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Governance crises and the Andean region: a political economy analysis

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Summary

The Andean countries, a region with abundance of natural resources and other valuable assets, exhibit a variety of governance problems that hinder its potential for social peace, stability and economic prosperity. Their empirical governance record, based on historical and recent data, although varies from country to country has been characterized by political instability, considerable frequency of constitutional reforms, presidential crisis, volatility of democratic institutions and violence. In turn, the empirical evidence on quality of institutions put the Andean region in a relatively modest place in international rankings of (survey–based) indices of voice and accountability, rule of law, regulatory burden, control of corruption, political instability and violence although improvements are also detected in some of these governance dimensions. Institutional reform, in a broad sense, is needed to ensure the basic conditions of economic development.

Introduction

The Andean region of Latin America has experienced governance and economic difficulties that have compounded its structural problems of poverty, slow growth, inequality and financial volatility. Governance difficulties are reflected in a high turnover of authorities, low rankings in international indices of institutional effectiveness, recurrent political crisis, violence (particularly acute in Colombia) and potentially fragile democracies[1]. All these governance problems put clear obstacles to steady economic growth besides affecting the quality of democracy.

The last few years have been marked by considerable political instability in the Andean region. In April of 2002, for example, a failed *coup'd'état* took place in which Venezuelan President Hugo Chávez was temporarily ousted of power only to regain the Presidency a day later in a confusing set of events that involved the military and some leaders of the main business association. More recently, in December of 2002, a national strike has virtually paralyzed the economy, including the oil sector, in an attempt to remove President Chávez. In Ecuador in January of 2000, the democratically elected President Jamil Mauhad was deposed by the military following an indigenous uprising in which a short lived military– indigenous junta took power for a few hours, only to eventually, under strong foreign pressure, turn power over to Vice President Gustavo Noboa. In 2000, Peru's President Alberto Fujimori fled the country after a scandal of

1 The definition of "Andean Countries, AC" comprises Bolivia, Colombia, Ecuador, Perú and Venezuela, which are the countries member of the Community of Andean Nations, CAN.

corruption and political intimidation that involved his chief of security, Vladimiro Montesinos, stripped the Fujimori administration of all its remaining credibility.

The economies of the Andean countries have been also affected by governance and instability problems. In the last ten years the average rate of economic growth for the five Andean countries[2] (Bolivia, Colombia, Ecuador, Peru and Venezuela) was lower than the average growth rate in the Latin American region as a whole. Colombia has seen its historically stable economy give way to slow growth and financial vulnerability. Ecuador, in turn, suffered a severe economic and financial crisis in 1998–99 and has experienced recurrent currency depreciation and escalating inflation that was further complicated by a severe banking system crisis.[3] Ecuador's answer to this instability was to radically change the currency regime and adopt the US dollar as its official currency in early 2000. Official dollarization, supportive fiscal and financial policies, and better external conditions helped Ecuador to, albeit gradually, restore domestic confidence, reduce inflation, and resume economic growth in the last two years; although external imbalances have developed in 2002. Output growth has also slowed in Peru during the political turbulence associated with the demise of the Fujimori regime. Venezuela has experienced a volatile growth record that followed the fluctuations in international oil prices. Venezuela's domestic political polarization has, in turn, created significant uncertainty that has hindered private investment and output has declined substantially, in spite of favorable oil prices. Although its growth rate increased during the 1990s, Bolivia's economy has also been affected by the regional slow–down and by internal social unrest.

This paper underscore the critical importance of governance conditions in affecting economic development. The purpose of this paper is to characterize political and constitutional regimes, the quality of institutions, social inequality, and ethnic diversity in the Andean region. To that end, a conceptual framework is developed (section 2) that distinguishes the specific roles of political regimes, constitutional rules, the quality of institutions, and patterns of social conflict in generating governance patterns that, in turn, affect economic outcomes. The focus of the paper is mainly on how to characterize and understand governance rather than on providing a detailed analysis of the channels through which governance conditions affect economic growth. This will be the subject of a next paper. The empirical analysis of the paper (section 3) combines long run evidence on the frequency of constitutional reform, presidential crisis, and political regimes of the Andean region in the twentieth century along with more recent indicators of governance and institutional quality in the 1990s and early 2000s prepared independently by the World Bank and the World Economic Forum–Harvard University. Indicators of social inequality, ethnic diversity, and economic performance for each of the five Andean countries are also provided in this section. Section 4 gives an interpretation of the governance and economic record of the Andean region countries and section 5 presents our conclusions.

[2] By "Andean Countries" we refer to the countries that are currently members of the CAN (Andean community of nations).
[3] See Beckerman and Solimano (2002).

I. Political regimes, institutions and social conflict: a conceptual framework

The conceptual framework adopted in this paper sees governance conditions as the result of the interaction of three sets of variables:

A. The nature and stability of the political regime and the constitution.

B. The quality of state institutions.

C. The pattern of social conflict and cooperation related to inequality and ethnic diversity.

The political regime and constitutional rules constitute the highest echelon in the hierarchy of institutions[4]. The judiciary, the regulatory bodies, the ministries, the budgetary process are part of the second level in the hierarchy of institutions. This paper identifies complex agent–principal problems, rent seeking, corruption, and violence as important factors that weaken state institutions and create serious governance problems. The third set of variables goes beyond formal institutions and focuses on patterns of social behavior such as cooperation and conflict, largely related to inequality of income and wealth and to ethnic diversity. This framework highlights the impact of each of these three sets of variables (and the effects of their interaction) on the governance and economic performance of the Andean countries.

4 See Tommasi (2002) for a discussion of the concept of "hierarchy of institutions".

A. Political regimes and constitutions

Constitutional theory has a long history coming back to Montesquieu (1748), Hamilton and the Founding Fathers of the U.S. constitution, Hayek (1960), Buchanan and Tullock (1962), with more recent treatments given by Cooter (2000) and Aghion, Alesina and Trebbi (2002).

The *public choice school* or *contractarian approach*[5] championed by Nobel prize James Buchanan focuses on a social contract, such as the constitution, that defines the overall political framework under which society evolves. Buchanan (1988) distinguishes between the process of writing up a constitution–setting up the basic rules of the game in society–and the specific policy–making process that unfolds under the rules established by that constitution. In the words of game theory, the constitution is the first stage establishing the rules of the game: the second stage is playing the game. A normative analysis would enter in the first stage (writing the constitution and creating the basic institutions). The positive analysis, in turn, would focus on playing the game[6]. Under ideal conditions, constitutions are assumed to have been written under the “veil of ignorance” regarding initial resources and interests and that the writers of the constitution did not end up in a better or worse position in society as a result. This assumption has been criticized as unrealistic because the framers of constitutions do often consider their own interests in the process of writing the constitution[7].

An important tradition in political theory focuses on the design of the main political institutions of the state. This institutional design includes electoral rules, division of powers, and checks and balances among different branches of the state. The constitution is the main legal chart that establishes the basic rights and responsibilities of individuals and the workings of the political system. The major types of democracies are the *parliamentary* and *presidential* systems with *semi–presidential* regimes (e.g. France) that mix elements of both systems. In presidential systems (e.g. like in the United States), presidents are elected either by a direct vote or by an electoral college, have fixed terms in office, and often have legislative initiative. In fact, Presidents are often endowed with considerable powers to present legislation to congress and to administer the executive branch of government and cannot be removed from office before the expiration of their official term, except in cases of impeachment or resignation Presidential regimes do not require legislative majorities. In contrast, in parliamentary regimes, heads of government or prime–ministers are elected by parliament. They can be removed through a vote of non–confidence in cases of political crisis and the head of government (i.e. the Prime Minister) needs a parliamentary majority to sustain its government.

Basic criteria with which to compare presidential and parliamentary systems include how each system contributes to the continuity and stability of democracy and how the system forestalls “regime breakdowns”' in the event of a major political crisis. Authors such as Juan Linz and Arturo Valenzuela (1994) argue that the "dual legitimacy" between the president and parliaments, the alleged tendency towards a "winner–take–all" system in presidential regimes, the role of outsiders in bidding for the presidency, and the rigidity of terms make presidential regimes more prone to generate political crises than parliamentary regimes[8]. From an economic viewpoint the choice of political regime and, even more importantly, its stability over time are important factors that affect the degree of political stability in a country, a variable that influences both investment and the rate of economic growth.

5 See Buchanan and Tullock (1962) and Buchanan (1988).

6 Dixit (1996) stresses that, in practice, the distinction between rule–making and actions is more a continuum rather than a discrete choice binary category. Specific policies can have long–run permanent effects comparable to the impacts of rule–making decisions.

7 See Dixit 1999a).

8 See Linz and Valenzuela (1994) and Mainwaring and Shugart (1997) for alternative views on presidentialism and parliamentarianism.

B. Institutions of the state: strengths, weaknesses and factors that affect quality

Once the basic political framework of a country has been defined by its constitution, there is a vast array of political and economic institutions (e.g. ministries, central banks, customs, public investment agencies, the judiciary) whose quality of performance is critical for ensuring appropriate governance and, ultimately, good economic outcomes. Positive political economy (PPE) applies economic principles of individualism, incentives, rationality, and constraints to the analysis of institutions and of their impact on economic performance.[9] In this view, institutions are formed to reduce transaction costs both in the economic and political realms.[10] A political–economy approach that has gained considerable attention in recent years is the theory of *transaction costs politics* (TCP) developed by North (1990b) and Dixit, (1996, 2001a, 2001b). This approach evaluates how different political governance structures (constitutions, government agencies, laws) cope with 'transactions costs". In an analogy with transaction cost economics (TCE), transaction cost politics uses the contract as a unit of analysis. While in economics a contract is a verifiable process (e.g. renting a house or lending to a firm), in politics contracts are more complex. The definition of a "political contract" is often ambiguous: a president or senator may be elected with a platform that is vague, making it difficult to monitor the fulfillment of the initial promises. Besides, there are incentives to change policies along the way dismissing initial commitments (e.g. the phenomena known as "time inconsistency").[11]These agency problems are further complicated by the existence of several principals (the general public, voters, specific interest groups); these multiple principals lead agents (the government, parliament, public agencies) to face several mandates that are often inconsistent. The enforcement of "political contracts" is difficult because the institutional mechanisms of enforcement (elections, the supreme court, referendums) can not be activated at every small deviation from initial commitments. In recognition of all these difficulties, modern political economy theories have devised new concepts such as reputation, commitments, rules, and delegation (using independent central banks, for example, to conduct non–inflationary monetary policy). This literature sees these institutional mechanisms as a way to cope with incentives for non–compliance by agents that face incentives to be inconsistent, conflicting mandates, and a system with limited accountability. These complex principal–agent problems make the need for appropriate institutions that can deal with governance problems clear.

Rent–seeking, corruption and violence as factors that weaken institutions

Under ideal conditions, institutions and organizations must have clear goals, be properly funded, have a sound financial and human resource base, and be free of undue political interference. At a "general equilibrium level" they must be part of an institutional architecture that is based on adequate governance principles that ensure a proper working of institutions for among other things, fostering economic prosperity. In the previous section we identified several reasons related to the agent–principal problems that are particularly serious in the case of political transactions for why institutions fail to function properly. Here we identify three phenomena that tend to weaken the institutions of the state. These three factors are:

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9 See North (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge University Press.

10 An alternative view of the origin of institutions is provided by Olsen (2000) who puts forward a theory of power and compulsory compliance to explain the origin of the state and institutions. In Olsen's framework institutions are not necessarily created for efficiency reasons to reduce transactions costs but for purposes of redistributing resources towards those in power. In this vein institutions can be dysfunctional and consistent with bad social outcomes such as economic decline and recurrent crisis

11 See Drazen (2000).

i) Rent–seeking behavior
ii) Corruption
iii) Violence

Rent–seeking and corruption.

The rent–seeking approach[12] in political economy sees society as formed by individuals organized in special interest groups (or acting alone) that are motivated by their particular interests rather than by the general interest of society. Common examples include: farmers seeking price support schemes, industrialists wanting import protection, bankers pressing for protective regulation and less competition from new intermediaries. From this perspective, the state is seen as institutional machinery that, among other things, dispenses economic favors and transfers income among groups in exchange for political support.

Rent–seeking behavior leads some groups to attempt the *capture* of key state institutions such as customs, tax administration authorities, public contracts agencies, where they can extract rents. These rents can be obtained by lobbying (rent–seeking) or simply by illegally appropriating public assets for their personal benefit. In this later case we are referring to *corruption*. In some cases these groups may attempt to capture the whole state– apparatus and corruption becomes the norm for the predatory groups (e.g. the kleptocracy) that have captured the state. Corruption and the stealing of state–assets (like the "spontaneous privatization" in post–soviet Russia) tend to flourish in weak states where mechanisms that make government officials accountable to the public, parliament, and the courts work very poorly and curtail rule of law. Corruption and rent–seeking clearly undermine the strength of state institutions. More over, intense rent–seeking can lead to corruption.

Violence

In a world of voluntary exchange and compliance with the rule of law, there is no role for violence. Less so for internal armed conflict entailing different armed groups from the official army. An important feature of several contemporary societies[13] and relevant for some of the Andean countries, however, is pervasive violence and internal conflict that severely weaken the state and can lead to its collapse. In these cases, the state loses its monopoly on the use of force and rule of law becomes severely limited or simply non–existent. In the case of armed conflicts, it is interesting to analyze the different motivations of rebel groups. They may be a mix of political motives (rebellion as justice–seeking) and quasi–criminal motives (rebellion as crime).[14] The view of rebellion as driven by greed considerations emphasizes the quasi–criminal features of rebel organizations and the motivations that those organization have in common with criminal organizations.[15] The scale of rebellion and armed conflict is much larger than crime, even including organized crime.[16]

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[12] See Krueger, 1974.

[13] Currently around 40 countries, included Colombia, are experiencing some sort of internal conflict, civil war, or significant rebellions within their own territories.

[14] Collier and Hoeffler, (2001), using data for 78 large civil conflicts between 1960 and 1999 find econometric evidence that the risk (probability) that a civil war will start during a five–year period is better explained by a set of determinants known as greed factors than by 'grievance" factors.

[15] In general the determinants of crime are not the same determinants of rebellions and civil wars, although crime and rebellion often intertwine in complex ways.

[16] Empirically the literature identifies a civil war as a conflict involving at least 1,000 battle deaths per year, with deaths taking place in a context of violence between a government and an identifiable organized group; moreover, at least 5 % of the deaths must be on each side. In turn, while criminal organizations, gangs and mafias, typically range from around 20 to 500 members, rebel organizations have between 500 to 5,000 and more combatants.

The view of rebellion as "justice–seeking" emphasizes "grievance factors" such as income inequality, ethnic and religious divisions, and political motivations as the most important driving factors of the groups engaged in internal conflict.

Rebel groups with a mix of both political and quasi–criminal motivatives consistently behave in a way oriented to *weaken* and even *destroy* the state, so as to pursue their goals more easily, and with impunity. It is interesting to note that in many cases, rebel organizations do not want victory against the government (i.e. the seizure of power). They are often interested in preserving a very weak state and profiting from that situation. In these conditions, an armed conflict becomes an "equilibrium" or at least a stable situation that can last for a long time (see Collier, 2000)[17]. Interestingly, this model can be used to explain the long–duration of certain internal conflicts such as the one in Colombia.

C. Social cooperation and conflict, inequality, and ethnic fragmentation

Beyond formal institutions, social cooperation and social conflict also play an important role in generating actual governance and economic outcomes. Individuals, groups, and social classes each have different economic interests and motivations. Society, in turn, is an arena in which conflict and cooperation coexist with a political system that mediates the various demands and claims from different social groups.[18] Social conflict can vary in nature: one type is distributive–conflict, in which groups (or economic classes) fight over their shares of the national income.[19] In a situation of distributive conflict, inflation can be seen as the result of the conflict over real income in which each groups manage a price (wages, mark–ups, etc.), which combines with an accommodative monetary policy to generate inflation. Other points of distributive conflict are taxes, transfers, and spending, with low income groups pressing for higher taxation to finance social spending and income transfers. In contrast, the upper– middle class and the wealthy tend to favor lower taxation of income, financial assets, and productive wealth. In practice, conflict and cooperation alternate; the approval of tax and spending laws, for example –has different distributive implications and requires some degree of cooperation and consensus in parliament.

The endogenous growth theory investigates the role of inequality in economic growth and finds that more unequal societies say countries with more income and wealth inequality among its members, tend to generate more social polarization and political conflict than more egalitarian societies. Thus economic growth, controlling for development levels, would be higher in more egalitarian societies than in unequal and polarized ones, as in the later the pressures for higher taxation tends to be higher and the quality of labor–capital relations tends lower than in the more egalitarian societies.[20]Recent literature on the origins of institutions (Acemoglu, 2002) relates them to social, and distributive conflict, and argue that inefficient policies and institutions are functional to the interests of politicians and social groups holding power in detriment of society at large. In this view institutions can be socially inefficient. The only and overriding motivation to create

17 Rebel movements may have several sources of funding: i) criminal activities such as kidnapping, extortion and ransom to raise revenues to finance their activities along with alliances or taxes on criminal organizations (e.g. it is found that guerrilla groups in Colombia derive an important part of their income from taxes to drug–cartels), ii) predation of natural resources that they control, iii) funding coming from foreign governments hostile to the adversaries of those rebel groups, iv) funding from diasporas (often living in developed economies) formed by nationals that left their home countries because of civil wars or extended conflict and send financial contributions to support rebel groups they identified for historical reasons with their exit.

18 Marxian theory puts considerable emphasis on the conflicting nature of capitalist development , although its main channel is conflict between capital and labor. Other theories identify other actors and channels of social conflict that go beyond the simple capital–labor dichotomy.

19 See Taylor, L (1991).

20 See Solimano (1998).

institutions is not to reduce transactions costs: they are often set–up and maintained to help keep power for certain groups and individuals.

Another dimension of social differentiation that is especially relevant for Bolivia, Peru, and Ecuador is ethnic diversity. The question arises whether multi–ethnic societies have more difficulties in reaching consensus than ethnically homogeneous societies. Empirical studies of the impact of ethno–linguistic fractionalization on economic performance (growth) suggest different answers to this question. On one hand, authors such as Easterly and Levine (1997) attach a central role to ethno–linguistic fractionalization in explaining the poor growth performance of multi–ethnic Africa. In contrast, other analysts such as Collier (2001) find that ethnically differentiated societies do not necessarily have either worse economic performance or greater risk of civil conflict than more ethnically homogeneous societies. For Collier, the political regime and the degree of ethnic dominance are more important than simple ethnic–diversity in explaining growth performance in Africa.

D. Other factors affecting governance

The previous set of variables affecting governance does not exhaust the factors that explain the type and quality of governance. A variable, emphasized by Max Weber for example is the quality of leadership. A forceful leader (e.g. President) can be important in steering a country in a certain direction and help it to avoid political conflict ensuring stability.[21] However, that leader can be also authoritarian therefore its behaviour could inconsistent with democracy. Moreover the economic ideas of the leader may be inconsistent with economic policies that bring prosperity.

This discussion underscores the fact that the type of leader, his personality, ideas, political abilities, etc. can have an important influence in creating good or bad governance in a country. Other governance variables that can be important are ideology, the type of legal system, the degree of professionalism (or politization) of the armed forces and others.

[21] Conversely the formal leader can be weak, politically inept and unable to manage conflict.

II. Empirical analysis

In this section, we empirically investigate the effects that political regimes, constitutional change, the quality of institutions, and social conflict have on governance and economics in the Andean countries.

A. Frequency of constitutional reforms, presidential crises and political regime changes

We start our analysis of governance in the Andean Countries (AC) by looking first at the stability of the constitutional framework. To examine this, we investigate the frequency of major changes in the constitution that lead to the approval of a new constitution in each of the AC during the twentieth century (see table G1). This is an important indicator of the frequency of changes in the basic rules of the game in society and therefore a crucial indicator of instability in rule–making institutions. This is, certainly, a "low frequency" indicator of instability, but still of a great importance. The Andean country that has experienced the highest number of new constitutions in the period running from 1900 to 2000 is Venezuela with 8 constitutions approved in that period (six out of those eight constitutions were approved between 1903 and 1953, table G2). It is followed by Ecuador with 7 constitutions (3 approved since 1967); Bolivia (5 constitutions), Peru (4 constitutions) and Colombia (just one new constitution approved in 1991). Table G2 also shows the number of new twentieth century constitutions in the three countries that are often considered the most politically stable countries in Latin America: Costa Rica, Chile, and Uruguay. A similar computation is done for four OECD countries: the United States, Germany, Great Britain and Italy. All the Latin American countries analyzed, as well as The United States, have presidential regimes during the period of analysis. In contrast, Germany, The United Kingdom, and Italy have parliamentary regimes.

The five Andean countries have an average of five new constitutions in the twentieth century, a high number when considered from an international perspective. In the same time period, the average number of new constitutions for Costa Rica, Chile, and Uruguay was 2.5.[22] In turn, the average number of constitutional reforms in The United States, The United Kingdom, Italy, and Germany, in the twentieth century was 0.8. Neither the United States nor the United Kingdom has had new constitutions approved in the last century. Germany, on the other hand, approved one new constitution in 1919 and then another in 1949, after world war I and II, respectively.

Another measure of political instability is the frequency of Presidential crisis (turnover). By presidential crisis we refer to a situation in which a head of State (the President) does not complete his/her constitutional term for various reasons: forced removals by a coup d'état, resignation, etc. Table G1 provides the number of such presidential crises in the five Andean countries in the period 1950–2002.

The country with the highest number of presidential crises in this period is Bolivia, with 16 crises between 1950 and 2002. Most of those crises (11) took place in the period 1969–1982. Clearly the 1970s (and surrounding years) were a period of high political instability for Bolivia. Another country with a high frequency of presidential crises is Ecuador, with 10 of such crises, mostly concentrated both in the 1970s and in the 1990s. In contrast, Colombia registered only two presidential crises in the last half century, both in the 1950s. Interestingly, Colombia displays a remarkable degree of democratic continuity (as demonstrated by low frequency of presidential crises) in spite of its internal armed conflicts. This is certainly a paradoxical situation

The last column of table G1 shows the prevailing political regime (democratic, authoritarian) at the time of the presidential crises in each of the five Andean countries. There seems to be no clear correlation between the nature of the political regime and the frequency of presidential crises although the nature of the relationship varies across countries. In fact, in Bolivia, most of the presidential crises took place mostly in the 1970s within non–elected military regimes, in a pattern of generals–turned–presidents replacing other generals–turned–presidents. In contrast, Ecuador, the second highest frequency country in terms of presidential crises, had several presidential crises in democracy, mostly in the 1990s (i.e. Abdalah Bucaram and Jamil Mahuad were two presidents that were democratically elected and then ousted from office before the expiration of their constitutional mandates). Another important dimension of political regime is the distinction between presidential versus parliamentary regimes.[23] As mentioned before, Linz and Valenzuela (1994) have argued that presidential regimes are more prone to generate political crises and regime breakdowns than parliamentary systems. We have noted that the frequency of presidential crises has been very high in Ecuador and Bolivia, low to moderate in Peru and Venezuela, and low in Colombia.

An interesting case of a country, outside the Latin American region, with high turnover of Prime–Ministers (a different concept to that of presidential crisis) is Italy, which has had 58 prime–ministers in the last 52 years (on average more than one prime minister per year). The Italian case

[22] Uruguay had the highest number of constitutional reform of the three most "stable" countries in Latin America.
[23] All the Andean countries have presidential regimes like most of Latin American and Caribbean countries.

suggests the perplexing conclusion that an exceedingly high frequency of change in prime–ministers can take place without constitutional and economic crisis in a parliamentary regime.

In the Andean region, the degree of continuity of democracy (defined as an absence of constitutional breakdowns) in the last forty years has been much higher in Colombia and in Venezuela than in Peru, Bolivia, and Ecuador. In fact, while these countries had several military interventions in the 1960s and 1970s, Colombia and Venezuela have managed to avoid military regimes since the 1950s. This is not to say, however, that these two countries have had complete political stability in the years following their military regimes. In fact, Venezuela had a Presidential crisis with Carlos Andrés Perez in 1993 and a coup attempt against Chávez in 2002; this turbulence, however, has not led to a collapse of democracy (at least so far)[24].

B. Subjective indicators of quality of institutions and governance: the World Bank indices

We will now turn to the empirical assessment of institutions in the five Andean countries in comparative perspective. Drawing from a data set of over 150 countries, Kaufmann, Kraay, and Zoido–Lobatón (1999, 2002) of the World Bank provide six governance indicators for each Andean country in two years: 1998 and 2001. Using the indices of Kaufman et.al., Table 3 provides the values of these indices for Costa Rica, Chile, and Uruguay, and the average of Latin America and OECD countries. These governance indicators are based on qualitative–response surveys taken of citizens, investors, users of public services comprise the following dimensions.[25]

- Voice and Accountability
- Political Instability and Violence
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption

These variables reflect several aspects of “good governance”.[26] Voice and accountability, for example, are an important feed–back mechanism between users and providers of public services, or between principals (voters) and agents (government, politicians) regarding the compliance with public mandates. The existence of political instability and violence are indicative of governance problems and are also correlated with poor economic performance.[27] The other variables listed above are also identified by the literature as indicators of both qualities of government and of the stability of institutions. From a development perspective, there is a growing literature that finds a positive correlation between economic performance and quality of government and institutions (see Mauro (1995), Knack and Keefer, 1995, Barro, (1996) and others).

Table G3 shows that the Andean group as a whole ranks lower on different governance measures (in the sense of lower institutional performance) than the Latin American and Caribbean

[24] See Hartlyn (1994) and Coppedge (1994) for analysis of presidentialism in Venezuela.

[25] Studies of the relationship between institutional quality and growth performance are Barro (1996), Mauro (1995), Knack and Keefer (1995). A useful survey of this literature is Aron (2000).

[26] See La Porta, Lopez–de–Silanes, Shleifer and Vishny (1998) for an interesting discussion of “quality of government”and its determinants.

[27] See Serven and Solimano, 1993 and Pyndick and Solimano (1993) for analytical discussion and empirical evidence of the adverse effects of (mainly economic) instability on private capital formation, an important determinant of the rate of economic growth. Studies of the effects of political instability on growth are Alesina and Rodrik (1994), Barro, (1991), Alesina et.al. (1996).

average. This is clear in the indices of voice and accountability, the degree of political instability and violence, government effectiveness, rule of law, and the control of corruption. Their rankings are lower when compared with Chile, Costa Rica, Uruguay and the OECD. Within the Andean countries there are also cross–country differences in the value of the indices. Bolivia, for example, has a level of regulatory burdens that is closer to OECD levels than do the other Andean countries. There are, however, some changes in the rankings between 1998 and 2001, such as the way that voice and accountability improves in Peru in 2001 compared to in 1998 (this is probably associated with greater government accountability after the demise of the Fujimori administration). Voice and accountability worsens, however, in Colombia, Ecuador, and Venezuela between 1998 and 2001. Political instability and violence increases (lowering the country's place in the rankings) in Bolivia, Colombia, and Venezuela but improves in Peru. The control of corruption improved in Colombia, Peru, and Venezuela in 2001 compared to 1998.

World Economic Forum–Harvard University indices

Another set of governance indices that include the five Andean countries is the *Global Competitiveness Report* prepared jointly by the World Economic Forum and Harvard University. This Report computes a "Growth Competitiveness Index" for 75 countries including developed nations, transition economies, and developing countries. This index assesses the medium–term potential of sustained economic growth for a given country as a function of three sets of sub–indices: (i) technology index, (ii) quality of public institutions index and (iii) macroeconomic environment index.

The growth competitiveness index[28] for 2000/2001 is calculated for a group of 18 "core economies" that includes countries with higher levels of income per capital, and a more advanced level of technological capabilities (measured by number of patents per million population). The index also includes a group of "non–core economies" of low to intermediate income per–capita levels and less advanced technological development. For the group of non–core economies , among which we find the Andean group, the index is computed by giving equal weights (1/3) to technology, quality of public institutions, and macroeconomic environment sub–indices. In the core group, the technology sub–index has a higher share, 40% versus 33%, reflecting the higher contribution of technological improvements to output growth in higher per capita income economies.

In order to highlight the links between growth potential and quality of institutions, Table G4 presents the rankings of the Growth Competitiveness Index, and the public institutions index. This later index is composed by a: (i) contracts and law sub–index and a (ii) corruption sub–index. These two sub–indices are based entirely on survey questions and measure the average scores given to judicial independence, government procurement practices, law enforcement, and costs related to organized crime. The corruption sub–index measures the pervasiveness of bribery in three key public services areas: import and exports agencies, public utilities, and tax collection. Table G4 shows that on average, for the five Andean countries there is a close association between their ranking in the growth competitiveness index (ranking 63 out of 75 nations) and their ranking in the public institutions index (59 out of 75), suggesting a direct positive correlation between medium term growth potential and the quality of public institutions. The Andean countries on average occupy the 67th place in the ranking for contracts and law index and the 50th in the corruption index. Cross country differences among Andean countries are not very large except for with the corruption index, in which Peru has the best ranking and Ecuador has the worst (in 2000/2001).

[28] *The Global Competitiveness Report*, 2001–2002, World Economic Forum–Center for International Development, Harvard University, chapter 1.

Finally, another aspect of governance lies in citizens' attitudes towards democracy. Latin Barometro, a survey conducted on annual basis in several Latin American countries, provides a measure of such public attitudes. Table G5 shows that, on average, the degree of public support for democracy has been declining since 1997, with a sharper decline in 2001. In 2001, within the Andean group, the country with the lowest public support for democracy is Colombia (30%), a country that has suffered severe violence;, the highest degree of support for democracy, on the other hand, is found in Peru (62%). The degree of support for the democratic system was also low in Ecuador in the late 1990s and early 2000s. It is interesting to note that the lower support of democracy after 1997 coincides with the post–1997 worsening of economic conditions in these countries that was associated with the Asian crisis and other internal economic developments.

C. Social inequality and ethnic diversity

The Andean countries have stratified social structures characterized by high inequality and large incidences of poverty. This social situation is bound to affect patterns of social conflict and cooperation in society. Another important element of their social structure that is more relevant in Bolivia, Ecuador and Peru is ethnic diversity.[29] In fact, the share of indigenous population in total population for Bolivia, Ecuador and Peru, in the early 1990s (last census available) is 44 percent (see Table G5). In contrast, the average share of indigenous population in Colombia and Venezuela is very low, less than 1 percent. Ethnic diversity often comes along with a linguistic and cultural variety among different ethnic groups within the same state. Ethnic diversity has some important implications for the capacity of the political system to articulate a social consensus. The ability to reach consensus depends on a range of factors, such as the levels of political participation of the different groups, their rights, their organization, the quality of their leadership and others.

Returning to the social indicators, Table E6 provides poverty levels, the values of Gini coefficients measuring inequality, and the ratio between the top and bottom quintiles in the income distribution for selected years in the 1980s and 1990s. These social indicators show a significant incidence of poverty in the Andean countries, over 40 percent in recent years (above the average poverty levels for Latin America). The highest incidences of poverty are found in Ecuador and Bolivia. Moreover, poverty is on the rise in Venezuela, a country that in the past had relatively lower poverty rates within the Andean region. The Gini coefficients are higher in Colombia, Bolivia and rising in Venezuela, that they are in the other Andean countries, although the Gini coefficients are generally high in all five Andean countries.

D. Economic performance

In the second half of the twentieth century (1950–2000), the five Andean countries grew at an average rate of 3.9% per year, a bit below the average rate of growth of 4.2% for the whole Latin American and Caribbean region in the same period (ECLAC, statistical data base).

In the 1990s, the economic growth performance in the Andean group was moderate, although important economic reforms were undertaken in several of them. Average annual growth for the five Andean countries declined from 4% in 1960–1990 to 2.9% in 1990–99 and 2.3% in 2000–2001. The countries that experienced the largest deceleration in growth rates were Colombia and Ecuador (see table E.1).[30] While Ecuador managed to grow at an annual rate of 5.3% in the period 1960–90, its annual growth rate of the 1990s was only 1.9% per year. Colombia's average growth

[29] An analysis of ethnicity and governance for Latin America and Andean countries is De Gregori (1998)

[30] See Beckerman and Solimano (2002) and Solimano (2000)

rate decelerated from 4.7% in 1960–90 to 2.9% in 1990–99 and 2.2% in 2000–2001[31]. In contrast, Bolivia’s growth rate accelerated, albeit moderately, in the 1990s (4 percent per year versus 3.3 percent in the 1960–90 period).[32] The average per capita income level of the Andean group is around U$ 2,000 (year 2001, see table E5), below the average in Latin America of US$ 3,900 for the same year. There is no doubt that the modest governance and political instability already documented is correlated with this economic growth performance. Although, we will not enter here in the transmission mechanisms between governance and growth, the literature has highlighted the impact of institutions on private investment and productivity growth.

[31] See Ocampo (2002) for an analysis of the economic performance of Colombia in recent years.

[32] The individual country story of the evolution of the economy of each Andean countries is told in the country papers of the Political Economy of the Andean Region's project.

III. Interpreting Andean countries governance performance

Along with the conceptual framework of section 2 and the empirical analysis in section 3, we can highlight three main factors that are important to explain governance patterns observed in the Andean region:

A. Characteristics of the political system.

B. Weaknesses of the state.

C. The impact of high inequality and the ethnic make–up.

A. The political system

One hypothesis is that at the root of the governance problems of the Andean region lies the nature of its political system. An important dimension of the political system is the presidential regime that governs all the Andean countries. As mentioned before, it is argued that presidential systems, with their rigidity of fixed presidential terms, their tendency to produce a winner–take–all situation, and their dual legitimacy with legislatures and executives, tend to be associated with more frequent presidential crises that in some cases can lead to "regime breakdowns" that is, the collapse of democracy and the disruption of constitutional rule. While this argument has validity, it needs to be qualified. All Andean countries have presidential regimes but not all of them have the same high frequency of presidential crises that has been observed in the recent histories of Bolivia, Ecuador, and Peru, nor the same record of regime break–downs. With respect to regime break–downs, however, the potential fragility of democracy can be a real problem for even Colombia and Venezuela, two countries that have avoided the disruption of democratic rule in the past four decades. Current polarization between the Chávez administration and the opposition is indicative that Venezuela is far from immune to destabilizing pressures on democracy.

Another important indicator of problems in the political system is the relatively high frequency of constitutional reforms (higher than other Latin–American and OECD countries) that has been observed in several Andean countries during the last century (already documented in Section 3). This frequent constitutional reform is indicative of certain instability in the core rules of the political game in Andean countries. Regarding the perception of the presidential system, it is worth noting that in their last two new constitutions, both Ecuador in 1998 and Venezuela in 1999 reinforced the authority of the President ("more Presidentialism"). New constitutions addressed other issues as well like the indigenous population problem by increasing Indigenous political and economic rights. In fact, the Colombian and Ecuadorian more recent constitutions encouraged decentralization and a greater access to social services, such as education and health services, to excluded groups. The Venezuelan constitution that was approved in 1999, besides strengthening the presidency, also had an explicit redistribute objective pursued through an increase in social rights and entitlements (see Del Bufalo and Rios (2002)). Also the constitution of 1991 in Colombia that expanded the economic entitlements and fostered decentralization led to an important increase in public spending as share of GDP in the 1990's (see Ocampo, 2002).

Another feature of the political system in some Andean countries is the fragmentation and weakening of political parties. Ecuador, for example, has more than 12 political parties; there was an attempt to change this situation in the constitution of 1998 by putting a minimum vote requirement (5%) to form and legally maintain a political party. A large number of parties in Ecuador, some reflecting strong regional interests, makes it difficult to reach a parliamentary consensus and, in other instances, fractionalizes national politics (see Arteta and Hurtado, 2002). In contrast, in Colombia and Venezuela the political systems have traditionally gravitated around two large parties: liberals and conservatives in Colombia and *Acción Democrática* (ADECO) and *Comité de Organizacion Política Electroral Independiente* (COPEI) in Venezuela—although in recent years even these parties have been severely weakened. In Colombia, internal factions undermine the strength of the conservative and liberal umbrella groups. In Venezuela, the Chávez administration presided over the virtual disintegration of ADECO and COPEI that left a political vacuum in the place of strong parties or movements. In Peru, the traditional *Alianza Popular Revolucionaria Americana* (APRA) party suffered a considerable loss of influence in the early 1990s after the government of Alan García in the late 1980s (García made a strong return a decade later in the presidential election of 2001).

B. The weak State hypothesis.

The State must be able to provide public goods such as law and order, infrastructure, contract enforcement, control of the territory. A "weak State" is one that fails to provide the required amounts of these public goods with the consequence that individual security becomes precarious, that the rule of law is partial and incomplete, and that respect for civil rights and property rights is limited. Physical and institutional infrastructures, in turn, become weak and economic prosperity fails to develop.

Colombia is an interesting case in this regard. On one hand, it has high levels of violence (political and criminal), an ongoing internal conflict that has lasted for more than four decades, and an important illegal drug industry. On the other hand, Colombia in the last 40 years has maintained normal and regular elections, presidents complete their constitutional terms, and democratic institutions operate with apparent normalcy. The State is "weak" in some governance dimensions e.g. lack of maintenance of law and order in the whole territory, but relatively "strong" in others (elections are maintained regularly, civil freedoms are preserved).

Our empirical analysis of quality of institutions based on surveys–indices suggest several problems of governance and institutional weaknesses already discussed that fit in the description of a weak State; although the concept has its nuances that are important to keep in mind.

C. Social inequality and ethnic structure

A third hypothesis that helps explain the governance problems of the Andean nations is their high levels of income and wealth inequality and, in three out of five countries, their significant ethnic diversity. During the first 3 to 4 decades of the twentieth century, these countries were predominantly rural societies with a concentrated structure of land ownership and a wide income differential between land–owners, small land holders and peasants. Inequality was predominantly a rural phenomenon associated largely with the prevailing land tenure patterns.[33] Following the development of local manufacturing, the expansion of the state sector, and the adoption of import substitution policies, rural–urban migration took on a greater intensity around the mid twentieth and a middle class formed (varying across countries in size and importance) that helped to stabilize societies. In this new setting, social inequalities remained, but revolved around the ownership of productive capital, access to credit, access to educational opportunities, and access to political decision–making. As mentioned before, various strands of social theory, including recent endogenous growth models, predict that countries with high inequality tend to have higher levels of social conflict, polarization, and political instability than more egalitarian countries.[34]

To income and wealth inequality, we must add the significant ethnic diversity in Bolivia, Ecuador and Peru. As Table G4 shows, between 34 and 59 percent of the population in all three countries is indigenous. Gray Molina and Chávez (2002) show that only 58 percent of the population of Bolivia speaks Spanish , followed by Quechua, (22.9 percent), Aymara (15.7 percent) and other languages.[35] In Bolivia, the pattern of indigenous population participation in national civic life went from exclusion and marginalization to active demands of ethnic rights and nationalistic claims such as Aymara Nationalism. The presidential candidates that were supported by several indigenous groups also obtained a high number of votes in the recent presidential election. The indigenous movement also became an important political actor in Ecuador in 1998 and 1999, during the Mahuad administration. The CONAIE, the largest Ecuadorian confederation of indigenous people, organized several mass protests in 1999, culminating in January of 2000 with an indigenous uprising that was joined by colonels of the army and that eventually led to the ousting of President Mahuad. The main point here is that indigenous groups have become an important political force in some Andean countries. These indigenous movements demand economic and civic rights and entertain, at times, a nationalistic agenda.

33 See Thorpe, Rosemary (2000)
34 See Solimano (1998), Alesina and Rodrik (1994), Persson and Tabellini (2000).
35 According to the last published national population census of population (1992).

IV. Concluding remarks

The Andean countries, which form a region with an abundance of natural resources and other valuable assets, exhibit a variety of governance problems that hinder their potential for social peace, stability, and economic prosperity. Their governance records, past and present, vary from country to country but have generally been characterized by political instability, frequent constitutional reforms, presidential crises, volatility of democratic institutions, and violence. The empirical evidence of the quality of institutions puts the Andean region in a low place in international rankings of (survey–based) indices of voice and accountability, rule of law, regulatory burden, control of corruption, political instability, and violence, although improvements in some of these governance dimensions have also been observed.

This paper highlights the way that governance problems can be decomposed at three levels: the political–constitutional regime, the working of intermediate level institutions, and the patterns of social conflict, inequality and ethnic diversity. Important features of the political regime in Andean countries need further scrutiny for any broad agenda of institutional reform. These features comprise the scope and limits of presidential regimes to handle political crises, the workings of the party system and other constitutional provisions. At the level of intermediate institutions, complex principal–agents problems combine with the chronic problems of rent seeking, corruption, and violence that governments have tried to tackle but continue to severely hinder institutional effectiveness. Organizational principles of goal–clarity, adequate resources, and freedom from undue political interference must be reinforced. Income and wealth inequality, although not new phenomena in the Andean region or in Latin America, need to be addressed as high inequality is often correlated with social conflict, political polarization, and slow economic growth. Although radical redistribution of existing assets can be destabilizing and can slow growth, policies that foster a more egalitarian access to capital, credit, education, and political representation can have good medium–term pay–offs in terms of enhanced stability and more rapid economic growth. Ethnic diversity is another important social feature in countries such as Bolivia, Ecuador and Peru that needs to be addressed through creative political and economic reforms with an ethnically–inclusive component. This analysis suggests that for the Andean region to realize its economic potential, it must adequately tackle its complex political and institutional problems.

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Appendix

Table G1

CONSTITUTIONAL, PRESIDENTIAL CRISIS AND POLITICAL REGIMES ANDEAN COUNTRIES

	Number of constitutions [(a)] 1900 – 2000		**Presidential Crisis 1950–2002[b]]**		**Number of presidential crises in the period 1950–2002**	**Prevailing political regime before presidential crisis**
Countries	Year	Number of constitutional reforms in the 20th century	**Crisis Year and President**	**Presidential period until crises**		
Bolivia	1938		1951(Mamerto Urriolagoitia)	1949–1951		Democracy
	1945	**5**	1952 (Gral. Hugo Ballivián)	1951–1952	**16**	Authoritarian, military
	1960		1964 (Víctor Paz)	1960–1964		Democracy
	1967		1969 (Gral. René Barrientos) [c]	1966–1969		Authoritarian, military
	1994		1969 (Luis Siles)	1969		Authoritarian, civilian
			1970 (Gral. Alfredo Ovando)	1969–1970		Authoritarian, military
			1971 (Gral. Juan José Torres)	1970–1971		Authoritarian, military
			1978 (Gral. Juan Pereda)	1978		Authoritarian, military
			1979 (Walter Guevara)	1979		Democracy
			1979 (Gral. Alberto Natusch)	1979		Authoritarian, military
			1980 (Lidia Gueilier)	1979–1980		Democracy
			1981 (Gral. Luis García)	1980–1981		Authoritarian, military
			1982 (Gral. Celso Torrelio)	1981–1982		Authoritarian, military
			1982 (Gral. Guido Vildoso)	1982		Authoritarian, military
			1985 (Hernán Siles)	1982–1985		Democracy
			2001(Hugo Banzer) [d]	1997–2002		Democracy
Colombia	1991	**1**	1953 (Laureano Gómez)	1953	**2**	Democracy
			1957 (Gustavo Rojas)	1953–1958		Authoritarian, military
Ecuador	1929		1961 (José María Velasco)	1960–1961		Democracy
	1938	**7**	1963 (Carlos Arosemena)	1961–1963	**10**	Democracy
	1945		1970 (José María Velasco) [e]	1968–1970		Democracy
	1946		1972 (José María Velasco)	1970–1972		Authoritarian, civilian
	1967		1976 (Gral. Guillermo Rodriguez)	1972–1976		Authoritarian, military
	1979		1981 (Jaime Roldás) [e]	1979–1981		Democracy
	1998		1997 (Abdalá Bucaram)	1996–1997		Democracy
			1997 (Rosalía Arteaga)	1997		Democracy
			2000 (Jamil Mahuad)	1998–2000		Democracy
			2000 (Solórzeno, Mendoza, Vargas)	2000		Democracy
Peru	1920		1962 (Manuel Prado)	1956–1962		Democracy
	1933	**4**	1963 (Ricardo Pérez)	1962–1963	**6**	Authoritarian, military
	1979		1968 (Fernando Belaude)	1963–1968		Democracy
	1993		1975 (Juan Velasco)	1968–1975		Authoritarian, military
			1992 (Alberto Fujimori) [e]	1990–1992		Democracy
			2000 (Alberto Fujimori)	1995–2000		Democracy
Venezuela	1901		1950 (Carlos Delgado) [d]	1948–1950		Authoritarian, military
	1909	**8**	1958 (Marcos Pérez)	1952–1958	**4**	Authoritarian, military
	1931		1993 (Carlos Andrés Pérez)	1989–1993		Democracy
	1945		2002 (Hugo Chávez) [f]	1999–		Democracy
	1947					
	1953					
	1961					
	1999					

Source: http://geocities.yahoo.com.br/escritoriorbm/historia/index_b.html, http://es.geocities.com/datalia2002/colombia.htm, http://www.explored.com.ec/ecuador/1960.htm, http://www.tierra–inca.com/presidents/index_es.html, http://www.aldeaeducativa.com

[a] New constitution approved.
[b] Presidents that did not complete their constitutional periods by coups, resignation and non–voluntary removals.
[c] Death of the President
[d] By illness of the President
[e] Self–Coup
[f]] Failed Coup

TABLE G2

CONSTITUTIONAL REFORMS, PRESIDENTIAL CRISIS AND TURNOVER OF PRIME– MINISTER, SELECTED COUNTRIES

Countries	Number of Constitutions [a] 1900–2000		Presidential [b] Crisis 1950 – 2002		Number of presidential Crisis in the period 1950–2002	Prevailing Political Regime Before Presidential Crisis
	Year	Number of constitutional reforms in the 20th century	Crisis Year and President	Presidential Period Until Crisis		
Chile	1925 1980	**2**	1973 (Salvador Allende)	1970–1973	**1**	Democracy
Costa Rica	1949	**1**			**0**	
Uruguay	1918 1934 1942 1952 1967	**5**	1976 (Juan M. Bordaberry) 1976 (Alberto Demichelli)	1972–1976 1976	**2**	Democracy Authoritarian, civilian
USA		**0**	1963 (John F. Kennedy) 1974 (Richard Nixon)	1961–1963 1969–1974	**2**	Democracy Democracy
PARLIAMENTARY REGIMES					**Turnover of Prime–Minister 1950–2002**	
Germany	1919 1949	**2**			**5**	Democracy
Italy	1948	**1**			**58**	Democracy
United Kingdom		**0**			**12**	Democracy

Source: http://icarito.tercera.cl, http://www.observa.com.uy/eluruguay/historia/1presidentes.html, http://www.guiascostarica.com/h02.htm#republica, http://www.inter–nationes.de/d/frames/presse/sonder/s/brjabre–s–11.html, http://www.fmmeducacion.com.ar/historia/notas/prestadosunidos.htm, http://www.bbc.co.uk/portuguesa/noticias/2001/01/010509–italiatempo.shtml, http://es.geocities.com/datalia2002/inglaterra.htm

[a] New constitution approved.

[b] Presidents that did not complete their constitutional periods by coups, resignation and non–voluntary removals.

TABLE G3

RANKING OF GOVERNANCE INDICATORS FOR THE ANDEAN GROUP

(World Bank)

Countries	Voice and Accountability		Political Instability and Violence		Government Effectiveness		Regulatory Quality		Rule of Law		Control of Corruption	
Number of Countries	170	173	152	161	153	159	163	168	167	169	152	160
	1998	**2001**	**1998**	**2001**	**1998**	**2001**	**1998**	**2001**	**1998**	**2001**	**1998**	**2001**
Bolivia	63	67	87	122	83	101	22	39	97	100	95	119
Colombia	91	112	140	149	74	95	69	93	128	132	102	89
Ecuador	66	92	108	131	110	129	61	95	121	130	123	140
Peru	124	70	111	95	54	93	37	61	110	109	73	72
Venezuela	68	106	92	100	131	124	91	115	117	136	114	107
Andean Countries	**82**	**89**	**108**	**119**	**90**	**108**	**56**	**81**	**115**	**121**	**101**	**105**
Top Latin America												
Chile	54	52	51	30	23	23	18	13	24	24	25	17
Costa Rica	21	16	30	24	42	37	16	26	48	50	37	32
Uruguay	46	32	58	25	37	44	13	22	61	48	45	37
Latin America	**83**	**81**	**83**	**91**	**92**	**83**	**79**	**61**	**105**	**101**	**91**	**89**
OECD	**24**	**23**	**28**	**26**	**24**	**25**	**28**	**29**	**27**	**27**	**25**	**23**

Source: Kaufmann D., Kraay A., and Zoido–Lobatón P.(1999–2002). "Governance Matters", Policy Research Working Paper 2196 and "Governance Matters", Policy Research Working Paper 2772, World Bank.

Table G4

COMPETITIVENESS AND GOVERNANCE INDICATORS RANKINGS ANDEAN GROUP, 2001–2002

(World Economic Forum–Harvard University)

Countries	Growth Competitiveness Index rank	Public Institutions rank	Contracts and Law subindex rank	Corruption subindex rank
Number of Countries	75	75	75	75
Peru	55	45	60	30
Venezuela	62	65	71	61
Colombia	65	57	67	40
Bolivia	67	62	62	56
Ecuador	68	68	73	63
Andean Countries	**63**	**59**	**67**	**50**
Top Latin America				
Chile	27	21	26	13
Costa Rica	35	37	35	43
Uruguay	46	31	27	38
Latin America	**56**	**55**	**57**	**51**
OECD	**20**	**21**	**21**	**23**

Source: The Global Competitiveness Report 2001–2001, World Economic Forum, and Harvard University.

Note: Growth competitiveness Index = 1/3 technology index + 1/3 public institutions index + 1/3 macro–economic environment index. Public Institutions Index = 1/2 contracts and law subindex + 1/2 corruption subindex. The rank is of 75 countries.

Table G5

DEMOCRACY IS PREFERABLE TO ANY OTHER POLITICAL REGIME

(percent of public support)

Countries	1996	1997	1998	2000	2001
Bolivia	64	66	55	62	54
Colombia	60	69	55	50	36
Ecuador	52	41	57	54	40
Peru	63	60	63	64	62
Venezuela	62	64	60	61	57
Andean Group	**60.2**	**60.0**	**58.0**	**58.2**	**49.8**
Latin America	**60.6**	**62.8**	**61.6**	**59.8**	**47.4**

Source: Latinobarometro.

TABLE G6

INDIGENOUS POPULATION IN THE ANDEAN COUNTRIES

Countries	Year	Total Population	Indigenous Population	%
Bolivia	1992	5 183 403	3 058 208	59.0
Colombia	1985	29 719 875	237 759	0.8
Ecuador	1992	11 078 717	3 800 000	34.3
Peru*	1992	22 500 000	9 000 000	40.0
Venezuela	1992	34 974 667	314 772	0.9

Source: Based on last censuses,CELADE.
(*) Estimation.

TABLE E1

ECONOMIC GROWTH IN THE ANDEAN COUNTRIES 1950–2001

(annual rate of change, %)

Countries	1950–00	1950–90	1990–95	1995–99	1990–99	2000–01[a]
Bolivia	2.5	2.5	4.2	3.9	4.0	1.2
Colombia	3.7	3.7	4.5	1.4	2.9	2.2
Ecuador	4.2	4.2	3.4	0.2	1.9	3.7
Peru	2.2	2.2	3.9	3.6	3.3	1.3
Venezuela	2.3	2.3	4.0	0.9	2.4	3.0
Andean Group	**3.0**	**3.0**	**4.0**	**2.0**	**2.9**	**2.3**
Latin America	**4.2**	**4.5**	**2.6**	**2.5**	**2.7**	**2.3**

Source: Economic Commission for Latin America and the Caribbean.
[a] 2001 Preliminary estimates.

TABLE E2

RATE OF INFLATION IN THE ANDEAN COUNTRIES 1980–2001

(annual rate of change, %)

Countries	**1980–89**	**1990–95**	**1995–99**	**1990–99**	**2000**	**2001[(a)]**
Bolivia	9.6	11.9	6.9	9.6	3.4	1.1
Colombia	10.6	24.8	16.9	21.4	8.8	7.8
Ecuador	29.1	39.6	36.7	39.8	90.7	24.6
Peru	880.3	1318.0	7.7	793.6	3.7	0.1
Venezuela	42.8	45.5	49.5	46.4	13.4	12.7
Andean Group	**194.5**	**287.96**	**23.54**	**182.15**	**24.0**	**9.3**
Latin America	**388.4**	**509.75**	**14.84**	**310.69**	**9.3**	**7.0**

Source: Economic Commission For Latin America And The Caribbean.
(a) preliminary estimates.

TABLE E3

CURRENT ACCOUNT DEFICIT IN THE ANDEAN COUNTRIES 1970–2001

(% of GDP)

Countries	**1970–89**	**1990–95**	**1995–99**	**1990–99**	**2000**	**2001[(a)]**
Bolivia	–5.9	–6.0	–6.2	–6.2	–7.0	–4.4
Colombia	–2.0	–0.9	–4.1	–2.1	–0.2	–2.5
Ecuador	–5.2	–3.9	–2.2	–3.0	10.7	–5.8
Peru	–3.4	–5.8	–5.8	–5.6	–3.0	2.0
Venezuela	1.3	3.0	3.9	3.4	12.0	4.1
Andean Group	**–3.0**	**–2.7**	**–2.9**	**–2.7**	**2.5**	**–1.3**
Latin America	**–2.4**	**–2.2**	**–3.1**	**–2.6**	**–2.5**	**–2.6**

Source: Economic Commission for Latin America and the Caribbean.
a) preliminary estimates.

TABLE E4

FISCAL DEFICIT IN THE ANDEAN COUNTRIES 1980–2001

(% of GDP)

Countries	**1980–89**	**1990–95**	**1995–99**	**1990–99**	**2000**	**2001[(a)]**
Bolivia	–10.2	–4.0	–3.0	–3.7	–4.1	–4.0
Colombia	–3.7	0.0	–2.8	–1.4	–4.1	–3.3
Ecuador	–5.1	–0.5	–3.6	–1.9	0.4	0.3
Peru	–4.4	–3.2	–2.0	–2.6	–2.5	–2.4
Venezuela	–2.3	–3.6	–1.7	–2.6	–1.7	–3.5
Andean Group	**–5.1**	**–2.3**	**–2.6**	**–2.4**	**–2.4**	**–2.6**
Latin America and Caribbean	**––––––––**	**–1.4**	**–2.0**	**–1.7**	**–2.7**	**–3.1**

Source: Economic Commission for Latin America and the Caribbean.
(a) Preliminary estimates.

TABLE E5

GDP PER CAPITA IN THE ANDEAN COUNTRIES 1970–2001

(dollars at 1995 prices/number of persons)

Countries	1970–89	1990–95	1995–99	1990–99	2000	2001[(a)]
Bolivia	934.0	868.0	940.6	900.5	955.6	930.0
Colombia	1 815.5	2 229.9	2 382.6	2 289.2	2 285.8	2 275.8
Ecuador	1 367.4	1 530.1	1 538.4	1 530.7	1 424.1	1 460.7
Peru	2 734.3	2 199.5	2 579.4	2 351.4	2 601.3	2 190.3
Venezuela	3 523.0	3 258.8	3 179.6	3 227.1	3 026.4	3 123.6
Andean Group	**2 074.8**	**2 017.2**	**2 124.1**	**2 059.8**	**2 058.6**	**1 996.1**
Latin America	**3 325.2**	**3 455.0**	**3 708.7**	**3 570.1**	**3 856.9**	**3 934.4**

Source: Economic Commission for Latin America and the Caribbean and CELADE

[(a)] Preliminary estimates.

TABLE E6

POVERTY AND INEQUALITY IN THE ANDEAN COUNTRIES 1990–1997

Countries		% households below the poverty line	Gini coefficient	Ratio Q5/Q1
Bolivia (a)	**1989**	49	0.484	0.062
	1994	46	0.435	0.104
	1997	47	0.455	0.088
Colombia	**1980**	39	0.518	0.058
	1991	50	0.403	0.117
	1994	47	0.505	0.104
	1997	45	0.477	0.088
Ecuador (a)	**1990**	56	0.381	0.128
	1994	52	0.397	0.108
	1997	50	0.388	0.125
Perú	**1979**	46		
	1986	52		
	1990		0.438 [(a)]	
	1991		0.370 [(a)]	
	1994		0.350 [(a)]	
	1995	41		
	1997	37		
Venezuela	**1981**	22	0.306	0.184
	1990	34	0.378	0.127
	1994	42	0.387	0.132
	1997	42	0.425	0.101
Latin America	**1980**	**35**		
	1990	**41**		
	1994	**38**		
	1997	**36**		

Source: Economic Commission for Latin America and the Caribbean and The World Bank.
[(a)] Zonas Urbanas
Q5/Q1 = Ratio of the poverst quintile to the richest quintile.

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