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The Essentials of U.S. Policy toward Latin America
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President Barack Obama has not yet defined the essentials of U.S. policy toward Latin America despite the painful economic situation in the region brought on by the U.S. financial collapse. The effort to obtain congressional ratification of the Panama free-trade agreement (FTA) has been delayed repeatedly; submission of the Colombia FTA to the Congress is unlikely to precede approval of the Panama agreement; and there is no clear path for resolving the U.S.-Mexico trucking impasse and the Mexican trade retaliation based on that. There is no indication if or when an effort will be made to reinstitute trade promotion authority (fast track).

Gross domestic product is projected to decline in almost every Latin American country this year after about five years of solid growth. Peru may have a small increase in GDP, and that is about it other than Suriname and Guyana.¹ Mexico is expected to have the largest GDP decline in the region – at 7 or more percent, this is more than the GDP fall in 1995, a year of deep depression in Mexico. The GDP fall in Brazil is forecast to be between 2 and 3 percent, much less than in Mexico. One reason is that Brazil's exports are more diversified than Mexico's; in fact, China may replace the United States as Brazil's largest market in 2009.² Economic recovery in Latin America requires an expansion of the region's exports, and the largest single export market for the region as a whole is the United States. Beyond the diddling on trade relations, the "buy-American" feature of U.S. economic stimulus legislation exacerbates the damage inflicted on Latin America.

This decline of Latin American economies leads to less foreign investment in the region. Growing unemployment in the United States has led to a decline in remittances to Latin American countries. Drug-related and other violence in Mexico has stifled tourism to that country. The decline in capital inflows has led to suggestions that the United States provide more aid to the region, either directly or through multilateral development banks (the Inter-American Development Bank and the World Bank); and to some extent

this is taking place. Mexico has taken advantage of the flexible credit facility at the International Monetary Fund, obtaining a line of credit of \$47 billion for short-term use as needed. However, increased foreign aid in any amount likely to be provided is a palliative; it would not provide as much foreign exchange to countries of the region as would a significant increase in exports. Nor is it as durable a source of capital as foreign investment, remittances, and tourism—especially when all these are taken together.

This leads to the conclusion that the most important action the U.S. government can take to help Latin America under current circumstances is to stimulate the U.S. economy. The higher U.S. growth, the greater U.S. imports will be—absent increased U.S. protectionism. The more profitable are U.S. businesses, the more likely they are to invest outside the country. The more economically secure U.S. residents are, the more apt they are to travel outside the country. And the more robust U.S. job creation is, the more likely it is that remittances will turn upward once again.

Latin America's economic policies in the twenty-first century are different from what they were in most of the twentieth century. Until the 1980s, Latin American countries were export pessimists based on the belief that export success would lead to import restrictions in developed countries, especially in the United States. Today, export promotion is a critical aspect of the region's economic policy. Foreign direct investment, once merely tolerated, is now avidly sought. Acceptance of high inflation was the norm for Latin American countries during most of the twentieth century, whereas today even relatively modest inflation is anathema. Fiscal policy is now conservative rather than expansive as it once was. High deficits in the current account of the balance of payments are no longer viewed with indifference. These changes were largely instituted in the 1980s and 1990s and brought positive results in the form of considerable economic growth in the countries of the region for the five years from 2003 to 2007. GDP growth probably would have continued in most regional countries but was thwarted by the financial, credit, and GDP collapse in the United States that spread throughout the world starting in the fall of 2008. Previously, Latin American

¹ This statement is based primarily on data from the Economist Intelligence Unit.

² The figures for January through April 2009 were Brazil exports to China 12.9 percent, U.S. 11.2 percent.

economic problems were largely self-inflicted, but for most of the countries, not this time.

Recommendations continue to be made by regional analysts for U.S. technical assistance to Latin American countries on ways to reduce levels of poverty. However, this too has become largely anachronistic. Mexico and Brazil, the two largest countries, devised their own welfare programs that are more sophisticated than similar programs in the United States. Indeed, Mexico's welfare program (Progresas, now called Oportunidades) that focuses on income, food, and health care, has been emulated in U.S. cities and states. Latin American countries are no longer indifferent to high levels of poverty in their midst. Consequently, the most important ingredient of poverty reduction in the region is consistent economic growth over many years.

Income inequality remains high in Latin America, and it has been growing in the United States as well. Both the Organization for Economic Cooperation and Development and the World Bank have shown empirically that pre-tax inequality is similar in Latin America and Western Europe but becomes considerably less unequal on an after-tax basis in Europe – but not in Latin America. U.S. tax policy, by contrast, deepened income inequality during the eight years of the George W. Bush administration. The United States may not be the best country for giving advice to Latin America on how to deal with inequality.

Policy shortfalls in the region stem largely from internal political problems, such as Mexico's inability to make structural changes, or Brazil's uncertainty about presidential succession, or Colombia's guerrilla problems. Officials responsible for carrying out financial and economic policy in key Latin American countries, such as Brazil, Mexico, Colombia, and Peru, are highly qualified both by education and experience. They do not need lectures from U.S. officials about fiscal policy, monetary matters, exchange rates and dealing with poverty. Criticism from U.S. sources of economic policy in countries where this is deficient – Venezuela, Bolivia, Ecuador, and Argentina – tend only to invite counter-criticism of U.S. policies. The best posture for the U.S. government in dealing with Latin America is to demonstrate by its actions that the United States is sincere in wanting to help countries of the region. To repeat: the two main actions are to stimulate the U.S. economy to the extent needed to return to GDP growth; and to avoid protectionism, which may actually have become more difficult because of congressional pressure for local employment stimulation.

Philosophically, the U.S. government must give up a common practice of the past of giving unsolicited advice. For example, the U.S. government long urged Latin American countries to reduce their import barriers; they have done this to a great extent, only to be met by U.S. protectionism as manifested in "buy-American" practices by the federal and state

governments and such actions as deliberately violating the trucking provisions of the North American Free Trade Agreement. The Washington Consensus, among other actions, called on Latin American countries to reduce fiscal deficits; they have done this only to witness the large increase in U.S. budget deficits. The Latin American countries were urged to deal with the large deficits in their balance of payments; they have, even as U.S. current account deficits soared.

What is being advocated is not a policy of benign neglect, but rather of treating Latin American countries without the condescension that typified the past. U.S. technical advice on maximizing energy efficiency and protecting the environment would be most welcome—such as through the transfer of technology if and when it is developed for making ethanol from cellulosic, nonfood material and how to best manage carbon capture and sequestration. Cooperation in financing infrastructure development in and among the three countries of North America would improve the region's international competitiveness.

Old habits die hard. It has taken bankruptcy to convince what was once the "big three" U.S. automotive manufacturers to stop basing their profitability on producing large gas guzzlers. It took a dramatic financial and economic collapse to recognize the potential costs of near complete financial deregulation. It will be hard for U.S. officials to stop treating Latin American leaders as too uninformed to understand their own economic interests. Most Latin American leaders understand that U.S. well-being benefits them by providing a large market and capital flows to the region, just as we now recognize that regional economic growth is the most important variable in determining our potential to export goods and services to Latin America.³ It's time for old habits to give way to current verities in pursuing regional interactions.

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³ In using the word "most," I had in mind the gift that President Hugo Chávez of Venezuela gave to President Barack Obama, Eduardo Galeano's 1971 book *Open Veins of Latin America: Five Centuries of Pillage of a Continent*, whose thesis is that the United States became rich by keeping Latin American countries poor. Chávez assumes that the thinking exemplified in the book is applicable to what exists in this continent today.