

# INTRODUCTION

Much has been written about the turn to neoliberalism across Latin America during the 1980s and 1990s, about the increasing popular challenges to “neoliberal democracy” since the late 1990s, about the “leftist turn” to some kind of post-neoliberalism in many Latin American countries during the early 2000s, as well as about the less clear-cut pattern of politico-economic development in the region over the most recent years. In doing so, scholars have also tackled the important question of variation: why is it that certain countries adopted and implemented far-reaching neoliberal structural adjustment policies while others moved in this direction only gradually and much more inconsistently? Why is it that neoliberalism was openly challenged by mass movements in certain countries but not to the same extent in others? Why did some countries, after the turn of the century, embark on quite radical attempts to transform the development model, some much more modestly, and others not at all? And how can we make sense of the even more diverse political trajectories that have characterized the region since 2015, the swings from left to right and from right to left in ways that have challenged business power and forced it to adopt ad hoc strategies to maintain its close relationship with the state?<sup>1</sup>

Bolivia, Ecuador, and Peru offer a key puzzle in this regard. On the one hand, they are characterized by a series of commonalities

that date back to their colonial and postcolonial history and include similar political, economic, cultural and socio-geographic characteristics. On the other hand, their politico-economic trajectories since the 1980s have varied in unexpected and shifting ways. During the 1980s, attempts to implement far-reaching structural adjustment policies failed in Ecuador and Peru—but Bolivia, with the post-1985 “New Economic Policy,” stood out as the exceptional poster child of neoliberal reforms. During the 1990s, with Fujimori in power in Peru, this changed—and Ecuador remained one of the very few Latin American countries that stuck to the mode of gradual (and fairly inconsistent) implementation of market-oriented policies. This pattern notwithstanding, it was Bolivia and Ecuador—but not Peru—that saw a huge wave of anti-neoliberal mobilization taking off in the late 1990s, which culminated in the election of Evo Morales in Bolivia in 2005 and of Rafael Correa in Ecuador a year later. These governments, subsequently, in fact implemented a set of post-neoliberal policies that reinforced state power over market forces and substantially modified the established development model—if refraining from serious attempts to move beyond either capitalism or extractivism.<sup>2</sup> Peru, now, remained the outlier. Even if the country similarly benefited from the global commodities boom and did see the temporary rise of political outsiders, it did not experience any meaningful attempt to implement leftist or post-neoliberal policies that challenged the established development model. Under interim president Jeanine Áñez (2019–2020) and Correa’s elected successor Lenin Moreno (2017–2021), both Bolivia and Ecuador saw a marked return to the right, including adoption of openly pro-business policies. Yet, with the election of Luis Arce in October 2020, this return remained a brief interlude in Bolivia, while Ecuador—with the election of Guillermo Lasso in April 2021—seemed to be seeking to consolidate this path. At the same time, Peru found itself in deep political troubles and, finally, saw the unexpected triumph of leftist outsider Pedro Castillo in the June 2021 runoff election and his subsequent removal as president eighteen months later.

In attempting to explain such diverging paths of political and economic development among Latin American countries in general and the Central Andean countries in particular, much research has been devoted to the role of social movements (e.g. Silva 2009; Yashar 2005) and the institutional features characterizing the different party systems and political regimes (e.g. Levitsky and Roberts 2011; Van Cott 2005).<sup>3</sup> Much less attention has been paid to the role played by business elites in its various components. This is precisely the dimension

that was emphasized by Catherine Conaghan and James Malloy in their pioneering work *Unsettling Statecraft: Democracy and Neoliberalism in the Central Andes* (1994), which focused on the 1970s and 1980s. Indeed, few observers would doubt that economic elites play an important role throughout the Central Andean region (and beyond). Yet, to date, an account is missing that looks systematically at how the role of economic elites and configurations of business power in all its dimensions have changed in Bolivia, Ecuador, and Peru during the recent decades and how these changes have interacted with dynamics at the levels of the popular sectors and the political regime in order to shape change and continuity in economic policy making and the overarching development model. This is what we set out to do in this book.

### AIMS AND ARGUMENT OF THE BOOK

The political role of economic elites and the complex relationship between business power and the state are certainly key issues that merit much more systematic analyses across Latin America and beyond.<sup>4</sup> In this book, however, the focus is deliberately set on the three countries of Bolivia, Ecuador, and Peru, countries that share many structural similarities with one another. Rather than cast the net wider, we believe that a narrower, more focused and detailed historical comparison sheds important light on the role played by economic elites in fashioning political outcomes over the long run. In this, we follow up on the work of Conaghan and Malloy, convinced that there is importance in writing a sequel that takes into account what has happened in the region over the three decades since that book was published.

In the early 1990s, the neoliberal project was but an incipient enterprise whose overall sustainability was the question that Conaghan and Malloy addressed for these three countries in which “unsettledness” was a salient feature. But much water has passed under the bridge since then. Bolivia at that time stood out as the exception to the rule, a country in which the viability of the previous, statist model of development was shaken to the core by the crisis, or “critical juncture,” of the early 1980s. As the 1990s drew on, however, the neoliberal model appeared to become hegemonic under the aegis of the Washington Consensus, with business power seemingly sitting well alongside the transitions from authoritarian rule to democracy in Latin America. However, the growing autocracy of the Fujimori regime in Peru (1990–2000) raised serious questions about the extent

to which radical economic liberalization was compatible with notions of democratic rule.

The coming of the “pink tide” in the early years of the new millennium further questioned the “settledness” of the neoliberal model, giving rise to the return to more statist and nationalist forms of governance. But while Ecuador and Bolivia stood out as exemplars of that genre, in Peru the business class maintained its political hegemony, achieving what, in an earlier text, Crabtree and Durand (2017) described as being a case of “political capture.” But even there, more recent events seriously question the ability of business elites to fashion political life in ways that preserve their leading role while strengthening democratic governance. Looking at the region in the early 2020s, it appeared to be as “unsettled” as ever, if not more so. More than becoming a stabilizing factor that could contribute to the governability of the state and society, business brokers have sought to protect their economic interests and to exert their influence over the state, thus contributing to “unsettledness.” We hope in this book to help provide an understanding of why this is so.

In identifying the means by which business elites exercise the resources available to them in different historical conjunctures and in different geographic settings, we seek to harness new academic scholarship in understanding the multidimensional nature of business power. We thus analyse the various forms that such power takes—structural, instrumental and discursive—and how business actors use these different forms of power, in contention with other claimants in society, in attempting to ensure that public policy responds to their interests. In addition to updating the study by Conaghan and Malloy, we thus also enrich the analysis by drawing on the new theoretical and methodological approaches of recent decades that focus on business power and state capture.

We are also concerned to identify those key moments, or critical junctures, when the nature of that power changes and new meanings of “development” emerge. For this reason, we adopt a historical approach to chart variations in business power over time and to explore how that power coexists with, and is shaped by, power exercised by other social actors. The comparisons among the three countries are drawn with reference to long-run historical patterns. There are a number of points in the story when these established patterns suddenly change, whether as a result of exogenous shocks, endogenous developments, or a combination of the two. Our historical narrative thus begins with the impact of the 1929 crash in forcing important changes, giving way to a new period of business–state relations that

ended in the debt crisis of the 1980s. The period of neoliberal hegemony was challenged in the early 2000s at least in Bolivia and Ecuador, while—arguably—the COVID-19 pandemic and its socio-economic consequences may represent a new critical juncture with the weakening of globalization and world growth prospects.

In selecting these three countries for comparative analysis we are convinced that, despite their evident differences, they share enough in common to make such analysis meaningful and illustrative of broader trends that have affected other Latin American countries. It goes without saying that all three formed parts of the Inca empire and, on its demise, of the Spanish empire administered from Lima and were integrated into the world economy through the export of precious commodities, especially minerals. Their societies as well as business-state relations were then forged in the nineteenth century around processes of neo-colonial domination in which indigenous peoples found themselves at the base of the class structure, a historical antecedent that still impacts on society and politics today with their marked inequalities, lack of social and ethnic inclusion, and the privileged relationship that elites enjoy with the state.

All three countries were latecomers in seeking to cast off, or at least modify, this historical inheritance and with it the pattern of oligarchic agriculture (*latifundismo*) and mineral extraction. Although two world wars and the intervening crash of the late 1920s helped stimulate the beginnings of industrial development in the larger economies of Latin America, the end of the dominance of agrarian elites, and the emergence of previously excluded actors into the political sphere, it was not until the 1960s and 1970s that our three countries began to experience these patterns of change. Indeed, the process of industrialization in all three has been relatively modest (and, again, late) when compared to the Southern Cone and Brazil. All three remain heavily dependent for the bulk of their foreign exchange on extractive industries for which international prices are notoriously volatile. This pattern of development has tended to be exclusive, with large populations still living in poverty at the margins of the “modern” economy.

In the political sphere, our three countries struggled to establish and uphold more or less democratic regimes over the course of the twentieth century and into the new millennium. They lacked strong traditions of democracy rooted in public participation and with institutionalized and representative political parties and an organized civil society. In contrast to other parts of the world, party systems have remained shallow and exclusive. Although political democrati-

zation since the late 1970s meant more inclusive party systems and stronger forms of social organization, these proved ineffective in providing the institutionalized channels through which the previously excluded could find a voice.

Business elites in Bolivia, Ecuador, and Peru have had to vie with bouts of popular mobilization in ways that have led to periods of both instability and authoritarian rule. As we shall show in this study, the ability or willingness of elites to build strong and sustainable democratic institutions and stable forms of interest representation has been limited in all three countries. Political power has remained highly concentrated, a facet reinforced by neoliberalism, and attempts to broaden the power structure and include previously excluded elements have proven contested and difficult to sustain. All three countries also demonstrate highly unequal territorial patterns of state penetration, with state authority being at best patchy in large swathes of territory, particularly in the Andes and the Amazon lowlands, the latter only “colonized” relatively late on in the twentieth century. Across the Central Andean region, these spaces have witnessed important clashes between extractive industries and indigenous-based social movements in which the ability and will of successive governments to mediate and impose rules of conduct have been lacking. Indeed, institutional development and political stability have been tenuous in all three countries. Building effective state institutions and adopting long-term policies have also been constrained by the difficulty in establishing a strong base of taxation capable of underpinning public spending and facilitating a more equal income distribution.

The Central Andean region is still far from finding the formula for reconciling business power with wider political participation in ways that can underscore stable, democratic governance. This is a difficult balancing act in most capitalist societies. Electoral challenges to the neoliberal pro-business agenda in more recent years have obliged the core economic elite, business groups, and multinational corporations—now strongly intertwined—to decide between seeking compromise with politically strong leftist governments and trying to subvert them.

So, although the three cases studied here share many of the vices or virtues found elsewhere in Latin America, we believe that there are some clear commonalities that make for meaningful comparative analysis. But the differences between them are significant and revealing in the contrasts they elicit. Each country reflects its own social, political, and cultural peculiarities, characteristics that are

the product of their historical development since independence two hundred years ago.

### OUTLINE OF THE BOOK

In chapter 1 we map out key debates that surround this topic and the relationship between business elites and the state. In line with the overall literature, we identify three dimensions along which that power is constituted and thereafter exercised: (1) structural power, or the ability of economic elites to influence the state through their decisions to invest (or disinvest), made all the more pronounced by the fact that Latin America as a whole (and the Andean countries within it) is an area long dependent on financial inflows from the rest of the world; (2) instrumental power, or the means by which local elites are able to influence political outcomes through domestic institutions of one sort or another; and (3) discursive power, by which elites are able to influence patterns of public opinion and their ideological underpinning in ways that go well beyond the state but which, in turn, influence state policy. We go on to interrogate the idea of “state capture” and the circumstances in which the three strands of business influence combine to become effectively hegemonic. The focus then changes to the cycles that have characterized Latin America’s models of economic development and the mechanisms of transition between them from the 1920s to the present day. Configurations of business power and the degree of state capture tend to vary in line with these shifting development models, themselves the product of the emergence of new social and political actors. Such factors can lead to changes in the economic model, and we see how these changes may impact on the political regime and, specifically, on elite support for democracy. The shifts from one model of economic development to another, as we will argue, tend to take place at critical junctures, themselves often caused by cyclical variations at the global level.

In chapter 2 we apply this conceptual framework to patterns of development in Bolivia, Ecuador, and Peru—from the demise of old oligarchic structures, through the various attempts at structural reform that characterized the period between the 1950s and the 1970s, to their final collapse in the early 1980s at the time of the Latin American debt crisis. We begin the chapter with an overview of the period for Latin America as a whole before analyzing our specific case studies. We trace the changing relationship between business elites and the state within the model of state-led development and import substitution industrialization, strategies aimed at widening

the boundaries of social inclusion, although these were subject to limitations of resources and capabilities. We identify degrees of regulatory and policy capture by different actors in specific settings. In particular, in this chapter we analyze the economic and political conditions that led to the collapse of the model and the role played in this collapse by business power within the context of changes in the global order.

In chapter 3 we outline the nature of the neoliberal “revolution” as it applied to the Andean region, along with its relationship to the process of democratization. We identify the main detonators of change and the structural transformation that were brought about. Covering the late 1980s and 1990s, we study the domestic forces that pushed for pro-market policies and the degree of external support they enjoyed, as well as the key features of the political economy as it took shape during the neoliberal period. How did business power evolve in this context, and to what extent did it create conditions for capture? We analyse and compare the different trajectories and outcomes within the Central Andean region, with the process of adjustment going faster and further in Peru and Bolivia (as a consequence of the severity of the crises in the 1980s) than in Ecuador.

In chapter 4 we begin by looking at the societal challenges to neoliberalism and the resultant “pink tide” as a broader phenomenon in Latin American politics with all its variants in different countries. We point to the failings in the neoliberal model in generating an equitable pattern of growth, and we focus on the extent to which this led to a challenge to business power across the region. Roughly covering the first decade of the new millennium, we trace the variants in the courses taken by our three countries. We begin with Bolivia under Evo Morales (after 2006) and then compare this with the “pink tide” in Ecuador under Rafael Correa (after 2007). Then, we turn to the rather different trajectory followed by Peru where business power remained entrenched throughout the post-Fujimori era, in spite of challenges to it such as those by the election of Ollanta Humala (in 2011). In the Bolivian and Ecuadorian cases, we examine the practices adopted by business elites in this far less favorable set of circumstances, while also identifying the sources of their residual power. We look at how conventional notions of development were challenged as new actors came on the scene demanding the adoption of new paradigms. With a view to Peru, we address the question of how business elites managed to deflect incipient challenges to their controlling position and, thereby, contributed to preventing Peru from joining the “pink tide” through the first two decades of the new millennium.



In chapter 5 we look at the conservative reaction against the “pink tide” that manifested in the second decade of the new millennium, albeit in different ways. This backlash corresponded, to an important degree, to the ending of the commodity super-cycle that had facilitated the return to more statist and interventionist policies. We chart the restoration of business power and the increased leverage it offered in defining public policy. Again, our three Andean countries pursue different courses, which diverge in important ways, with business elites gaining sway in Bolivia and Ecuador at the expense of the popular organizations that had initially backed the Correa and Morales governments. In each case, we look at the rising influence of business—both during the latter years of these two presidents and then under the more right-wing governments that replaced them. In Peru, by contrast, we see the power of business declining and increasingly contested, in part because of the recurrent episodes of socio-environmental conflict, the delegitimizing effects of the proliferation of corruption scandals in the years after 2016, and the weakening of governments that were initially committed to sustaining pro-business policies.

In the Conclusions, we summarize our main findings and identify overarching theoretical implications before rounding off the historical sweep with a short epilogue. Here, we look at the impact of the COVID-19 pandemic, its economic and social consequences, and the political gyrations as a consequence of elections in all three countries, which brought Morales’s Movimiento al Socialismo (MAS) back to power in Bolivia, helped underscore the turn to the right in Ecuador, and led to the surprise victory of a leftist outsider in Peru. In a rather speculative manner, we suggest that the region might be facing a new critical juncture. In the current context, on the one hand, the consequences of the pandemic seem to have further undermined the public appeal and political viability of pro-market policies, weakening business’s capacity to shape public discourse and craft broader alliances. On the other hand, rising fiscal deficits and debt levels aggravated by COVID-19, at a moment of increased wealth concentration, also pose important obstacles to a statist agenda and threaten to further aggravate distributional conflicts. At the global level, the world appeared increasingly segmented into competing blocs with growth rates falling and inflation reasserting itself after decades of relative quiescence. In this context, a political climate of “unsettledness” appeared to have returned throughout the Central Andes with business power seeking to use the resources at its disposal to protect its strategic interests.