

Tides of Subordination: Fiscal Constraint, Financialised Commodity Cycles, and the Political Economy of Latin America

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Abstract

This paper explores how Latin American progressive governments are constrained in using fiscal policy for redistribution, stabilization, and structural transformation due to two key forces: structural dependence on commodity exports and the financialization of global commodity markets. While Keynesian theory emphasizes public investment as central to equitable development, Latin American states face shrinking fiscal space due to volatile global markets driven by speculative capital. These forces decouple commodity prices from productive fundamentals, exposing governments to boom-bust cycles beyond their control. Even with democratic mandates for change, fiscal sovereignty is undermined, pushing states toward austerity when expansion is most needed. This dynamic, we argue, lies at the root of Latin America's recurring political cycles: commodity booms create the fiscal conditions that sustain progressive coalitions, while financially driven downturns erode them, fuelling the conservative reversals that have repeatedly followed the Pink Tide. Through comparative analysis, the paper shows how financial speculation shapes domestic politics, often curtailing progressive ambitions. It calls for rethinking global economic governance to restore democratic control over fiscal policy and support an economy centred on equity, sustainability, and autonomy, echoing Keynes's critique of austerity and his call for active government intervention.

Keywords: Structural Dependency, Fiscal Policy Space, Financialization of Commodities, Latin America, Pink Tide

JEL classifications: O54, O11, F36

1. Introduction

The resurgence of progressive governments across Latin America—commonly referred to as the *Pink Tide*—has reignited debates over the role of the state in driving economic transformation, reducing inequality, and asserting macroeconomic sovereignty. Rooted in the Keynesian tradition,

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many of these governments have pursued expansive fiscal policies aimed not only at stabilizing demand but also at structurally transforming economies historically dependent on primary commodity exports. Yet the promise of redistributive and transformative public policy has repeatedly collided with external constraints, forcing even left-leaning administrations to retreat from fiscal activism in the face of global volatility.

This paper argues that the capacity of Latin American progressive governments to sustain developmental macroeconomic strategies is increasingly undermined by a dual structural condition: productive dependence on commodity exports and financial subordination to global speculative markets. While the first constraint is well-established in structuralist and dependency literatures, the second—financialization of commodity markets—has gained growing relevance in the post-2008 era. The rise of institutional investors, hedge funds, and other financial actors in commodity derivatives markets has decoupled price movements from supply and demand fundamentals, embedding fiscal revenues within volatile cycles of global liquidity and speculation.

These dynamics not only destabilize fiscal planning but also weaken the political foundations of progressive coalitions. During commodity booms, governments often expand public spending, enabling redistribution and coalition-building. However, downturns—frequently triggered by shifts in global financial sentiment rather than domestic fundamentals—lead to sudden fiscal contractions, balance-of-payments pressures, and renewed calls for austerity. The political consequence is a reversion to more conservative, often neoliberal administrations—the so-called *Blue Tide*—despite electoral mandates for more equitable development.

Through a post-Keynesian and structuralist lens, this paper examines how international financial architecture and the financialization of commodities constrain fiscal space and developmental autonomy in Latin America. By comparing cases across agricultural, mineral, and oil-exporting economies, it maps the interaction between external financial volatility and domestic political cycles. Ultimately, this paper argues that the political space available to left-wing parties in Latin America is increasingly shaped and constrained by new forms of economic subordination rooted in its long term productive structure and the increasing financialization of global commodity markets. As speculative capital exerts growing influence over commodity prices, terms of trade, and fiscal conditions, leftist governments find their redistributive and developmental agendas structurally limited by the volatility and disciplining power of global financial markets. It calls for a rethinking of global economic governance toward an economy that restores democratic control over fiscal policy and prioritizes long-term social and ecological wellbeing over the imperatives of speculative global finance. Section 2 outlines the overarching theoretical framework that connects the political economy of progressive parties in Latin America with the region's productive and export structures. Section 3 details our case selection and the methodological approach employed in the analysis. Section 4 provides a more in-depth examination of the growing financialization of commodities in Latin America, with a particular focus on the selected cases. Section 5 explores the interplay between

financial and industrial policies under progressive governments. Finally, Section 6 offers a discussion and concluding remarks.

2. Theoretical Framework: The political economy of Latin America subordination

In the new millennium, after several attempts of progressive policies, and even after the super cycle commodity boom (SCCB) during 2003-2014, Latin America still has continued to be the most unequal region on Earth ([Lustig et al., 2015](#)). The persistent inability of Latin American governments to deploy countercyclical fiscal policy, even in the face of social fragmentation and economic stagnation, reflects not a deficit of political will, but a deeper political economy of subordination. While the Keynesian tradition emphasizes public expenditure as a tool for stabilizing aggregate demand, transforming productive structures, and promoting distributive justice, this potential has been historically curtailed in peripheral economies structurally reliant on primary exports and subordinated to the imperatives of global finance. These constraints have become particularly acute in the post-2000 period, marked by the twin dynamics of commodity price volatility and intensified financialization.

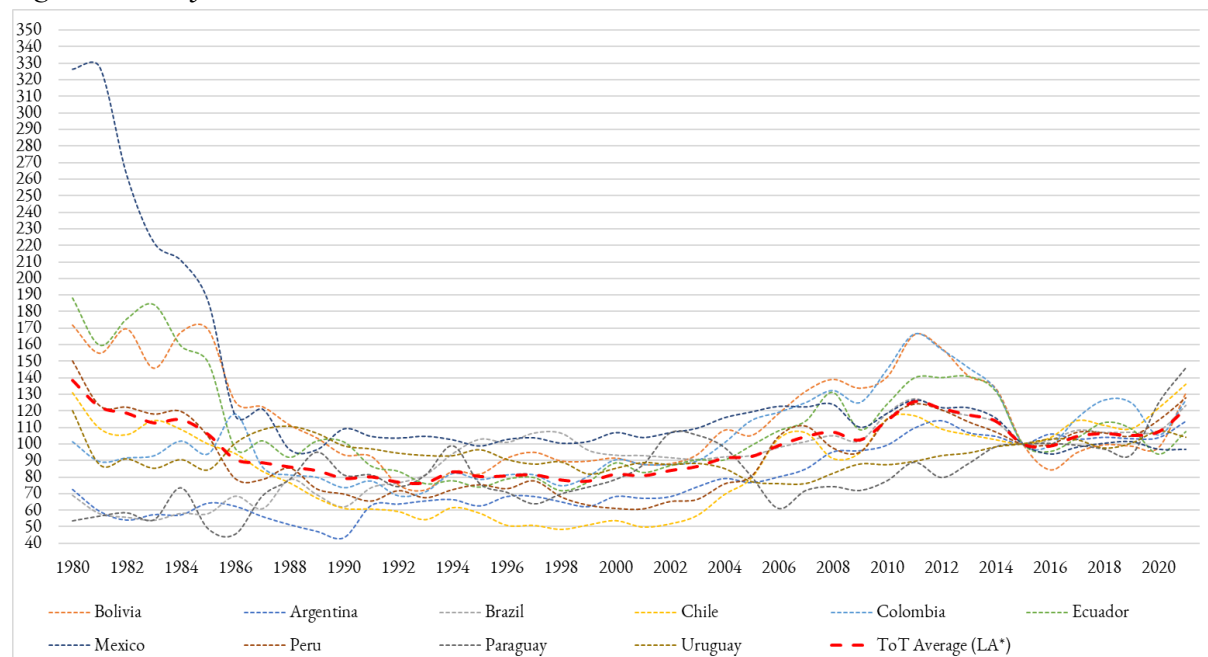
The experience of the last four decades in Latin America reveals the cyclical character of fiscal space, mirroring fluctuations in terms of trade (ToT) and shaped increasingly by speculative capital flows. As in advanced economies, financial excess has been systematically followed by austerity. However, unlike the core economies, where Keynesian policy space remains institutionally embedded—albeit contested—Latin American countries confront these cycles without meaningful monetary autonomy or resilient redistributive capacity. The result has been a truncated form of Keynesianism, acutely sensitive to external shocks, with implications not only for economic outcomes but for the political composition of government and the ideological direction of the state.

This pattern is not unique to Latin America. Russell (2022) demonstrates how commodity price shocks driven by financialized markets similarly destabilized political systems during the Arab Spring, where sudden spikes in food and fuel prices eroded state capacity and precipitated regime change across the Middle East and North Africa. His analysis underscores a broader dynamic: in economies structurally dependent on commodity revenues, the financialization of global markets functions as an external disciplining mechanism that shapes domestic political possibilities regardless of democratic mandates. The volatility inherent to speculative commodity trading systematically undermines the fiscal foundations upon which progressive coalitions depend, creating cyclical patterns of political instability that transcend regional specificities.

Prebisch (1950) originally warned against the long term declining ToT in Latin America due to the productive and export structure based on natural resources, either being agricultural products, minerals or fuels. These structural features are reinforced by patterns of foreign ownership in extractive sectors and systematic net outflows of primary income, which constrain fiscal autonomy even during commodity booms ([Bibi, 2024a, 2024b](#)). Historically, the ToT trajectories of Latin American economies exhibited a significant degree of heterogeneity, reflecting differences in export

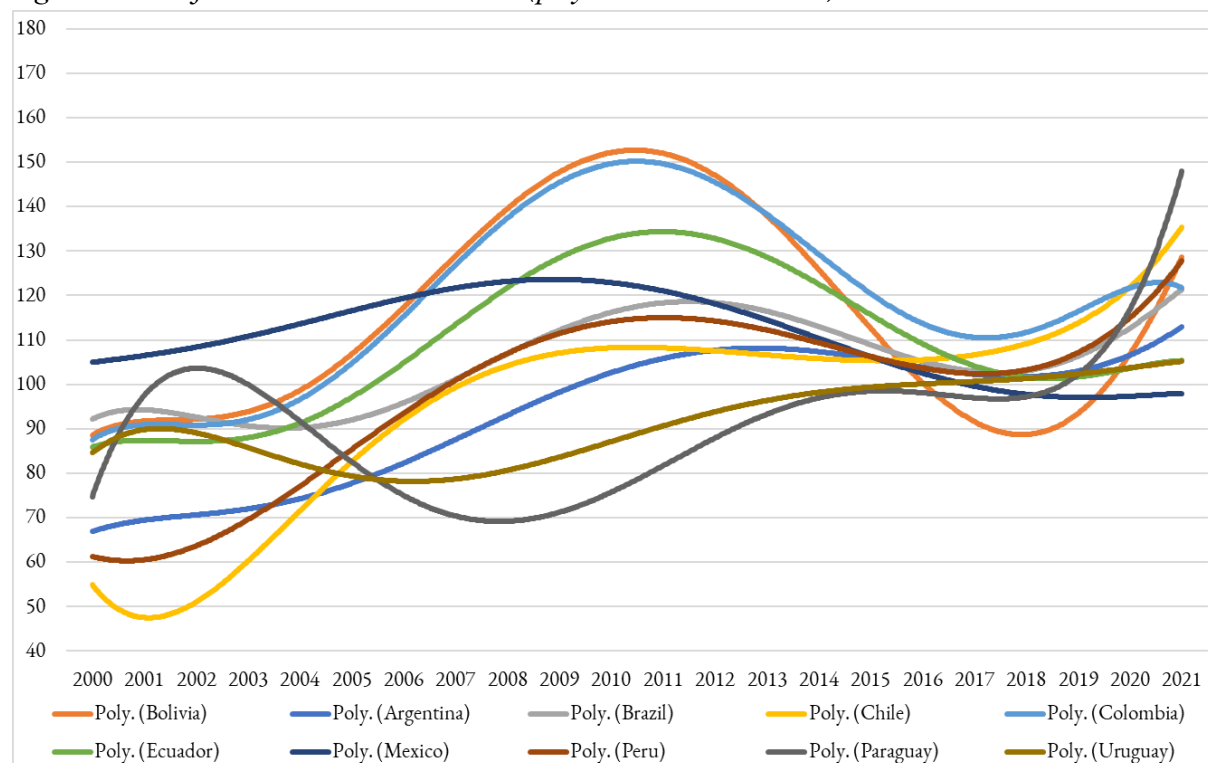
specialization, geopolitical positioning, and trade partners. This heterogeneity persisted through the 1980s, 1990s and early 2000s (Figure 1⁴).

Figure 1: ToT of Latin American countries, 1980-2000



Source: author's elaboration based on [World Bank, 2025](#) and [IMF, 2025](#)

Figure 2: ToT of Latin American countries (polynomial Trend Lines), 2000-2021



Source: author's elaboration based on [World Bank, 2025](#) and [IMF, 2025](#)

⁴ For availability of data, only 10 Latin American countries have been analysed in figures 1 and 2. However, they represent more than 87% of population, 97 % of GDP and 93% of Latin American surface area (Bibi, 2026).

However, since then—and coinciding with the onset of the SCCB (2003–2013)—a remarkable increasing convergence in ToT has been observed across the region. Figure 2 shows not only that ToT levels ranged much closer among the countries, with the spread between the highest and lowest country values narrowing from around 300 index points in the 1980s and 1990s to under 100 points by the 2000s, but also that upswing (2003–2010) and downturns (2011–2015) of ToT those countries faced have become much more synchronised⁵. That way, although initial conditions varied, the aggregate dynamic of improving ToT (especially during the heyday of SCCB) became regionally synchronized, offering temporary fiscal reprieve and political space for redistributive experimentation. However, ToT after 2010 started declining again and restraining the possibility for further progressive policies. The point was already found by Bibi et al. (2025):

“This shared fragility and moderation reflects the fact that Latin American economies became more similar in the last decades, experiencing converging processes of deindustrialization, regressive specialisation, and financial subordination.”

Drawing on a rich comparative analysis of some Latin American countries, we argue that their structural integration into global trade and finance has significantly shaped—and often constrained—their domestic political trajectories. Rather than operating independently, these economies have been deeply influenced by the cyclical nature of commodity exports and capital inflows. During the early 2000s supercycle boom, stable high commodity prices and related foreign direct investments created a “window of opportunity” for progressive governments. With the promise of expanding social policies and asserting more developmental agendas in line with Keynesian suggestions, they were elected during the so-called “1st pink tide”. However, the end of the SCCB possibly frustrated the populations that were not seeing anymore the effects of the promised redistributive policies transforming such frustration into a vote to populist right-wing governments (the “blue tide”). The surge of commodities price saw a similar pattern with progressive governments repeating promises of more progressive policies also due to the favourable conditions linked to a new surge of commodities prices toward the end of the 2020s and to the election of new left-wing governments in the “2nd pink tide”.

As a result, recent left-wing governments—despite electoral success—have faced reduced policy space, greater economic vulnerability, and converging limitations across countries. This dynamic reveals a form of political hysteresis: past economic and policy shifts from left to right diminish the room for maneuver of future progressive governments since right wing governments often dismantle the progressive policies with fiscal austerity, privatization, deregulation and more general reduction in social spending. That way, those selected countries were locked into a cycle where structural

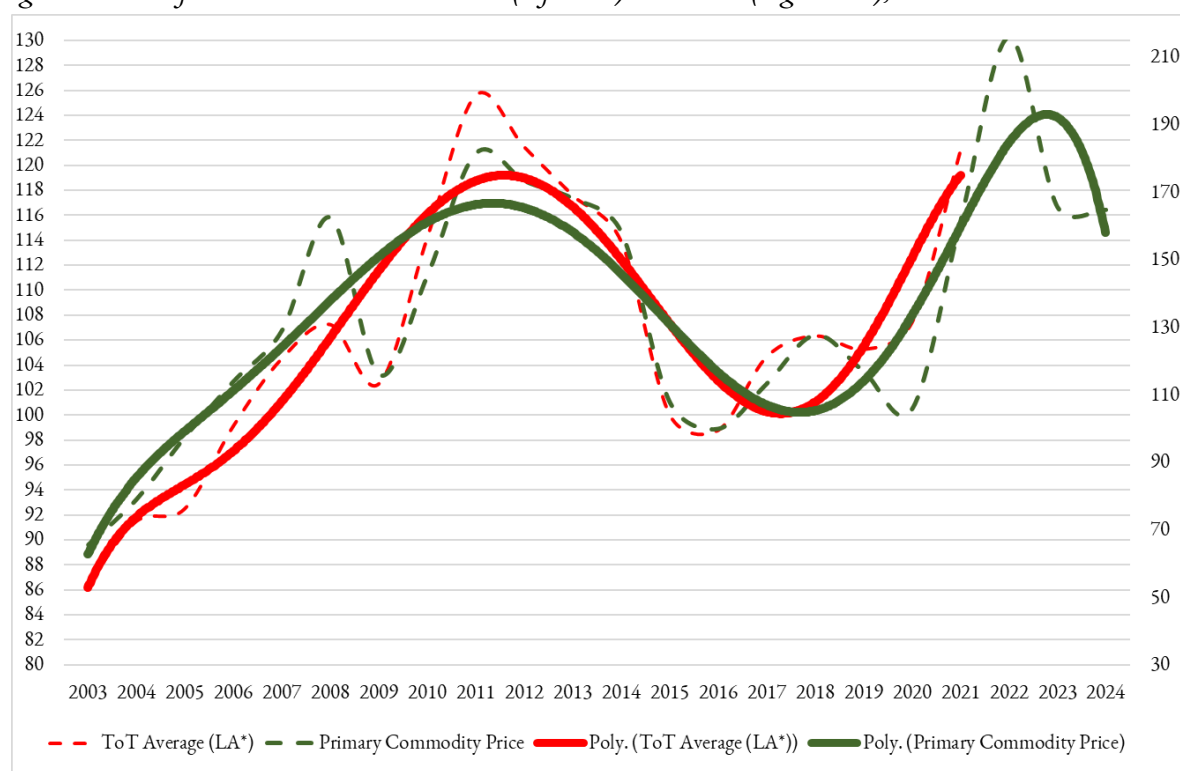
⁵ Figure 2 shows polynomial trend lines of 6th order for ToT since our interest is to capture the overall variation and dynamics. To maintain consistency, figure 3 also contains polynomial trend lines of the same order.

subordination in trade and finance would have narrowed the prospects for sustained progressive reform.

It is relevant hence analysing the link between terms of trade cycles and political cycles in the Latin American context where those cycles reduce the amplitude of the political space of progressive governments more in softening waves rather than subject to vigorous dynamics movements. ToT data arrive anyway only up to 2021 and do not show what many hoped and declared to be just the beginning of another supercycle (Webber & Vazquez, 2022) and of a window of opportunity for Latin American countries. In the absence of more recent ToT data, primary commodity price (PCP) indices provide a reasonable proxy, given the historically tight correlation between these series. Figure 3 shows not only the closeness of such co-movements between ToT and PCP but also continuation of strong cyclical dynamics in the post-2000 period and especially also a potential reversal beginning in 2022⁶. The implications of this reversal, given the historical co-movement between ToT and political alignments in the region, are significant.

Figure 4 maps the regional political waves that have characterised Latin American governance since the 1980s, revealing the cyclical alternation between progressive and right-wing governments. Figure 5 then places these political cycles in direct dialogue with commodity price dynamics, illustrating the systematic co-movement between PCP and political transitions from 2003 to 2024.

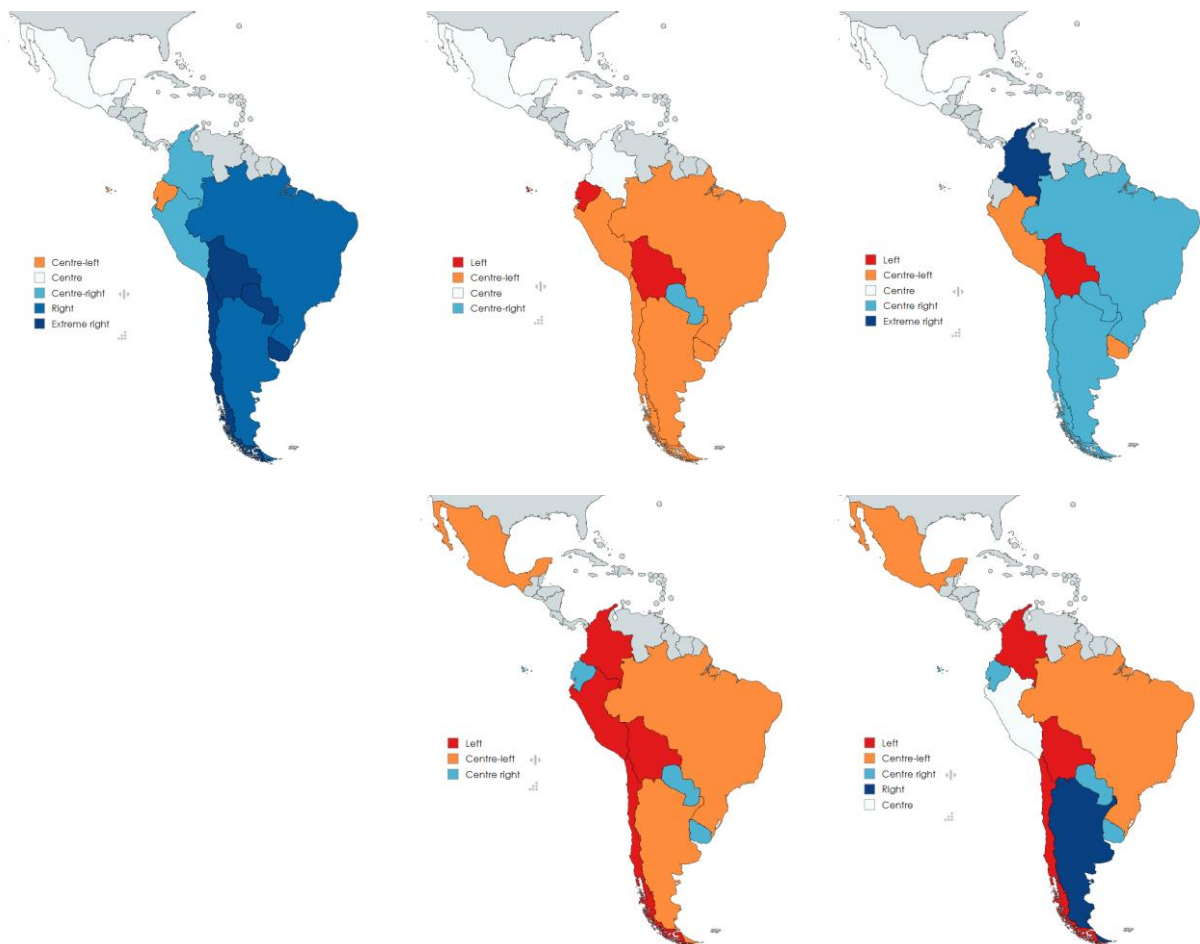
Figure 3: ToT of Latin American countries (left axis) and PCP (right axis), 2000-2021



Source: author's elaboration based on World Bank, 2025 and IMF, 2025

⁶. ToT data end in 2021, so also the ToT trend line in figure 3 stops there; the PCP trend line continues through 2024, where real PCP data exist.

*Figure 4: The Pink and Blue tides: the 1980s, 1st pink tide (2003 - 2015), 1st blue tide (2016 - 2021), 2nd pink tide (2022 -2025/2026?), 2nd blue tide (2025/2026? -)*⁷

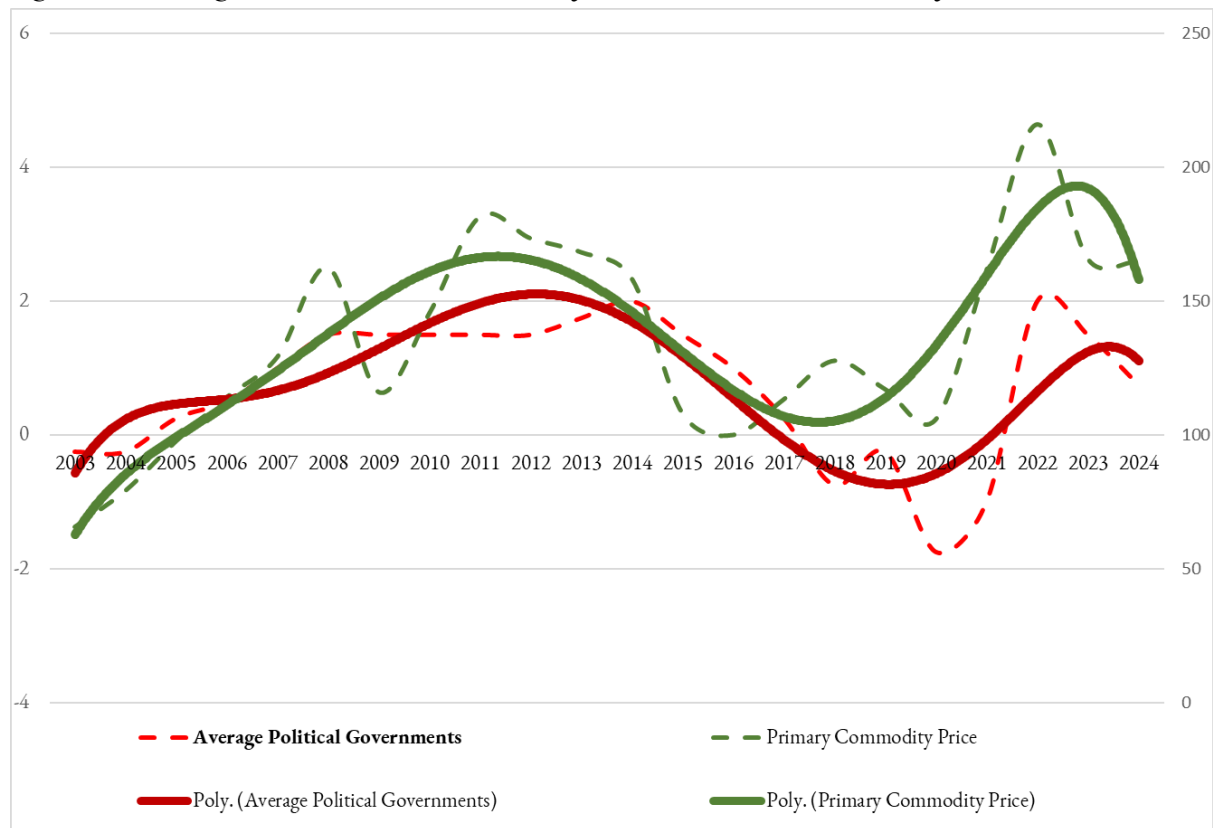


Source: author's elaboration

This political chronology acquires its structural meaning when read against the commodity price cycles that have shaped the fiscal and political conditions in which these governments operated.

⁷ As we are interested in the democratic alternance of power between blue and pink tides, we did not include Venezuela in our analysis.

Figure 5: PCP (right axis) and Political waves of Latin American countries (left axis), 2003-2024⁸



Source: author's elaboration based on [World Bank, 2025](#) and [IMF, 2025](#)

That this co-movement reflects a structural mechanism rather than a coincidence is the central analytical concern of this paper — and its key driver, the financialization of commodity markets, is examined in the sections that follow.

A central mechanism in the subordination of Latin American economies lies in the transformation of global commodity markets. While dependency on primary exports is a longstanding feature of the region's insertion into the global economy, the character of this dependency has shifted. Since the early 2000s, commodity prices have become increasingly determined not by supply and demand fundamentals but by financial variables—including interest rate expectations, portfolio rebalancing, and speculative positioning by institutional investors. This financialization of commodity markets has effectively decoupled price dynamics from productive structures, rendering fiscal revenues vulnerable to volatility exogenous to domestic performance or democratic mandates.

This constitutes a second-order constraint on fiscal policy. Not only do progressive governments face structural revenue dependence on primary exports (a first-order constraint), but they are also subject to the disciplining power of financial markets that operate independently of national control.

⁸ The values plotted for political governments range from extreme right (-10) through right (-5), centre-right (-2.5), centre (0), centre-left (2.5), left (5), to extreme left (10). These values are not drawn from an existing index but were assigned by the authors based on the governing party and, in particular, the policy orientation of each government in office.

The outcome might well be a compression of fiscal space at precisely the moment when expansionary public investment is most needed. In this context, heterodox or progressive macroeconomics is rendered fragile, contingent, and vulnerable to reversal. This configuration has intensified the cyclical confinement of Keynesianism in the region: expansive policy becomes feasible only during externally driven booms and is rapidly curtailed when global financial sentiment turns.

While fiscal policy remains central to our analysis, it is important to recognize that macroeconomic sovereignty is constrained across multiple dimensions. Monetary policy autonomy, for instance, has been severely limited by the global dominance of US Federal Reserve decisions, which shape liquidity conditions and capital flows worldwide. The synchronized monetary response following the 2008 financial crisis, and more recently the post-pandemic inflation surge, demonstrates how peripheral economies must often adjust their policy stance in reaction to core country decisions rather than domestic economic conditions. However, our attention to fiscal policy reflects both its relevance in progressive political platforms and its connection to the commodity price volatility and financialization dynamics that are the paper's central concern. Fiscal revenues from commodity exports constitute the material basis for redistributive programs and structural transformation, making fiscal space an important battleground where external constraints meet domestic political aspirations.

To theorize the regional experience solely through domestic institutions or policy missteps is to overlook the broader architecture of global economic governance. Latin America's predicament reflects the enduring legacies of productive specialization, compounded by financial integration under unequal terms. As such, the region embodies the dynamics of structural subordination, in which sovereignty over macroeconomic levers is persistently undermined by the asymmetries of trade, finance, and capital mobility.

This condition places Latin America in a paradigmatic position for revisiting the very foundations of macroeconomic theory and policy. The inherited orthodoxies of growthmanship—premised on capital accumulation, export competitiveness, and investor confidence—have failed to deliver inclusive development or ecological sustainability. The rise and fall of redistributive experiments, tethered to commodity booms, underscore the need for an alternative approach grounded in macroeconomics of distribution and sufficiency.

The imperative now is to reclaim macroeconomics as a site of political contestation and democratic possibility. As Keynes argued, a paradox of idle resources alongside unmet need reflects not a lack of technical means but a failure of institutional design and political will (Keynes, 1933). His critique of austerity and advocacy for public investment remain salient—especially when interpreted through the lens of contemporary heterodox approaches that foreground distribution, uncertainty, and historical specificity.

Victoria Chick's notion of an "economics of enough" offers a normative horizon for such a reconstitution. The Latin American evidence presented here speaks primarily to the need for a

different model of integration into global trade and finance, one less concentrated in volatile commodities and less exposed to speculative pricing, rather than to a model built around sufficiency as such. Chick's framework offers one direction such a model could take. It demands going beyond growth imperatives and calls instead for macroeconomic frameworks that prioritize well-being, equity, and environmental limits. In the Latin American context, this requires not only domestic policy innovation but also a reconfiguration of the international financial and trade architecture. Only through such structural transformation can fiscal policy become a genuinely democratic tool for redistribution and development, rather than a technocratic variable subject to the whims of global capital.

The absence of a global economic framework rooted in the economics of enough has particularly profound consequences for Latin American economies. Without institutional mechanisms to stabilize commodity prices and manage speculative capital flows, these economies become doubly vulnerable: first, through their structural dependence on primary commodity exports, and second, through the financialization of the very markets on which their fiscal revenues depend. Even when debt indicators appear sound, FDI-driven growth can create external fragility, as Peru's case demonstrates: persistent profit remittances generate a "Ponzi profile" requiring continuous new financing to cover external commitments (Bibi and Valdecantos, 2023, 2026). This double exposure creates a fundamental asymmetry in which domestic political mandates for redistribution and structural transformation are systematically undermined by external market volatility. The result is a recurring pattern in which progressive governments, elected on platforms of social investment and economic sovereignty, find themselves forced into procyclical austerity precisely when countercyclical intervention is most needed. This dynamic not only constrains fiscal policy space but also destabilizes the political coalitions that brought progressive governments to power, creating cyclical transitions between left and right administrations—the alternating Pink and Blue Tides—that reflect deeper structural subordination rather than genuine democratic choice.

3. Case selection and methods

This paper adopts a comparative case study approach to examine how financial speculation interacts with commodity dependence to shape fiscal space and political trajectories in Latin America. We focus on three countries—Brazil, Chile, and Bolivia—selected for their structural reliance on different types of commodities and their relevance to the broader regional dynamics of the Pink and Blue Tides. Each case represents a distinct profile of export composition and political-economic configuration, allowing us to explore how both the real and financial dimensions of commodity trade cycles interact with progressive governance.

We build our typology around three key forms of commodity dependence: agricultural (Brazil), mineral (Chile), and fossil-fuel based (Bolivia). Brazil serves as a paradigmatic example of an agriculturally anchored but diversified exporter, with soybeans, iron ore, and crude oil generating a

large share of its foreign exchange and fiscal revenues. Chile, in contrast, represents a highly mineral-dependent economy, with copper historically accounting for over 50% of total exports and, more recently, lithium emerging as a strategic resource subject to speculative hype (COCHILCO, 2023). Bolivia, though smaller in economic size, offers a unique configuration: its economy is strongly shaped by long-term natural gas contracts with neighbouring countries and an increasingly financialized gold sector, driven largely by artisanal extraction and safe-haven dynamics in global markets. The consideration of this broad typology of cases well represents the configuration of broadly all Latin American countries (Bibi, 2026).

This typological variation enables us to analyse how different commodity bases mediate exposure to financial volatility, and how progressive governments navigate these constraints. In this sense, it is worth noting that these three countries experienced both the first and the second Pink Tides, allowing us to compare the space for progressive economic policymaking and trace the growing limitations on redistributive policy in the face of external shocks and price instability. They also differ in their institutional arrangements, governance capacity, and degrees of financial openness—offering a basis for tracing both convergences and divergences in outcomes.

Empirically, the paper draws on disaggregated export data by commodity, global price trends, and derivatives market activity, covering the period 1998–2025. Export and price data are drawn from the Atlas of Economic Complexity and the World Bank’s Pink Sheet, while trader behaviour is assessed using data from the U.S. Commodity Futures Trading Commission (CFTC). Where available, we also consider fiscal indicators such as government revenues, primary balances, and social spending levels to evaluate how commodity cycles affect macroeconomic and political space.

To assess how speculation shapes trade cycles, we examine trader positioning data from the CFTC for key commodities in each case: soybeans (Brazil), copper (Chile), and natural gas (Bolivia). These data distinguish between non-commercial traders (speculators) and commercial traders (hedgers). Long positions indicate buy contracts based on expectations of rising prices; short positions reflect sell contracts anticipating a decline. While commercial actors use futures to hedge against production or input cost volatility, speculators aim to profit from price movements themselves.

We track four core indicators: (1) the total number of futures contracts held in non-commercial long and short positions (speculative buying and selling), and (2) the total number of futures contracts held in commercial long and short positions (producer buyer and selling hedging), using quarterly data from 1998Q1 to 2025Q1. Analysing these variables as the total number of contracts allows us to compare the shifting weight of financial versus commercial actors in price formation over time. UNCTAD (2012) found that already in 2009-2010, the volume of exchange-traded derivatives on commodity markets was 20 to 30 times larger than the physical production of the commodities concerned, and it was impossible to explain the resulting rises and falls in prices -- often pronounced -- by the forces of supply and demand alone.

Before the financialization of commodity markets, prices were largely driven by what happened in the real economy: production, consumption, and trade. If farmers had a good harvest, if copper mines increased output, or if energy demand rose, prices would generally respond to those changes. Similarly, if there was a drought, a drop in demand, or a disruption in supply chains, prices would fall. These movements were tied to tangible conditions on the ground, and most of the actors in these markets—like producers and buyers—used contracts not to make profits from price swings, but to hedge risks related to their actual business. This is what we call hedging, and those actors are considered commercial traders.

However, over the last two decades, commodity markets have become increasingly financialized. This means that the prices of commodities like soybeans, copper, and natural gas are no longer shaped only by supply and demand fundamentals but also by the expectations and behaviours of financial investors—most of whom never buy or sell the actual goods. These are speculators, and they are often powerful institutional investors such as hedge funds, asset managers, and investment banks. Instead of being tied to real trade, these actors buy and sell financial contracts (like futures) based on what they expect prices will do in the future. Their decisions are influenced not by weather patterns or harvest yields, but by global financial conditions: interest rate shifts, inflation expectations, liquidity cycles, and geopolitical risks. In this sense, financial markets have started to “set” prices, often independently of real-world production and trade.

This is where the comparison between speculative and commercial positions becomes important. When we analyse data from futures markets, we can separate the actions of speculators from those of commercial hedgers. The goal is to understand who is driving price expectations. For example, if speculative long positions (bets that prices will rise) are increasing while commercial short positions (hedging against falling prices) remain high, it may indicate that financial investors are optimistic about prices, but producers remain cautious. This divergence reflects different interpretations of risk and expectation: speculators are responding to global sentiment, while commercial actors are still rooted in real supply and demand.

Conversely, when speculative short positions surge and commercial long positions decline, it suggests broad pessimism across both financial and real actors—both expect prices to fall. These shifts matter because speculators can move much faster than commercial traders. They respond immediately to macroeconomic news, liquidity shocks, or interest rate changes. And because they move large volumes of capital, their actions can create sudden price swings—regardless of whether anything has changed in the physical commodity itself. This creates asymmetries, where the financial logic of speculation can dominate the economic logic of trade.

Comparing the behaviour of speculators and commercial traders in derivatives markets helps us understand whether price changes are driven by real economic factors or by financial expectations. As financialization deepens, price formation in commodity markets becomes increasingly disconnected from physical fundamentals and more responsive to global financial expectations—signals largely controlled by powerful, often invisible financial actors operating far from the fields,

mines, and pipelines of the Global South. This responsiveness gives financial actors disproportionate influence over price formation⁹. Periods of intense speculative buying can drive prices upward even without changes in physical demand, while speculative selling can induce sharp downturns in otherwise stable markets. In this way, financialization transforms commodities into assets whose prices increasingly reflect global capital flows rather than productive fundamentals. For Latin American countries that rely heavily on commodity exports, this shift exposes fiscal planning and redistributive agendas to cycles of volatility they do not control.

By integrating these indicators with trade and price data, we trace how speculative activity contributes to the financialization of commodity trade cycles in each case. The comparative design allows us to assess not only the economic implications of financialization but also its political effects—especially in terms of policy flexibility, fiscal autonomy, and the capacity of progressive governments to fulfil redistributive mandates under conditions of external constraint.

4. From Production to Finance: The Financialization of Commodities and Trade Cycles

This section examines how Latin American trade cycles have become increasingly shaped by the dynamics of global financial markets. While the region has historically relied on raw material exports to generate foreign exchange and fiscal revenues, currently commodity prices are shaped not only by production and trade demand but increasingly by speculative activity in derivatives markets, where institutional investors and hedge funds influence price expectations and drive volatility. This shift directly affects fiscal space, often decoupling public revenue from real economic performance.

Drawing on comparative data from Brazil (soybeans), Chile (copper), and Bolivia (natural gas), this section explores how the financialization of these commodities amplifies external shocks and undermines progressive governments' capacity to pursue redistributive and developmental agendas, even during growth periods. It shows that even where export volumes remain stable, price movements—and therefore fiscal outcomes—are increasingly driven by financial expectations rather than shifts in physical trade.

Traditionally, trade cycles in Latin America were understood through the "real economy" lens—shaped by export volumes, production costs, and terms of trade. In this view, price fluctuations were grounded in supply and demand. However, over the past two decades, commodity prices have been increasingly driven by financial speculation, particularly through the expansion of futures and derivatives markets dominated by institutional investors ([UNCTAD, 2023](#)). These actors operate

⁹ Expectations affect commodity prices through futures markets, where traders buy or sell contracts based on anticipated price movements. When speculators expect prices to rise—due to factors like anticipated demand, monetary policy shifts, or geopolitical trends—they take long positions, increasing demand for futures and pushing prices up. Conversely, if they expect prices to fall, they sell (short), which exerts downward pressure. These movements in futures markets can influence current (spot) prices by shaping benchmarks used in trade contracts and guiding producer and buyer behaviour. As such, financial expectations can drive price shifts even without changes in physical supply or demand, reflecting the power of investor sentiment in financialized markets.

based on liquidity conditions, portfolio strategies, and interest rate expectations, not necessarily physical production. This process, known as the ‘financialization of commodities’, describes the growing influence of financial motives in shaping commodity prices, turning raw materials into speculative assets. As a result, price volatility often occurs independently of output or trade conditions. For countries reliant on commodity exports, this means revenue can decline abruptly due to investor sentiment shifts, regardless of productive performance. In this context, speculative cycles—rather than domestic fundamentals—increasingly dictate fiscal constraint, leaving progressive governments vulnerable to external shocks.

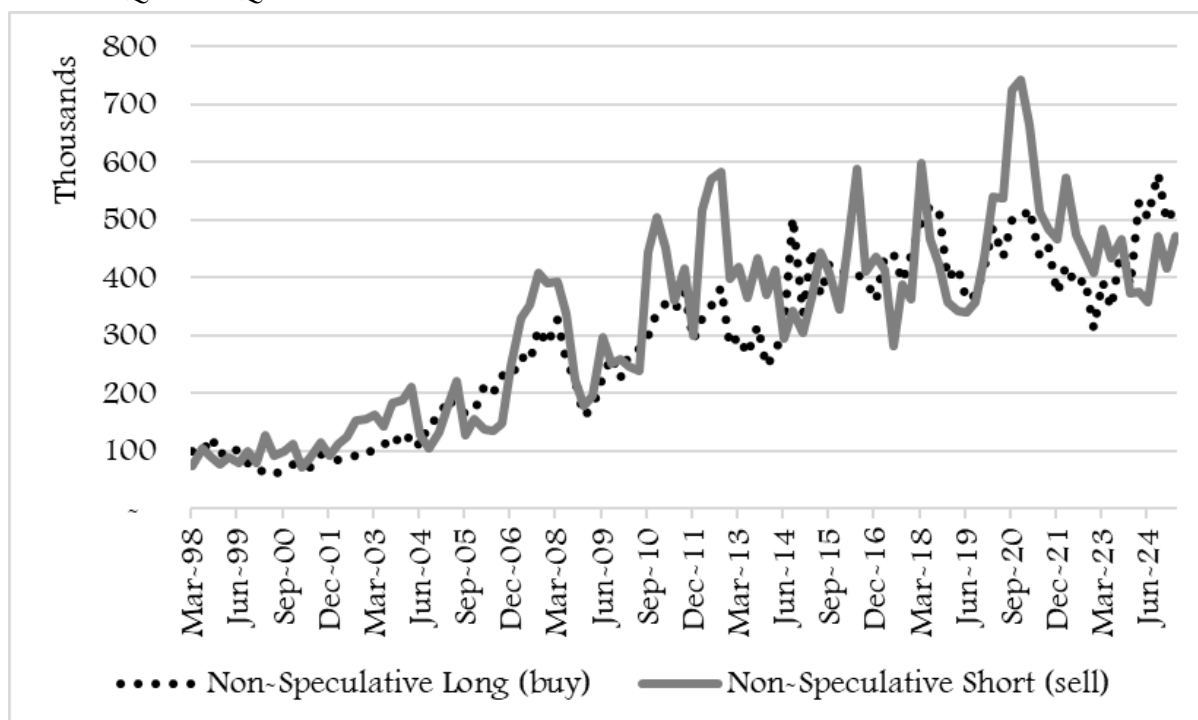
This shift in market structure also reflects regulatory choices made outside the region. In the United States, the Commodity Futures Modernization Act, signed into law in December 2000, removed over-the-counter derivatives, including commodity derivatives, from meaningful oversight by the CFTC and the SEC, which allowed index funds and swap-based commodity investment to expand considerably over the following decade (Pettifor, 2026). For Latin American exporters, this meant that price formation in the commodities underpinning their fiscal revenues became even more dependent on regulatory decisions taken in the core economies, over which they had no influence.

4.1 Brazil:

Soybeans are one of Brazil’s most strategic exports, reflecting both commodity dependence and financialization. On the real side, Brazil’s soybean boom began in the early 2000s, fuelled by China’s rising demand. Brazilian exports grew rapidly in volume and value, consolidating Brazil as a top global supplier. On the financial side, also reflecting the aforementioned regulatory changes in the US, Brazil’s soybean trade cycle became increasingly shaped by global derivatives markets from the mid-2000s onward, as rising participation by institutional investors expanded speculative activity. In this sense, Figure 6 reflects a steady growth of commercial hedging linked to Brazil’s rising output and export capacity, while Figure 7 the structural expansion of speculative participation in soybean futures since the late 1990s.

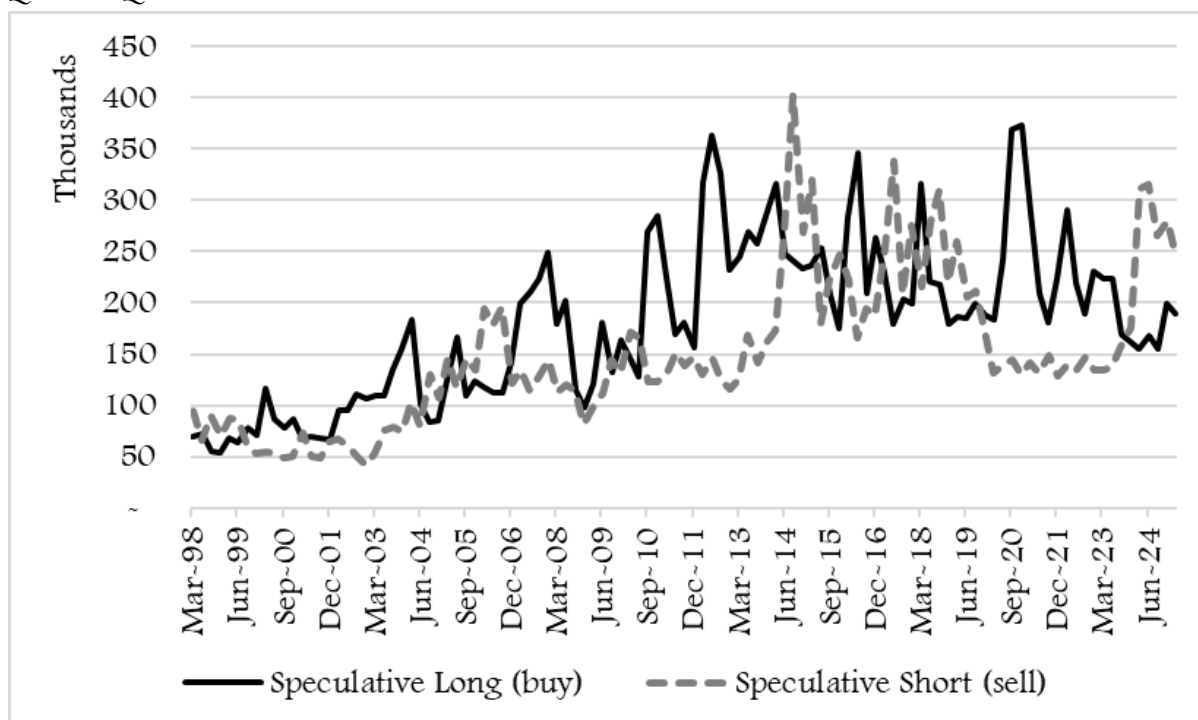
Non-speculative short and long positions trend upward over time, reflecting producers and buyers managing risks tied to physical trade. These movements evolve gradually and mirror the expansion of the real soybean economy. In contrast, speculative positions display pronounced cyclical waves. As seen in Figure 7, speculative long positions (buy contracts betting on price increases) surge during periods of global optimism and high liquidity, such as the mid-2000s commodity boom and the 2020–2022 recovery. Meanwhile, speculative short positions (sell contracts betting on price declines) spike during global stress or tightening financial conditions, notably around 2014–2016 and other downturns. Unlike commercial traders, whose positions change with production and trade flows, speculative investors adjust rapidly in response to macroeconomic sentiment, interest rates, and financial cycles.

Figure 6: Soybeans Non-Speculative Derivatives Contracts (long and short positions), number of contracts, Q1 1998-Q1 2025



Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

Figure 7: Soybeans Speculative Derivatives Contracts (long and short positions), number of contracts, Q1 1998-Q1 2025



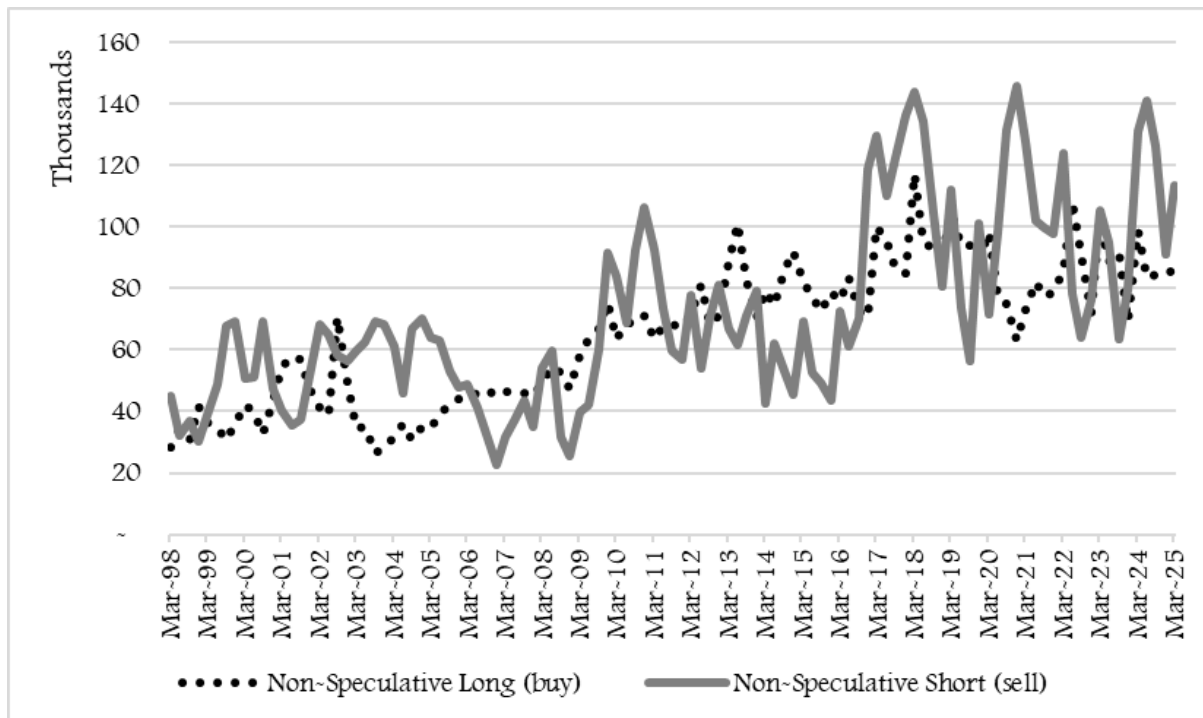
Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

The soybean data reveal four interrelated dynamics that illustrate the financialization of Brazil's trade cycle. First, the derivatives market expanded dramatically since the 2000s, with both speculative and commercial positions increasing in scale, showing that soybeans have become not only an agricultural export but a major financial asset. Second, speculative positions move in pronounced waves—large buildups of long contracts during price booms and sharp increases in short contracts before downturns—indicating that investor sentiment plays a growing role in shaping price trends. Third, speculative and commercial actors often diverge in their positioning: periods in which speculative longs rise while commercial producers maintain short hedges suggest that financial optimism does not necessarily reflect real-sector expectations. This divergence signals that prices are being influenced by financial expectations rather than production conditions alone. Fourth, price collapses in 2008 and again in the mid-2010s were deeper than shifts in export volumes would predict, showing how speculative selling amplified downturns. For Brazil, these patterns mean that fiscal revenues tied to soy exports are increasingly exposed to financial market dynamics beyond domestic control. Even when production remains stable, prices, and therefore government income, are shaped by global portfolio flows and risk sentiment. The soybean trade cycle thus reflects not only China-driven demand but the disciplining power of financialized commodity markets, which compress fiscal space and constrain developmental policy during downturns.

4.2 Chile:

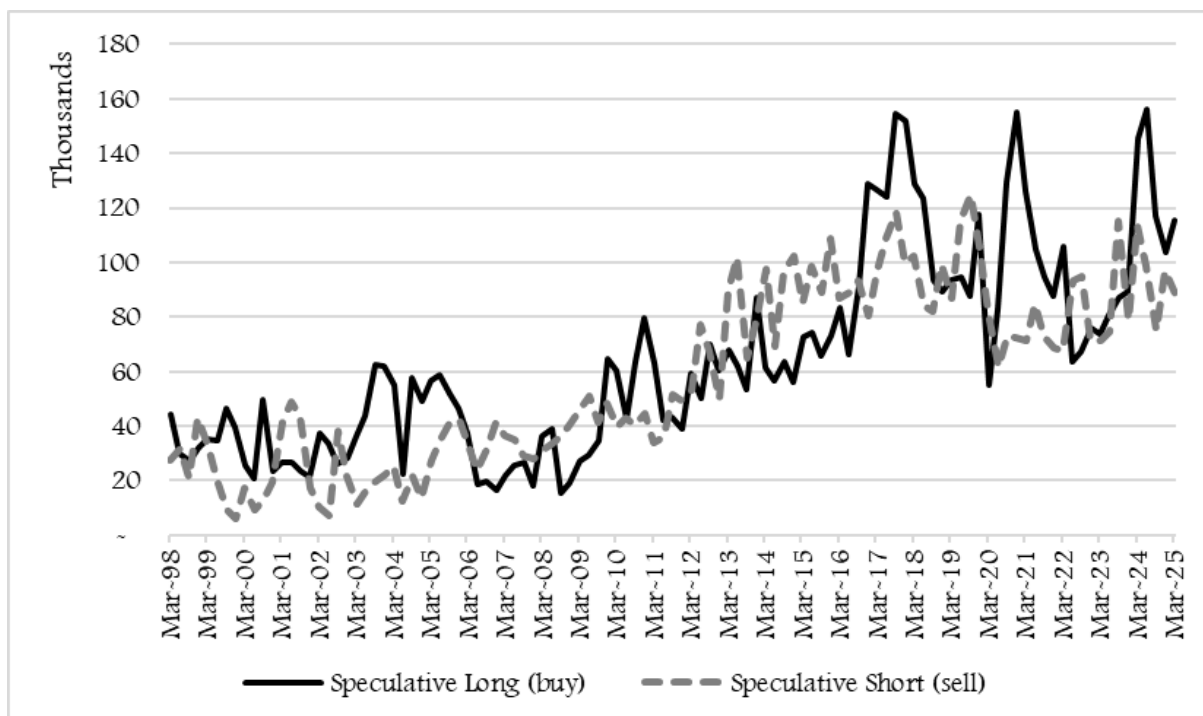
Copper is Chile's central strategic export and a cornerstone of its fiscal and external accounts, making it a key channel through which financialization can reshape the trade cycle. On the real side, Chile's copper boom intensified in the 2000s alongside China's industrial expansion, which drove sustained increases in export revenues and reinforced Chile's role as the world's leading copper supplier. On the financial side, however, copper price formation became increasingly mediated by global derivatives markets, where institutional investors, commodity funds, and other financial actors expanded their participation from the 2000s onward. In this sense, Figure 8 shows a clear long-term rise in non-speculative (commercial) positions, while Figure 9 reveals a parallel structural expansion and growing volatility of speculative participation in copper futures markets.

Figure 8: Copper Non-Speculative Derivatives Contracts (long and short positions), number of contracts, Q1 1998-Q1 2025



Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

Figure 9: Copper Speculative Derivatives Contracts (long and short positions), number of contracts, Q1 1998-Q1 2025



Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

Non-speculative long and short positions (Figure 8) display a gradual upward trend over the full period, rising from relatively modest levels in the late 1990s to much higher and more volatile levels after 2010. This reflects the growing use of derivatives by producers, traders, and industrial users to hedge risks associated with expanding physical trade. The rise is not smooth but stepwise, with higher periods emerging after major global shocks, indicating that hedging activity has become structurally embedded rather than reversing after crises. These movements are broadly consistent with the expansion and increased complexity of the real copper economy.

In contrast, speculative positions (Figure 9) show sharper cyclical swings and more abrupt repositioning. Speculative long positions rise strongly during global upswings—most notably in the mid-2000s boom and again in the post-2016 and post-2020 periods—while falling back during episodes of financial stress. Speculative short positions, meanwhile, increase markedly during downturns and periods of global uncertainty, especially after 2012, indicating that copper becomes an instrument for betting on global slowdown as well as expansion. Unlike commercial traders, whose positions track trade exposure, speculative investors move rapidly in response to liquidity conditions, interest rates, and macro-financial expectations, reinforcing short-term price dynamics.

Taken together, the copper data reveal four interrelated dynamics that characterize the financialization of Chile's trade cycle in a distinct way. First, both commercial and speculative derivatives positions expand over time, but commercial positions linked to mining firms and industrial users remain structurally large, showing that copper continues to be anchored in real industrial production rather than dominated solely by finance. Second, price formation reflects a dual structure in which global industrial demand—especially China's growth cycle—interacts with financial market dynamics, meaning that speculative activity builds upon, rather than replaces, production fundamentals. Third, speculative waves amplify underlying real-sector trends: long positions accumulate during global expansions and short positions rise during downturns, accelerating price increases in booms and intensifying collapses in crises. This indicates that financial actors magnify cyclical movements already rooted in the real economy. Fourth, the resulting market structure is hybrid: copper remains a core industrial input, yet its price volatility increasingly reflects global portfolio reallocations, liquidity conditions, and macro-financial sentiment.

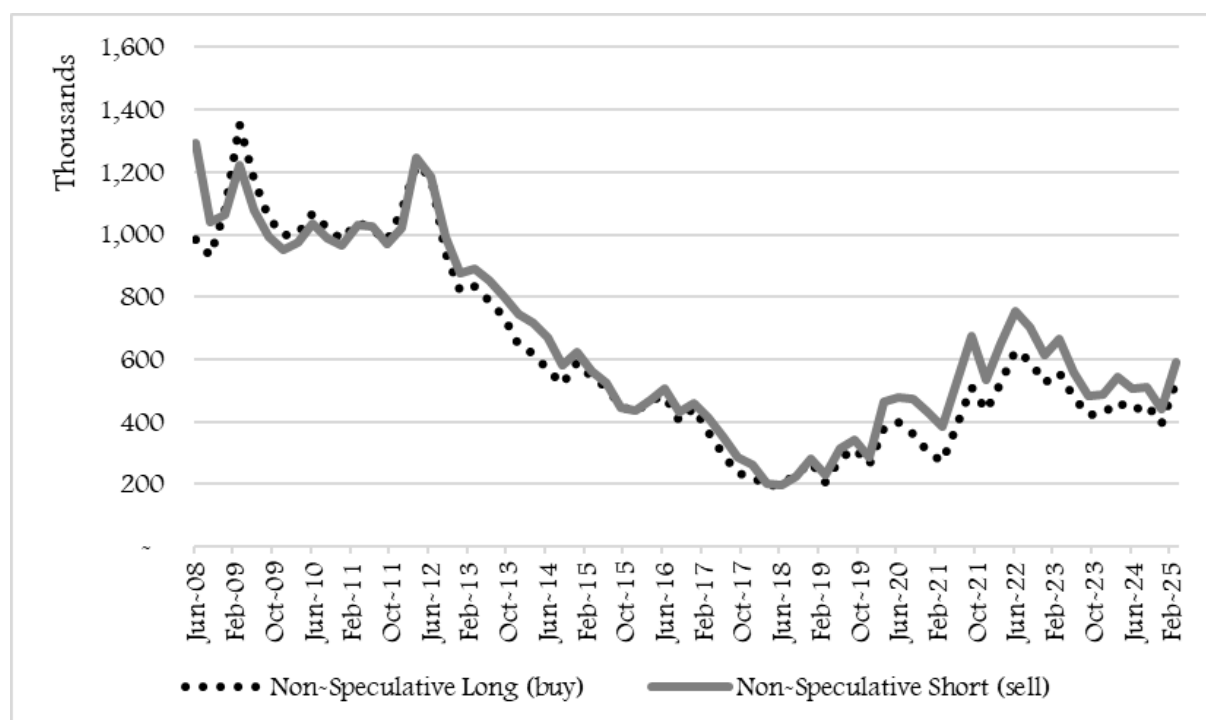
The implications for policy are significant. This configuration implies that fiscal revenues are exposed not only to fluctuations in industrial demand but also to financial cycles that exaggerate price swings. As copper income is central to the state's fiscal capacity, this financial amplification reduces the government's ability to stabilize public spending across the cycle, tightening fiscal space during downturns even when production conditions have not deteriorated proportionally. During high-price periods, Chile enjoyed windfalls that allowed increased public investment and social spending. But when speculative cycles turned, price crashes outpaced any real production adjustment, reducing fiscal space and pressuring progressive policy agendas.

4.3 Bolivia:

Bolivia's export economy is anchored in fossil fuels, with natural gas representing its largest and most stable source of foreign exchange and fiscal revenue since the early 2000s. On the real side, Bolivia's gas economy has been structured around long-term supply contracts with Brazil and Argentina since the early 2000s. Export volumes expanded during the commodity boom, and hydrocarbons became a key pillar of public revenue through royalties and state participation. Unlike soybeans or copper, however, Bolivia's gas trade is less exposed to spot market transactions and more embedded in regional energy agreements, as Figure 10 shows. There are no explosive surges comparable to those seen in agricultural or metal markets, reinforcing the idea that domestic production dynamics change incrementally rather than in sharp cycles.

On the financial side, however, figure 11 reveals more pronounced cyclical fluctuations aligned with global energy market conditions. Speculative longs rise during periods of broad energy market optimism and high global liquidity, while speculative shorts increase during phases of global stress and risk aversion. Crucially, these swings do not correspond to visible breaks in Bolivia's production trajectory; rather, they mirror global financial cycles affecting oil and gas as an asset class. This indicates that price expectations in energy markets are increasingly shaped by financial portfolio decisions rather than shifts in Bolivian supply or regional demand alone.

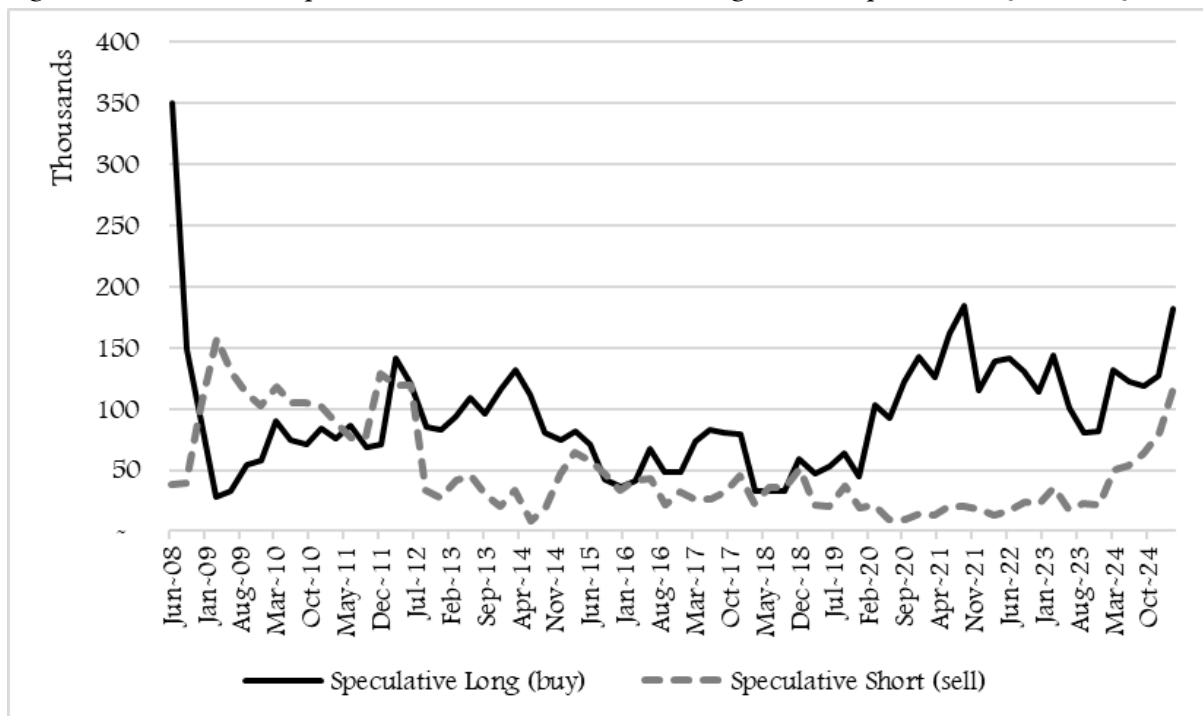
Figure 10: Natural Gas Non-Speculative Derivatives Contract (long and short positions), Q1 2008-Q1 2025



Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

Note: No Data available before 2008

Figure 11: Natural Gas Speculative Derivatives Contract (long and short positions), Q1 2008-Q1 2025



Source: Author's calculations based on the U.S. Commodity Futures Trading Commission

The key point here is that Bolivia is integrated into this financialized system indirectly. Unlike major commodity exchanges where soybeans or copper futures are heavily traded, Bolivia does not sit at the centre of a deep natural gas derivatives market. Yet its export prices are benchmarked — formally or informally — to international energy prices formed in those markets. As a result, when speculative activity in global energy derivatives pushes prices upward, Bolivia experiences revenue windfalls even without production growth. When speculative selling and global risk-off episodes drive price collapses, gas revenues fall sharply despite relatively stable output. Financial volatility generated elsewhere is thus transmitted into Bolivia's fiscal accounts.

In sum, Figures 10 and 11 reveal four core dynamics. First, derivatives activity grows over time but remains smaller in scale than in soybeans or copper, indicating a more indirect form of financial integration. Second, speculative positions still move in recognizable financial cycles, demonstrating that price expectations are increasingly formed in global financial arenas. Third, commercial positions evolve more smoothly, reflecting the continued importance of contracts and physical trade structures. Fourth, the amplitude of price movements affecting Bolivia is often disproportionate to changes in export volumes, showing how financial cycles amplify volatility beyond real-side fundamentals.

Overall, the cases demonstrate that commodity financialization does not operate uniformly but takes distinct forms: finance-led price dynamics in Brazil's soybeans, a hybrid real-financial structure in Chile's copper market, and externally transmitted financialization in Bolivia's natural gas sector. In Brazil, speculative positioning in derivatives markets becomes a primary driver of price

swings, often decoupled from production trends. In Chile, financial flows amplify but do not replace industrial demand cycles, producing volatility rooted in both real and financial forces. In Bolivia, price instability is largely transmitted from global financialized energy benchmarks, rather than generated by domestic market dynamics. This divergence is not primarily driven by supply or demand shifts, but by speculative dynamics in global futures markets. In all three cases, speculative positioning—through long and short contracts—has amplified price cycles, shaping fiscal revenues independently of domestic output. As these economies remain structurally reliant on commodity exports, such volatility creates procyclical fiscal constraints. Even when macroeconomic indicators appear strong, falling prices driven by investor sentiment can force governments to retrench.

5. Financial and industrial policies under progressive governments: setting the stage for a new Blue Tide?

As previously stated, this paper discusses the relationship between the long-term structural dependency of Latin American economies and the financialization of global commodity markets, exploring how these aspects have introduced further constraints on progressive economic policymaking. Against this background, this section has three interconnected goals: (i) describing the economic policies implemented by the region's left-wing administrations during the twenty-first century; (ii) showing how these initiatives have fallen short of overcoming structural dependency and subordinate financialization; and (iii) anticipating opportunities for right-wing forces as predicted by the theoretical framework (see section 2).

Taking advantage of the progress of democratisation and the region-wide dissatisfaction with neoliberal reforms, Latin American left-wing parties obtained successive electoral triumphs from the late 1990s to the mid-2010s, creating a historical opportunity for inclusionary public policies (Kapiszewski et al., 2021). This so-called Pink Tide was also enabled by a favourable international context, characterized by the commodity boom and a surge in capital inflows (Warnecke-Berger et al., 2023). On one hand, left-wing administrations used this renewed policy space to implement progressive policies like the expansion of social protection, the design of slightly bolder financial regulations, and the return of industrial policies (Arza et al., 2022; Levitsky and Roberts, 2011; Gallagher, 2014). On the other hand, none of these initiatives altered the subordinate position of Latin American countries, paving the way for the resurgence of right-wing political forces (also known as Blue Tide) after the end of the commodity boom in the mid-2010s (Grugel and Riggirozzi, 2018).

As right-wing governments gave further impulse to neoliberal policies, progressive forces had a new window of opportunity in the late 2010s and early 2020s (Salgado and Sandrin, 2021), as illustrated by table 1 (in the Appendix). However, this second Pink Tide faces a far more challenging context, marked by limited policy space due to the continuity of structural dependency, but also the

emergence of new forms of financial subordination, such as the financialization of commodity markets (see sections 2 and 4). The shift toward FDI financing does not eliminate external vulnerability; Peru's experience shows that FDI-related profit outflows can generate persistent current account deficits despite favourable debt metrics (Bibi, 2026; Bibi and Valdecantos, 2023, 2026).

In order to shed light on the obstacles faced by progressive economic policymaking under the second Pink Tide, this section keeps the focus on the cases of Brazil, Chile, and Bolivia, paying special attention to industrial, financial, and fiscal policies. Moreover, despite being aware of the limitations of the first Pink Tide in terms of structural change, we use this period as a point of reference for the analysis of contemporary policy initiatives.

5.1. Brazil

From 2003 to 2016, the Workers' Party led a heterogenous political coalition, including both left- and centre-right forces, which preserved the inherited orthodox macroeconomic regime while using the favourable external context to adopt some progressive economic initiatives, especially after the 2007 Global Financial Crisis (Silva and Bandeira, 2021). For example, when it comes to fiscal policies, despite being far less reliant on commodity-related revenues than its South American peers, the progressive governments benefited from an increased policy space, being able to expand the expenditure on social protection and public services until mid-2010s, when the end of the commodity boom and the broader economic slowdown led to a sharp decrease of fiscal revenues (Warnecke-Berger et al., 2023; Campos and Cysne, 2024). Regarding financial policymaking, the left-wing administrations managed to accumulate substantial official reserves, reduce the share of foreign currency-denominated debt, strengthen state-owned banks, and deploy capital controls over derivatives and volatile inflows (Cunha et al., 2019; Fritz and Prates, 2018). Similarly, the industrial policies became gradually more interventionist, encompassing a growing number of sectors (Gaspi and Silva, 2024). In response to the discovery of pre-salt reserves, the government also altered the oil exploration rules from concession to production sharing regime, increasing national control over natural resources (Singh, 2014).

In 2023, following the right-wing presidencies of Michel Temer and Jair Bolsonaro, the Workers' Party returned to power. Besides inheriting an independent central bank and relying on an even more heterogeneous political alliance, the party has experienced a different external context, marked by volatile commodity prices and capital flows. As expected, the fiscal space for progressive policymaking has been quite limited, as the increase of public expenditure has been constrained by the pace of revenues (Campos and Cysne, 2024), feeding discourses around debt and deficit. As a consequence, the new industrial plan, New Industry Brazil, covers a targeted number of sectors, moving away from the extensive approach of previous industrial policies (Brazil, 2025). In a similar vein, there was a reduction in the participation of state-owned companies in the oil production

(Poder360, 2025). Finally, the financial policy kept a full commitment to capital account openness, discarding a new round of capital controls despite the 2024 outflow surge (Valor, 2025).

5.2. Chile

Despite relying on a different productive structure, Chile's trajectory demonstrates a similar erosion of the space for progressive policy initiatives. When it comes to the first Pink Tide, the presidencies of Ricardo Lagos (2000-2006) and Michelle Bachelet (2006-2010, 2014-2018) also kept an orthodox macroeconomic regime, avoiding a deeper rupture with the country's neoliberal record (Flores-Macias, 2012; Weyland, 2009). In terms of fiscal policymaking, the higher level of commodity-based revenues allowed the first Bachelet administration to moderately increase public expenditure without harming fiscal balance; in her second government, however, the decrease of commodity-based revenues further constrained the attempts to increase spending, which has always remained in a lower level than Brazil (Warnecke-Berger et al., 2023; Campos and Cysne, 2024). Still, these administrations gradually expanded the role and available resources for the Production Development Corporation (CORFO), responsible for supporting the manufacturing industry (Bril-Mascarenhas and Madariaga, 2019). Similarly, within the limits of a market-friendly approach, there was some space for macroprudential regulations and (price-based) capital flow management (Gallagher, 2014).

Entering in office in 2022, after a wave of protests known as *estallido social*, Gabriel Boric pledged to implement a bolder agenda, finally overcoming the neoliberal legacy that dates back to Pinochet's military dictatorship (Reuters, 2021). However, as observed in Brazil, the volatile economic context has constrained the progressive reorientation of economic policymaking. In the realm of fiscal policymaking, for example, there was space for expanding public expenditure (Campos and Cysne, 2024), leaving unmet demands regarding the expansion of social policies. In a similar vein, the presidency of Boric has not presented an unified industrial plan, falling short of fulfilling the promise of creating a development bank (Diario Financiero, 2022). Even though the regulation of the lithium industry assured a stronger role for the state, the chosen model kept a public-private partnership model and made limited progress when it came to attracting foreign investments committed to industrialization (BBC, 2023; Reporte Minero & Estrategico, 2025). Finally, there was no relevant attempt to mitigate financial subordination as proposals like the progressive tax reform and the deployment of a financial transaction tax were abandoned in face of a surge in capital outflows (Diario Financiero, 2024, 2025; La Tercera, 2022).

5.3. Bolivia

Even though the main left-wing party in the country, Movement for Socialism, is considered more radical than its counterparts in Brazil and Chile (Flores-Macías, 2012), Bolivia has also experienced

an erosion of the space for progressive economic policymaking. During the first Pink Tide, the presidency of Evo Morales (2006-2019) benefited from rising gas prices and the access to new sources of foreign capital. In terms of fiscal policymaking, for example, the country experienced a sharp increase in commodity-related revenues, which responded for more than half of total revenues from mid-2000s to mid-2010s (Warnecke-Berger et al., 2023). This enabled an expansion of public expenditure without harming fiscal balance (Campos and Cysne, 2024). Based on an increased participation on gas-related revenues (Weyland, 2009), the government also implemented successive national development plans centred on industrial upgrade, seeking to overcome resource dependency (McNelly, 2020). Moreover, it was possible to approve an encompassing financial reform, which included the taxation of all capital outflows (Naqvi, 2021).

After the coup that interrupted the presidency of Morales, the Bolivian left managed to regain power in 2020 under the leadership of Luis Arce. However, due to the challenging context, the new administration had difficulties to pursue key aspects of its post-neoliberal agenda. For instance, in the realm of fiscal policy, the end of the commodity boom in the mid-2010s and the sharp decline in the revenue side inaugurated a period that combines spending cuts and resilient deficit (Warnecke-Berger et al., 2023; Campos and Cysne, 2024). Regarding industrial policy, the new development plan still has not made much progress with the reindustrialisation goal (Opinion, 2025). For example, even in the lithium industry, the government had to offer further advantages to foreign investors and is now facing criticism from both core constituencies and opposition parties (Infobae, 2025; La Razon, 2025). When it comes to financial policymaking, there were also some liberalising initiatives to address the scarcity of dollars, such as the concession of incentives to foreign investments, the deregulation of crypto-asset transactions the removal of the financial transaction tax associated to the acquisition of a new set of dollar-denominated public bonds (Economy 2024; El Diario 2025; El País 2025; Primicias 2024; Vision 360 2025).

5.4. The road ahead

Before moving to the discussion, it is worth noting that the growing obstacles faced by progressive economic policymaking also have political implications. As a consequence, in the three covered countries, the left-wing governing party risks losing the next presidential election. In Brazil, the current presidency of Lula is experiencing a negative approval rate and will certainly face a strong right-wing competitor as conservative forces already control the parliament and the largest states in the country. In Chile, the situation is even worse as polls indicate the centre-right candidate Evelyn Matthei as the favourite alongside a growing support for far-right candidates like José Antonio Kast. Finally, in Bolivia, the economic uncertainty fed the division within the left-wing forces, opposing Morales and Arce in fierce dispute and creating new opportunities for the right-wing opposition¹⁰.

¹⁰ The original version of this paper was completed in May 2025.

6. Discussions and Conclusions: Fiscal Space within Financialised Commodity Cycles

The articulation between commodity cycles and political transitions in Latin America is not coincidental but structurally embedded. As documented in Figures 4 and 5 above and in Table 1 (in the Appendix), the successive waves of progressive and conservative governance since the 1980s have tracked commodity price movements with a consistency that cannot be attributed to coincidence.

The relationship between commodity price cycles and political transitions in Latin America reflects a systematic pattern of structural constraint rather than mere policy failure. As Figure 5 above shows, commodity price peaks and troughs correlate strongly with electoral transitions between progressive and conservative governments across the region. During commodity booms, rising fiscal revenues strengthen the popular pressure for redistributive policies and the expansion of social protection, favouring the election of progressive parties, but also setting higher expectations among their supporters. However, the financialization of commodity markets means these booms are increasingly driven by speculative capital flows rather than demand fundamentals, making them both more volatile and less predictable. Prices increasingly respond to portfolio reallocation, global liquidity conditions, interest rate expectations, and shifts in investor risk sentiment. Institutional investors treat commodities as financial assets, adjusting positions rapidly across markets. This introduces forms of volatility that are faster, larger, and less tied to changes in physical supply or demand.

For commodity-dependent states, this transformation has direct fiscal implications. When commodity prices collapse—often triggered by speculative sell-offs, shifts in global liquidity conditions, or financial sentiment rather than changes in productive capacity—Latin American governments face simultaneous fiscal contraction and balance-of-payments pressures. Falling commodity prices weaken fiscal balances, reduce foreign exchange earnings, and often trigger currency depreciation. Depreciation, in turn, increases the domestic cost of servicing external debt and raises inflationary pressures. Simultaneously, capital outflows and deteriorating terms of trade elevate sovereign risk premiums, making external borrowing more expensive. Governments thus face a tightening financial constraint precisely at the moment when countercyclical spending would be most needed.

The resulting need for foreign exchange and fiscal adjustment creates conditions in which international financial institutions and domestic business elites can reassert policy influence, pushing governments toward austerity precisely when countercyclical expansion would be most beneficial for economic stability and social protection. This dynamic systematically undermines progressive coalitions, paving the way for conservative administrations that promise market confidence and fiscal discipline. Thus, the alternating Pink and Blue Tides documented in Figures 4 and 5 above are not simply the result of changing voter preferences but reflect the disciplining power of financialized commodity markets over domestic political possibilities.

An alternative interpretation might suggest that progressive governments were simply fiscally irresponsible during commodity booms, overspending rather than saving windfall revenues, thus

necessitating the austerity that followed. However, this interpretation fundamentally misunderstands the nature of the constraint. First, the speed and magnitude of commodity price collapses driven by financialized markets often exceed any plausible fiscal reserves that could have been accumulated during booms—as evidenced by the dramatic price volatility documented in our derivatives analysis. Second, this view ignores the political economy context: progressive governments face intense pressure from their electoral coalitions to deliver tangible improvements in living standards precisely during boom periods when resources are available. To demand that they save instead is to demand that they betray their popular mandates during the only windows when redistribution is possible. Third, and most fundamentally, even countries that did implement countercyclical savings mechanisms (such as Chile's copper stabilization fund) found these insufficient to insulate fiscal policy from the severity of financialized commodity price swings. The constraint is structural, not discretionary. So, the problem is not that progressive governments overspend during booms, but that the revenue streams they depend on are shaped by financialized price cycles beyond domestic control. When prices collapse due to global portfolio rebalancing, fiscal space contracts rapidly, forcing adjustment. This creates the appearance of fiscal irresponsibility *ex post*, but the constraint originates in external financial dynamics rather than domestic policy choices.

As previously argued in section 2, the promises of more redistributive policies led leftist governments to be elected during the first “pink tide”. Those promises were often maintained through expanded social policies and Keynesian development goals. However, the end of the commodity boom (SCCB) led to unmet expectations, fuelling support for right-wing populist leaders in the “blue tide.” A new rise in commodity prices in the early 2020s has sparked similar promises from newly elected progressive governments, marking a “second pink tide”. However, the PCP movement suggests a change of dynamics in commodities prices, and through the intertwined mechanism we have argued for, also a possible reversal phase toward more populist right wing political parties.

As suggested by Bibi et al. (2025) and argued by our paper too, these conjunctures are not merely empirical correlations but manifestations of deeper causal relations: political space for progressive governance is conditional upon favourable external economic conditions. The evidence from Brazil, Chile, and Bolivia supports this interpretation. In each case, commodity price downturns have been sharper than changes in export volumes, indicating that financial price dynamics—not production collapses—drive revenue shocks. This dependence exposes left-wing governments to acute vulnerability.

Moreover, as the paper suggests, downturns do not merely constrain immediate policy options—they often entail the dismantling of institutional frameworks (public health, education, social protection) that create hysteresis in the political economy. This hysteresis restricts the capacity of future progressive administrations to reconstitute a coherent Keynesian program, even when electoral conditions permit. In this sense, financialization does not merely increase volatility; it

reshapes the political economy of adjustment by making fiscal sovereignty contingent on investor expectations beyond domestic control.

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Appendix

Table 1: Political Government waves in Latin American countries, 1980-2025

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Argentina	Right	Right	Right	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre	Centre	Centre	Centre	Centre
Bolivia	Extreme-right	Extreme-right	Extreme-right	Left	Left	Left	Left	Left	Left	Left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left
Brazil	Right	Right	Right	Right	Right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre	Centre	Centre	Centre	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right
Chile	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left
Colombia	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Right
Ecuador	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Right	Right	Right	Right	Centre	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right
Mexico	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre-right	Centre-right
Peru	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Centre
Paraguay	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Right	Right	Right	Right	Right	Right	Right	Right	Right	Right	Right	Centre-right	Centre-right	Centre-right
Uruguay	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Extreme-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right
Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Argentina	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Right	Right
Bolivia	Centre-left	Centre-left	Centre-left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Right	Left	Left	Left	Left	Left
Brazil	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Right	Right	Right	Centre-left	Centre-left	Centre-left	Centre-left
Chile	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Left	Left	Left	Left
Colombia	Right	Right	Right	Right	Right	Right	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Right	Right	Right	Right	Left	Left	Left	Left
Ecuador	Centre	Centre	Centre	Centre	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right
Mexico	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre	Centre	Centre	Centre	Centre	Centre	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left
Peru	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre	Left	Centre	Centre	Centre
Paraguay	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre	Centre	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right
Uruguay	Centre-right	Centre-right	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-left	Centre-right	Centre-right	Centre-right	Centre-right	Centre-right	Centre-left

Source: author's elaboration