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Situation in Latin America—Year-end 2009

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The political differences among the countries in Latin America are profound, and this reality is perhaps the most important political commentary to make at year-end 2009. Countries of the region are more apt to learn from each other in the economic field.

Based on the public statements of their leaders, Venezuela, Bolivia, Ecuador, and Nicaragua are intent on reducing U.S. influence in the hemisphere. On the other hand, Chile, Mexico, Peru, and Colombia have warm relations with the United States; the United States has free trade agreements (FTAs) with the first three. The FTA with Colombia has been concluded but not approved—a situation that Colombian leadership finds hard to understand, as I learned during a recent visit there. The idea of a U.S. FTA with the more politically radical countries is unthinkable, certainly with their present leaders.

Brazil considers itself the leader in South America, and President Lula makes it clear that he wishes to maintain good relations with all other South American governments. He favors formal entry of Venezuela into Mercosur, ostensibly a trade agreement, but in reality a political grouping. Uruguay just elected José Mujica, a former guerrilla leader, as its president, and it is too soon to know what his stance will be as between the different political groupings in Latin America (LA). Argentina seeks good relations with countries in both groupings.

One aspect of the workings of presidential politics has been similar in LA countries with otherwise different political persuasions—namely, for presidents to remain in office beyond their constitutionally designated time. Constitutional changes while he was in office now permit Hugo Chávez of Venezuela to seek endless reelections and Evo Morales of Bolivia apparently contemplates doing the same—potentially to be presidents for life. Presidents Fernando Henrique Cardoso and Luis Inacio Lula de Silva of Brazil obtained constitutional changes to permit one further term each. So did Alvaro Uribe Vélez of Colombia, who is now seeking a second constitutional change that would permit him to run for a third

term. Daniel Ortega of Nicaragua received authority to run for reelection by the country's Supreme Court, which he controls. Néstor Kirchner of Argentina maneuvered to have his wife, Cristina Fernández, succeed him as president, apparently hoping that he, in turn, can succeed her. (Using a more democratic pattern, three recent or current presidents returned to power after a time out of office: Alan García of Peru, Oscar Arias of Costa Rica, and Daniel Ortega of Nicaragua. In Ecuador, Rafael Correa has just been elected to a second term, an unusual phenomenon in the country's recent history.)

Changing the constitution has become a near-routine practice when it comes to presidential politics in LA.¹ This is acceptable under the democratic charter of the Organization of American States (OAS). By contrast, when the Honduran army removed President Manuel Zelaya and took him out of the country, with the approval of the Honduran Supreme Court because of Zelaya's own proposed constitutional violations, this was condemned as undemocratic by all the other countries of the OAS. One must know the rules of what is democratically permissible in LA—even how to remain democratically legitimate as the constitution is changed to permit lifetime presidency.

It took many decades for LA to move away from bad economic habits of the last century—large fiscal deficits, loose monetary policy, high inflation, overvalued exchange rates as a consequence of repeated bouts with inflation, export pessimism, import restrictions to favor noncompetitive domestic industries, lack of domestic capital markets, large external debts, crony capitalism, unacceptable levels of corruption, toleration of high levels of poverty, greater income inequality than any other continent, and others. Military dictators were common, and the reforms included negotiating constitutional provisions to limit consecutive years in office. Over time, especially at the end of the twentieth century and

¹ In my view, it is more democratic for presidents to benefit their successors, not themselves, when seeking constitutional change that permits reelection. However, that has not been the pattern in LA.

into the twenty-first century, economic policy changed in order to eliminate almost all of the defects mentioned above.

For persons familiar with earlier LA policies, the economic changes were remarkable. There had been much uniformity among countries during the 1900s—thanks in large part to the widespread adoption of the import-substitution teachings of Raúl Prebisch when he was the head of the Economic Commission for Latin America (ECLAC)—but this did not lead to long-term positive results. There is also much uniformity in today's economic policies—at least in the less radical countries—but the policies are more sophisticated than what existed earlier.

The gross domestic product of LA countries as a whole grew by more than 5 percent a year between 2003 and 2008. Argentina (after a GDP decline of more than 10 percent in 2002), Chile, Colombia, Costa Rica, Peru, and Uruguay led the way in this growth. Brazil's economic advance over these years was satisfactory. Mexico's economic growth was uneven, but annual GDP increases over these years averaged more than 3 percent. The positive economic outcome was made possible by the new economic policies, although abetted by China's large demand for primary commodities, benefiting especially countries like Argentina and Brazil.

The damage to the LA countries from the global financial and credit problems they faced in 2008–2009 was substantial, but less grave than would have been the case without the previous economic policy changes. Data are still preliminary but, for LA as a whole, GDP declined by about 2.5 percent in 2009—unsatisfactory, but not catastrophic. The region-wide data are less useful for analytical purposes than outcomes in specific countries: GDP outcomes in 2009 for Brazil, Peru, Colombia, Argentina, Bolivia, and Uruguay were all better than the LA average. The big loser in LA was Mexico, where GDP in 2009 declined by more than 7 percent; this, of course, brought down the regional average. About 80 percent of Mexican exports are manufactured goods and about 80 percent of Mexican exports are sent to the United States. Mexico's improved economic policies during the good years were overwhelmed by what happened in its northern neighbor in 2008–2009.

According to ECLAC, the effects of the global crisis were transmitted to LA economies in 2009 through four channels: trade, foreign direct investment, commodity prices, and emigrant remittances. All declined in both volume and value terms, substantially so for most LA countries. Poverty in LA had declined during the good years; it rose in 2009. Income distribution improved from 2003 to 2008; valid data for year-end 2009 are not available, but income inequality apparently worsened. Safety nets remain inadequate in LA, despite increases in social spending since the 1990s.

However, one important breakdown did not take place: Arturo C. Porzecanski notes that this may be the first time since LA gained independence in the 1800s that major economic

contraction and financial calamity in industrialized countries did not bring on a wave of financial crises in LA. He ascribes this to the credible fiscal, monetary, and exchange-rate policies put in place during the last few decades.²

LA has gone through waves of different political and economic policies. Because of the abuses of political leadership, including military intervention in many regional countries, rectification took two forms: limiting terms of office (no more Porfirio Diaz's) and ending military dictatorships (no more Augusto Pinochets). The anathema toward military domination of governments persists—a sentiment that goes a long way toward understanding the unanimous rejection of the military role in ousting President Zelaya in Honduras. However, the constitutional provisions in country after country to limit the terms of presidents have failed, and this failure will probably lead to further constitutional changes to permit more reelections—although, one hopes, not to the lifetime term that is possible today in Venezuela and probably will be soon in Bolivia.

The economic policy changes since the 1990s demonstrate that lessons from one country are transferred to other countries of the region. For example, it is important for Mexico to maintain the investment grade of government debt in order to attract the capital that is essential for its future economic growth. Other countries now understand this as well. The LA debt crisis of the 1980s compromised the region's economic growth for almost the full decade, and debt structures have since improved throughout LA. Practically all countries in the region now understand that their well-being requires participation in the global economy, not just in the isolated periphery of Prebisch's time. Their economic gurus now realize that their policies must be sophisticated enough to cope with this reality. Arturo Porzecanski's article makes clear that LA economic policymakers are succeeding in the financial sphere.

**I have been writing and distributing these monthly commentaries for ten years, as the number of this issue indicates. I hope its recipients have enjoyed reading them. My intention is to continue writing them.*

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² Arturo C. Porzecanski, *Latin America: The Missing Financial Crisis* (Washington, D.C.: Economic Commission for Latin America, October 2009).