modern societies. Today, the average age in the US is 37, while in Germany it is 45. In 2030, 100 people of working age in Germany are likely to have to support around 51 people over the age of 64; in the US the corresponding figure is just 38. Hence instead of having to worry about shrinking population scenarios, the US will still have one of the world’s largest and highest-consumption internal markets at its disposal.

The internal market is being further strengthened by a slight change in the immigration pattern. Until now, Mexicans, of whom twelve million live in the US, were the largest group of immigrants. But between 2009 and 2014, Mexicans returning to their home country numbered more than four million. Now, however, more people are coming from other countries, among them Indians, who are already the second largest group of immigrants after Mexicans.

In the valley of the elites

US citizens of Afro-American or Hispanic origin can afford much less than whites can. Thus, 17 percent of white Americans say they have hardly any financial problems, while only 9 percent each of Afro-Americans and Hispanics say the same. The root of the problem is often the education system, which allows only a few to climb the social ladder. But prejudices on the labour market are another obstacle. This imbalance is evident in Silicon Valley, home of major US Internet companies such as eBay and Twitter, where the proportion of Afro-American and Hispanic employees is negligible. If they work there at all, then as security guards or cleaners or in other low-wage jobs.
home exceeded the number of new arrivals. The reason is that the US labour market no longer offers sufficient jobs for the generally unskilled Mexican workforce. Instead, the number of often well- or even highly-qualified immigrants from Asia is rising. In 2013, the Chinese were the largest group with almost 150,000 immigrants, followed by Indians with 129,000 immigrants. The number of immigrants from other Asian countries such as the Philippines, South Korea and Vietnam has increased markedly too. Unlike their Mexican counterparts, these people generally find well-paid jobs in the IT sector.

The American Dream for all?

People on the lower rungs of the social ladder are finding life increasingly difficult in the US. This applies particularly to US Americans of Hispanic or Afro-American origin, who together make up around 30 percent of the population. The first hurdle at which they fall is often the education system. Whereas one white American in three manages to obtain a college degree, among Afro-Americans the figure is one in five and among the Hispanics only one in ten. Many of those who do not go to college have to make do with jobs in the low-wage sector. Indeed, this applies to an increasing number of Americans. The median income has fallen in the past 15 years by more than seven percent from $57,000 to around $53,000 US dollars a year, despite Americans working ever longer on average. At the same time, income inequality is growing. In 2014, the wealthiest 20 percent earned more than 50 percent of total income, whereas the poorest 20 percent earned just 3 percent. Among the OECD states income inequality is greater only in Mexico and Turkey.

Thus, cracks are appearing in the United States’ image as a country where anyone can make it simply through hard work. Indeed, only 64 percent of those who participated in a survey by The New York Times in 2014 thought the “American Dream” could be realised. Even in spring 2009, shortly after the recession, 72 percent still thought upward social mobility was possible. The potential consequences of social inequality and the feeling of hopelessness are illustrated by the repeated violent protests and riots by the mainly Afro-American population that broke out in the town of Ferguson in the state of Missouri, following the shooting of a black youth by a policeman in 2014. The poverty rate in Ferguson had more than tripled in the previous 20 years.

On the way to a white minority

In the US melting pot those who until now have been minorities will make up more than half the population in the future. While the white population is predicted to decline from currently 62 to 43 percent by 2060, the share of US citizens with Hispanic roots is likely to rise over the same period from 17 to 28 percent. The share of Asians among the population is likely to increase slightly, too, from 5 percent today to 9 percent in 2060. The share of Afro-Americans, on the other hand, looks set to remain constant, owing to lower birth rates and only a small number of Afro-American immigrants.
Internal focus

The government under President Barack Obama, whose term in office concludes at the end of 2016, has increasingly begun to address these internal issues. One of Obama’s major goals – to introduce universal compulsory health insurance – is designed to better protect the socially weak. In foreign and economic policy, by contrast, the government has sought greater independence for the US. Instead of taking the offensive in the many smouldering global conflicts, especially in oil-producing countries, Obama has sought to make the US as energy-independent as possible. Using the ecologically controversial practice of fracking, a technology that allows deep layers of shale gas and oil to be flushed out using a mixture of water, sand and chemicals, the US aims to become more or less energy independent by 2030. At the same time, in his climate action plan of 2013, Obama announced the broad expansion of renewables.

Nevertheless, the US government is coming under increasing pressure to maintain the country’s political and economic global lead. The planned free trade zones TPP and TTIP could help to open up new markets for US products and thus boost the domestic economy, yet whether this will happen is questionable. Critics fear that closer cooperation with low-wage countries will lead. The planned free trade zones TPP and TTIP could help to open up new markets for US products and thus boost the domestic economy, yet whether this will happen is questionable. Critics fear that closer cooperation with low-wage countries will.

Mexico is the pivot between North and South America. Although in geographical terms most of its territory, measuring a total of almost two million square kilometres, belongs to North America, Mexico’s cultural history as the land of the Mayas and Aztecs and a former Spanish colony places it firmly in Latin America. The country is similarly divided with respect to socio-economic development.

Since the 1990s, Mexico has become one of Latin America’s largest economies, with a per capita GDP of more than 10,000 US dollars; in terms of purchasing power, it even outstrips the region’s economic giant, Brazil. With an export volume of almost 400 billion US dollars, it is Latin America’s leading exporter and ranks 15th globally. Automobile production is the most important driver of growth – Mexico is the world’s seventh largest car manufacturer. But it has also established itself in the electronics sector, making computers and telephones, among other products. Overall, the economy is broad-based by Latin American standards.

Mexico’s economic boom is closely connected with its membership of the North American Free Trade Agreement (NAFTA). The United States, with its enormous internal market, is by far Mexico’s most important trading partner, accounting for more than 80 percent of Mexican exports and almost 50 percent of Mexican imports. In addition, Mexico’s low production costs and unbureaucratic and business-friendly conditions, including the many duty-free production zones along its northern border, where mainly US-dominated companies, so-called maquiladoras, have established themselves, make it attractive for companies and investors. In 2016, the country was placed 38th worldwide in the Ease of Doing Business Index, the highest ranking of any Latin American state. International automobile concerns from Audi to Toyota have announced their intention to invest in existing or new production facilities there.

Lack of purchasing power weakens internal market

The rosy trade figures are deceptive, however, for only very few of the products for export are actually made in Mexico. The maquiladoras simply screw or sew imported components together, so that only a small amount of value added is created in Mexico itself. A further deficiency of the Mexican economy is the weak internal market, which suffers above all from the country’s low wages. Whereas in other Latin American countries, such as Chile, Brazil and Uruguay, wages have risen by more than 20 percent since 2005, average wages in Mexico have increased by only 2.6 percent over the same period. Around 46 percent of Mexicans live below the national poverty line of the equivalent of roughly 350 euros a month. That also has an impact on consumption. Only one Mexican household in four can afford a car, and almost half of households would have difficulty financing a fridge or a television. Without the support of Mexican emigrants to the United States who send money home – more than 24 billion US dollars in 2014 – even more people would probably live in poverty.

The clock is ticking

Likewise, there are two sides to Mexico’s demographic development. On the one hand, the country has managed to reduce the fertility rate from the seven children per woman that was still the norm in the 1970s to 2.3 today. This has resulted in a beneficial population structure in which a relatively large share of the population is of working age, which, in turn, has
Poverty in the south, violence everywhere

In socio-economic terms there is a big gap between northern and southern Mexico. In the southwestern federal states, such as Oaxaca, Guerrero and Chiapas, more than two thirds of the population live below the national poverty line. The only exceptions are the south-eastern region and the Caribbean coast, where tourism is well developed. In Mexico City and the northern states close to the US border, the poverty rate is half that of the south. Nonetheless, murders, which are often connected with the drugs trade, represent a threat to the whole country. In 2013, the southern state of Guerrero was worst affected with 65 murders per 100,000 inhabitants, followed by Chihuahua on the US border. By comparison, the average murder rate in Germany is 0.8 per 100,000 inhabitants.16

In 2014, the average murder rate in Mexico was 4.8 per 100,000 inhabitants.17 The drugs trade, which is closely connected with the south of the country, represents a threat to the whole region. By 2030, the share of the over 64 year olds is expected to rise by 60 percent compared with 2015.21 Precarious employment means that only a few people manage to invest in a state or private pension in the course of their working lives. The relatively high level of income security that older Mexicans enjoy today compared with their counterparts in other Latin American countries is likely to decline in the future.22

At the same time, the population is beginning to age. By 2030, the share of the over 64 year olds is expected to rise by 60 percent compared with 2015.21 Precarious employment means that only a few people manage to invest in a state or private pension in the course of their working lives. The relatively high level of income security that older Mexicans enjoy today compared with their counterparts in other Latin American countries is likely to decline in the future.22

The dream is in danger of shattering

Another, completely different threat to Mexico’s ambitions to join the developed world is the drugs war that has been raging in the country for many decades. As a transit country between Latin America and the United States and a producer of illegal drugs, Mexico plays a central role in the international drugs trade.29 It is estimated that more than 70,000 people have fallen victim to the violent conflicts that have been taking place since 2006 between drug cartels and the army as well as between rival criminal gangs.23 The political system itself presents one of the biggest obstacles to fighting the drugs trade. Mexico is regarded as one of the world’s most corrupt countries, scoring negative ratings in both the Corruption Control and the Political Stability indexes.31 Thus, in order to maintain its position in the region, Mexico needs not only to expand its successful economy but also to bring its political and judicial culture into line with that of the developed world.
Dividend or disaster?

By Latin American standards, the population of Guatemala is extremely young: 37 percent are children and youths below the age of 15, while the share of 15–29 year-olds is just under 30 percent. The reason for this is the high fertility rate: while the average number of children per woman in Latin America is 2.1, Guatemalan women are still giving birth to 3.3 children on average. As a result, the population is growing steadily: it rose by more than one third, from 11.7 million to 16.3 million, between 2000 and 2015 alone, and is forecast to reach 21.4 million in 2030.

The age structure of the Guatemalan population also offers an opportunity. While the populations of other Latin American countries are already growing older, the share of those aged 20–39, who are considered particularly productive and innovative, is increasing rapidly in Guatemala. However, in order to make use of this demographic bonus, the country would have to invest more in health care and education. For example, only two out of three Guatemalans have access to sanitation facilities – and nine out of ten to clean drinking water. The infant mortality rate stands at 23 per 1,000 births. Only one adult in three of working age has finished secondary school: on this indicator, Guatemala ranks bottom, alongside Honduras, in Central America. Among the 40 percent of Guatemalans who are directly descended from the Mayans, education is particularly precarious. Only just under half of indigenous women can read and write, while the corresponding figure for men is four-fifths.

Economic boom passes society by

In terms of GDP, the Guatemalan economy is the largest in Central America. But while its economic development has been positive – GDP grew on average by 3.6 percent per year during the period 2008 to 2014 – Guatemala still numbers among those Latin American countries with low living standards, as evidenced by GDP per capita of 3,700 US dollars in 2014. It is only through the export of agricultural products such as coffee, of which Guatemala is the seventh-largest exporter in the world, as well as that of bananas and sugar, albeit on a smaller scale, that the country plays any significant role in international trade.

As an exporter, Guatemala benefits from its favourable strategic location, which offers access to both the Pacific and the Atlantic and proximity to the large North American markets. Industrial production is limited to medium-sized companies in the textile and food industries, most of which are residents of established free trade zones. With the help of foreign direct investment, these firms mostly produce low value-added goods; at the same time, they circumvent minimum wage regulations and undermine workers’ rights, as a result of which there are very few long-term, secure jobs. Meanwhile, tourism is thriving. Natural attractions and the ancient sites of the Mayas lured some 2 million tourists to the country in 2014, while foreign exchange earnings from tourism the previous year exceeded one billion US dollars.

A majority of the population has not profited at all from the country’s economic development. Between 2006 and 2011, the share of those living below the poverty line even rose from 51 percent to almost 54 percent. Today, one household in five does not have enough money to provide regular meals, while one in four would be overstretched by the purchase of a new refrigerator or television. Moreover, the difficult situation on the labour market means that four million people earn their living in the informal sector, according to the

Demographic bonus is still a long way off

The fewer people under the age of 20 and over the age of 64 for whom the working population has to provide, the greater the resources available to society for its economic development. This is why this stage in the demographic transition from a young to an old population is known as the “demographic bonus”. Because the number of children per woman is falling only slowly in Guatemala, the country may reach this stage when the populations of other Latin American states, such as Mexico and Brazil, are already growing old.

In order to make use of the bonus, the country must invest more in the education and productivity of its workforce.

Dependency ratio

Number of under 20 year olds and over 64 year olds per 100 of working-age population aged 20–64, 2000 to 2100 (projection, medium variant) (Data source: UN Desa)

The fewer people under the age of 20 and over the age of 64 for whom the working population has to provide, the greater the resources available to society for its economic development. This is why this stage in the demographic transition from a young to an old population is known as the “demographic bonus”. Because the number of children per woman is falling only slowly in Guatemala, the country may reach this stage when the populations of other Latin American states, such as Mexico and Brazil, are already growing old. In order to make use of the bonus, the country must invest more in the education and productivity of its workforce.

Economic boom passes society by

In terms of GDP, the Guatemalan economy is the largest in Central America. But while its economic development has been positive – GDP grew on average by 3.6 percent per year during the period 2008 to 2014 – Guatemala still numbers among those Latin American countries with low living standards, as evidenced by GDP per capita of 3,700 US dollars in 2014. It is only through the export of agricultural products such as coffee, of which Guatemala is the seventh-largest exporter in the world, as well as that of bananas and sugar, albeit on a smaller scale, that the country plays any significant role in international trade.

As an exporter, Guatemala benefits from its favourable strategic location, which offers
Hopes of a better life

Although 20 years have already passed since the end of the bloody civil war that held Guatemala in its grip for three-and-a-half decades, there are still virtually no functioning state structures. That is because the political elite and criminal semi-state organisations are too closely linked. Indeed, the country ranks very low in both the Political Stability Index and the Corruption Control Index. At the same time, the state loses important tax revenues, the tax collection rate being one of the lowest in the world, which means that funds for urgently needed infrastructure measures are lacking. Without investment there is hardly any chance of the living standards of a large part of the population improving. And this, in turn, has a negative impact on public trust in the political system, as shown by a 2011 survey in which the government asked Guatemalans living abroad, which accounted for almost ten percent of GDP in 2013.

Costa Rica stands out not just because of its environmental and climate-change policies. The “Switzerland of Central America” has done without its own army since the six-week civil war of 1948 and since then has enjoyed uninterrupted democratic rule. For a long time, it also made use of its special role as diplomatic intermediary in a region otherwise plagued by conflict. In 1987, then President Óscar Arias even received the Nobel Peace Prize for his efforts. However, since its neighbours have become increasingly more stable in recent years, Costa Rica’s foreign policy has lost in importance. For many years, the country was governed alternately by the same two parties: the social-democratic Partido Liberación Nacional (PLN) and the Christian-socialist Partido Unidad Social Cristiana. Under both of these parties, the country developed, initially in an almost exemplary fashion, into a social welfare state that was unique in the region.

In addition, reforestation has made a significant contribution to the country’s healthy CO₂ balance: as long as trees are growing, they are absorbing large amounts of greenhouse gases. In the latest version of the national climate protection plan, which went into effect ahead of the Paris international climate change conference at the end of 2015, Costa Rica undertook to rapidly become climate neutral. The plan is for CO₂ emissions to sink from around 1.7 tonnes per capita per year at present to 1.19 tonnes by 2050 and even to reach minus 0.27 tonnes per capita per year by the end of the century. By comparison, annual CO₂ emissions in Germany are currently 8.9 tonnes per capita. As regards an environmentally friendly energy supply, in 2015 Costa Rica all but reached its ambitious target of meeting 100 percent of its electricity needs from renewable energy sources. Thanks to the mountainous landscape and the high rainfall, electricity is generated mainly from water power.

Shadows over paradise

Twenty years ago, Puerto Viejo – “old port” in Spanish – was a small fishing village with stunning yet almost deserted beaches on Costa Rica’s south-eastern Caribbean coast. Today, it is one of the country’s many lively tourist destinations, a surfer’s paradise with hotels for all budgets and a range of outdoor activities such as guided cycling tours through the tropical rainforest and gondola rides high above the treetops. Puerto Viejo is a good illustration of the country’s development in recent years. Costa Rica has transformed itself from an insider’s tip for nature lovers into a trendsetter for mass eco-tourism. In 2014, some 2.5 million visitors from around the globe visited this Central American country, whose population totals just 4.8 million. Tourism generated more than 2.6 billion US dollars in foreign exchange and thereby contributed more than five percent to GDP.

Costa Rica has not always been so skilled at exploiting its rich flora and fauna. As recently as the late 1980s, the country was making headlines for having one of the world’s highest rates of deforestation. This was because the number of “Ticos”, as the country’s inhabitants call themselves, was increasing and, indeed, the population has now risen fivefold since 1950, when there were just 950,000. This strong population growth came at a price, for the rain forest had to make room for the expanding settlements, crop cultivation and animal husbandry. A 1987 survey found that just 21 percent of the country’s territory was still covered in forest. Since then, the fertility rate has sunk rapidly and – at 1.8 children per woman – lies below the population replacement level, signifying a high level of socio-economic development. For this reason, the growth rate of the population has slowed significantly too. Moreover, the government began to invest heavily in reforestation in the 1990s – with the help of the Paris Conference and after the Kyoto Protocol was signed in 1997. For a long time, Costa Rica’s environmental protection efforts have been a model for all countries in the region and have firmly established it as a leading example within the world community.

Costa Rica is also known for its 400 species of birds, and 115 species of mammals. It has the world’s highest levels of biodiversity, with a record 1.3 million species of living creatures, including 423,000 species of insects and 500 species of reptiles and amphibians. The country’s flora is so diverse that it is often referred to as the “rain forest of the world”.

The plan is for CO₂ emissions to sink from around 1.7 tonnes per capita per year at present to 1.19 tonnes by 2050 and even to reach minus 0.27 tonnes per capita per year by the end of the century. By comparison, annual CO₂ emissions in Germany are currently 8.9 tonnes per capita. As regards an environmentally friendly energy supply, in 2015 Costa Rica all but reached its ambitious target of meeting 100 percent of its electricity needs from renewable energy sources. Thanks to the mountainous landscape and the high rainfall, electricity is generated mainly from water power.
Yet political stability distracts from the country’s many internal problems. In 1995, the two big parties reached an agreement to continue dismantling the welfare state and liberalising the economy. Accordingly, the government cut state expenditures on education and health care, privatised state-owned enterprises and initiated a free trade agreement with the US (Cafta), which entered into force in 2009. There were many protests against liberalisation, which led to increasing inequality in the country. Today, one-fifth of the Costa Rican population lives below the poverty line. Nepotism, which was long kept under wraps, came to the fore in 2004 when three former presidents were all charged with corruption.

In the 2014 elections, the candidate of the left-of-centre Partido Acción Ciudadana, Luis Guillermo Solís, scored a surprise victory. He now faces the challenge of pushing through urgently needed reforms. Infrastructure is dilapidated, the social insurance fund on the verge of collapse and tax collection virtually non-existent, as a result of which the budget deficit has been growing. Moreover, the country has to deal with a rapidly ageing population. The share of the over 64 year olds will increase significantly in the coming years – from 9 percent of the population today to 15 percent by 2030. At the same time, the share of the productive age group of those aged 20–39 is declining. Only in Trinidad and Tobago is this share falling more rapidly.

Nonetheless, Costa Rica has a good chance of meeting these challenges because the country by no means lives from tourism alone. Industry accounts for one quarter of GDP, while agricultural production represents just shy of six percent. This is reflected in exports: besides such traditional products as coffee, bananas and pineapples, it is above all medical equipment, including pacemakers, that tops the list. Industrial goods account for three-quarters of exports. But if it is to maintain productivity Costa Rica must invest more in education. The share of the population of working age who were able to finish at least secondary school is just 49 percent, which is significantly below the level of most other American countries. And there is another threat lurking for the “rich coast”: according to the United Nations’ World Risk Index, no country on the American continent has a higher risk of being devastated by natural disasters such as hurricanes, earthquakes and volcanic eruptions than Costa Rica.
city on a nearby promontory that was easier to defend. Even today, the city of 1.5 million inhabitants is still the continent’s main goods handling centre.²

Nowadays, unlike in the colonial era, goods are no longer transported over land between the Atlantic and Pacific but through the Panama Canal, the only waterway between the two oceans in the middle of the American continent. The history of the 80-kilometre-long waterway is also the story of this small country’s fate. After gaining independence from the Spanish crown in 1821, Panama initially belonged to Columbia, but when the Columbian government refused in the early 20th century to cede part of its territory to the United States for the planned canal, the latter without further ado helped Panama to become independent, albeit retaining sovereignty over a 16-kilometre-wide strip through the narrow middle of the country. In the years that followed, the Americans built the legendary canal but did not hand it over to the Panamanian people until almost 100 years later. For Panama, economic and political relations with its mighty neighbour to the north continue to play an important role even today.³

Panama’s economy has benefited enormously from its position as a transit country between the two oceans. Since it took over the canal, GDP has almost quadrupled, reaching 46.2 billion US dollars in 2014.⁴ With a per capita GDP of roughly 11,770 US dollars and predicted growth of 6.2 percent in 2016, Panama is certainly in the same league as the region’s economic heavyweights such as Chile, Argentina and Brazil.⁵ Around six percent of its value added is accounted for by the ACP, the authority that manages the Panama Canal.⁶ Overall, 75 percent of GDP is produced by the services sector, almost 20 percent from trade alone. This is due not only to the Panama Canal but also to the fact that the national currency, the balboa, is pegged to the US dollar and the country’s economic policy is extremely business-friendly. With its various free trade, special economic and development zones, Panama has been very successful in attracting foreign investment.⁷ More than 1,600 international companies and 120 different banks have branches in the Zona libre de Colón alone, the world’s second-largest free trade zone.⁸ As a result, foreign direct investment is rising steadily.

The World Trade Organization has complained, however, that the special zones still contribute too little to national value creation and employment.⁹ Overall, the country faces major regional and social inequalities. Eighty percent of value-added is created in the canal region and the capital.¹⁰ Whereas in those parts only 15 percent of inhabitants live below the national poverty line, in rural areas, where a third of the population lives, the figure is one person in two.¹¹ The wealthiest ten percent of the population earn more than 40 percent of private income, while the poorest ten percent have to make do with only 1 percent.¹² The Gini coefficient, at 52, is thus relatively high in Panama. A law on decentralisation, which after seven years of deliberation finally came into force in 2016, is designed to alleviate the situation via a financial equalisation scheme between the economically strong and weak regions. This would enable, in particular, regions on the periphery to plan new investments, to stimulate their economies and to open up new opportunities for their populations.¹³

Alongside trade, construction has been a major contributing factor in the Panamanian economic miracle of recent years. Panama is currently pumping more than eight billion US dollars into its infrastructure. This includes two mega-projects: the widening of the Panama Canal, the cost of which has already exceeded the planned five billion US dollars, and the expansion of the underground train network in the capital.¹⁴ Thanks to Panama’s healthy economy, the country can boast almost full employment, with a jobless rate of only 4.1 percent.
Similarly, with respect to its demographic development, Panama can take a relaxed view of the future. The fertility rate had already fallen to fewer than three children per woman by the early 1990s and is now 2.7. This means that although the population will continue to grow from the current almost 4 million to a predicted 4.8 million by 2030, the population is aging at a fairly moderate rate compared with other Latin American countries. During the same period the share of the over 64 year olds in the population will probably rise from eight to twelve percent, while the share of the population in the most productive age group – those aged 20–39 – will remain relatively stable.

Thus, Panama’s age structure alone will enable it to maintain current productivity levels for some years to come. However, in order to be able to continue to compete globally, the country urgently needs to invest more in education. Currently, state expenditure per pupil in primary and secondary education is only about half the Latin American average. The impact of this can be felt far less in access to education – the share of the adult population that has completed secondary education is in the upper middle range in this regional comparison – than in the quality of education. In the Pisa study of 2009, which compared the skills of 15-year-old school students in 68 countries, Panama came near the bottom of the rankings. The private sector, too, complains about a lack of well-qualified skilled workers. Despite the country’s close links with the United States, very few Panamanian employees speak English. A lack of knowledge of the global lingua franca is certainly a hindrance to engaging in global trade.

Modified revolution

Cuba’s communist regime has now been in power for more than half a century. Two generations of Cubans have never known anything other than revolutionary leader Fidel Castro and his comrades’ one-party system – along with the “total” embargo by Cuba’s declared enemy, the United States, which has been in place since 1960. Cuba has the victorious revolutionaries to thank for its education and health systems, both regarded as exemplary. The illiteracy rate is very low by regional standards, and in terms of the share of adults with secondary or higher education Cuba tops the league table for Latin America. Moreover, Cuban doctors enjoy an excellent international reputation. Cubans are entitled to free medical care, which is available even in the remotest part of the island. With an average life expectancy of 78, Cuba is only slightly behind the far richer US. Infant mortality is as low as in industrialised Canada. In the global Human Development Index, Cuba is ranked in the second-best group of highly developed countries.

Economy in permanent crisis

Yet the “permanent revolution” has fallen short of many of its goals. For one thing, human rights, such as freedom of movement, freedom of opinion and freedom of assembly, are severely curtailed. The regime uses ubiquitous surveillance and tough sanctions to suppress criticism by members of the opposition and journalists. Inequality has increased rather than diminished over the years. The elite enjoys many privileges, while ordinary people who are unable to count on remittances from relatives living in the US have had to keep tightening their belts. While in the early days, every family was allocated its own flat, today several generations often have to live together in very cramped conditions because until 2011 the state had a monopoly on building and renting out housing. Cuba has not succeeded in raising the living standard of its population above that of a developing country – partly because the country’s economy is having trouble standing on its own feet.

Cuba has few natural resources, but despite the US trade embargo it managed to survive during the Cold War thanks to massive financial support from the Soviet Union and trade with fraternal socialist countries. The collapse of the East bloc plunged Cuba into a profound crisis in the early 1990s, from which it recovered only briefly before several hurricanes destroyed part of its infrastructure in 2008 and the global financial crisis exacerbated many of its existing problems. Although Cuba found a major sponsor in Venezuelan leader Hugo Chávez, the latter’s death in 2013 and the fall in the price of crude oil meant that subsidies dried up once again. Today, industrial and agricultural production in the planned economy functions so poorly that Cuba has to import most of its food and industrial goods. Nevertheless, thanks to state-controlled tourism and medical services Cuba still shows a surplus in its balance of payments. Yet the situation remains desperate: Cuba’s per capita income is among the lowest in the whole of the Americas. No income distribution statistics are available. Moreover, shortages are driving more and more people to leave the country.

Cautious opening

Since Fidel’s younger brother, Raúl Castro, officially took over power in 2008, the regime has tried to counter these trends by allowing a limited amount of private enterprise. Hairdressers, taxi drivers and restaurants are still subject to strict controls and repressions. The Cuban regime makes life difficult even for foreign investors. Accounts are frozen and corruption hinders business. In 2013, the regime loosened travel restrictions, allowed selective access to the internet and made it easier to found companies.
Since Cuba and the US – for many years arch-enemies – introduced a new policy of détente in December 2014, the US embargo looks set to be loosened or even lifted in the foreseeable future. At the same time, reports of human rights violations have increased.

It is difficult to predict what the future will bring. Not only has the Castros’ succession yet to be regulated, the economy is likely to be slow getting back on its feet without investment and re-immigration – among other reasons because demographic change is already well advanced, thanks to the high level of healthcare and education: at 1.6, the number of children per woman is the second-lowest on the continent after Canada. The share of the working-age population will fall markedly by 2030, while that of older people is likely to almost double.

Education can compensate for demographic change

In Cuba the demographic transition is already well advanced. Whereas at the beginning of the Cuban revolution, women still had four children on average, the fertility rate today is just 1.6. One explanation for the fall in the birth rate is the high educational level of the Cuban population. Among people under the age of 45, well over 90 percent have secondary or higher education. Thus the chances are good that even with fewer people of working age, Cuba will be able to maintain or even increase its productivity. In Brazil the educational level of the younger generation has likewise improved, leading to a fall in the fertility rate to 1.8 children per woman. However, with respect to the quality of education, the country still has some catching up to do.

Demographic composition of Cuba and Brazil according to educational background in thousands, 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>Women</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no education</td>
<td>primary education</td>
<td>secondary education</td>
<td>tertiary education</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Brazil</th>
<th>20 30 40 50 60 70 80 90 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1,000 10,000 100,000 1,000,000</td>
</tr>
</tbody>
</table>

However, the most absurd thing of all is that the energy shortage is afflicting a country with the world’s largest proven oil reserves.2 Venezuela is currently in the midst of a crisis that has taken a major turn for the worse since the big drop in crude oil prices in 2014. Prices are rising, the currency is falling, inflation is galloping – according to the IMF, it could rise from 275 percent in 2015 to an unbelievable 720 percent in 2016.3 In spring 2016, the shop shelves remain empty, people are having to queue for staples and there is a shortage of medicines. And to make matters even worse, the El Guri reservoir, which normally supplies 60 percent of the country’s energy, has almost dried out. The government maintains that the drought caused by El Niño is responsible, but critics have accused the government of having failed to take precautionary measures to deal with this climatic phenomenon, which occurs from time to time, and of having dragged its heels in expanding the infrastructure to relieve pressure on the reservoir.4 Water and electricity shortages not only have an impact on the everyday lives of the population; they have also caused domestic production to plummet. Meanwhile, smuggling and the black market are flourishing.

The government has taken harsh measures to combat even peaceful protests; as a result, people have been wounded and have died. And in February 2014, critics and members of the political opposition were arrested.5 The growing discontent led to victory for the conservative opposition alliance over the PSUV socialist party in the parliamentary elections in December 2015; the PSUV had been in power since 1999.6 The opposition is currently forming a new government.7
Memorials to a democratically elected dictator

Thus the “Bolivar revolution”, with which Hugo Chávez promised to bring about social renewal, can be said to have failed. The former officer, unsuccessful putschist and ardent left-wing nationalist Chávez won the 1998 election on a ticket that harked back to the days of the Caracas-born independence fighter Simon Bolívar and offered a vision of “21st-century socialism” inspired by Cuban revolutionary leader Fidel Castro. His movement took Latin America by storm in the years that followed and led to left-wing governments coming to power in many countries. Under Chávez, the Venezuelan oil industry was partly nationalised in order to generate revenues to finance a comprehensive social programme, and Venezuela rose to become a leading regional power that was able to threaten to cut off the oil supply to the capitalist United States.

Life is becoming ever less affordable

Food and everyday essentials are in short supply in Venezuela and have become significantly more expensive: the consumer price index almost doubled in 2015 alone. Prices for clothing, transport, food and beverages as well as restaurants and hotels rose particularly steeply in the fourth quarter of 2015. President Maduro is attempting to combat food shortages by means of emergency decrees. So far, however, he has succeeded only in increasing the budgetary deficit and allowing currency reserves to dwindle. The country is in danger of default. To this day, Chávez, who died of cancer while still in office in 2013, is revered as a saint by many. Yet he has left behind a deeply divided society. His failure to diversify the economy and to make the country less vulnerable to volatility on the global commodities markets is likely to mean that the social benefits he introduced cannot be sustained in the long run. On the contrary, political and economic indicators suggest that Venezuela is, in fact, frightening off potential investors and pursuing a strategy of isolation. Worst of all, at a time when oil revenues were flowing freely, Chávez failed to create jobs for the still rapidly growing population. He invested neither in the education system nor in fighting crime. Instead, he spent his 14 years in office doing everything to bolster his power while maintaining the smokescreen that Venezuela was a democracy. His rather uninspiring successor, Maduro, has tried to cash in on some of the late Comandante’s charisma, touting the slogan, “Wherever I am, Chávez is there too,” but he has not succeeded in overcoming the crisis. Of the 24 countries included in this study, only Trinidad and Tobago’s economy grew less than Venezuela’s between 2009 and 2014. Indeed, in 2014 the economy was already beginning to shrink, and in 2015 it shrank further by five to ten percent – depending on which exchange rate is used.

Much work still needed to achieve peace

The left-wing guerrilla organisation FARC has been plaguing Colombia with terror and violence for more than 50 years. The conflict, which has involved not only the FARC and the state security forces but also right-wing paramilitary units, is one of the longest-running in the entire western hemisphere. Almost 1.6 million people have either died in it or disappeared, most of them civilians. The confrontation has driven almost 6 million Colombians from their homes – currently more than in any other country in the world, apart from Syria. Yet 2016 may mark a turning point, for this year the government and the FARC underground fighters intend to sign a peace agreement.
The government hopes that once the agreement is signed, Colombia will start to flourish. It plans not only to stop money flowing into the drugs trade, which finances all armed groups in the country, but also to put a brake on the emigration of young people, reduce state spending on security, regain the trust of foreign investors and, last but not least, boost economic growth. The relatively rosy economic indicators, however, conceal the fact that Colombia is still a major challenge.11

Yet even without peace, Colombia is already doing comparatively well. With the exception of the 1999 recession, the country is able to look back on half a century of uninterrupted economic growth. With GDP totalling 377 billion US dollars, Colombia is now Latin America’s fourth-largest economy after Brazil, Mexico and Argentina.6

Booming cities, struggling Savannah

The relatively rosy economic indicators, however, conceal the fact that Colombia is full of strong disparities. This is clear from the country’s topography. Colombia’s territory comprises very different regions, from the warm and wet Pacific and Caribbean coasts to the Andean plateau with two main valleys and the tropical plain in the southeast of the country. The three Andes ranges are difficult to cross and hence form a natural boundary between these regions. The majority of the roughly 48 million Colombians live along the Caribbean coast and in the urban centres of the temperate regions, including the capital, Bogotá, which, with its 7.8 million inhabitants, is located at 2,600 metres, or the second-largest city, Medellín, in and around which 3.7 million people live. In contrast with the more prosperous and well-developed cities, there are sparsely populated, impoverished and barely accessible parts of the country, which often manage to evade state control. The absence of state structures in these zones is a major reason why Colombia comes bottom of the political stability rankings for the entire American continent. Nevertheless – despite its internal conflicts – Colombia is the region’s oldest democracy: for only four of the past 100 years was the country ruled by a military dictatorship.7

Colombian society is marked by big differences, too. Twenty-nine percent of the population lives below the poverty line, eight percent in extreme poverty.8 A persistently high level of unemployment – 9.1 percent at the end of 2014 – acts as a brake on advancing to the middle classes in many places.9 Colombia numbers among those South American countries where the gap between rich and poor is greatest.10 Thus, it has one of the highest Gini coefficients of the entire American double continent. Poverty could threaten even more people in the future, for no other population in the region is aging as rapidly as the Colombian. The share of over 64 year olds is likely to increase from today’s 7 percent to 12 percent in 2030 and 21 percent by 2050. Even today, the income situation for older people is worse in Colombia than elsewhere. Providing for the growing number of older people in a country in which many regions are still extremely poor poses major challenges.11

Strong economy, weak global links

Nevertheless, Colombia’s economy is broader based than that of many other Latin American countries. Oil and coal are its leading exports, while, alongside coffee, cut flowers and bananas, it also produces electronic devices for export. A new source of hope is tourism, which is showing double-digit growth as Colombia gradually becomes a safer place to visit.14 Overall, the fastest-growing sectors
are services and construction— not least thanks to a major funding programme by the government, which plans to invest around 22 billion US dollars in the decrepit transport infrastructure by 2020.

Colombian industry, however, is not very competitive globally. Measured in terms of the KOF Index of Globalization, links with world markets are relatively weak. Cheap imports from Asia—and, since the free trade agreement between Mexico, Chile, Colombia and Peru came into force in 2015, increasingly from Colombia's neighbours as well—are making life tough for Colombia's own manufacturers. Furthermore, business suffers from one of the world's highest taxation rates. A taxation system for private individuals that is unjust and insufficiently enforced by the state further exacerbates the unequal distribution of wealth.

At the same time, the low oil price has weakened the Colombian currency, the peso. The upshot is more expensive imports, which in turn drive up the cost of living and tear holes in the country's budget. These budgetary problems have come at just the wrong time, for right now the state needs significant additional financial resources to implement the peace agreement, to pay compensation to the many victims and to provide the FARC guerrillas with regular employment. If the state fails to fill the power vacuum following the dissolution of the FARC and to offer alternatives, former members of the organisation may regroup as criminal bands and further paralyse economic development. Thus Colombia still has a lot of work to do if the peace agreement is to trigger a boom.

Between oil dependency and the ideal of a “good life”

Only a decade ago, Ecuador had all the appearance of a banana republic plagued by political crises, as the British newspaper The Guardian wrote. Indeed, it is true that between 1996 and 2007, no elected president was able to end his term in office in a regular manner: one after the other was forced to quit that post in the wake of mass protests and, not infrequently, under pressure from the military.

The country's economy, which depends heavily on the export of crude oil and agricultural products—not least bananas—plunged into a deep crisis at the end of the 1990s. Besides internal problems, the Asia crisis and the related fall in the price of oil as well as the devastating impact of the El Niño climatic phenomenon were among the reasons for the economic collapse. The country's sovereign debt soared, and inflation reached a high of 96 percent in 2000. While the pegging of the national currency to the US dollar in the same year was able to halt the decline in prices, a strong dependency on the US exchange rate was established, which, in turn, had a negative impact on commodity prices and real wages.

In 2003, one third of Ecuadorians were living in poverty (on less than 3.1 US dollars a day) and one sixth in extreme poverty (on less than 1.9 US dollars a day).

Politics based on indigenous principles

Amid the successes of leftist-nationalist politicians in Latin America, Rafael Correa assumed the office of president in 2007, a post he continues to hold today. Under his government and the “social and solidarity economy” that it introduced, the small country in the Andes experienced a period of unprecedented political stabilisation and economic growth. Correa's policies are founded on the principle of a “Good Life”, which, enshrined in the new constitution of 2008, signifies a socially and ecologically sustainable way of life. Thus Ecuador is the only Latin American country whose national development plans are founded on an economic concept that departs from classical neoliberal economic theories.

Initially, this approach appeared to work. The economy began to grow and from 2009 to 2014 recorded an annual average growth rate of five percent, which was among the highest in the region, while inflation—which stood latterly at 3.4 percent—was among the lowest. Under the new constitution, Correa implemented several economic reforms; one of the most far-reaching was the 2010 legislative amendment whereby the government pays fixed prices to oil extraction companies, and all additional profits flow into the state coffers.

These additional revenues are invested in comprehensive social programmes that provide free access to education and healthcare, among other things. Indeed, the living standards of the Ecuadorians have improved significantly. The minimum wage has increased by 80 percent to 365 US dollars, enrolment in secondary schools has risen from 56 to 83 percent and the poverty rate is now less than one quarter of its level 15 years ago.

In the spirit of a “Good Life” that is in harmony with nature, the Ecuadorian government attracted considerable international attention in 2007 with an initiative aimed at reducing greenhouse gases, which are damaging to the environment. At the General Assembly of the United Nations, it offered to forego crude oil extraction in the Yasuní National Park. In compensation, it demanded half of the value of the park's probable oil reserves—at the time some seven billion US dollars—which would be used for environmental protection measures. Despite the positive reaction, the initiative failed, as the necessary funds could not be collected. In 2013, Ecuador decided to begin with preparations for extracting oil in the protected area.
Ecuador occupies the second-to-last place, ahead of Haiti, among the countries included in this study.

Nor have the country’s economic successes lasted very long. Owing to the continued heavy dependence on oil and the peg to the US dollar, the country will have been harder hit by the low crude oil prices and the fluctuations of the US currency than almost any other country in Latin America. In 2015, revenues from the export of crude oil products fell to half of the level in the previous year, as a result of which the trade deficit grew to minus 2.5 percent.

In 1990, Peru was in a deep crisis. Since the 1960s, the Maoist guerrilla organisation “Shining Path” had been waging a campaign of terror and violence, especially in rural regions. The government responded with widespread counter-terrorism measures, which often hit the civilian population hardest. The social gap became wider; state structures virtually ceased to exist and the country’s economy reached a low point. The inflation rate was an incredible 6,261 percent. The unstable political situation and the difficult economic situation paved the way for the presidency of Alberto Fujimori, who won the election on a platform as an “honest” candidate outside the political establishment and was re-elected in 1995.

In response, the Ecuadorian government introduced a high special tax on imported goods, which led to a further decrease in international trade. After Argentina and Venezuela, Ecuador is the least connected to world markets, according to the KOF Index of Globalization; furthermore, foreign direct investment is low compared with other countries in the region. Recently, Ecuador made a huge effort to change this situation and in late 2015 sought to attract international investors with a catalogue of 94 major projects, including the extension of a metro line in the capital, Quito. So far, however, there has been little uptake. Despite political stabilisation, the country continues to suffer from insufficient legal security and excessive regulation. Economic growth stagnated in 2015 – at 0.4 percent – and is likely to be negative in 2016. The crisis has led to support for Correa’s government among the population dwindling significantly – even if he himself still numbers among the most popular heads of government in the region. But despite that popularity, Correa has ruled out running as a candidate in the 2017 presidential election.
success was the destruction of the “Shining Path”, which won him much sympathy from the population. During his term in office, however, he became just as dictatorial and corrupt as his predecessors through the help of his notorious secret police chief, Vladimiro Montesinos. After it had been revealed that bribery and manipulation were behind his re-election victory in 2000, the parliament deposed Fujimori and called new elections.3

Those elections were won by Alejandro Toledo, an economist of indigenous origin. Although Toledo did not succeed in getting a handle on social unrest and although he, too, was suspected of corruption and election fraud, his presidency saw the beginning of a phase of economic and political consolidation.4 The economy began to grow again, reaching a rate of 7.5 percent at the end of his term in 2006, well above the Latin American average of 5.4 percent. Per capita GDP doubled between 2000 and 2014, while foreign debt more than halved over the same period, to 34 percent of GDP. Meanwhile, the inflation rate has been in single figures for years.5 It was not only the upper classes who benefited from this development. The poverty rate fell from 24 percent of the population living in extreme poverty in 2000 to just under 5 percent in 2014, while foreign debt more than halved over the same period, to 34 percent of GDP. Meanwhile, the inflation rate has been in single figures for years.5 It was not only the upper classes who benefited from this development. The poverty rate fell from 24 percent of the population living in extreme poverty in 2000 to just under 5 percent in 2014.6 Since 2008, Peru has been classified by the World Bank as an upper-middle income country and has thus risen within a very short period from the status of developing country to that of threshold country.7

Structural problems

As in other Latin American countries, economic growth in Peru has been based primarily on the high prices of natural resources in recent years. Mining is the country’s most important source of income: gold, copper and tin are the leading exports. Peru also exports agricultural produce such as grapes, asparagus and fish meal. Aside from textiles, it has scarcely any other processing industries. The previously strong economy has therefore felt the impact of falling global prices of raw materials and the weak economies of its main export destinations, the United States and China. The trade balance plummeted in 2013 to minus 0.8 billion US dollars compared with plus 4.5 billion the previous year. Economic growth in 2015 is likely to be just 2.4 percent – the lowest figure for years.9

The current Peruvian government is trying to address the problem by further diversifying the economy and seeking to attract foreign investors. While Peru now ranks ahead of Costa Rica and Colombia in the Ease of Doing Business Index,10 it faces a series of structural problems. Labour productivity in Peru is very low compared with other threshold countries: at 8,000 US dollars per worker in 2015, it was well below the Latin American average of just under 12,000 US dollars.11 One of the main reasons for this is the low level of education of the Peruvian population. Although the share of the population attending pre-school, primary school and secondary school has increased considerably in recent years and now stands at the Latin American average, the quality of schooling and vocational training is conspicuously poor compared with other countries. Of the 65 countries that participated in the PISA study in 2012, Peru scored the lowest number of points in mathematics.12 The shortage of qualified workers currently poses a problem for the industrial sector, which has the potential to grow.13 Around a third of Peruvian companies are unable to find the skilled workers they need, which is twice the OECD average.14 The Peruvian government is currently introducing various measures to try to improve the educational level of the population. Expenditure on education is set to rise from 0.5 percent of GDP at present to 6 percent in 2021.15

Productivity is lowest in the sectors where most people work

OECD cites low labour productivity as one of the main reasons for low per capita income in Peru. Productivity is especially low in those sectors where the majority of the population works. These include, above all, agriculture, trade and catering. The most productive sectors are mining, finance, energy and water, and communications. Productivity in mining is 40 times higher than in agriculture, but mining employs only a small proportion of the working population.
Progress on shaky ground

When, in 2006, Juan Evo Morales Ayma was elected by an overwhelming majority as the first Bolivian head of state of indigenous origin, virtually no one in the international arena took him seriously. Like others, the German media focused more on the unconventional dress sense of the former llama shepherd, cocoa farmer and trade unionist who was born into a very poor family than on his abilities as a politician. At the same time, his socialist election programme as well as his open friendship with then Venuezelan President Hugo Chávez and the leader of the Cuban revolution, Fidel Castro, fuelled fears of another leftist radicalisation of Latin America. A not insignificant number of observers were afraid that the country would quickly descend into chaos and become internationally isolated. But ten years later, Morales remains in power in what is now his third term in office. He is already the longest-serving head of state in the history of Bolivia – a country that has witnessed many conflicts, coups and military dictatorships since gaining independence in 1825. Right at the start of his presidency, Morales fulfilled two of his election promises. First, despite bitter wrangling, he succeeded in securing a vote on a new constitution that granted more rights especially to the indigenous peoples, who until then had been oppressed. An indirect consequence of the new constitution was that Morales was able to serve a third term in office, for which there had previously been no provision; this was because his first term in office had begun under the old constitution and thus no longer counted. Second, he achieved the remarkable feat of nationalising within a very short period most of the mines and the gas and oil extraction companies, which had originally been in foreign ownership; moreover, he did so without completely frightening off the international concerns. Indeed, he offered the existing concessionaires new contracts that gave those companies enough room for manoeuvre to continue to work profitably while nonetheless channelling most of the profits into the state coffers. He had the cleverly worded contracts drawn up with the help of experts from other states more experienced in extracting raw materials – namely, Venezuela, Algeria and Norway. Forced to decide whether to accept the new government’s offer or be nationalised, most foreign concerns opted for the former. In this way, Morales succeeded in keeping within the country both extraction know-how and the profits from Bolivia’s abundant natural resources. Between 2003 and 2007 alone, the tax revenues from oil and gas deposits increased almost sevenfold, from 200 million to 1.5 billion US dollars. Overall, Bolivia recorded average annual economic growth of 5.3 per cent between 2009 and 2014 – which is higher than almost any other country on the American double continent.

With the additional revenues, the government not only reduced the public debt and balanced the budget but also launched various social programmes. Since 2006, public expenditure on education and healthcare has tripled. Alongside programmes aimed at improving educational standards and mother and child health, the government introduced both a minimum wage and a minimum pension. The success of such measures speaks for itself: from 2006 until today the share of people living in extreme poverty has more than halved from 17.9 to 7.7 percent. During the same period, consumer spending by private households increased by almost 150 percent. And while in 2001 almost one Bolivian in four over the age of 15 could neither read nor write, since 2014 the country’s population has been regarded as literate. Moreover, the government is investing in infrastructure, building roads, hospitals and schools and opening new industrial facilities. One of the biggest flagship projects is the cable car linking the seat of the government, La Paz, which lies in a valley, and El Alto, a city of one million inhabitants that developed out of former slums on the mountain slopes and the plateau. Three lines are already operating and another three are intended to be added during the president’s third term in office.
Poverty remains widespread

However, such progress cannot conceal the fact that Bolivia remains one of the poorest countries in the region. Per capita GDP stood at some 3,150 US dollars in 2014, just half of the level in neighbouring Peru and Ecuador.\textsuperscript{15} Almost three quarters of those of working age who are not employed in agriculture are active in the informal sector. There they profit from neither the minimum wage nor other measures aimed at protecting employees, nor do they pay tax on their earnings.\textsuperscript{18} Of the countries included in this study, only Haiti has a higher infant mortality rate and adult mortality.\textsuperscript{19} At an average of three children per woman, the fertility rate in Bolivia is one of the highest on the continent.\textsuperscript{20}

Moreover, there is a danger that the decline in world market prices for raw materials will put the brakes on further development, since the Bolivian economy remains dependent primarily on the export of gas and minerals. In 2015, economic growth had already slowed owing to low revenues from raw material exports, while the forecast for 2016 – 3.5 percent – is well below the average of recent years. In comparison with other countries, there is still no reason to be concerned, but in the medium term Bolivia should be looking for ways to speed up the diversification of its economy. The International Monetary Fund, for its part, has called for an improvement in the framework conditions for both national and international investors.\textsuperscript{21} In the Ease of Doing Business Index, Bolivia occupies the fourth-to-last place among the countries included in this study.\textsuperscript{22} And it scores just as poorly in the Rule of Law Index, not least because of strong doubts about the independence of the judiciary under the Morales government.\textsuperscript{23}

Continued heavy dependence on raw materials

The Bolivian economy is dependent primarily on the export of raw materials. Over the last four decades, crude oil and natural gas have gained enormously in importance, while the mining and export of metals and minerals has declined. At the same time, Bolivia exports only very small amounts of processed products such as industrial goods or food.

![Percentage share of various goods in total commodity exports, 1980 to 2014](Data source: World Bank\textsuperscript{30})

Political tightrope walk

Weakening economic power could threaten the fragile political unity. Bolivia is a multi-ethnic state in which, besides the two main ethnic communities – the Aymara and Quechua, at least 117 other indigenous or Afro-Bolivian groups live.\textsuperscript{24} A total of 40 percent of the population over 14 years old is of indigenous origin.\textsuperscript{25} While Morales has so far succeeded through his authoritarian-democratic leadership style in uniting a majority of the population behind his MAS party, he faces the threat of a revolt within his own ranks among those who do not consider his social reforms sufficiently radical.\textsuperscript{26} At the national level, the eastern lowlands departments, on whose territory all of the country’s natural gas deposits are to be found, have long sought to secede from the plateau.\textsuperscript{27} Meanwhile, on the foreign policy front, the Socialist Morales has to continue to hold his ground against a hostile Western attitude. For example, the presidential airplane was forced in July 2013 – allegedly under pressure from the US – to make an unscheduled landing in Vienna on the way from Russia back to Bolivia and was searched by Austrian police because Edward Snowden, the whistleblower wanted by the CIA, was thought to be on board.

Morales still has time until 2019, when his third term in office ends, to further improve the country’s social and economic stability. Thereafter, Bolivia will have to do without its charismatic head of state.\textsuperscript{28} The re-election to which he aspired is no longer possible following the failure in February 2016 of a referendum on a corresponding constitutional amendment. The Bolivians’ refusal to grant the wish of their president, even though he won votes in the wealthier regions at the last election, can be seen as a milestone on the road to a democratic and pluralistic society.\textsuperscript{29}
Country of the future?

In late 2015, two reservoir dams burst at an iron ore mine in south-eastern Brazil. Sixty-two million cubic metres of a mixture of mud, water, arsenic, aluminium, lead, copper and mercury gushed into the Doce River Valley and turned its once clear waters into a toxic brown broth. A well-known biodiverse region that is the same size as Portugal has been contaminated for decades, and the local residents have been robbed of their livelihoods. It is one of the worst-ever environmental disasters on the continent and, moreover, one that leaves an especially bad taste in the mouth: The mining company Samarco, which was responsible for the incident, is half-owned by the Brazilian mining giant Vale. The latter is alleged to have made major financial contributions to the election campaigns of the two leading candidates in the 2014 presidential elections. It is suspected that, for personal gain, the political establishment turned a blind eye while monitoring the company’s safety and environmental protection measures. Following the devastating corruption scandal surrounding the energy concern Petrobras, in which more than 100 people from the economic and political spheres are involved and which is estimated to have cost the country more than three billion US dollars, Brazil’s political elite around President Dilma Rousseff has further forfeited the trust of the population.1 Thousands of people have taken to the streets to give vent to their frustrations, while the government and the opposition are pointing fingers at each other. It is increasingly likely that the president will be suspended for half a year as an impeachment trial takes place.

Indeed, it is right now that Brazil urgently needs clear leadership. This is because the world’s seventh-largest economy is deeply mired in its worst recession in decades.2 Experts estimate that the national economy shrank by up to three percent in 2015.3 At ten percent, inflation was already more than twice as high at mid-year than had originally been expected. Together with growing unemployment, this has had an impact on consumption, which fell by two percent. Meanwhile, investment declined by twelve percent, more than at any time over the past two decades.4 The forecasts for 2016 are equally bleak. At the end of 2015, the big ratings agencies responded to the crisis by downgrading the country to “junk” status, which signifies below-average creditworthiness and makes it more expensive for Brazil to borrow money on the international markets.

Demographic opportunity missed?

Thanks to a fertility rate that has been falling since the middle of the last century – today it stands at 1.8 children per woman – the demographic transformation is already well advanced in Brazil. The share of those for which the working-age population must provide has been rapidly declining since the end of the 1970s and currently stands at the minimum level. The favourable age structure of the population – the so-called demographic bonus – has contributed to the country’s economic success. As the share of older people increases, this favourable demographic situation will disappear once again. Brazil faces the danger of aging before its economy is sufficiently stabilized.

Lula’s successes

Thus, Brazil’s success story is hanging in the balance – a story that began at the turn of the century with reforms and was given a huge boost during the term in office of the popular leftist-liberal President Luiz Inácio “Lula” da Silva from 2003 to 2011.5 Under Lula, GDP grew annually by 4.4 percent on average and unemployment almost halved to 5.9 percent. Through far-reaching social programmes the government made progress in the area of healthcare too.6 The infant mortality rate sank...
The measures taken not only led to a significant expansion of the middle class but also had an impact on poorer households. The number of people living under the poverty line of just 3.1 US dollars a day fell by 27 million. As a member of the BRICS, an informal grouping of the emerging economies Brazil, Russia, India, China and South Africa, the country acquired a higher foreign policy profile and was recognized as the most important regional power with global ambitions.

The structural neglect of recent years will become even more apparent as financial pressure increases. Brazil has a relatively diverse economy but is scarcely competitive. Protective tariffs, subsidies, an ineffective taxation system, dilapidated infrastructure and a wholly unwieldy public administration – Brazil has no fewer than 38 ministries – have so far hindered integration into the global value-added chains. Among the countries compared in this study, Brazil occupies the fifth-lowest place in the economic part of the KOF Index, which measures the extent to which an economy has become globalised, and seventh-lowest place in the Ease of Doing Business Index. At the same time, the country has one of the lowest productivity rates among the OECD countries. One reason for this is the low level of education. Sixty-five percent of all industrial enterprises in the country complain about the difficulty of finding suitably qualified workers. In the first PISA test of 2000, Brazil performed the worst of all the countries taking part. Since then, it has invested enormously in the education sector and has achieved significantly better results – at least with regard to the PISA test. However, Brazil still occupies a middle position among the American states in terms of the share of those with a secondary or higher education in the working-age population aged 20 to 64.

Time is running out for the implementation of structural reforms: in Brazil, which has far more inhabitants – 207 million – than any other country in the region, the aging of the population has already begun. If today just 8 percent of the Brazilian population is 65 or older, that figure will rise to 14 percent in 2030 and to 23 percent in 2050. Thus, the biggest challenge is the overhaul of a pension system that until now has been very generous: the minimum pension is linked to a very high minimum wage, while the average pensionable age is 50 for women and 55 for men. The pension system is already costing the state more than 10 percent of GDP. Despite the 2012 reform of public sector pensions, this share will rise to an estimated 13 percent by 2030. One positive effect is that older people have a relatively higher standard of living in Brazil than in almost any other country on the American continent. While it is true that one person in four over the age of 60 in Brazil does not have enough money to buy food and clothes, the corresponding figure for Chile, whose economy is performing better, is almost
one person in two. In terms of income security for older people, Brazil is not very far behind Canada and Trinidad and Tobago. Against the background of demographic change and declining economic power, the situation of older people in Brazil could, however, get worse once again.

Similarly, the progress in environmental protection could be threatened. It was only in 2015 that the OECD attested to Brazil’s success in this area. In the last ten years, the country has introduced far-reaching legislative reforms aimed at protecting biodiversity and promoting a green economy. The annual deforestation rate in the Amazon region fell by 75 percent, while the share of renewable energy sources in overall energy consumption rose to 40 percent. However, the Doce River disaster shows that the protection of the environment is a case of two steps forward, one step back.

The Brazilian government is now confronted with the enormous task of pushing through far-reaching and unpopular savings measures without endangering the achievements to date and losing the trust of the population. Just how difficult this can be was evident from the open social conflicts that erupted against the background of the FIFA World Cup tournament in 2014. The prospects for the “country of the future”, as the German writer Stefan Zweig dubbed Brazil as long ago as 1941, once looked rather rosier than they do at present.

A new chance beckons

It was a wafer-thin majority – just some 700,000 out of more than 25 million valid votes – that brought about a change of government in Argentina in late 2015, thereby ending the Kirchners’ twelve years in office. Under Nestor from 2003 to 2007 and under his wife, Cristina, from 2008 to 2015, the presidential couple engineered the recovery from the default of 2001/2002, only to subsequently mismanage the country’s economy once again to such an extent that by 2015 the next default was looming. This downturn was just the latest in a series of economic and political crises over the previous few decades. However, at the beginning of the 20th century, Argentina had numbered among the world’s wealthiest countries in terms of per capita income, thanks to its fertile soil, a well-developed railway network and its links to Europe. Under the new president, Mauricio Macri, who took office at the head of a coalition bearing the auspicious name “Cambiemos” (Let’s change), there is renewed hope of an economic upturn.

The uncertain future of the Argentines

The people of Argentina can afford less on their wages and savings than can their neighbours in Chile and Brazil, although per capita income is virtually the same in all three countries. Owing to the high inflation rate, Argentines’ savings are evaporating, while the cost of living is rising. The resulting uncertainty is reflected in how the population itself assesses what it can and cannot afford.

Answers to the question “Please estimate your household income” according to six categories, Argentina, Brazil and Chile (no data available for Argentina for the possible answer “We have no financial problems”) in percent, 2015 (Data source: GfK households survey)

![Chart showing household income distribution in Argentina, Brazil, and Chile]

Money for food is frequently lacking
- The purchase of clothes poses financial problems for us
- The purchase of household equipment poses financial problems for us
- The purchase of a car poses financial problems for us
- We have enough savings except for such expensive things as a house/apartment or a country house/vacation home.
- We have no financial problems
- Don’t know

The Kirchners’ legacy

Among the most urgent tasks facing the new president is dealing with the shambles bequeathed by the previous government. Cristina Kirchner’s economic policy consisted essentially of subsidising Argentine companies with cheap energy and protecting them from global competition through high import tariffs. At the same time, she artificially stimulated demand by creating a bloated public sector and making major concessions at pension and wage negotiations. Moreover, she frightened...
off international investors by slapping export duties on foreign companies with production facilities in Argentina or – as in the case of the Spanish energy concern Repsol and its Argentine subsidiary – even nationalising them.7 As a result, Argentina slipped down business-friendliness indices, such as the Ease of Doing Business Index, to rank lowest among the American states.8

Kirchner’s social and economic policy failed when the excessive state expenditures could no longer be financed through revenues from raw materials, and foreign credit could be accessed only by dipping into foreign exchange reserves. Thereafter, high inflation caused the Argentine currency to depreciate, and public debt has continued to pile up.9 In 2014, GDP grew by just 0.5 percent,10 which is significantly below the 2 percent average among all the Mercosur states.11 Also in 2014, the ratings agency Standard & Poor’s lowered Argentina’s rating to “SD”, which signified that the country was unable to pay some of its debt.12 On a more positive note, in late February 2016, the purchase of clothes poses problems for almost 30 percent of the population, while 37 percent cannot afford a new refrigerator or washing machine.17

**In the grip of the soya bean**

The Argentine economy is based primarily on the export of agricultural products. In 2014, such products accounted for more than half of export earnings totalling some 70 billion US dollars.18 Between 2000 and 2014, encouraged by the growing global demand for soya as animal feed and biofuel, Argentina doubled the amount of land used for soya cultivation to 19.3 million hectares; thus, it remains dependent on the highly volatile global market price.19 Meanwhile, it has not proved possible to establish a competitive industrial sector. The share of industrial production in value added has stagnated at the 1974 level of around 30 percent.20 Only the automobile industry, which made a major contribution to the short-term boom with its annual average growth rate of 18 percent between 2003 and 2012,21 is important beyond the region. In 2014, however, production shrank by more than a fifth.22 Part of the reason for that shrinkage was the unreliable power supply. Owing to the lack of investment and dilapidated infrastructure, there are frequent power cuts; and despite large reserves of natural gas and crude oil, Argentina has to import energy.23

**Before it’s too late**

At the same time, Argentina has more than just natural resources at its disposal. It can also boast a large and well-educated working-age population. Fifty-six percent of the more than 40 million Argentines are of working age (20 to 64).24 Almost one in ten has graduated from one of the country’s 110 universities, which number among the best in Latin America.25 The high level of education attracts knowledge- and research-intensive sectors such as biotechnology, which are gradually establishing a presence in the country.26 Because the fertility rate has been falling slowly but steadily since the 1980s and today stands at 2.3 children per woman, the age structure of the population is relatively balanced. The share of

**Post-crisis is pre-crisis**

By the end of the 1990s, Argentina had plummeted into a social and economic crisis. The pegging of the Argentine peso to the US dollar led to overvaluation, as a result of which the export industry could no longer compete globally. After the 2001/2002 recession, the country enjoyed a brief period of economic prosperity. Owing to the devaluation of the peso, Argentine products were once again inexpensive and in demand. However, the economic rollercoaster of recent years, together with the long unresolved debt dispute with international lenders, has re-ignited fears of another default; indeed, the inflation rate, which according to World Bank data reached 30 percent in 2015, underscores those fears.27 In order to prevent capital flight along the lines of 2001/2002, the government recently imposed a limit on international money transfers and banned private individuals from purchasing dollars.28

---

**America – The Rise to Prosperity and Missed Opportunities**

(Data source: World Bank29)
the over 64 year olds in the total population is set to grow 20 percent by 2030. In comparison with neighbouring Chile, which over the same period will have to reckon with a 60 percent rise in the share of older people, that is a relatively moderate increase. Nonetheless, the Argentines, too, will have to adjust to a shrinking working-age population. In order to successfully negotiate the transition to an aging society, the country must maintain its educational advantage and use it to increase productivity. In recent years, however, less than one percent of value added has gone into research and development. Thus, Argentina threatens to lose ground in the competition for the best business locations.

Difficult balancing act

In order to make use of the country’s available potential, the new president has to perform a difficult balancing act between economic and social policy. On the one hand, he needs to win the confidence of investors to avoid default and deal with the issue of urgently needed investment. On the other hand, he has to launch necessary social reforms without losing the approval of his own people. His first months in office have been very promising so far. But if this changes, he could nonetheless experience the same fate as that of former President Fernando de la Rúa some 15 years ago. The Kirchners’ predecessor faced similar challenges to those confronting Macri today. Months of mass protests forced him to resign from office after just two years.

Latin America’s flagship

Since the Pinochet dictatorship ended peacefully in 1989, Chile has succeeded in making the leap from a developing country to an industrialised nation. Indeed, in terms of per capita GDP – around 14,500 US dollars – only the North American giants, the United States and Canada, and the oil-producing states Trinidad and Tobago and Venezuela are doing better in the Americas. Having made particularly impressive progress in fighting poverty, Chile is now classified by the World Bank as a high-income country. While back in 1989, one Chilean in five still lived on less than 3.10 US dollars a day, by 2013 it was one in fifty. In addition, Chile is politically stable and ranks among the top countries of the American continent on all indicators used in this study. Only in Canada is there less corruption than in the long, narrow country west of the Andes, while legal security is higher only in the US and Canada.

The example of Chile illustrates how making mutually reinforcing improvements in different spheres of society is the best way to trigger a long-term positive development trend. One of these spheres is education, where Chile now ranks fifth among the American states: 79 percent of the population between the ages of 20 and 64 has completed secondary or higher education; in 1990, only 58 percent of the population managed to attain this level of education. And as educational standards continue to rise, so the birth rate falls. Whereas in 1985, women still had 2.6 children on average, the rate is currently just 1.8 – well below the replacement level of 2.1 children per woman. The first effects of this development are already being felt. In 2015, population growth fell below one percent for the first time, and Chile now faces the problem of a rapidly aging population. Today, only in Uruguay does the median age slightly exceed that of Chile, where it is 34.4 years. This will soon change, however, and in 2040 Chile is expected to have the oldest population in South America, with a median age of 44.

Pensions – a risky system?

An important first step in preparing the country for this demographic trend was taken during the Pinochet era. In 1980, when the Chilean economy was largely being privatised, the Chicago Boys – a group of economists so-called because they studied at the University of Chicago under Economics Nobel Prize laureate Milton Friedman – replaced the traditional contribution-based state pensions system with a system that was fully funded. In theory, old age provision based on private savings offers not only the higher yield to be expected from the capital market but above all immunity to demographic changes. At the same time, funded pensions are associated with higher risks, since saved assets scarcely yield any income during times of crisis. Almost 35 years later, experts still disagree about how successful the Chilean pensions experiment has been. The pension level is average by international standards, but many people do not pay enough into the system to be able to live from their pensions or even to qualify for a pension at all. This is because Chileans need to pay into the system for at least 20 years to receive more than the subsistence level. Women, in particular, often fail to do so. What is more, the system has high administrative costs, which hits lower earners especially hard. In order to improve the position of those who earn less, the government introduced a so-called solidarity pension in 2008, which is financed from taxes and guarantees a minimum income to people
without pension rights. Moreover, the self-employed are now obliged, too, to pay into the pension fund.9 Nonetheless, providing stable employment for as many Chileans as possible so that people can look after themselves, irrespective of whether the pensions system is contribution-based or funded, will be a central task for the future.

**Education for the future**

Unequal pension rights are the result of a generally high level of inequality in Chilean society. While Chile does not differ from most other Latin American countries in that respect, in many areas — such as income inequality — Chile has an even greater gap than its neighbours.10 One Chilean in four cannot afford to buy clothing, while one in seven does not have enough money even to buy food.11 Only by further diversifying the economy will the country be able to change this situation. Currently the Chilean economy is heavily dependent on world prices for natural resources, especially copper. Chile produces roughly a third of the world’s copper, and natural resources account for more than half of all exports.12 Thus, the fall in the copper price in 2014 hit Chile hard: within just one year, GDP growth fell from 4.3 to 1.9 percent.13

To put the economy on a broader footing and to give a larger number of people a share in the country’s wealth, Chile also needs to do something about its education system, for access to a good education is still dictated largely by family background.14 In most cases, only students who have attended an expensive private school have a chance of passing the stiff state university entrance exams.15 The student protests of 2006 and 2011 highlighted the potentially explosive nature of this situation. President Michelle Bachelet intends to tackle this problem in her second term in office and to reimpose greater state control over the education system. In a first piece of legislation, the government has decreed that schools that receive money from the state can no longer charge their students fees. In addition, with effect from 2016, fees for state universities are to be abolished for the poorest 50 percent of students. Sluggish economic growth and the resulting fall in state revenues has, however, already led the government to water down some of its proposed reforms. Thus, crucially important public support for the reforms threatens gradually to dwindle.

In order to boost the economy, Chile is seeking to improve international ties. It has entered into free trade agreements with the US and the EU and is an associate member of the South American alliance of states, Mercosur. What is more, in 2010 the government launched its “Start-up Chile” programme in an explicit bid to attract entrepreneurs to the country. It offers financial aid and simplified visa arrangements. In the next round of the programme, which began in January 2016, several thousand entrepreneurs are expected to apply; apparently the government is able to rely on the country’s attractiveness. It is after all only one of two countries in Latin America with annual net immigration,16 another indication that it has joined the ranks of the world’s industrialised nations.

---

**Chile’s race to catch up**

In 1990, the year following the end of the Pinochet dictatorship, Chile’s level of prosperity was below that of Argentina, Brazil and Mexico. This has now changed: relative to its population, Chile is now Latin American’s richest country. Indeed, it is defined by the World Bank as a high-income country.

<table>
<thead>
<tr>
<th>US dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Chile</td>
</tr>
<tr>
<td>Mexico</td>
</tr>
</tbody>
</table>

Per capita GDP in US dollars, 1990 to 2014
(Data source: World Bank 17)
Sources

Continent of contrasts


The GFK household survey

GfK Verein über GfK GLOBO BUS®


See Endnote 1.
Caribbean 2015. Country
World Trade Organization 7 Auswärtiges Amt (2015):
Autoridad del Canal de
America – The Rise to Prosperity and Missed Opportunities
je eine Drehscheibe. Neue
bit.ly/1OhzgYb
Panama. Report by the
Länderinformationen.
Deutsch Panamaische Indus-
bit.ly/21WdUSv
San José.; Instituto
Estadístico de Turismo (o.J.): Anuario
2005.
Turismo 2005.

See Endnote 1. 10 Lateinamerika Verein
Berichte und Kommentare. bit.ly/23HnlBl
(downloaded on 10.3.2016).

See Endnote 7. 12 Wolff, J. (2008): Zur jüngs-
ger Mannschaften. Kolumbien.

See Endnote 9. 10 See country comparison.

See Endnote 10. 19 See Endnote 4.

See Endnote 8. 5 See Endnote 2.

See Endnote 10. 9 Wittgenstein Centre for
Population Prospects. The 2015
Review of World Energy June
2015: Wittgenstein

See Endnote 11. 4 See Endnote 1.

See Endnote 1. 5 Konrad-Adenauer-Stiftung.
KAS Länderbericht, Februar
2014-2015. World Economic
Competitiveness Report

See Endnote 9. 5 See Endnote 2.

See Endnote 8. 5 See Endnote 10.

See Endnote 7. 18 See Endnote 10.

See Endnote 9. 10 See country comparison.

See Endnote 5. 16 UN Desa (2015): World Po-

See Endnote 5. 16 Germany Trade&Invest
Erdölreserven des Landes.

See Endnote 3. 3 See Endnote 3.

See Endnote 3. 3 See Endnote 3.

See Endnote 2. 4 See Endnote 1.

See Endnote 6. 16 Germany Trade&Invest

See Endnote 7. 9 Wittgenstein Centre for

See Endnote 8. 5 See Endnote 1.

See Endnote 7. 18 See Endnote 10.

See Endnote 12. 10 Germany Trade&Invest


See Endnote 10. 17 Germany Trade&Invest

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 10. 16 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 10. 16 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.

See Endnote 12. 9 Wittgenstein Centre for

See Endnote 5. 16 Germany Trade&Invest

See Endnote 12. 10 Germany Trade&Invest

See Endnote 4. 19 See Endnote 6.
Latin America's economy drip fed by the Asian boom +++ White US Americans soon a minority +++ Canada is the star pupil of North America +++ Panama's economy growing most rapidly +++ Prosperity is aging rapidly +++ A new chance for Argentina +++ Progress on shaky ground in Bolivia +++ Chile is Latin America's model country +++ Mexico still the workbench of the US +++ another change of government in Haiti +++ Ecuador between oil dependence and the "good life" principle +++ Uruguay is the best place in Latin America