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Has Latin America Turned the Corner? Or is it Now Reverting to Decline?

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On an occasion like this, it seems to me that appropriate kind of lecture is a broad overview of Latin America's situation today. Such an overview may be particularly timely now, I would add, because — at least in my country — I sense a rapid change in prevailing opinions, at least in the policy community and in the media, about Latin America's situation.

The prevailing public image of Latin America often changes very

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broadly and rapidly. Five years ago, Latin America was still mired in the "Lost Decade," and its countries were still widely discussed as a series of "basket cases", of hopeless failures. Two or three years ago, by contrast, Latin America was being portrayed and discussed as the region of the new boom. Five of the six fastest growing stock markets in the world in 1991 were Latin American. This frantic pace of stock market appreciation could not be sustained, of course, but substantial foreign capital has entered the region, over \$50 billion per year, on average, during the past three years.

Similar euphoria characterized discussion of Latin America's political advances — of its moves toward democratic governance. US officials claimed that Latin America was fast becoming the "first completely democratic hemisphere in human history." And US officials have not been alone in painting Latin America in bright colors with a very broad brush; Japanese officials have also talked of "development and democracy," the two "d's", as capturing Latin America's situation and prospects today.

During the past few months, however, new concerns have been raised about Latin America. The Chiapas uprising in Mexico on January 1, 1994 was a chilling reminder that NAFTA has not solved all of Mexico's problems. The assassination just a few weeks later of the presidential candidate of Mexico's ruling party caused serious additional worries, reflected in the precipitous decline of the country's reserves. Other doubts were raised by political stalemate in Brazil, new volatility in Argentine politics, and an unprecedentedly weak Venezuelan government. "The picture darkens", warned London's *Finan-*

cial Times glumly on April 11, 1994, and this was just one of a flurry of such comments.

I want to question both the generalized optimism about Latin America which was fashionable in the early 1990s and also the new prophecies of gloom just starting to be heard. Instead, I propose to offer what I believe is a balanced assessment, putting the events and trends of the first months of 1994 into a longer term context. *Latin America's political and economic advances are real but fragile, widespread but uneven, significant but still limited, promising but by no means assured.*

Three Fundamental Shifts

Three shifts *have* unquestionably been taking place in Latin America during the past few years: an emerging consensus among economic policy-makers on the main tenets of sound policy; the even more universal embrace of constitutional democracy as an ideal; and a growing disposition toward pragmatic cooperation with the United States.

By the late 1980s, most Latin American economic policy-makers had come to share a diagnosis of the region's fundamental maladies and a set of prescriptions for restoring its health. Throughout Latin America and the Caribbean, it came to be understood that it would be essential to bring inflation under control, even though that would mean drastically reducing public expenditures. It became accepted, as well, that the import substitution approach to economic growth — however

successful it was in some countries during the 1950s and 60s — was exhausted everywhere, and that the region's recovery depended primarily on boosting exports, which in turn necessitated market openings, competitive exchange rates, and an end to various subsidies and other forms of protection. It was also agreed that Latin America must sharply prune the state's industrial and regulatory activities, privatize most public enterprises, facilitate competitive markets, stimulate the private sector, and attract foreign investment. *The emergence of this region-wide consensus is a paradigm shift of historic dimensions.*

Equally striking has been the accord on the desirability of constitutional democratic politics. Just twenty-five years ago, in the late 1960s, self-proclaimed "vanguards" on the left and "guardians" on the right openly expressed disdain for democratic procedures, and both claimed significant followings. In recent years, however, a wide spectrum of Latin American opinion has come to recognize the value of democratic governance. Most Latin America elites, as well as the public at large, now agree that to be legitimate, government authority must derive from the uncoerced consent of the majority, tested regularly through fair, competitive, and broadly participatory elections.

The regional turn toward harmonious relations with the United States has also been unmistakable. For years, many Latin Americans defined their foreign policies primarily by expressing independence from and even outright opposition to Washington. Restrictive policies on foreign investment, reserved markets, high tariff barriers, movement toward regional economic integration and diplomatic *concentración* were all forged in part as hostile responses to U.S. power.

All this has changed. Most Latin American government and many opposition movements in Latin America today want stronger links with the United States. Mexico made the most dramatic move toward U.S.-Latin American cooperation when President Carlos Salinas de Gortari and his team began in 1990 to pursue a North American Free Trade Agreement (NAFTA) with the United States and Canada. Most other Latin American countries actively seek to improve their ties with the United States, sometime even at the expense of their relations with other Latin American nations. Only Fidel Castro's Cuba holds on to its anti-Americanism, and even Cuba would probably be open to rapprochement, if Washington were only willing.

These turns toward free market economics, democratic politics, and inter-American cooperation resulted primarily from the widely-perceived failure of Latin America's course in the 1970s and 80s, as well as from changes on the international scene. Statist economics proved to be a dead end. So did authoritarian governments, which lost legitimacy everywhere — in some cases because prosperity made people unwilling to accept continued repression, and in others because the authoritarian regimes had been ineffective even in economic terms. Confrontation with the United States proved to be a losing proposition as well, particularly as brave "Third World" talk of a "New International Economic Order" dissolved into mere palaver.

Latin America's changes, I submit, are not accidental or unconnected. They are not insignificant, nor are they merely cyclical. They respond to profound regional experiences during the last generation and

to a radically transformed global context. They provide a basis for hope about the region's prospects.

Reforms at Risk

Yet these important shifts are still at grave risk, and they will not last through the 1990s in every country, at least in their current form.

The region-wide promulgation of market-oriented economic reforms was deceptively easy. It was indeed stunning that such similar measures were announced in short order in extremely different countries, often by presidents who had actually campaigned against such reforms. But this convergence owed much more, in most cases, to the lack of credible alternatives and to weak and disoriented oppositions than to broad-based national consensus or to unshakable conviction by political leaders. Except in Chile and perhaps in Argentina, the political base for the economic reforms is still quite tentative, firmly supported only by leading technocrats and some segments of the private sector.

Unless Latin America's economic reforms soon generate demonstrable and broadly-felt results, they may not become solidly entrenched. Many Latin American and Caribbean nations have elections scheduled this year or next; changes in policy are probable in several countries if it becomes generally perceived that income concentration is worsening, and that social, economic, and in some cases ethnic divisions are widening. It will be difficult, if not impossible, for governments to sustain popular backing for reforms that at first enrich a privileged few without providing a credible promise of mass prosperity. Strong social

safety nets and improved public services might help, but they are hard to achieve when the economic reforms, and years of low growth and fiscal crisis, have cut the state back.

The lack of public support for the economic programs has become increasingly evident throughout much of Latin America recently, especially in the violent outbursts experienced in recent months in provincial Argentina and southern Mexico; the mounting social and labor protests in several other countries; and the gains registered by many opposition parties: the Workers Party (PT) in Brazil; the Grand Front (Frente Grande) in Argentina; the Movement Toward Socialism (MAS), the Radical Cause (Causa R) and Rafael Caldera's Convergence (Convergencia) in Venezuela; the Broad Front (Frente Amplio) in Uruguay; the Convergence (Convergencia) in El Salvador; and the social democratic parties in Costa Rica, Honduras, and the Dominican Republic. These opposition forces are not uniform, of course, and the reasons for their advances vary from case to case, but there is little denying that neoliberal incumbents are losing ground in most countries.

Economic Vulnerability

Latin America as a whole can probably not sustain economic dynamism in the 1990s, let alone explode in a burst comparable to today's East Asian "tigers." Chile has managed ten consecutive years of impressive growth, to be sure, after long years of painful structural reform. But growth has not yet proved sustainable at even moderate levels in most other countries. In fact, Latin America's overall rate of growth during the 1990s has been quite modest, not to say mediocre.

Other than Chile, only Argentina, Colombia, Costa Rica, and Panama have thus far sustained moderate to high rates of growth (averaging over 4% per year) in the 90s. Of all the countries in Latin American and the Caribbean, only eight (Colombia, Argentina, Chile, Uruguay, Belize, Jamaica, Panama, and Costa Rica) had higher per capita incomes in 1993 than in 1980; in some cases, there has been no gain in real per capita income since the early 1970s.

Neither Brazil nor Mexico, the region's largest economies, are now doing well, and Argentina, the third largest, is soon likely to face mounting problems.

Brazil registered 4% growth in 1993, after several years of stagnation, but that was mainly in response to pent-up demand for automobiles and other products; growth began to sag before the end of the year, and is not expected to exceed 2% in 1994. Inflation in Brazil has continued at close to 45% per month, although there is some hope that the current Cardoso plan will reduce inflation considerably. Difficult structural problems plague Brazil, a country of enormous contrasts between a hyper-modern industrial sector and vast expanses of rural and urban poverty.

Mexico has reduced inflation and attracted major investment flows, but its growth rate was an anemic 0.4% in 1993, low for the third consecutive year. The country's massive trade and current account deficits are troubling, as is its severely overvalued peso. The predominance of short-term portfolio investment in the country's capital inflow during the 1990s presents a second element of potential instability. A

third has come from extraordinary sensitivity to trends and opinions in the United States, so pronounced that Mexico's stock market index fluctuates widely with every sign of unpredictability. NAFTA's passage has certainly given Mexico an important boost, but some of the country's fundamental economic indicators are still quite troubling and the political system is under great strain, unprecedented in intensity in more than sixty years.

Argentina is enjoying its fourth consecutive year of steady growth and stable prices, but signs of trouble ahead are accumulating. Industrial growth is slowing, domestic investment is down, exports are lagging and the foreign trade deficit is increasing. An overvalued currency is causing growing imbalances, and the country is quite vulnerable to any disruption of external financing, which could be caused by completely extraneous circumstances.

The flow of voluntary capital into several Latin American countries since 1990 has been encouraging by contrast with the lean years from 1982 through 1989, of course. Much of the capital entering Latin America has been portfolio rather than direct investment, however. Most of it is selectively concentrated in a few large low risk firms, and it can be withdrawn quickly by mutual funds and institutional investors with world-wide alternatives. A good deal of it, moreover, is flight capital — originally taken out of Latin America by elites and prone to leave again if there is trouble. Much of the foreign investment in Latin America in recent years has been drawn to the region in part by high interest rates and by quick stock market spurts as well as by the relatively low interest rates prevalent in industrial countries; even

minor upward adjustments in industrial-country interest rates have produced some outflow of capital from Latin American markets in 1994.

Latin America's economies have made strides, but they are not yet out of the woods. Fiscal deficits have been reduced and inflation largely tamed in most countries, but pressure continues on both counts. The ratio of interest payments to exports has been sharply reduced, but the stock of debt is still dangerously high in many countries and is still about \$500 billion region-wide. Protectionist pressures are beginning to gain ground in some Latin American countries, internal investment remains severely inadequate, and productivity gains are slowing.

If Latin America's external environment were more supportive — that is, if growth rates in the industrial countries could rebound, if international protectionism could be avoided, if interest rates stayed low and/or further debt relief were achieved — there would be good reason to hope that most Latin American economies could advance in a mainly uninterrupted fashion through the 1990s. But these propitious international circumstances are far from present, with persistent sluggishness in parts of the U.S. economy, rising U.S. interest rates and a continuing global economic slowdown.

Lack of Consolidated Democracy

The regional turn towards democracy is also highly vulnerable. Indeed, *effective democratic governance in Latin America now exists only in those very few countries — Chile, Costa Rica, Uruguay, and the*

Commonwealth Caribbean — where democratic traditions were already well implanted thirty-five years ago, and even in these countries it is challenged.

Peru's turn to renewed and thinly-veiled authoritarian rule may be unique because of the national consensus against the extremist Shining Path movement and the broad distrust there of most institutions. But the threat to democratic governance is by no means confined to Peru. Not even in the few countries widely perceived as consolidated democracies — Chile, Uruguay, Costa Rica, the Commonwealth Caribbean and Venezuela — is democratic governance truly healthy. Despite a significant electoral mandate, Chile's newly-elected president has had trouble exercising authority over the armed forces and the police. Uruguay suffers from dangerous institutional stalemate and a temptation to shortcut constitutional procedures. Democratic governance in much of the Commonwealth Caribbean is decaying, with low electoral turnouts, widespread corruption, police abuse, unchecked violence, and a corrupt and ineffective judicial system. Even Costa Rica faces violence, rampant corruption, the descent of political campaign to extraordinarily dirty levels, and the virtual breakdown of substantive debate.

What was most striking about the nearly successful military coup in Venezuela in February 1992 and the even bloodier attempt in November of that year was that they appeared to have considerable support within the military and were accepted with equanimity if not outright enthusiasm, by quite a few Venezuelans. This widespread repudiation of the established Venezuelan parties laid some of the basis

for the eventual outing of President Carlos Andres Perez and, more recently, the return to the presidency of former President Caldera, winning the presidency as an independent with 30% of the vote, running against the two established parties. COPEI and AD, the two established parties, took less than 50% of the vote between them, and the rate of abstention was unprecedentedly high, some 44%, despite compulsory voting laws; Caldera's election was thus based on the votes of some 17% of the eligible electorate in what has heretofore been a strong two-party system.

Brazil is also facing difficulties, with yet another failed president, extraordinarily weak parties, massive corruption, rampant street crime, rural violence, police repression — and generalized unrest. That elected president Fernando Collor could be peacefully removed from office for larceny — and that eighteen members of Congress could also be recommended for expulsion for taking bribes and kickbacks — show Brazil's resilience and public respect for constitutional procedures and norms, as well as the strength of the press and other civic groups. But the false start for Brazilian democracy is taking its toll, making it very difficult for the largest country in Latin America to adopt and implement coherent policies. Now Brazil faces new elections; it is at this time unclear whether the country will be severely polarized as a result, or will move instead toward a center-left consensus.

Guerrilla violence still erodes or hampers democratic governance not only in Peru but in Colombia and Guatemala, and the Chiapas uprising suggests that it may start in southern Mexico. The pervasive corruption and violence associated with narcotics has been undermining

state authority in Bolivia, Colombia, Panama, Peru, Suriname, and parts of Mexico. Throughout most of Latin America, not only in Chile, civil-military relations remain an unresolved problem, exacerbated by the drastic effects of budget austerity on military salaries and perquisites, and by uncertainty about the role of the armed forces in a changed world environment.

In Central America, except for Costa Rica, military establishments often call the shots, and large segments of each country's population remain excluded from effective participation. In El Salvador, renewed death squad activity has been directed against former leftist leaders trying to compete in electoral politics, and scores of thousands of prospective voters were deprived of suffrage in the April 1994 election. The appalling political situation in Haiti vividly illustrates how thoroughly misleading it is to check a country into the "democratic" column on the basis of one national election.

Ecuador appears in danger of veering back toward authoritarian rule; four presidential elections with successful alternations of power obscure the fact the Ecuador's parties are too fragile and volatile to be instruments of democratic governance, that the judiciary is weak and compromised, that protest and repression are rising, and that the military is beginning to contemplate renewed intervention. Similarly, almost a generation of competitive national elections in the Dominican Republic does not add up to effective democratic governance in a country where Joaquin Balaguer has been in office for most of the past twenty-five years, for his authority is not effectively checked by parties, Congress, the judiciary, or civil society.

And more than eighty years after its revolution, Mexico is still far from truly “effective suffrage” or providing equal justice under law throughout the country. Polls show that nearly half of Mexican population doubts that their votes will be respected, and that some 70% distrust government explanations of the Colosio assassination. Legitimacy cannot easily be built or maintained in such circumstances. It is hard to be sure whether Mexico’s recent traumas will enhance the prospects for political reform and democratic opening, or whether they will produce an authoritarian backlash.

In country after country, polls show that most people still favor “democracy” as a form of government but are increasingly skeptical of all democratic political institutions. *The hard truth is that representative democracy is not being successfully “consolidated” in most of Latin America, in many cases because it has yet to be truly constructed.* After deriving their initial mandate from popular election, government are sometimes tempted to govern “above” parties, legislatures, courts, interest groups, or the organizations of civil society. To the extent that they do, weak institutions are further undermined, accountability is thwarted, public cynicism and apathy grow, and legitimacy is eroded. This syndrome poses the danger, in several countries, of a slide toward renewed authoritarian rule, albeit of a stripe different from the anti-Communist military regimes of the 1970s. Sustained political stability based on legitimated and valued institutions has not yet been achieved in most of Latin America.

The Social Question

Latin America's chances for sustaining economic and political advances depend in part on overcoming widespread poverty and vast inequalities, but these problems have actually been getting worse. According to U.N. statistics, some 46% of Latin Americans live at poverty levels, 4% more than ten years ago. More than 200 million people survive without basic necessities, according to U.N. definitions; many of these subsist in extreme poverty, unable to maintain the minimum caloric intake required for human health.

After more than a decade of depression, austerity programs, and structural adjustments, millions of Latin Americans who earlier thought they had made it to the middle class have been impoverished. The economic reforms have provided benefits to a few, but in the short run they have reduced real wages and increased uncertainty for many. Although it has become unfashionable worldwide to talk about class struggle, the divisions in Latin America have become notably sharper. Income distribution, long more inequitable in Latin America than elsewhere in the world, has become even more unequal in most countries. Reduced investments in health, education and other such services in the 1980s will have their worst effects in the 1990s. *For Latin America's poor, the 1990s are literally the time of cholera* — and of tuberculosis, malaria, and other infectious diseases.

In many Latin American countries, the "social question" is reaching critical dimensions. Pervasive social breakdown is reflected in such

horrible practices as kidnapping for ransom and the sale or killing children. These grim realities reflect — and feed, in turn — a high degree of frustration and alienation, most painfully evident in Peru, Haiti, and Nicaragua but palpable in many other Latin American nations. Emigration is burgeoning, even from countries (like Brazil) where this has not previously occurred. Insurgences remain a threat in several nations. Evangelical religious sects and messianic movements are exploding. All these conditions make for volatility, not for sure and steady progress.

Latin America's chances of successfully confronting its social agenda may depend significantly on political forces long opposed by the United States. *A political space now exists in many Latin American nations for a modern social democratic movement, one which accepts the democratic political rules and the main tenets of modern economic doctrine but confronts the issues of equity that have been largely neglected thus far by most reigning technocrats.* Latin America's new generation of left leaders — Lula and also Fernando Henrique Cardoso in Brazil, Cuahatemoc Cardenas in Mexico, Chacho Alvarez in Argentina, Ricardo Lagos and Sergio Bitar in Chile, Rubén Zamora in El Salvador, Andres Vel squez in Venezuela and others — stand to gain from a region-wide dissatisfaction with politics as usual and widespread frustration at the failure of the economic reforms thus far to alleviate mass poverty or the pauperization of the middle class. Whether the left is ready to develop sound action programs and can build consensus to implement them remains to be seen, however.

Medium-Term Prospects: Tensions and Setbacks Likely

It is surely misleading to extrapolate from events in Haiti or Peru onto all of Latin America and the Caribbean; each is a unique case in important aspects. But it is equally wrong to project Chile's success in achieving both sustained economic growth and democratic political stability as a sure predictor of how the whole region will evolve; Chile has had several historic advantages, not the least of which is the legacy derived from several generations of democratic politics.

The countries of Latin America and the Caribbean are not simply strung along on a spectrum, ineluctably going in a set order through the same stages of development. Their paths are diverging, and will probably diverge still further in the future.

Even before NAFTA, for instance, more than 70% of Mexico's trade was with the United States and more than 6% of Mexico's work-force was employed in this country, remitting at least \$3.5 billion a year back to Mexico. A similar trend toward functional North American integration is evident in the Caribbean island. U.S. airlines and telephone companies treat the Caribbean islands as if they were domestic, not foreign; it is hard to define the border between the mainland and the Caribbean in economic, social, demographic, or political terms, but it is certainly north of Miami!

But while Mexico, many Caribbean islands and parts of Central America have been integrating with the United States, Peru and to

some extent Colombia have been disintegrating internally; Argentina and Brazil have been trying to nurture a subregional common market, Mercosur; and Chile has been steadily diversifying its ties throughout the Americas, Asia, and Europe. For many purposes, therefore, it is less sensible than ever to generalize about Latin America and the Caribbean.

Most Latin American and Caribbean countries today do share two difficult internal tensions, however. One is between the imperatives of political and economic liberalization: between the opening of democratic politics and of market economies. For reasons of national experience and ideology, people in the United States, and perhaps also in Japan, like to think of these processes as not only compatible but as necessarily related — as two sides of the same coin, united by the element of free choice, or two wheels of the same bicycle, as a Japanese colleague has put it. But in Latin America's circumstances — as in those of Eastern and Central Europe, of Russia and of East Asia — the claims from impatient electorates and the demands of economic elites are not easily reconciled, at least in the short and medium term. It will take superb political craftsmanship to build the necessary coalitions in order to manage these tensions successfully, and this skill remains in short supply.

A second important tension is between streamlining states and ridding them of excess functions and personnel, on the one hand, and strengthening their capacity to provide crucial public services and exert legitimate authority, on the other. Over the last decade, reforms to reverse failed statist policies, combined with fiscal crisis, have further

weakened Latin American governments, which were never strong in administrative and management capacity. Years of military rule eroded civilian institutions in many countries. A reliable and effective regulatory environment is lacking. Public agencies are poorly run after years of neglect, and are now even less able to respond to mounting problems. Infrastructure, education, and social services have been allowed to deteriorate, and considerable public investment is urgently required. *In many Latin American countries, therefore, building effective and efficient state capacity — rather than further cutting back the state — is a central task for the 1990s.*

It is by no means clear, in sum, whether and when all Latin American and Caribbean countries can turn the many corners that must be successfully negotiated to assure sustainable economic development plus effective and enduring democratic governance. Although the region's overall prospects are much more promising than seemed possible only a few years ago, formidable obstacles remain. Euphoria about Latin America — often still propagated by the emerging market funds, investment promotion boards, and the *Wall Street Journal* — is as unjustified now as indiscriminate bearishness was five years ago. But so is the new gloom beginning to percolate in some quarters; the Chiapas uprising and the Colosio assassination should not touch off a new cycle of decline in Latin America; if they do, it will be because exaggerated international concerns themselves produce self-fulfilling prophecies of doom.

The next few years could still see significant setbacks: economic stagnation in some countries, renewed inflation in others, political or

policy instability, and perhaps reversion toward authoritarian rule in some cases. It is dangerous to sweep these real possibilities under the rug.

But it is equally wrong to ignore the social, economic, political, and policy gains made in many Latin American countries in recent years. Latin America's future is far from assured, but it is on the whole, I believe, promising in the medium and longer term. In a world of considerable uncertainty and widespread disillusion, Latin America still has clear potential for prompt and positive advances.