

**Testimony Before the Subcommittee on the Western Hemisphere
House Committee on International Relations
U.S. House of Representatives**

**The United States and Latin America in the New Millennium:
Outlook and Priorities**

March 15, 2000

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Latin America enters the twenty-first century much changed from what it was as recently as 20 years ago. The current realities include the following:

- Import restrictions are now modest. Tariff and nontariff barriers were reduced after the collapse of the import-substitution system in the early '80s. This was done unilaterally at first – that is, without seeking reciprocity – and many of the remaining barriers are being kept as bargaining chips, particularly for negotiations with the United States.
- The hemisphere is now wide open to foreign direct investment, which in recent years has replaced portfolio investment as the principal source of capital inflows. The “lost decade” of the 1980s was set off by foreign debts that could not be repaid. Debt financing was then favored over foreign direct investment on sovereignty grounds – a position which posited that nationals should control domestic industries.

- Many former state-owned enterprises have been privatized, indeed, more so in Latin America than in any other region of the world. Electricity generation, oil exploration and exploitation, banking, insurance, airlines, hotels have all been affected. These privatizations have not been without problems, but they represent a new philosophy – that the state should set macroeconomic policy but leave most economic operations to the private sector.
- This new philosophy is now dominant in Latin America. Call it what you wish – classic liberalism, neoliberalism, an aspect of globalization. It means that Latin America, in general, depends heavily on attracting foreign direct investment, raising exports, and relying on the private sector. This is not uniformly popular in individual countries, but it is the reality.
- Fiscal policy is now prudent and excessive public sector deficits are generally shunned. The emphasis in monetary policy is on keeping inflation down and the countries in the hemisphere have had much success in accomplishing this objective. Inflation can no longer be called “the Latin American disease.”
- The exchange rates in key countries – Mexico, Brazil, Chile, stand out – are now floating without significant central bank intervention. Argentina has a convertibility system under which pesos are freely exchangeable with U.S. dollars at one-to-one. Ecuador is considering dollarizing its currency. These policies were inconceivable 20 years ago.
- To depart from economic considerations for a moment, the growth of representative democracy has been remarkable over the past 20 years. This is by no means universal, but former military governments have given way to

democracies in Brazil, Argentina, and Chile. Elections in these countries do not prevent alterations in governing parties. Mexico is on track to have the most open election in its modern history on July 2, 2000, and the contests for the presidency and the Chamber of Deputies look close. As I compare the structure and responsibilities of Mexico's Federal Electoral Institute, it makes ours look primitive and flimsy.

Please don't mistake what I am saying. Latin America has not reached nirvana. Colombia is suffering from a combination of lawlessness and economic deterioration. Venezuela's economy dropped precipitously last year and the future of its democratic structure is by no means certain. President Fujimori of Peru has contrived to make himself eligible for a third term despite a clear constitutional prohibition of this. The democratically elected president of Ecuador was forced out of office just a few months ago and the reason the military did not take over fully was the threat of economic sanctions by the United States. When the military attempted to assume power a few years ago, the other member countries of Mercosur (Argentina, Brazil, and Uruguay) threatened to expel Paraguay and they were supported by the United States.

There are grave social problems throughout the hemisphere. Income inequality and poverty have not diminished during the past two decades. Indeed, they have gotten worse – with the exception of Chile, where the poverty rate has been sharply reduced as a result of years of high economic growth. Structural economic problems have been addressed, as indicated above, but so-called second-generation reforms must still be

accomplished. These deal with education, health care, and equal administration of the law. Many countries are infested with drug traffic and accompanying violence. Major cities in the hemisphere have become much less safe than they were 20 years ago. There are a variety of reasons for this, from drug traffic to poverty to income inequality.

The presentation thus far has given much emphasis to the hemispheric situation and not enough to the individual situations. To set the economic context for particularization among the countries, Table 1 shows the rates of growth of gross domestic product in selected countries. As this table shows for Latin America generally, 1998 was a modest year, 1999 an awful year, and 2000 holds much promise.

TABLE 1
Selected Latin American Countries: Real GDP Changes
 (Percent)

	1998	1999	2000
Argentina	2.2	-3.0	1.5
Brazil	3.9	-1.0	4.0
Chile	3.4	-0.4	5.5
Columbia	0.6	0.0	2.6
Dominican Republic	7.3	7.0	7.0
Ecuador	0.4	-7.0	1.5
Guatemala	4.9	3.9	4.5
Mexico	4.6	3.7	5.0
Peru	0.7	3.0	5.5
Uruguay	4.5	-2.0	2.5
Venezuela	-0.7	-7.6	1.6
Western Hemisphere Developing Countries	2.2	0.1	3.9

Source: IMF, World Economic Outlook, October 1999, p. 20.

Mexican 1999 figure from Mexican Finance Ministry.

Note: 1999 data preliminary; 2000 data estimated.

Of the major countries, Mexico was the best performer in the economic arena in 1999 and looks set to do well again in 2000. Brazil did not have a good year economically in 1999, even if not as awful as had been anticipated, but looks set to do well this year. Argentina suffered much in 1999 from the problems of Brazil, its neighbor and largest export market, but looks on track to recover modestly this year. The worst performer in 1999 was Venezuela and its prospect for this year, while better (in large part because of high oil prices), is hardly promising. The Dominican Republic is doing well economically and so, too, even if to a lesser extent, is Peru. Chile had an off year in 1999, largely from the fallout of the Asian crisis (the low price of copper based on declining Asian demand), but is on track to achieve its normal growth this year. Table 1 gives the necessary figures.

I will conclude with some recommendations for U.S. policy toward the hemisphere.

1. The United States must engage with Latin America on trade policy. Failing this, there can be no fully constructive and cooperative relationship. This is because hemispheric economic policy has accepted the reality of globalization and 40 percent of the globe for Latin America as a whole, in trade terms, is the United States. Trade engagement means approval of fast-track authority so that negotiations for the Free Trade Area of the Americas (FTAA) can be concluded on schedule in 2005.

It is worth noting that exporters shipping from U.S. soil must now overcome discrimination in Mercosur as compared with the member and associated countries of that grouping, in Chile vis-à-vis Mexico and Canada as well as Mercosur because of their free trade agreements, and potentially with respect to the European Union if it is able to conclude a free trade agreement with Mercosur. The FTAA would correct these deficiencies. We are giving up “our” hemisphere in which our trade prospects are otherwise exceedingly bright. This would be particularly unfortunate if economic recovery in Latin America takes place this year and then continues into the years ahead.

2. I do not believe that countries like Mexico or Colombia can solve their drug problems if we do not make drastic reductions in U.S. demand. Our demand puts too much money in the hands of vicious drug lords for these countries to cope. I do not believe that we can foster cooperation with other countries in the hemisphere by threatening to withhold certification. Most leaders of these countries want to end the drug lawlessness within their borders at least as much as we do. A certification process, if one is wanted, would be more effective if multilateralized, perhaps through the Organization of American States.

3. The U.S. government should continue to make the strengthening of democracy a major policy goal. This is welcomed by the people of the hemisphere. We have wavered on this in the past when despots seemed to offer greater stability, but we now know that destruction of democratic and human rights can not bring about durable stability.

4. Finally, we should give whatever support we can – financial in some cases, moral in all – to hemispheric leaders prepared to undertake the difficult second-generation reforms noted above.

The achievement of these reforms cannot occur peacefully in the absence of sustained economic growth in the hemisphere. Chile has demonstrated that poverty can be reduced when there is economic growth. Meeting budgetary needs for education and health care requires economic growth. High growth does not assure democracy, but stagnation makes democracy impossible. The United States must accept this primacy of economics. We cannot preach open markets if we do not open our market more fully. We cannot expect the kind of reforms we seek unless we carry out our part of the bargain with our hemispheric neighbors.