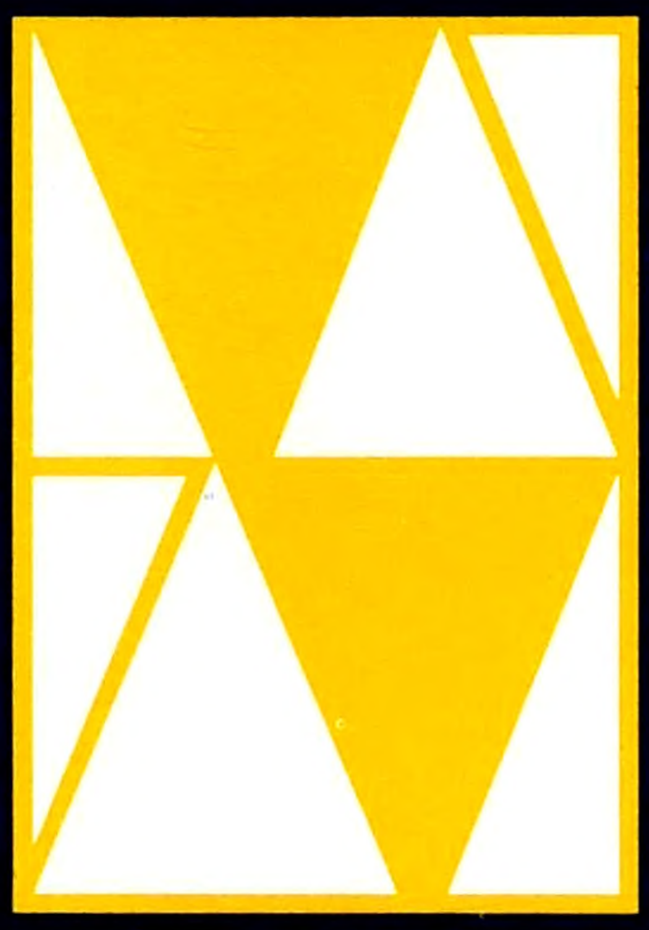

The Americas in a New World

The 1990 Report of the Inter-American Dialogue

The Aspen Institute

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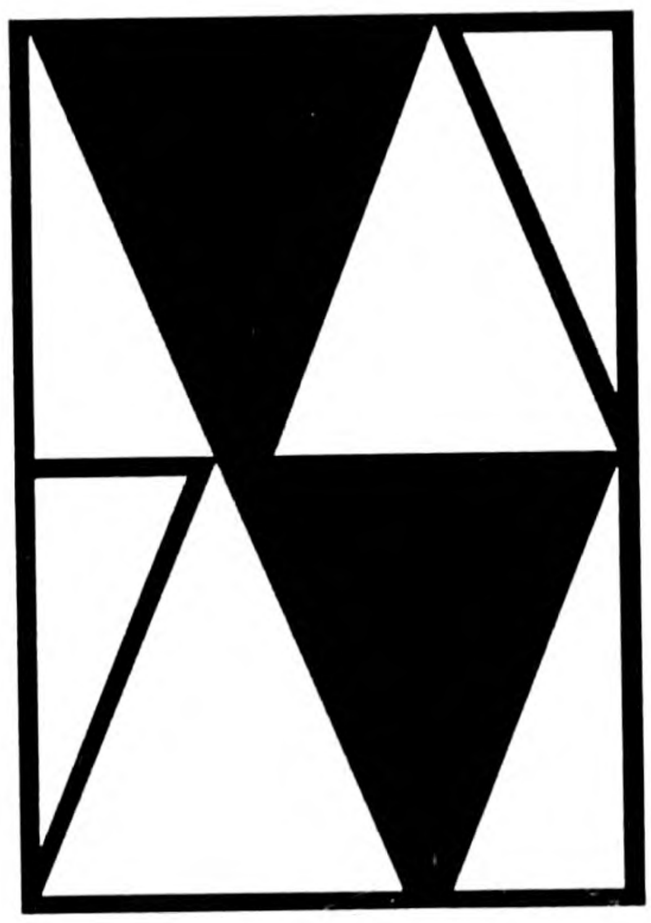

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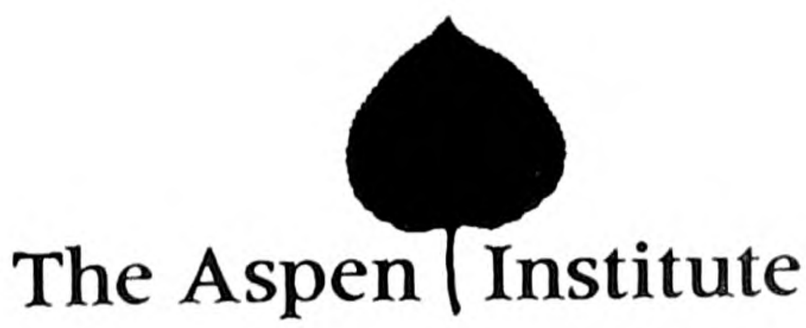
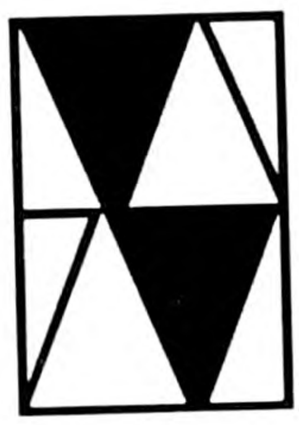


The Inter-American Dialogue
11 Dupont Circle, N.W.
Suite 502
Washington, D.C. 20036

The Aspen Institute
Wye Center, P.O. Box 222
Queenstown, Maryland 21658
Published in the United States of America
in 1990 by The Aspen Institute

Printed in the United States of America

ISBN #0-89843-096-8



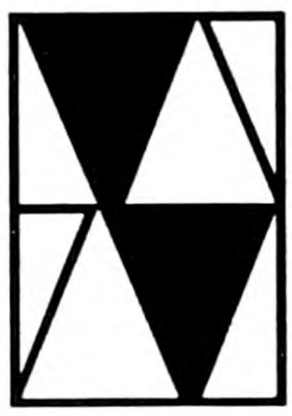
The Inter-American Dialogue

Since 1982, the Inter-American Dialogue has brought together concerned citizens from the United States, Canada, Latin America, and the Caribbean. At a time when the United States and Latin America are confronting the challenges of rapid global and hemispheric change, the Dialogue plays two important roles: it offers a significant non-governmental channel of communication and it provides sustained analysis and specific policy proposals to address key regional problems.

The chairmen of the Dialogue are Sol M. Linowitz, former U.S. Ambassador to the Organization of American States and co-negotiator of the Panama Canal Treaties, and Daniel Oduber, former president of Costa Rica. Other participants include five former presidents; more than a dozen former cabinet officers; and business, labor, academic, media, military, political, and religious leaders. To assure frank discussion, all members participate as individuals, acting in their personal capacities. Persons currently exercising national government responsibility are not invited to join the Dialogue.

The Dialogue has issued five previous reports and met in plenary session seven times. Its executive committee meets several times each year and often offers brief statements on current issues. Members and staff participate actively in public discussion of inter-American issues throughout the hemisphere. Independent and nonpartisan, the Inter-American Dialogue operates under the auspices of The Aspen Institute, with financial support from foundations, international organizations, corporations, and individuals.

Copies of this and previous Dialogue reports can be obtained by contacting the Inter-American Dialogue, 11 Dupont Circle, N.W., Suite 502, Washington, D.C. 20036, (202) 265-5350.



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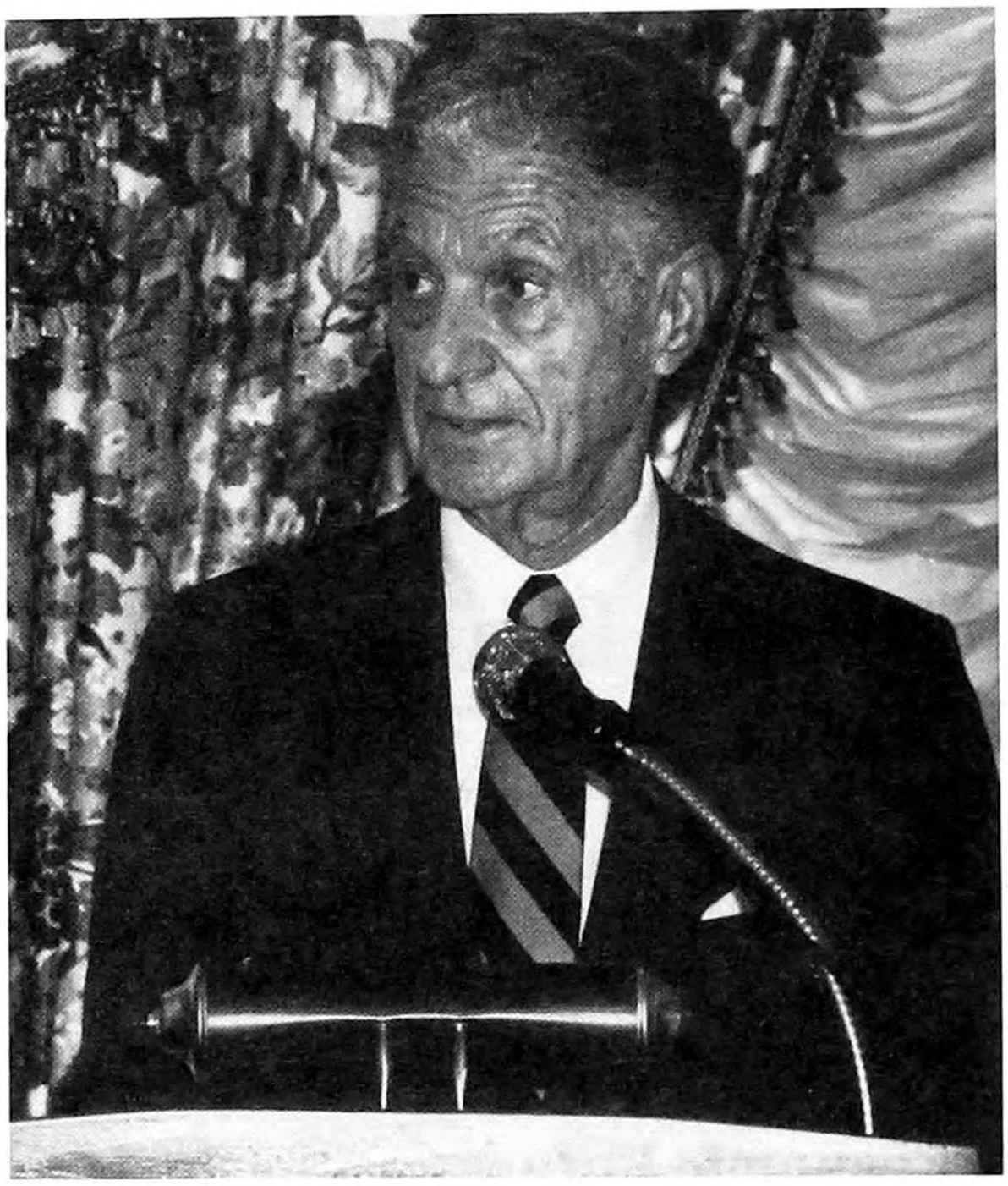

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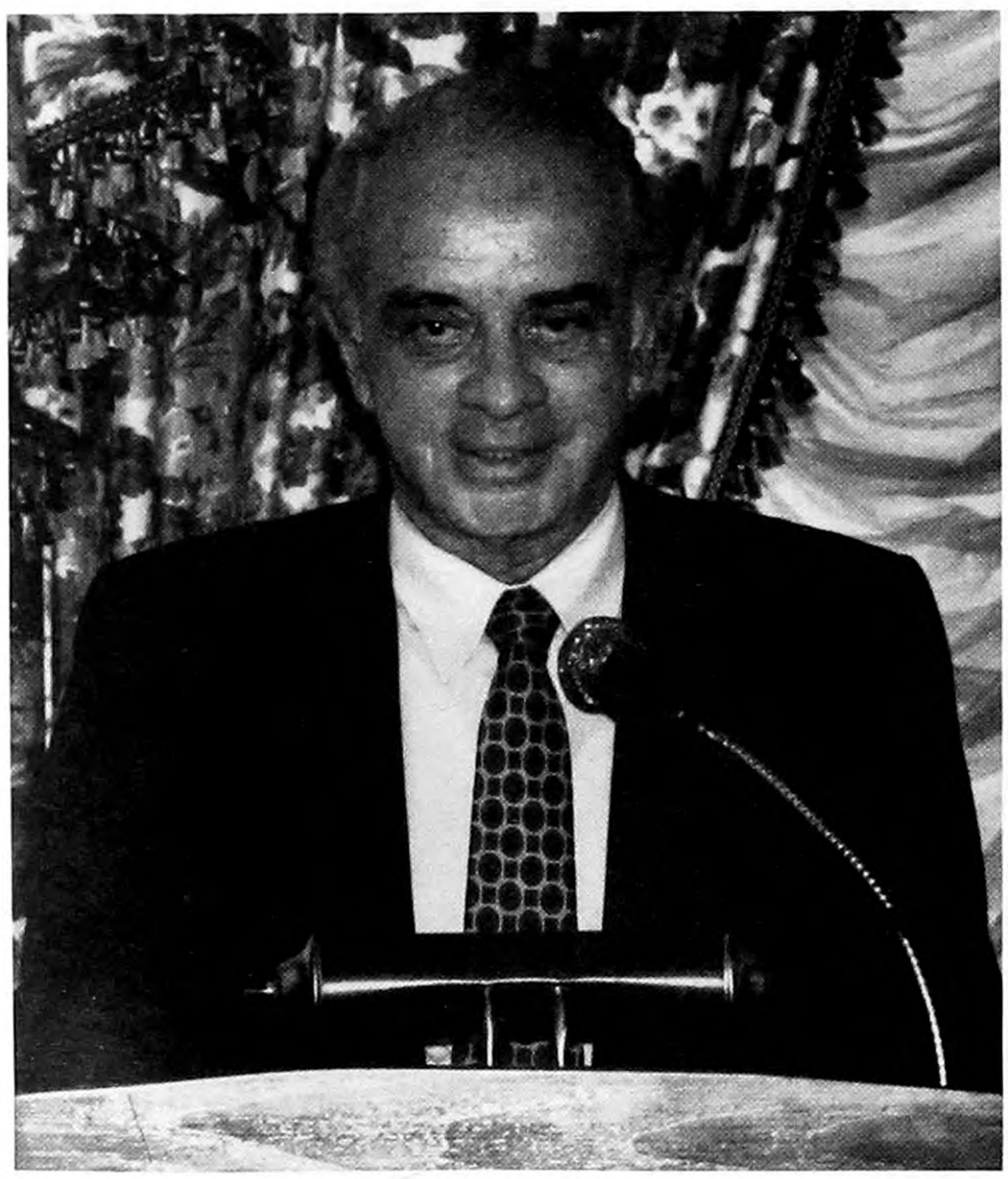

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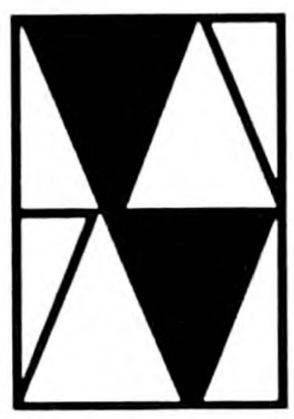


Preface

The Americas face a new and different world in the 1990s. The global transformations of the past two years have been breathtaking. No one, anywhere, anticipated the remarkable magnitude and speed of these changes; nor can anyone yet be sure of their effects on the Western Hemisphere.

There have also been dramatic and unexpected developments within this hemisphere. Political newcomers have assumed power and are reshaping the economies of Brazil and Peru. Traditional populist leaders are championing market economics in Argentina, Ecuador, Bolivia, Venezuela, and Jamaica. The Sandinista Front in Nicaragua and the Pinochet regime in Chile both held free elections and peacefully transferred power to opposition movements. The Mexican and U.S. governments have initiated negotiations toward a free trade agreement. Cuba's ties to the Soviet Union have begun to fray. Canada's national unity is being strained and may be at risk. And the United States has launched its two largest military operations since Vietnam: first in Panama and now in the Persian Gulf.

It is time to take stock—to assess the challenges facing the Americas and to seek new ways of coping with some fundamental problems. This year's report of the Inter-American Dialogue does not focus on concrete recommendations for immediate action. Its main purpose, instead, is to call attention to basic issues and choices that will confront the nations of the Americas in the 1990s.

The 1980s were marked by conflict and controversy in the hemisphere. The United States and Latin America clashed over such issues as the Malvinas–Falklands war, the civil strife in Central America, the debt crisis, and drug trafficking. Now, as we begin a new decade, a common hemispheric agenda—for the United States, Canada, and the nations of Latin America and the Caribbean—appears achievable. Across the Americas, we see a growing convergence of values and interests that span political, economic, and security matters:

- Democracy has come to be accepted throughout the hemisphere as the only legitimate way to gain and exercise power. Popularly-elected presidents now hold office in nearly every country of Latin America and the Caribbean. In the entire hemisphere, only Cuba now openly rejects democracy.

- A gathering hemispheric consensus on economic issues was highlighted both by President Bush's announcement of the Enterprise for the Americas Initiative and by the positive response the Initiative has received throughout Latin America and the Caribbean. The region's governments are working hard to promote exports and attract foreign investment; they are reforming their economies, easing protectionist barriers, and lifting restrictions on foreign investment.

- Central America's wars are no longer a focal point of inter-American relations. Nicaragua's war is over, and the Contra army has largely been disbanded. Government and guerrilla violence persists in El Salvador and Guatemala, but there are hopeful signs that U.N.-mediated negotiations may yet achieve peace settlements.

- Multilateral cooperation is being strengthened in the Americas. Canada has become a full member of the Organization of American States, and Washington has begun to restore funding for the Organization. Latin American nations are collaborating more extensively among themselves. Efforts at subregional integration are gaining ground in the Andean region, the English-speaking Caribbean, Central America, and the Southern Cone.

This is no time for complacency, however. The encouraging advances toward hemispheric consensus and cooperation should not mask the continuing problems confronting the Americas.

First, most of Latin America's economies remain profoundly troubled. Poverty is growing; per capita income in the region continues to decline; staggering rates of inflation and unemployment plague many countries; and the region is desperately short of investment capital. Broad agreement on the need for market-oriented reforms to tackle the region's economic ills should not obscure the difficult choices that still must be faced in every country. Private initiatives must be allowed to flourish, but effec-

tive government action is needed to revamp tax and expenditure policies, improve the quality of public services, promote equity, and invest in essential infrastructure. Crucial decisions must be made about how to manage burdensome debt obligations, stimulate trade and foreign investment, and halt environmental destruction.

Second, despite the impressive trend toward democratic rule in the Americas, the hard truth is that democracy is on trial today in many nations. Democratically-elected governments are being debilitated by economic crisis, the continuing weakness of representative institutions, political and criminal violence, and, most of all, by an erosion of public confidence.

Third, there are still a number of unresolved conflicts in U.S.–Latin American relations. Many Americans, North and South, were troubled by the U.S. invasion of Panama and are disturbed by the continuing active role of the U.S. military in that country. Concerns also exist about the possibility of intervention elsewhere in the hemisphere. Cooperative approaches to such problems as drugs, environmental destruction, and illegal migration now seem increasingly possible, but each of these issues remains a potential source of friction.

Hemispheric cooperation will not by itself do much to restore economic dynamism to the Americas, promote social justice and greater equality, protect the environment, or consolidate fragile democratic rule. These challenges can only be met by sustained national efforts. But, as the sources of regional conflict diminish, there is now the opportunity for each country, and the Americas as a whole, to focus on these complex problems, to work together to forge lasting solutions, and to do so in ways that are mutually reinforcing.

Our report is a group statement. Not every signer agrees fully with every phrase in the text, but all affirm that the document reflects the consensus of the Dialogue's participants. Except as noted by individual statements, each of the members endorses the report's overall content and tone and supports its principal recommendations. We all subscribe to the ideas presented as individuals, not as representatives of any government or other institution.

The two of us have worked together for many years. During a period of accelerated change worldwide, we are encouraged by the opportunities that are emerging for constructively recasting Western Hemisphere relations and framing cooperative approaches to our many shared

problems. If those opportunities are understood and grasped, we believe that real progress is possible.

Sol M. Linowitz
Daniel Oduber
Co-Chairmen
December 6, 1990

* * * * *

Acknowledgments

In preparing this document, we have drawn on the discussion at our plenary session in July 1990 and on working group meetings, informal discussion among our members and staff, commissioned research, and the advice of specialists from throughout the hemisphere and beyond. Winston Fritsch, Gustavo Gorriti, Nora Lustig, Gregory F. Treverton, and Laurence Whitehead prepared major papers for our deliberations. We are grateful to them and to the many other experts who drafted background materials, commented on our ongoing work, and participated in our meetings.

We owe particular thanks to Peter D. Bell and Rodrigo Botero, the Dialogue's co-vice chairmen; to the members of the Executive Committee; and to the Dialogue members who chaired or participated in the Dialogue's working groups and task forces.

We also express our appreciation to the Dialogue's staff: Abraham F. Lowenthal of the University of Southern California, part-time executive director; Peter Hakim, full-time staff director; Richard A. Nuccio, senior associate; Susan Smolko, junior associate; Maria Isabel Studer, Galo Plaza fellow; Jennifer Ezell, executive assistant; and Liana Eglitis and Rachel Bunker, administrative assistants. We are grateful to Jill Schuker for her help on communications, to Alan Tonelson and Pam Constable for editorial assistance, and to Marge Fitzgerald and Tina Gallop for administrative support. We also appreciate the cooperation of The Aspen Institute, under whose auspices the Dialogue operates.

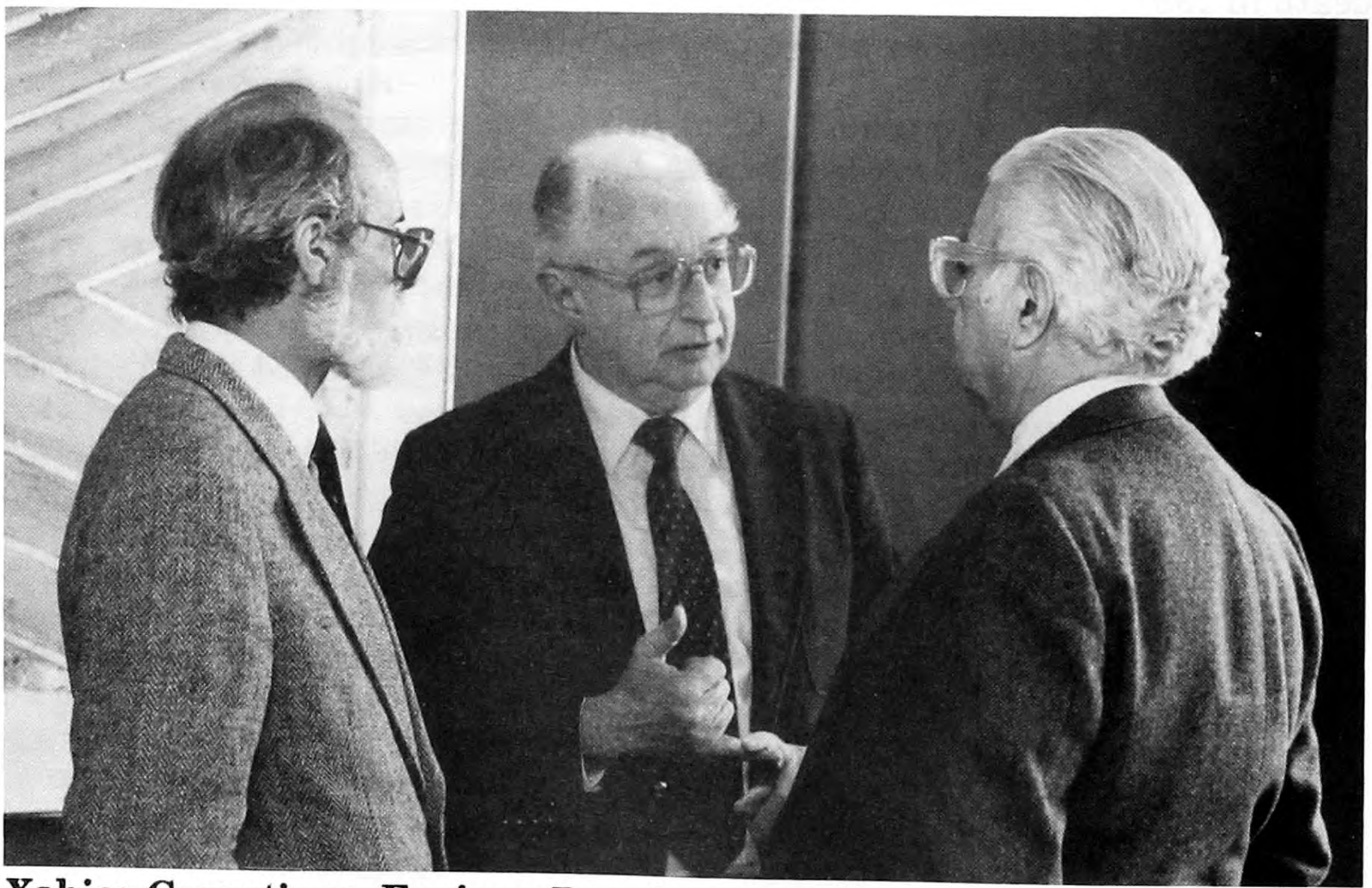
We thank Deputy Secretary of State Lawrence Eagleburger for delivering the keynote address at the opening of our plenary session and Ambassador Patricio Silva of Chile for generously hosting the reception following our meeting. We are indebted to the many ambassadors and other government officials who contributed their thoughts and suggestions and to staff members of the

World Bank, the Inter-American Development Bank, the Economic Commission on Latin America and the Caribbean, and the Organization of American States who provided advice.

We very much appreciate the major financial support the Dialogue has received from the Ford, William and Flora Hewlett, John D. and Catherine T. MacArthur, and A.W. Mellon Foundations; the Carnegie Corporation of New York; and the Pew Charitable Trusts. We are also grateful for contributions from American Airlines, Banco Economico S.A., Capital Group, Citicorp, *El Nuevo Día*, First Boston International, the Joyce Foundation, Odebrecht S.A., the Safra National Bank of New York, the U.S. Institute of Peace, and many individual donors.

The Dialogue expresses its special gratitude to the Institute for Ibero–American Cooperation of the Spanish Government and to the many individual and corporate contributors from throughout the hemisphere, including more than half the Dialogue members, who have supported the Galo Plaza Fellowship. This award, which brings a young Latin American professional to Washington to work for a year on the Dialogue's staff, has been initiated as a tribute to the former president of Ecuador and Secretary-General of the Organization of American States who served as co-chairman of the Dialogue until his death in 1987.

Raúl Alfonsín and Sergio Bitar



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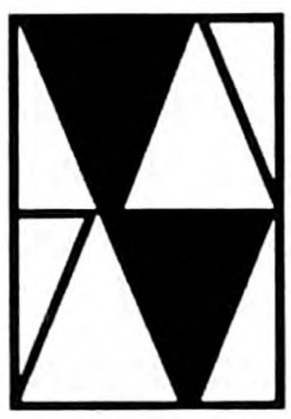

Chapter I

A World in Ferment

We live in a time of stunning change. Throughout the world, surprise has seemed the main constant during the past year. The Soviet Union's turn toward market economics, the break-up of the Soviet bloc, Germany's rush to unification, the legalization of the African National Congress, Iraq's invasion of Kuwait, and the striking international response—all these and other unforeseen events reflect the rapid transformations underway on the global scene.

Five fundamental shifts underlie these events and will affect Latin America and its relations with the United States and Canada in the 1990s:

- The collapse of the old Soviet system,
- The ending of the Cold War,
- The validation of democracy and free markets,
- The multiplication of centers of power, and
- The restructuring of the world economy.

Separating these strands is difficult, for they are closely intertwined. Analyzing how they will evolve is also hard, for there are still many unknowns. But it is surely time to assess how global changes have affected the countries of the Western Hemisphere, focus on what the nations of the Americas can do to take advantage of the new opportunities these changes have opened up, and consider how they can best hedge against the risks.

The Changing Soviet Union

A second revolution has begun in the Soviet Union, built upon *perestroika*, *glasnost*, and "new thinking." It is uncertain today who will eventually lead this revolution, or even how long there will be a "union," but there is no doubt that a radical process has been unleashed.

At home, Mikhail Gorbachev and a new generation of national and local officials are committed to undoing much of the past seventy years of Soviet history. Markets have

begun to displace bureaucratic controls, prices to substitute for fiat, and competitive elections to replace party dictates. Long-suppressed frustrations have been released, giving rise to unprecedented debate and self-criticism within the country, but also to ethnic and national movements and to widespread alienation and unrest.

The Soviet world role is being recast. The post-war confrontation between the Soviet Union and the West in central Europe has ended, with broad implications for all of Europe and also for U.S. and Soviet alliances, military strategies, and defense budgets. By its withdrawal from Afghanistan and its diplomacy in Asia, Africa, the Middle East, and Central America, Moscow has shown a desire both to limit its overseas political and military involvements and to resolve regional conflicts, lest they damage central relationships. Facing dramatic challenges at home, the Soviet Union is giving priority to improving relations with the industrial nations and advanced developing countries.

In almost any imaginable scenario, the Soviet Union will be a different and indeed a considerably smaller factor in Western Hemisphere affairs during this decade than in the previous two

In almost any imaginable scenario, the Soviet Union will be a different and indeed a considerably smaller factor in Western Hemisphere affairs during this decade than in the previous two. During the 1970s and '80s, Soviet ambitions and activities in Latin America may have been less than U.S. policy-makers perceived, but Moscow did probe for openings to expand its influence in the Americas. Such efforts have sharply declined and are likely to remain low for the foreseeable future.

If the Soviet economy eventually recovers and the Soviet Union holds together, at least loosely, it may become a somewhat more important diplomatic and trading partner for several Latin American countries, but its influence in this hemisphere will be limited. Moscow will have neither the drive for ideological or military adventure, nor the wherewithal for substantial economic projection in Latin America and other developing regions. If successful, the current reforms would stimulate popular demands in the Soviet Union for more consumer goods and meaningful political participation—and these demands should further limit the Soviet interest in costly foreign involvements.

As its role in the Persian Gulf crisis portends, the Soviet Union is beginning to fashion new alliances. It will likely stand with other industrial countries, not with developing nations, on some issues, including the law of the seas, environment, arms proliferation, and perhaps even trade. The success of Soviet economic reforms, moreover, would be a mixed blessing for Latin America. Argentina's export of food to the Soviet Union could de-

cline as Soviet agriculture becomes more productive, for instance. Conversely, a healthier Soviet economy would eventually offer some Latin American countries new export prospects.

If the Soviet reforms should fail, the fallout could be dangerous for the Soviet Union, its neighbors, and even world peace. But such a failure would probably not have much immediate effect on Latin America. It would imply a Soviet Union that is internally preoccupied, with a reduced capacity for external initiative. Only the coming to power in Moscow of a group committed to worldwide revolutionary struggle could seriously threaten Latin America, and that contingency now seems most unlikely.

Soviet policy toward Latin America does not turn entirely, in any event, on whether *perestroika* succeeds or fails. In either case, Soviet involvement in Nicaragua and El Salvador is bound to decrease in the 1990s, as is the Soviet presence in Cuba. Soviet attention will concentrate instead on economic opportunities offered by such nations as Argentina, Chile, Mexico, and especially Brazil. Moscow's priorities in the Western Hemisphere will no longer be shaped by its rivalry with the United States.

Cuba stands to lose the most from shifting Soviet policies. Most eastern and central European states are already aligning against Cuba in the United Nations and curtailing established trade links with Havana. The Soviet Union itself has not broken politically with Cuba, but its decisions to conduct much more of its trade with Cuba on a hard currency basis, to reduce oil exports, and to cut foreign aid are already hurting the Cuban economy. As Moscow decentralizes its economy, Cuba will have to deal directly with individual Soviet enterprises on a quasi-commercial basis, not just negotiate government-to-government agreements. As a result, Havana's terms of economic exchange are likely to deteriorate further. With bread lines in Moscow, it is increasingly difficult for Soviet officials to justify concessions to Cuba.

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The Soviet Union does not seem ready, however, to abandon Cuba or to undermine Fidel Castro. Moscow's political stake in the Cuban connection is still high; many Soviet officials apparently believe that openly betraying such a high-profile ally would further erode the Soviet Union's international stature. Moscow's military and intelligence relations with Cuba have residual utility, as some Kremlin officials probably continue to emphasize. And Cuba's economic burden on the Soviet Union is not as great as is commonly believed. Two-thirds of what the Soviet Union exports to Cuba are inferior goods that could

not be sold easily on the world market. For now, Moscow obviously reckons that support at about the current level is still justified. Even if Cuban–Soviet relations do not change dramatically or soon, however, they are likely to become more contentious over time.

With its Soviet sponsor in retreat, Cuba is no longer regarded as a serious threat by most Latin American governments. Havana's economic shortcomings and the persistence there of a personal dictatorship—in stark contrast to the hemispheric shift toward free market economics and democratic politics—have left Cuba the odd man out. Isolated politically, Cuba in the 1990s appears more interested in improving its relations with the rest of Latin America and the Caribbean than in sponsoring revolutionary movements—although the possibility of renewed Cuban support for insurgencies or terrorist activities cannot be dismissed.

The Ending of the Cold War

It is hard to break the hold of the Cold War framework on our thinking. Yet many of the key premises that have governed world affairs since World War II are no longer valid. The end of the Cold War is reshaping international relations:

- Regional conflicts that were embroiled in the superpower competition—Afghanistan, Angola, and Central America—are now winding down. Yet events in the Middle East and the Gulf remind us that other conflicts may be harder to contain as local powers defer less to erstwhile superpower patrons. Diminished superpower influence, along with the proliferation of armaments, may together lead to more armed conflict among and within intermediate and smaller nations.

- Economic competition and exchange are displacing military rivalry as the main arena of international conflict. There is now a tension, thus far unresolved, between the growing interdependence of the world economy, on the one hand, and competing national policies, often still tinged with mercantilism, on the other. Three centers of economic dynamism are emerging: in North America, Western Europe, and East Asia. Managing the politics of economic relations among and within these centers is at the heart of international affairs.

- The handling of the Gulf crisis and the Cambodia and Namibia negotiations hint that effective multilateral cooperation may become more feasible in the post-Cold War world. The United Nations and other institutions of international governance could gain vitality in the 1990s on issues ranging from conflict resolution and trade promotion to public health and environmental protection—although if collective sanctions were to fail in the Gulf, that could dash the new enthusiasm for multilateralism.

Effective multilateral cooperation may become more feasible in the post-Cold War world

- The foreign policy agenda is changing, in the United States and other major countries, away from classic issues of military security and strategy toward "intermestic" questions, combining international and domestic components, that must be addressed both at home and abroad. The reduction of East–West tensions may permit the United States, in particular, to focus more attention on its domestic problems: drugs, crime, a failing education system, faltering industries, decaying cities, worsening income distribution, homelessness, fiscal deficits, and the need for economic rejuvenation. Although the United States remains preeminent internationally, its stature will decline if these internal issues are not resolved.

All of these broad global changes will affect the Western Hemisphere, but in complex and sometimes countervailing ways:

- The Central American struggles, fueled in the 1980s by the Cold War conflict, have quieted in some respects. The insurgents in El Salvador and Guatemala, however, may still escalate the violence again, despite the changes in Soviet policy, especially if Washington's interest in these countries fades. International detente and stronger multilateral institutions may facilitate reducing Latin American military expenditures, although unresolved border disputes and other tensions within the region could become more dangerous as the common extra-hemispheric security threat disappears. Armed conflicts in other regions will affect Latin American and Caribbean countries, but not all or always in the same way. The Gulf crisis, for example, benefits oil-exporters but damages most other nations.

- Although such calculations are not entirely reliable, the sudden rise in petroleum prices has apparently

provided an exchange windfall in 1990 of over $10 billion for seven regional oil producers—with the lion's share going to Venezuela, Mexico, Ecuador, and Colombia—but at a cost of some $3 billion for Brazil, Argentina, Chile, Uruguay, and the Caribbean and Central American nations. If the price of petroleum were to stabilize at around $25 a barrel, these vulnerable, oil-importing economies could pay out an additional $6 to $7 billion over the next two years.

- The decreased Soviet role in Latin America removes the main asserted reason for past U.S. covert or military intervention in the region. At the same time, however, one of the constraints on such intervention has also diminished, since the United States no longer faces the prospect of a Soviet reaction either in Latin America or elsewhere in the world. Some fear that Washington may now be tempted to intervene with force for such purposes as combating drugs or promoting human rights and democracy. They interpret the unilateral U.S. invasion of Panama as a straw in the wind, and they are also concerned about the extraterritorial enforcement of U.S. drug laws and the pressure to deploy more U.S. military advisors in the anti-narcotics campaign.

- The decline in U.S.–Soviet competition will allow some Latin American countries to feel freer to diversify their international relationships and perhaps to seek expanded relations with the Soviet Union and other powers. The removal of any perceived Soviet threat in the Americas could ultimately foster some of the Latin American ties that Moscow for so many years wished to cultivate, although now with a very different form and meaning.

- Even if the United States were to devote less attention to international political affairs overall, U.S. concern with Latin America should rise, for the domestic problems of the United States will increasingly be affected by Latin America's proximity and presence. On such issues as trade, immigration, narcotics, and the environment, Latin America's importance to the United States is growing. The result could be either intensified conflict or enhanced cooperation.

On such issues as trade, immigration, narcotics, and the environment, Latin America's importance to the United States is growing

In sum, the end of the Cold War is breaking up the mold of global politics. For the Western Hemisphere, the 1920s

and '30s—when the United States was but one of several powers with a significant political, economic, and cultural presence in Latin America—may be suggestive of the future. Although the United States will remain the most powerful external influence in Latin America, Latin American nations have themselves become more assertive and are acting with greater independence. International alignments will be more flexible, and the space for new political movements in Latin America and the Caribbean will be greater.

The Validation of Democracy and Markets

The widespread validation of participatory politics and free market economics is related to, but distinct from, the waning of the Cold War. From Argentina to Poland, one party rule and centralized economies have been discredited, while the value of free elections and open markets has been affirmed. The ideological attraction of communism and authoritarian socialism has faded around the world as their central tenets have been rejected, even in the Soviet Union itself. The command economy has failed, and the very notion of dictatorship—of whatever stripe—has become illegitimate.

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Only one generation ago, democratic norms were often rejected in Latin America, by both the Left and the Right. But now democratic institutions and practices, particularly free and competitive elections, are almost universally hailed. Electoral defeats have been accepted, even by regimes evidently reluctant to relinquish power, as in Chile and Nicaragua. Democratic politics in many countries are still incomplete or under siege, as Chapter IV argues, but the appeal of the basic democratic idea is undeniable in Latin America today.

The recent spread of free market economics in Latin America has been almost as pervasive, but its hold is less secure. In country after country, as Chapter II underscores, governments—and often opposition movements as well—are committed to reducing the state's role in production, shrinking bloated bureaucracies, curbing regulations and red tape, and harnessing the energies of private enterprise.

But the appeal of neo-liberal economics in Latin America should not be exaggerated. The democratic resurgence in Latin America did not imply an outright rejection of a strong state role in the economy, as it has in eastern and central Europe. Although public enterprises are now

But the appeal of neo-liberal economics in Latin America should not be exaggerated

widely discredited in Latin America, calls are intensifying for effective government actions to promote economic and social justice, foster growth, and strengthen international competitiveness. The current round of liberal economic reforms may not take hold in Latin America, for they clash with populist traditions that still enjoy considerable electoral appeal.

Whereas national self-determination was defined in eastern and central Europe as anti-Soviet and anti-communist, the United States remains the external point of reference for nationalism in Latin America. Liberal economic approaches promoted by the United States are vulnerable to nationalist backlash, especially when the immediate price of these approaches is painful austerity. Foreign investment may re-emerge as a bone of contention, for instance. Some in Latin America are troubled by debt swaps that allow foreigners, at bargain prices, to buy up more and more of the national patrimony—just as it disturbs many in the United States to see key industries and prime real estate acquired by Japanese and European investors.

Indeed, unless free market approaches effectively address the persistent problems of debt, stagnation, poverty, and inequality, they could lose domestic support and be rejected. The pendulum in Latin America is not likely to swing back all the way to the populist policies of the past, for resource constraints—as well as pragmatic judgments about what works and what does not—will temper old ideological impulses. But continuing economic troubles will surely spur demands for alternatives to today's orthodoxy. History has by no means ended in Latin America.

The Multiplication of Centers of Power

Neither the United States nor the Soviet Union remains an unchallenged "superpower." As the Soviet Union faces a deepening crisis, its impressive military strength is less relevant. Although the United States is still the world's most powerful single nation militarily, it now seeks economic assistance from others to carry out a military operation. The very term "superpower" has an anachronistic ring. Instead, the world seems to be moving toward the diffusion of power, particularly to Europe and East Asia, where economies are dynamic and political influence is rising.

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Western Europe has been growing apace. The enhanced economic integration of the European Community

by late 1992 promises to create the world's most productive economic unit and its largest market. Western Europe looms as an ever stronger presence in world affairs—and as a pole of attraction for the nations of central and eastern Europe.

Japan, too, has become an economic powerhouse. Having accumulated reserves and assets at a remarkable rate, it is now the world's largest creditor and the largest donor of official development assistance. Other East Asian countries are among the world's fastest growing economies, and their progress will give Asia added weight. This will be all the more so in the event—unlikely in the short run but more possible in the next century—that China effectively mobilizes its vast resources.

There is much speculation today that Western Europe's integration, coupled with its opening to the east, will damage Latin America and, conversely, that East Asia's economic expansion will help the region. Neither proposition is necessarily correct, however.

The European Community's projected economic integration, exciting as it is for the countries involved, probably will not change European–Latin American relations very much

Europe's tangible importance for most of Latin America—the Caribbean excepted—has been small and diminishing in recent years. Latin America's share of the European Community's trade fell in the 1980s from nearly 8 percent to about 5 percent. The share of Latin American exports going to Europe declined by about one-third, from over 30 percent to about 20 percent. The European Community's projected economic integration, exciting as it is for the countries involved, probably will not change European–Latin American relations very much. Even if Europe after 1992 were to become more protectionist, that should be offset, for most Latin American countries, by the increased demand that a larger European market will generate.

A frequently-expressed concern in Latin America today is that Europe will divert aid and investment from the Western Hemisphere to eastern and central Europe. In truth, however, Latin America has not been a major recipient of European capital in recent years, so that any diversion, if it occurs, cannot be great. Latin America will have to compete with eastern and central Europe for investment capital, but that competition will ultimately turn largely on which nations are best at making the required economic adjustments, a competition in which some Latin American countries should do well.

The opening of eastern and central Europe could also have some favorable economic consequences for Latin America. The desire to persuade European creditors to forgive Poland's debt, for example, may have helped to

convince the U.S. government to reduce Latin America's official obligations. The former Warsaw Pact nations could make common cause with Latin America on some international economic issues. Over the longer run, if the countries of eastern and central Europe begin to grow economically, they could become a market for Latin American exports. All these potential effects, positive and negative, are likely to be modest, however.

Japan's international role will probably continue to expand in the 1990s. The country's trade surplus, its increased development aid, and its burgeoning investments around the world all will give Japan enhanced influence, as will its more active participation in multilateral financial institutions. Japanese leaders, even the most international-minded among them, are somewhat uncertain, if not apprehensive, about their country's global power, but no one doubts that Tokyo is one of the world's most important capitals.

Whether Japan will focus much attention on Latin America in the 1990s remains to be seen

Whether Japan will focus much attention on Latin America in the 1990s remains to be seen. The path that Latin American presidents and even presidents-elect take to Tokyo is by now well-trodden, but any expansion of Japan's involvement in Latin America is likely to be cautious and selective.

Japan has been quietly present in Latin America for some time. Brazil particularly, but also Peru and Mexico, have absorbed large numbers of Japanese immigrants; about one million Japanese descendants live in Latin America today. Japanese firms have invested for many years in Latin America's natural resource sector, as part of a continuing global effort to secure stable sources of raw materials. During the 1970s, Japan's investment in and trade with Latin America grew steadily—multiplying many times over the decade—though that growth slowed and then virtually stopped during the 1980s in response to the region's downturn.

Japan's financial and investment stake in Latin America today is significant: $32 billion in direct investment and $40 billion in bank debt.* But Japanese investment has not been growing for some time. In the past five years, Japanese firms have shown strong interest only in Mexico and Chile. Like their counterparts elsewhere, Japanese investors have seen Latin America as mostly unstable and problem-ridden.

* Some of the Japanese "investment" consists of Panamanian registry for ships and other assets that are not truly in the Western Hemisphere, but Japanese commercial bank exposure in Latin America is real and now tops that of either U.S. or European commercial banks.

In the 1990s, Japanese firms may expand their presence in Mexico and in the Caribbean nations to take advantage of their special market access to the United States. With its immense resources, large internal markets, and substantial *nisei* population, Brazil could also be an area of special interest to Japan, if and when it resumes economic growth. But Tokyo is not likely to have much direct economic involvement elsewhere in Latin America until the region resumes a high rate of growth. Japan has a long-term strategic interest in Latin America's recovery because of the region's potential as a direct market—and, perhaps more importantly, as an area where the United States could expand its exports and thus reduce global imbalances and relieve protectionist pressures that would otherwise affect Japan. These long-term interests are unlikely, however, to drive immediate policy choices.

Because Japan's government conceives of its relationship with Latin America mainly in the context of its primary (indeed overwhelming) interest in the United States, Tokyo may be prepared to respond to special U.S. pleas for assistance in the Western Hemisphere. At Washington's behest, Japan has sent economic missions to Panama and Nicaragua and promised to support reconstruction efforts there. Further collaboration may take place, for instance, to fund alternative crops in the coca-growing regions of the Andean nations.

Although cooperating closely now, Japan and the United States may clash on some Western Hemisphere issues in the future, possibly to the benefit of Latin America. There will be intensifying competition between U.S. and Japanese firms for Latin American markets and for specific investment opportunities. Some Latin American countries may be able to play off Japanese and U.S. suitors against each other. As Japan assumes a role in international financial institutions commensurate with its wealth, it may well temper the current free-market approaches, for Tokyo has relied heavily on industrial policy and selective trade barriers.

Japan may in time become something of a counterweight to U.S. influence, but it will not replace the United States as the region's primary international partner in the 1990s. Japan's main importance, for the foreseeable future, will be as a source of capital for those Latin American countries best able to compete in the international economy. Japan is much more relevant to Latin America's future than it used to be, but the Japanese connection is no panacea for the region's problems.

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The Restructured Global Economy

The international economy has been transformed since World War II from a series of loosely connected national markets to an increasingly interdependent world order. The driving force has been technology, which revolutionized communications, transportation, management, and marketing.

It would be hard to exaggerate the dramatic technological breakthroughs of recent years. Microelectronics, telematics, biotechnology, and space exploration have all made extraordinary advances. These have led, in turn, to robotics, fiber optics, a dazzling array of synthetic materials, "downsizing," and vast improvements in communications.

These changes have also sparked organizational innovations: computer-assisted design and manufacture, fully automated assembly lines, total quality control, shortened product life-cycles, global sourcing, containerized shipping, and "just-in-time" inventory management. Instant communication has made possible the integration of world financial markets, with enormous sums flowing across international boundaries in a matter of seconds.

The global integration of markets for capital, goods, and labor has been driven by the ever more complex strategies of transnational corporations. Through "global sourcing," or the expansion of international production networks, such corporations have successfully merged their capital and technology with low-cost labor on a world scale. Furthermore, through the formation of strategic alliances among rival firms from different countries, transnational corporations have strengthened their grip on key markets. These trends make it less useful to think about economics in strictly national or even in regional terms.

Latin America's role as an exporter of raw materials and as a source of unskilled labor has made it extremely vulnerable in a world of synthetics and automation. On the other hand, a number of countries have successfully found profitable places in international production networks

Although the countries of Latin America and the Caribbean have been profoundly affected by these tightening patterns of international economic integration, it is still too soon to gauge the full impact of these changes. Latin America's role as an exporter of raw materials and as a source of unskilled labor has made it extremely vulnerable in a world of synthetics and automation. In the 1980s, the real prices of commodities, which account for 70 percent of Latin America's total exports, fell back to the level of the 1950s. The prospects for the 1990s, with a few exceptions like oil, are equally bleak. On the other hand, a number of countries have successfully found profitable places in international production networks. Today's challenge is to capitalize on these competitive niches in ways that are

beneficial to both domestic populations and foreign investors. This is a basic motive for Latin America's current economic reforms.

Most Latin American nations have adopted externally-oriented economic strategies that call for dismantling import protection, devaluing currencies, and encouraging foreign investment. But they have done so at a time when import growth in the industrialized world is slowing, pressures for protectionism are rising, and competition for investment capital is heating. Foreign direct investment has been overwhelmingly concentrated in the major industrial nations in recent years, while the flows to developing countries, aside from East Asia, have declined, most dramatically in Latin America and the Caribbean. During the 1980s, the region's share of foreign investment flows to developing areas fell drastically, and much of the available capital went into services or tax havens.

Labor-intensive export processing zones in northern Mexico and some of the Caribbean islands, targeted at the U.S. market, did attract increased investment in the 1980s. Unless a North American Free Trade Area becomes a reality, however, these zones have limited scope for further expansion as manufacturers look to lower-wage countries and as new protectionist barriers loom. The Caribbean Basin Initiative, for example, has not produced major gains for the region, in part because of U.S. protection against some of the Caribbean's most competitive exports, including textiles and sugar.

The international deck sometimes seems stacked against Latin American recovery. Painful economic adjustments have not yet restored growth to most countries in the region. Many in Latin America are now concerned that the "lost decade" of the 1980s could turn into a generation of regional decline. Some have talked of Latin America's "Africanization," of the region becoming ever more peripheral in a world where the dynamism of the central economies leaves the less developed countries ever further behind.

The international deck sometimes seems stacked against Latin American recovery. But, the global diffusion of production and the provision of services could be turned to Latin America's advantage

But this bleak picture of Latin America's economic marginalization is incomplete and misleading. Latin America as a whole is not inevitably doomed to fall farther behind other regions. On the contrary, the 1990s could be years of opportunity for Latin America, if wise policy choices are made and implemented.

The global diffusion of production and the provision of services could be turned to Latin America's advantage. The region has abundant resources, a considerable (if deteriorating) infrastructure, technological capacity, sig-

nificant management expertise, a large supply of skilled labor, and relative political stability and social cohesion. Latin America's stagnation during the 1980s did not cancel out the legacy of two previous generations of progress and development.

A few Latin American countries—Chile, Mexico, Colombia, and Brazil, for example—have been able to build on past achievements to carve out and upgrade sectors of competitive advantage. To differing degrees, most other Latin American nations have the potential to insert themselves successfully into the restructured global economy, but they must adopt, sustain, and reinforce appropriate policies.

For some countries, new combinations of the factors of production offer special opportunities. Data processing, for example, requires highly skilled technicians overseeing large numbers of unskilled workers, and the Caribbean islands typically have available both kinds of labor. Other Latin American countries have captured export niches by producing components for motor vehicles, electronic appliances, computers, and pharmaceuticals. In a few cases, such as Argentina and Brazil, the expansion of domestic markets through subregional integration may provide a basis for economic progress. In others, especially in the Caribbean Basin, closer economic integration with North America is the likely path to economic advance. All countries must face the crucial test of adapting to a restructured global economy.

Coping with a World in Ferment

Rapid global change is likely to continue. At one blow, for example, the Gulf crisis has turned expectations of modest increases in world oil prices into guesses about how high the price might go, at least in the short run.

The nations of the hemisphere must reckon with the prospect of other shocks as well. Armed conflict is possible, not just in the Gulf, but in South Asia or eastern Europe —and perhaps within the Soviet Union itself. A recession in the industrial world, perhaps a deep one, seems predictable, if it has not already begun. Ecological setbacks must also be anticipated.

In such uncertain circumstances, caution is surely to be advised. We cannot offer a precise formula to help the Americas deal with today's international transformations. But we can suggest general guidelines for coping with a world in flux.

First, the most important step for each country of the Americas, the United States included, is to put its own economic house in order. This would be necessary even if there had been no Gorbachev, no Gulf crisis, or no Europe 1992. Global economic competition can reward all countries, but the world of the 1990s and beyond will penalize those nations that pursue autarchic policies or that do not muster enough fiscal discipline to generate investment and promote competitiveness.

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Second, the implications of the changes are very different for specific nations and subregions of the hemisphere. For instance, the second revolution in the Soviet Union bears most directly on Cuba, Nicaragua, and El Salvador, and to a lesser extent on other nations where the Soviet Union has been involved, such as Peru, Argentina, and Chile. It will, however, have only a limited impact on the rest of the Americas. Events in the Gulf, through their effect on energy prices, have separated those countries that produce oil from those that do not. Geography and immigration give Mexico and the Caribbean very special relationships with the United States, for better or worse. They benefit or suffer far more than the rest of Latin America from the condition of the U.S. economy. Mexico's interest in a free trade agreement, a stunning reversal of Mexican tradition, reflects the growing interconnection between the two economies.

Third, although the economic differences among Latin American and Caribbean countries call for different policy responses, groups of nations in the hemisphere could benefit from enhanced cooperation. Some of these groupings will be small and their progress toward collaboration may be fitful. But it is time to nurture the stirrings toward regional integration in the Southern Cone, the renewed energy of the Caribbean Community and of the Central American Common Market, and the groping of Latin America's oil producers toward greater cooperation.

Fourth, these trends have made it easier for all Americans, North and South, to understand their shared interests. The Enterprise for the Americas Initiative, announced by President George Bush in June 1990, is far short of a blueprint for Western Hemisphere economic cooperation. But it is a welcome recognition that the countries of the hemisphere could gain a great deal from free trade and expanded economic exchange. The Latin American response suggests how far the region has come from import-substituting, inwardly-oriented economic strategies, and ingrained suspicion of the United States. Canada's entry into the Organization of American States

signals that country's acceptance, too, of the need for Western Hemisphere cooperation.

As the countries of the Americas move toward collaborative ventures in a rapidly changing world, they confront some difficult choices:

The Enterprise for the Americas Initiative is a welcome recognition that the countries of the hemisphere could gain a great deal from free trade and expanded economic exchange

- In an increasingly global economy, they have to consider what kinds of regional and subregional economic arrangements make most sense, how best to build toward those arrangements, and how to foster the necessary economic adjustments in each country.

- Although there may be less to be gained than many suppose, Latin American and Caribbean countries must devise concrete measures to enable them to benefit to the extent possible from the reforms underway in the formerly socialist nations and from the dynamic economic expansion of Europe and Japan.

- The nations of the hemisphere must find ways to strengthen regional institutions to deal effectively with the new agenda of issues in the 1990s, including trade, energy, the environment, drugs, immigration, poverty, equity, and public health.

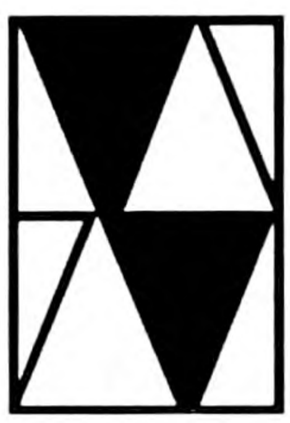
- Many stubborn problems from the 1980s must still be addressed. Concerted efforts are required to end the civil war in El Salvador, foster national reconciliation in Nicaragua, and reestablish viable sovereignty in Panama. There is also an urgent need to reduce inordinate military expenditures throughout the Americas. The continuing tension between the hemispheric norm of non-intervention and the shared commitments to democracy and human rights must be addressed.

- Cuba should no longer be treated as a mere corollary of U.S.–Soviet relations. The nations of the Americas should assess together how best to encourage change in Cuba and eventually to reintegrate the country into the hemispheric community.

The countries of the Western Hemisphere truly face a new world in the 1990s. Although the full impact of the many global changes that have taken place is still uncertain, it is clear that international politics and economics have been fundamentally transformed. The world today is less predictable than ever, but it is also plainly more open,

competitive, and closely interconnected and is likely to become ever more so. The United States, Canada, and the nations of Latin America and the Caribbean must each respond in its own way, according to its own needs, interests, and capabilities. But there are also new opportunities for cooperation to address our many common problems.

Deputy Secretary of State Lawrence Eagleburger addresses Dialogue Plenary Session, June 29, 1990



Chapter II

Latin America's Economic Future: The Crucial Choices

The 1980s were a time of economic failure for Latin America. Since the debt crisis struck in 1982, the region has been mired in depression, its deepest and most prolonged ever. Per capita income has fallen by more than 10 percent for the region as a whole, and some countries have fared much worse—for example, Peru and Argentina, where per capita income has plunged 25 percent. In only two countries, Chile and Colombia, have living standards improved over the past ten years and, in both, by very small amounts.

The cumulative effects of eight years of depression now pose severe obstacles to economic recovery and renewed growth.

- Latin America's debt burdens are enormous. Its aggregate debt today is $410 billion, nearly $100 billion greater than in 1982. Each year, Latin America pays out about $25 billion more in interest and principal than it obtains in new loans. That net outflow —amounting to 3 percent of the region's total output and more than 20 percent of its exports—deprives Latin American countries of the resources needed for investment and crucial imports. It also keeps budget deficits high, fuels inflation, and saps investor confidence.

- Record levels of inflation plague many countries. Average inflation neared 1000 percent for Latin America in 1989, more than 10 times higher than in 1982. Four countries—Brazil, Argentina, Peru, and Nicaragua—have been battling hyperinflation. Only Mexico, Costa Rica, and Bolivia have substantially reduced inflation from 1982 levels.

- Eight years of low investment—averaging some 16 percent of Gross Domestic Product (GDP) compared to 22 percent during the 1970s—have left Latin American industry with deteriorated physical plants,

outdated technologies, and a lagging ability to compete internationally.

- More people than ever are trapped in poverty. Unemployment and underdevelopment are widespread in nearly every country. Wages have deteriorated badly, by 50 percent or more in some places. The quality of housing, medical care, and education has steadily worsened. Crime rates have surged. Life has gotten much harder in Latin America, and women and young children are suffering most.

Life has gotten much harder in Latin America

- All these economic ills have produced a devastating loss of confidence. Large numbers of people from all classes are leaving the region. Few countries are able to attract foreign investment, while domestic capital flight continues to drain resources. In country after country, economic distress has eroded the credibility of national leaders and reduced their capacity to govern.

The Road to Recovery

It has become clear what must be done to address Latin America's economic trauma and restore growth to the region's economies. Most countries, even those headed by presidents who once championed populist-style policies, are struggling to reshape their development strategies in three crucial ways.

First, governments are taking action to curtail budget deficits and bring inflation under control. In nearly every country, authorities are cutting and redirecting expenditures and revamping tax systems to generate greater revenue.

Second, countries are turning away from inward-oriented development schemes and, instead, emphasizing exports. Most governments are trying to keep their exchange rates competitive and lifting restrictions on trade and foreign investment.

Third, governments are reducing their involvement in the production of goods and services and in the regulation of economic activity. New emphasis is being given to competitive markets and private enterprise.

But these market-oriented reforms are by no means universally welcome or easily implemented. They inevitably cause painful economic dislocations. And they provoke the resistance of organized workers who face job losses and lower wages; owners of businesses who stand

to lose state subsidies, cheap credit, and tax breaks; and civil servants whose jobs and influence are endangered. Even though they have not been able to win many elections in the past few years, those opposed to market reforms retain considerable popular support.

As the conversion to markets and private enterprise proceeds throughout Latin America, intense debate and conflicts persist over the magnitude of the changes required, as well as over their pace and timing. Every government faces hard choices in four critical areas: how to manage outstanding debts, how to expand trade and foreign investment, how far to go in privatizing state enterprises and deregulating economic activity, and how to confront growing poverty and inequality.

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Debt Management

External debt frustrates Latin America's recovery in several ways. Interest payments siphon away resources needed for investment, social expenditures, and imports vital for production. Those payments also place a heavy strain on government budgets—adding to internal debt and feeding inflationary pressures. Excessive debt is a prime source of economic instability and uncertainty, keeping governments uncreditworthy and frightening away investors.

Latin American countries have three basic options for dealing with their debt problems.

First, they can seek to reduce their commercial debt burdens by taking advantage of the U.S. debt-reduction proposals put forth by Treasury Secretary Nicholas Brady. Three countries—Mexico, Venezuela, and Costa Rica—have so far qualified for relief under the Brady Plan. The pace of debt reduction has been slow, however, and it has been limited to countries whose economies are performing relatively well. Negotiated debt reduction is not yet an option for those countries in greatest distress. Moreover, the amount of debt relief that has been provided may not be adequate for recovery.

A second option is reserved for the region's strongest economic performers—probably only Chile and Colombia. These countries could choose to forego any formal debt-reduction agreements, continue to pay interest, and try to trim their debt burdens through debt-equity swaps and direct repurchasing. This route is costly in the short run, but it may allow the countries to restore creditworthiness and renew access to voluntary bank lending. So far, how-

ever, there has been no sign that significant lending will become available any time soon.

The third option—to which most Latin American countries are now resorting—is unilaterally to reduce or halt interest payments to commercial banks, either through ad-hoc moratoria or debt payment ceilings. Some fifteen countries have fallen into arrears, including Brazil and Argentina, which together now owe more than $15 billion in unpaid interest.

Withholding interest payments does provide large and immediate relief—but it is only a stopgap measure, not a sustainable solution. It merely postpones the day of reckoning. Mounting arrears invariably undermine business confidence and discourage investment. Outright default may even be worse; the penalties—including the prospective loss of trade credits, possible legal sanctions, and a further loss of investor confidence—are sufficiently threatening that no country has yet chosen that route.

Latin America's debt problems are difficult to resolve. But the challenge is not impossible. The Brady Plan was an important step in the right direction; it now needs to be implemented more flexibly so that adequate debt relief is extended to every country that actively pursues an economic reform program under International Monetary Fund (IMF) or World Bank aegis. The World Bank and IMF should be called on to establish debt-reduction targets and mediate debt negotiations between the commercial banks and the debtor nations. If Latin America's feeblest economies are ever to recover, most of their commercial debt will have to be forgiven—and their loans from multilateral institutions rescheduled. It is also imperative that the U.S. Administration promptly carry out its proposal to write off some of its own loans and that other industrial nations offer similar relief.

If Latin America's feeblest economies are ever to recover, most of their commercial debt will have to be forgiven

Debt relief—no matter how prompt or generous—will not by itself restore growth to Latin America. It must be accompanied by and conditioned on sustained economic policy reform, including measures to spur domestic savings, expand trade, and attract foreign investment.

Policy Toward Trade and Foreign Investment

Nearly every Latin American country is now striving hard to bolster exports and draw investment from overseas. This is a remarkable turnabout

Nearly every Latin American country is now striving hard to bolster exports and draw investment from overseas. This is a remarkable turnabout for a region that once emphasized industrial development to serve domestic

markets and imposed numerous restrictions on foreign investment. That strategy had to be financed by heavy external borrowing, and it left the region deeply indebted and ill-equipped to compete in world markets.

Yet, despite their considerable efforts, few Latin American countries have been thus far able to exploit expanding world trade opportunities. The region's exports currently amount to little more than 3 percent of the world's total, down from 5 percent in 1980 and nearly 8 percent 20 years earlier. With exports accounting for less than 15 percent of the region's income, compared to about 40 percent for the developing countries of Asia, Latin America has enormous potential for expanding export earnings. By systematically promoting trade, for example, Chile has managed in recent years to increase its exports from 14 to nearly 35 percent of its total production.

With exports accounting for less than 15 percent of the region's income, compared to about 40 percent for the developing countries of Asia, Latin America has enormous potential for expanding export earnings

To compete in international markets, Latin America must diversify and upgrade the products it sells abroad. Over the past eight years, the region has increased its export volume by nearly 60 percent. Revenues, however, have grown by less than 25 percent because Latin America has mainly exported products in which international trade is static and protectionist barriers abound.

Trade and foreign investment go hand-in-hand. International corporations provide more than investment capital; they offer access to global marketing networks, new forms of industrial organization, and advanced technologies. At the same time, trade-promoting policies are often key to attracting overseas investors, who increasingly look to Latin America (as well as other low-wage areas) as manufacturing sites for export-oriented industries.

There is no single prescription for expanding trade and generating investment that will fit all of Latin America's diverse economies. At a time of intense world competition for capital and markets, however, two basic requirements must be met. First, countries must maintain competitive exchange rates—and most are now doing so, recognizing that overvalued currencies reduce the profitability of exports and discourage production for overseas markets.

The second requirement is trade liberalization—the opening of domestic markets to imports by decreasing tariff and non-tariff protection. Imports of machinery, intermediate goods, and raw materials are essential for export production; trade restrictions raise the price of these imports, making exports more costly and less competitive. Import barriers also increase profits in domestic markets, thus dampening incentives for export sales. Lowering those barriers fosters greater competition from

imports which should, in turn, increase the quality and productivity of domestic industries, and thereby make them more competitive internationally.

Every Latin American government now faces decisions regarding the pace and degree of trade liberalization. Lifting import restrictions too rapidly can cause a flood of imports and provoke severe balance of payments problems or overwhelm the capacity of domestic industries to respond. Clearly, trade barriers must be relaxed. But each country has to decide how long domestic industries should be given to adjust to external competition and how much protection new enterprises require to establish themselves.

Many countries are now taking two key steps toward trade liberalization: they are replacing administrative controls on imports with tariffs and reducing the level of those tariffs. The choice they now confront is whether to adopt uniformly low tariffs on all their imports—which, in principle, allows a country to exploit most fully its export potential—or whether to proceed more selectively, in effect using trade policy to advance the growth of certain industries.

The selective approach calls for differentiated tariff heights to protect those industries considered particularly important for a country's future growth and competitiveness. Tariff barriers have helped to promote industrial development in many of the world's most vibrant economies. This does not mean they will work in Latin America. There is the risk that protected industries will lose their competitive edge—and ultimately be less productive and efficient than their unprotected counterparts.

Trade liberalization should enable Latin America to compete more effectively in international markets. But the region's export drive could just as well be blunted by unfavorable international developments

Trade liberalization should increase the productivity of agriculture and industry in Latin America, attract more overseas investment, and strengthen access to new technology—all enabling the region to compete more effectively in international markets. But Latin America's export drive could just as well be blunted by unfavorable international developments—a prospect that has become far more threatening as a result of the crisis in the Middle East.

A prolonged slowdown of growth in the United States, Europe, or Japan—or the imposition of more restrictive trade barriers by those countries—would shrink Latin America's markets and reduce the availability of investment capital. Every 1 percent increase in international interest rates would raise Latin America's debt charges by some $4 billion.

By dealing decisively with its fiscal and trade problems, the United States could help to avert these dangers. Just

as Latin American countries have to undertake severe economic adjustments by cutting expenditures, raising tax revenues, and balancing their external accounts—so should the United States. Determined efforts by Washington to bring the U.S. budget deficit under control would significantly improve Latin America's trade and overall economic prospects. The cooperation of Japan and Europe is needed as well to ease current trade and financial imbalances.

Just as Latin American countries have to undertake severe economic adjustments by cutting expenditures, raising tax revenues, and balancing their external accounts—so should the United States

The successful conclusion of the current Uruguay Round of GATT negotiations could significantly boost the region's trade prospects—particularly if the outcome includes a meaningful reduction in industrial countries' farm subsidies and an easing of import restrictions on tropical products. But the deadline for the GATT negotiations is fast approaching, and these and other critical issues have not yet been resolved. A breakdown or suspension of the talks could discredit multilateral trade arrangements and increase protectionist pressures in the United States and other industrial countries—with potentially damaging consequences for virtually all of Latin America's economies, as well as those of the United States and Canada.

Given the uncertain outcome of the GATT negotiations and Latin America's own increasing commitment to trade liberalization, President Bush's announcement of the Enterprise for the Americas Initiative to strengthen hemispheric trade links is particularly timely. Washington has promised to open wide-ranging free trade discussions with individual nations or regional subgroups, develop interim framework agreements on specific trade issues, and consider a significant lowering of barriers to products of special importance to the region. The Initiative, however, is still little more than a set of broad proposals. These must now be given concrete definition and then implemented. Systematic consultations involving all countries of the Americas are now required to shape a new hemispheric trade strategy.

Latin American nations are increasingly pursuing intra-regional integration efforts, reinforcing the broader trend toward trade liberalization. Brazil, Argentina, and Uruguay have taken measures toward economic cooperation—and Chile may soon join them. A reactivation of the Central American Common Market may be in store, and several bilateral arrangements are being negotiated.

There is considerable potential for expanding regional trade. In the 1980s, that trade plummeted by nearly one-third—and today accounts for less than 10 percent of Latin America's exports, down from nearly 18 percent ten years ago. Trade liberalization, combined with specific integra-

tion efforts, would allow for a steady rebuilding of regional trade links. But there are no substitutes for increased Latin American participation in the global economy.

Privatization and Deregulation

Throughout Latin America, governments are selling state enterprises and lifting regulations on private businesses.

The principal aim of privatization is higher productivity. Private owners are presumed to be more efficient, creative, and energetic because they have a direct stake in their firms' profits or losses. In addition, the sale of public enterprises can be a source of revenue and savings for financially strapped governments, particularly when such enterprises are losing money.

Many, if not most, public enterprises in Latin America have been badly managed and plagued by a variety of shortcomings: swollen payrolls, controlled prices, excessive debt, outmoded technology, shoddy production, and poor marketing. Private ownership can turn some poorly managed, money-losing public firms into productive enterprises, but ownership is not always the crucial factor. Many private companies in Latin America are also mismanaged. Some turn a profit for their owners only because they are subsidized and protected against competition.

Privatization will contribute most when it leads to real market competition, when newly private firms are not granted special favors by the state, and when government regulations are not overbearing

Privatization will contribute most when it leads to real market competition, when newly private firms are not granted special favors by the state, and when government regulations are not overbearing.

Indeed, the dismantling of burdensome regulations may well have greater economic impact than privatization. When licensing requirements and other entry restrictions are eliminated, more new firms are likely to be established. Profits and investment are likely to grow when firms can buy inputs and machinery in the cheapest markets; set their own prices, wages, and conditions of employment; and bid on contracts and obtain credit on a non-discriminatory basis.

But deregulation can have its costs as well. Other objectives, like environmental protection or worker safety, may end up being compromised. Economic goals may also suffer, as illustrated by the collapse of most of Chile's major banks in 1982 and the savings and loan crisis in the United States. Some regulations are arbitrary or stifling, while others serve useful economic and social purposes. Each country must distinguish between the two.

Poverty and Inequity

All governments in Latin America must confront the pervasive poverty and profound inequities in their societies. This responsibility was largely neglected in the 1980s. As governments focused most attention on restoring economic stability and growth, poverty became substantially more widespread. Some 180 million people, or two out of every five persons in Latin America, are living in poverty—a sizable increase over the estimated 130 million in 1980.

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Throughout the region, expenditures on health, education, and other social programs have been sharply curtailed; both the quality and quantity of services have declined. Improvements in the health and nutritional status of children have slowed down or ceased in most countries. In some, infant mortality and malnutrition have increased. Primary and secondary school enrollments have fallen in the region.

Basic social justice is reason enough to be concerned about poverty and inequity in Latin America. But the region's sharp income disparities—among the highest in the world—are inconsistent with participatory democracy and threaten political and social stability in some places.

Neglect of the poor can also be costly in strict economic terms; productivity is likely to suffer in economies with poorly educated work forces lacking adequate health care. In addition, when wide gaps exist between rich and poor, social conflict makes it excruciatingly difficult to implement consistent economic policies.

The substantial increase in poverty over the past eight years in Latin America is the result of the region's economic decline. Repairing the damage will take many years. Even with a 5 percent growth rate—very optimistic under current conditions—30 years or more would be needed to lift the poorest 20 percent of Latin Americans out of poverty. Forceful government action will be required to produce faster results.

It is not easy to combat poverty in the midst of depression. The biggest challenge is to make sure that anti-poverty measures are consistent with economic stability and recovery. If such measures provoke inflation or constrain growth, they will reduce wages and employment and impose other burdens on the poor, and thus defeat their purpose. Indeed, foregone growth could offset whatever direct benefits the poor receive through social programs. Morally and politically, it is wrong to postpone the struggle against poverty. But until adequate growth rates are restored, Latin America's emphasis must be on

increasing the effectiveness of existing social programs and raising the productivity of the poor.

Morally and politically, it is wrong to postpone the struggle against poverty

During this period of stringent budgets, government social spending should be revamped so that more resources are funneled directly to the poor. Expenditures on education, for example, can be shifted toward primary schooling and health expenditures reallocated toward preventive care for mothers and children. Such targeting may well confront political resistance from middle and even upper income groups that are excluded. By earmarking significant resources for the poor, bilateral aid agencies and multilateral financial institutions can play a crucial role in initiating, sustaining, and legitimizing targeted social programs.

The poor benefit most immediately from income transfers, whether in the form of food subsidies, unemployment benefits, job programs, or cash. But such transfers should be reserved only for the neediest. The greatest share of social spending should aim at enhancing the productivity of the poor—through investments in health, education, water and sewage systems, and the like or through the provision of credit and technical assistance to small, often informal enterprises that employ the poor. Unlike income transfers, these initiatives can help, not only by reducing poverty, but also by spurring growth.

Finally, measures to reduce population growth are vital. Despite the considerable decline of birth rates in Latin America over the past two decades, the region's population is still growing rapidly, some two and a half times faster than that of the United States and other industrialized countries. This growth exacerbates poverty and retards development. Such initiatives as stepped-up family planning programs, expanded educational and job opportunities for women, and maternal and child health-care measures are essential to any anti-poverty strategy.

The Role of the State

The fundamental issue in Latin America today is the economic role of the state. Nearly every crucial economic choice concerns how and to what extent governments should intervene in national economies

The fundamental issue in Latin America today is the economic role of the state. Nearly every crucial economic choice concerns how and to what extent governments should intervene in national economies. A consensus has emerged that state intervention should be reduced. The questions that now must be faced are by how much, over what time period, and in what sectors—and whether the state should become more active in some areas that present new or special challenges.

The economic downturn of the 1980s provided the basic impetus for a diminished state role. Although triggered by a combination of damaging international events, much of the region's economic reversal can ultimately be traced to inadequate and misdirected government policies—including the dramatic growth of public spending and resulting fiscal deficits; discrimination against exports and foreign investment; and a consistent bias against agriculture. The development strategies of the 1960s and 1970s did produce high rates of growth—but they could be sustained only by massive external borrowing. When interest rates soared, commodity prices dropped, and commercial lending came to a halt in the early 1980s, Latin America's economies fell into crisis.

Yet, the fact that government policy mistakes helped produce the economic downturn of the 1980s by no means implies that all state intervention is wrong. Even as they move to reduce their economic role, governments must act to restore economic stability and establish a climate of confidence for private business. They must take responsibility for reducing and reallocating expenditures and for reforming tax systems. As the state divests itself of economic activities, it must invest more in infrastructure and public services, which are essential to fostering private investment, and take steps to improve education and health. Governments must also become effective regulators of private economic activity. Where private monopolies emerge, in transport or in utilities, for example, they have to be overseen. Financial institutions must be carefully supervised. Air and water pollution need to be controlled.

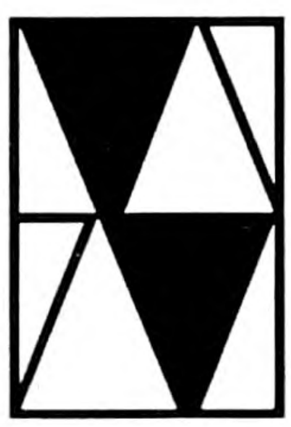
In other words, the state in Latin America must become more effective and competent even as it shrinks in size. Vigorous private sectors will emerge only if governments are able to establish and maintain appropriate policy frameworks. Governments must be strong enough to withstand the pressures of private economic actors, whether these are unions opposing privatization or entrepreneurs seeking special subsidies or other favored treatment. The objective, in short, should not be to strip the state of its economic role. The challenge instead is to redesign and improve that role and to expand and strengthen the contribution of the private sector and the market at the same time.

The objective should not be to strip the state of its economic role. The challenge instead is to improve that role and to strengthen the contribution of the private sector at the same time

No magic formula exists for determining the appropriate extent and limits of the state's role—exactly where the state should yield to the private sector and when it has overstepped its bounds. Each Latin American country

has its own special circumstances, strengths, and weaknesses. Each must develop its own particular answers.

It is hard to be sure in 1990 that Latin America will recover its economic vitality, become a dynamic actor in the world economy, and address the needs of its poor. Many of the forces at play lie outside the region's direct control: a resolution of the debt crisis, stability and growth in the world economy, and open markets and adequate prices for the region's exports. The most important determinants of Latin America's economic future, however, will be the choices that countries make for themselves—and no choice will be more significant than defining the economic role and responsibilities of the state.



Chapter III
The Challenge of Global Warming

The greatest potential threat to the Western Hemisphere's future comes not from the prospects of a clash of arms or the ravages of economic depression. It arises instead from the slow and insidious deterioration of the environment, undramatic in any one year but devastating over time.

The quality of life in the Americas is already being eroded by polluted air and water, the indiscriminate dumping of sewage and hazardous waste, the cutting and burning of forests, the destruction of coastal wetlands, the excessive use of fertilizers and pesticides, the extermination of plant and animal species, and the degradation of soils. Some of the damage that has been done is irreversible, and much of it is accelerating. Generations to come will bear the greatest burden.

Last year, the Dialogue called for urgent attention to these environmental challenges. We noted the international dimensions of ecological destruction but concentrated mainly on the damage being done within each country in the Americas—to the productivity of natural resources, to the health of millions of people, and to the prospects for long-term economic and social development. We proposed specific measures, both modest and far-reaching, to confront dangers that put every country at risk.

A Western Hemisphere initiative on global warming could help spark action worldwide and promote needed inter-American cooperation on other critical environmental challenges

This year, we focus more sharply on one key environmental threat—global warming. Most scientific studies agree that the continuous worldwide emissions of carbon dioxide and other so-called "greenhouse gases" are gradually warming the earth's lower atmosphere. If that warming is not slowed or reversed, all the assumptions about the future are problematic. It is time to think hard about what the countries of this hemisphere can do to prevent a possible ecological catastrophe. A Western Hemisphere initiative on global warming could help spark action worldwide and promote needed inter-American cooperation on other critical environmental challenges.

The Threat of Global Warming

Scientists are still debating many of the basics of global warming: its causes, pace, likely magnitude, and precise consequences. But a strong consensus holds that if projected world patterns of production and consumption are sustained without change, average global temperatures could rise by three to eight degrees Fahrenheit by the middle of the 21st century. It is also widely agreed that a temperature increase of this magnitude could play havoc with the earth's climate. Ocean levels could rise, inundating many coastal areas and displacing urban and rural populations throughout the world. Shifting patterns of temperature and rainfall would produce droughts in some places, losses of agricultural productivity in others, and widespread destruction of forests and wildlife. Such calamities would profoundly affect virtually every country in the world.

The international community, including the nations of this hemisphere, has been slow to respond to the dangers of global warming. The reluctance to act is understandable. The predicted climate changes are still only barely detectable, and the damage will only become apparent many years into the future. The costs of preventive measures are also highly uncertain, but some of the necessary investments clearly would be large and would have to be paid immediately. This combination of substantial short-term costs and uncertain long-term benefits is a classic recipe for policy inertia. Posterity's claim is weak when meeting contemporary demands is so hard.

A significant effort to confront global warming means difficult social and economic adjustments. Greenhouse gas emissions—most of all, the burning of carbon-based fuels—are caused mainly by activities that are central to modern industrial economies and crucial for the economic growth of developing countries. To stem atmospheric warming, fossil-fuel consumption worldwide must be cut sharply. Transportation systems and industrial processes must be revamped and intense efforts made to slow deforestation. These changes will not be easy for any nation to make; the costs involved may be prohibitive to the distressed economies of Latin America.

Global warming, the principal effects of which will not be felt for 30 years or more, seems a distant abstraction when governments are daily battling to control inflation, generate new investment capital, curb high unemployment, and alleviate massive poverty

Most Latin American governments now recognize the importance of environmental protection, and they are focusing on ecological problems that directly and immediately affect economic progress and public health: air and water pollution, sewage and waste disposal, and soil erosion and depletion. Global warming, the principal effects of

which will not be felt for 30 years or more, seems a distant abstraction when governments are daily battling to control inflation, generate new investment capital, curb high unemployment, and alleviate massive poverty.

For its part, the United States is also reluctant to take action on global climate change. Among industrial countries, the United States stands increasingly alone in its insistence on postponing decisions until the scientific evidence is more conclusive about the likely magnitude and impact of global warming. It has refused to join Canada, Japan, and most European countries in pledging to curtail fossil fuel emissions by early in the next century. Facing its own fiscal problems, Washington has thus far balked at endorsing international commitments to reduce the risk of atmospheric warming.

Yet, no concerted international effort to cope with global climate changes will work without the full and active participation of the principal Western Hemisphere nations. The countries of the Americas, with about 12 percent of the world's population, now produce more than one-third of all greenhouse emissions. The United States generates the lion's share—more than half of all emissions in the hemisphere, largely from vehicle exhausts and industrial production. Canada is responsible for almost 6 percent, and the remainder comes from Latin America and the Caribbean, mainly from the clearing and burning of forests.

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Among Latin American nations, Brazil—which now accounts for as much as 25 percent of the world's annual forest destruction—is the largest source of greenhouse gas emissions, although its precise level is in significant dispute. Mexico and Colombia also rank among the twenty largest world producers of greenhouse gases. Latin America's emissions, like those of other developing areas, are expected to rise sharply in the coming years as the region's population continues to expand and as industrial and urban development proceeds.

The United States must assume a central responsibility in any serious international campaign against global warming. As the world's largest producer of goods and services and its greatest consumer of energy, the United States contributes much more to atmospheric warming than any other single nation. Moreover, the United States is still the world's most powerful country; what it says and does about global warming will shape international debate on the issue and influence the actions of many nations.

Acting alone, the United States could, at best, only slow down global warming for several years. A joint inter-

American initiative to control the release of greenhouse gases would have a proportionately larger impact. Truly effective action, however, will require the involvement of all major nations. Indeed, in the absence of a broad international program to confront global warming, no single country or group of countries is likely to act forcefully on its own, lest it be put at a competitive disadvantage. But a Western Hemisphere initiative could be a crucial step toward needed global action.

Hemispheric Cooperation

Environmental destruction anywhere in the hemisphere has regionwide implications. Many environmental hazards other than global warming—air and water contamination, pesticide residues, acid rain, and toxic wastes, for instance—cross national boundaries, and can only be addressed through joint action. Moreover, when ecological deterioration damages a nation's economic prospects, opportunities for trade with that nation are diminished. Environmental destruction often leads to international migration by people who can no longer earn a living in devastated areas. Every country of the Americas has a stake in the environmental practices of every other country.

This is an opportune time for the nations of the Americas to initiate a sustained program of cooperation to address the dangers of global warming and other critical environmental problems. The United States is facing increasing international pressure to act more decisively on global climate change, as are Brazil and several other Latin American countries where rapid deforestation is taking place. The countries of the hemisphere, moreover, are now moving toward cooperation on other shared concerns. The Enterprise for the Americas Initiative, launched by President Bush in June 1990, has opened the way for broader hemispheric cooperation on trade and other economic issues and offers the prospect of significant financing for environmental protection.

Some environmental cooperation is already taking place among neighboring countries in the Americas. The United States has entered into joint programs with both Canada and Mexico to reduce cross-border pollution and to improve the management of common resources like waterways that flow across national frontiers. Some Caribbean islands are working together and with the United States to prevent marine and coastal contamination. Amazon basin countries are developing joint measures to protect the forest.

But so far there has been no effective effort to cooperate on a hemispheric scale. Given its growing international political salience, global warming is an issue around which such broader cooperation could be mobilized. Indeed, tackling global warming will require attention to many other environmental challenges—including air pollution from vehicle exhausts and industrial production, the excessive use of fertilizer, and forest destruction.

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Inter-American cooperation could significantly reinforce national environmental efforts. The enormous scientific and technical resources of the United States and Canada as well as their considerable experience in ecological problem-solving could be tapped by the countries of Latin America to train scientific and technical personnel, to strengthen institutions for environmental research and monitoring, and to devise solutions to their own problems.

Latin American and Caribbean countries could also gain and contribute by sharing their own experiences in confronting environmental problems—and by working together to develop and adopt viable environmental approaches that are consistent with their economic constraints and particular ecological needs. For example, no Latin American country can afford the centralized, capital-intensive methods for handling sewage employed in the United States and Canada. They need to find cheaper alternatives. Similarly, tropical forests must be managed differently than temperate zone forests. Special agricultural techniques are needed to cultivate crops on hillsides and on tropical soils where much of the region's farming is done. No single country in Latin America or the Caribbean has the financial and technical resources to solve these and other shared problems on its own. The nations of the region must work together—and with the United States and Canada—to mount an effective program of action.

It is only through international cooperation that the dangers of climate change can be addressed. Progress toward a hemispheric approach to atmospheric warming could set the stage for the subsequent forging of needed global arrangements.

A crucial stumbling block to such multilateral action is the difficulty of finding a formula acceptable both to the rich industrial countries and to the developing nations. The core impediments involve the nature and extent of responsibilities to be undertaken—and, most of all, who pays the costs. Developing countries insist that they be compensated, at least in part, for the costs of combating global warming. They argue that it is unfair to ask them to sacrifice their economic growth prospects to help combat a

threat that is caused mainly by wasteful production and practices in the industrial countries.

Fashioning an appropriate formula for needed North–South cooperation may now be possible in the hemispheric context. Brazil will be hosting the second United Nations Conference on Environment and Development in June 1992—a follow-up to the first United Nations environment conference held in Stockholm in 1972. The challenge of that meeting is to spur effective action by all countries to confront a broad array of international environmental threats. An inter-American agreement to combat global warming could help to galvanize all participating nations to develop internationally acceptable accords on climate change and other ecological problems.

Taking the Initiative

The United States is today the only nation of the hemisphere, indeed the world, that exercises global influence and responsibility across many fields. Its leadership is essential for any progress toward hemispheric cooperation on global climate issues. Latin American states are too absorbed by their more immediate problems to take the initiative, nor do they have the technical capacity or political clout to do so. It is imperative, however, that the United States work together with Canada and the countries of Latin America and the Caribbean to devise an acceptable program. All the nations of the Americas should have a voice in the design, content, and implementation of any hemispheric environmental initiative, but Washington should begin the process.

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To take the lead, Washington must first demonstrate its own unambiguous resolve to combat global warming. It is crucial that the United States accept the commitments already made by Europe, Canada, and Japan to curtail greenhouse gas emissions. Washington must also offer its own proposals for action. No Latin American government will give serious attention to global warming while the U.S. government remains ambivalent and passive.

Washington should consult actively with the governments of Canada and Latin America on the many dimensions of the global warming threat. The United States could proceed in multiple ways: by urging a special session of the Organization of American States (OAS) to take up the issue; by convening a conference of top environmental officials from each country in the hemisphere; and by working with the Latin American and Caribbean Com-

mission on Environment and Development established by the Inter-American Development Bank and the United Nations Development Fund. The Commission's recent report sets out a broad and useful agenda for environmental action in the region.

Such consultations should aim at establishing a standing inter-American group charged with developing a hemispheric program for cooperative action on global warming and related environmental issues. This inter-American group should coordinate its work closely with the Intergovernmental Panel on Climate Change, the United Nations body assigned to assess the potential impacts of global climate change and develop international responses.

Considerable information already exists on the amount of carbon dioxide and other greenhouse gases produced by most countries of the hemisphere. That information provides a solid basis for initiating cooperative action. But a sustained and effective hemispheric program will still require the continuous collection, compilation, and analyses of relevant data.

As a first step toward cooperation, the countries of the Americas should seek agreement on short-term targets (perhaps for the year 2000) for curtailing greenhouse gas emissions for the hemisphere as a whole and for each country. The setting of such targets should be coordinated with similar efforts being undertaken by the broader international community and reflect the wide disparities among countries—in economic structure, level of development, natural resource endowments, and current emission levels. The United States and Canada will have to agree to reduce their emissions significantly. Some Latin American counties, like Brazil and Mexico, may also have to reduce emissions. Others would be required to stabilize them and still others to reduce the rates of increase.

Once such targets are agreed upon, each country would then have to map out specific policy initiatives to achieve them. Four issues demand special attention:

- **Population programs and policies:** No serious effort to deal with global warming or other ecological problems can avoid the issue of population growth. Policy decisions made now could determine whether the world's population, currently at five billion, will eventually stabilize at eight billion or nearly triple to 14 billion by the middle of the next century. Achieving the smaller number would reduce world carbon dioxide emissions by as much as a complete halt to deforestation.

No serious effort to deal with global warming or other ecological problems can avoid the issue of population growth

Latin America overall has markedly lowered its birth rates in the past two decades, and several countries have already attained or are approaching the low rates of the industrial nations. In many countries of the region, however, birth rates are still very high. Although it would have little short-term impact, a determined effort by all Latin American countries to curtail future population growth is essential to curb greenhouse gas emissions over time and to ease pressures on the environment and natural resources in general. The United States, for its part, must reverse more than a decade-long decline in support for international population and family planning programs.

- **Energy production and use:** Energy production and use worldwide accounts for about three-quarters of carbon dioxide releases and a major share of other greenhouse gas emissions. Canada and the United States, particularly, need to cut fuel consumption; they are currently the least efficient energy users in the industrial world. A combination of closely related energy conservation and efficiency measures will be required: higher energy prices, the introduction of energy-saving technologies, and a switch to fuels containing less carbon. For their part, Latin American countries will have to moderate future increases in energy consumption through many of these same measures. Developing nations are today responsible for only about one-quarter of the world's energy use, but their demands for energy are growing rapidly. Now is the time for them to formulate alternative energy strategies.

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- **Improved natural resource management:** Some 20 to 30 percent of global carbon dioxide emissions result from the destruction of the tropical forests. More than half of that deforestation occurs in twelve developing countries, six of them in Latin America. The settlement and exploitation of undeveloped forest land cannot be fully stopped anywhere. The question is how the transformation that is certain to come can be managed and controlled in ways that are less destructive and more sustainable. Much of the forest depletion now underway represents squandered economic opportunities. Sounder management of forestry resources—including programs of reforestation, the establishment of reserves, and the promotion of community forest projects—would pay handsome dividends, economically as well as environmentally.

The Tropical Forest Action Plan (TFAP) was initiated in 1985 under U.N. auspices to offer an international framework for curtailing tropical forest destruction, promoting the improved use of forest resources, and accelerating reforestation. The TFAP has been criticized on a number of grounds, and it is now being revised and improved. In its reformulated version, the plan should serve as a policy guide for managing Latin American forests.

- **The production of chlorofluorocarbons (CFCs) and halons:** These substances, which are used in refrigeration, air conditioning, fire extinguishers, and some vital electrical components, are the main culprits in the destruction of the ozone layer. Although their concentrations in the atmosphere are small relative to those of carbon dioxide and other greenhouse gases, CFCs and halons may be responsible for as much as 20 to 25 percent of global warming because they are extremely long-lasting and especially potent absorbers of solar radiation.

  The Montreal Protocol—the most complex and far-reaching international environmental agreement negotiated to date—now calls for industrial countries to phase out CFC and halon production by the year 2000; developing countries have until 2010. Latin America is currently responsible for only 5 percent of world CFC production (compared to nearly 30 percent for the United States alone), but its share is increasing. Every Western Hemisphere country should agree to abide by the Montreal Protocol.

Financing a Hemispheric Strategy

Some of the policy measures needed to confront global warming will almost certainly dampen economic growth prospects in Latin America. But others, such as improved forest management, reduced population growth, and energy conservation, should promote sounder long-term economic development. A hemispheric environmental strategy should emphasize policies likely to produce both economic and ecological benefits.

But even those measures that are economically beneficial will cause some near-term economic and social disruptions. Many will require substantial new investments that the already hard-pressed countries of Latin America cannot readily finance. Nor can much direct bilateral

assistance be expected from the United States and Canada beyond that already available and possibly forthcoming from the Enterprise for the Americas Initiative, which proposes "debt-for-nature" swaps. Facing their own budget problems, the U.S. and Canadian governments may well be tempted even to postpone the domestic initiatives needed to curtail their greenhouse gas emissions. Their failure to act now, however, will only produce false economies that are likely to result in far larger future costs.

Even without significant additional financial aid, the United States and Canada could begin to assist Latin America's environmental efforts. The two countries could make a particularly significant contribution by offering scientific and technical support for the development of alternative energy strategies for Latin America. The region's growth will require continuing increases in energy production and use—and, unless practical alternatives are available, Latin American countries will remain dependent on fossil fuels, central power stations, and inefficient electrical grids, all of which are expensive and environmentally-damaging. The United States and Canada could also contribute, at modest cost, by expanding training opportunities for Latin Americans in a range of environmentally-related disciplines and by helping transfer existing technologies for producing CFC substitutes, controlling air pollution, and conserving energy.

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The major source of environmental financing in the near future, however, will be the multilateral banks—the World Bank and the Inter-American Development Bank. Both institutions already invest heavily in energy projects and are expanding funding for natural resource management. Their lending programs importantly influence the choices and strategies of developing countries in these areas; such programs must be made fully consistent with hemispheric and international efforts to stem global warming. Priority should be given to financing energy projects that emphasize conservation, efficiency, and low carbon fuels.

The World Bank is now exploring the possibility of establishing a Global Environment Facility to address worldwide ecological problems, including atmospheric warming. Given the magnitude and urgency of these challenges, this proposed Facility should be generously funded and quickly put into operation.

Over the longer term, other financing mechanisms will have to come into play. A worldwide tax on fossil fuel consumption may be the best way to generate the needed resources. Besides the revenues it would produce, such a

tax would raise the cost of—and thereby reduce the demand for—those fuels mainly responsible for greenhouse gas emissions. It would thus encourage energy conservation and greater reliance on more benign energy sources. The benefits of the tax would be multiplied if a portion of its revenues were transferred to developing countries to finance energy conservation measures and other initiatives to curb global warming. A few European countries have already endorsed such a scheme. The time has come for Japan, the United States, and all European nations, as the world's leading economic powers, to join together in a serious exploration of how a fossil fuel tax could be implemented globally and how the revenues might be allocated.

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Organizing for Action

It is premature to specify the best institutional framework for sustained hemispheric cooperation to confront global warming and other environmental challenges. But some important first steps can be identified.

The nations of the Americas should start by developing a code of environmental conduct. The code would assign some initial obligations to all countries, set forth measures for dispute resolution, and specify the procedures for continuing negotiation on new and increasingly demanding provisions. If work began now, considerable progress could be made toward defining such a code by the opening of the 1992 U.N. environment conference in Brazil.

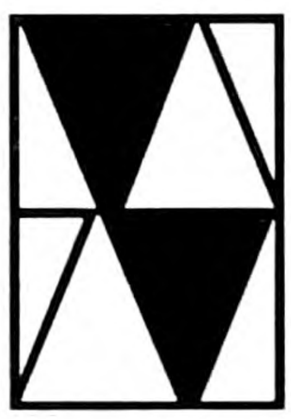
The inter-American community should also consider creating an institution—similar to the Pan American Health Organization or the OAS Inter-American Commission on Human Rights—charged with gathering and analyzing relevant data, providing technical assistance, determining whether countries are complying with their assumed obligations, and investigating and publicizing violations. Such an institution should obviously work closely with the United Nations Environmental Program (under whose auspices it might be established) and the many other international and regional agencies handling environmental issues.

Over the longer term it might be useful to establish an inter-American environmental protection agency that would have standard-setting, regulatory, and enforcement powers similar to those of national environmental agencies. For now, however, few, if any, countries of the hemisphere would agree to cede control over their national resources to such an international body.

Whatever the institutional framework, nongovernmental organizations must be actively involved. These organizations already play a major role throughout the hemisphere by focusing attention on environmental problems, by working at the local, national, and regional levels to promote better environmental policies, and by mobilizing citizen action. They will be a continuing source of new ideas and essential political support—and they can perform the indispensable functions of monitoring government policies and private sector activities affecting the environment.

Whatever the institutional framework, nongovernmental organizations must be actively involved

The nations of the hemisphere cannot, by themselves, avert global climate changes or their consequences. They can, however, contribute to the forging of an international strategy to stop global warming by jointly specifying the steps that they would be prepared to take as part of a broader global accord. A hemispheric compact on climate change would help mobilize agreement among other nations. And it would lay a strong foundation for inter-American cooperation on the full range of critical environmental issues. The longer decisive action to protect the environment is put off, the greater the risks for every country of the hemisphere and the higher the future price they will pay.



Chapter IV

Democracy on Trial

The political advances of the 1980s in Latin America and the Caribbean were as encouraging in their way as the collapse of communist rule in eastern and central Europe. In country after country, military regimes and personalist dictatorships have given way to freely-elected civilian governments.

But democracy in the Americas is still on trial. Fragile democratic institutions are being challenged by political and criminal violence, prolonged economic decline, deep social and economic inequities, and conflicts between military and civilian authorities. The gains of the past decade are not irreversible. In some countries, they are at grave risk.

The Trend Toward Democracy

Latin America's turn toward democracy in the 1980s was real and significant. In the final months of the decade, Brazil held its first direct presidential elections since 1960 and Chile its first since 1970—bringing popularly-elected presidents to office in every country of South America for the first time in a generation. Nicaragua's elections in February 1990 were the most significant in that country's history. At the beginning of 1989, six authoritarian regimes still ruled in Latin America. Only the personalist dictatorship of Fidel Castro in Cuba survives today.

Power in Latin America is now routinely and peacefully transferred from one elected president to another. In recent years, incumbent administrations have yielded office to elected opponents in countries as diverse as Argentina, Bolivia, the Dominican Republic, Ecuador, Peru, and Uruguay—in some cases for the first time in memory. Not since 1928 had one democratically-elected president succeeded another in Argentina. In the face of economic crisis and terrorist threats, Peru has held three consecutive presidential elections for the first time in nearly a century. In economically traumatized Bolivia,

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frequent military coups have given way to periodic elections. Indeed, in the past fifteen years, no freely chosen government has been overthrown by force in Latin America.

Even where elections were flawed, important democratic gains have been registered. Although the balloting was marred by charges of fraud, Mexico held its most competitive presidential election in more than a generation in 1988, and the Mexican public made clear its demand for meaningful electoral contests. Despite major restrictions on participation in some countries, elections have come to be accepted as the only legitimate route to office in Central America. Elections in Paraguay—called after a military coup ended Alfredo Stroessner's 36 years of dictatorial rule—were organized too hastily to be fully competitive, but they still allowed opposition parties to campaign, express dissent, and begin mobilizing support. General Manuel Antonio Noriega nullified Panama's national elections, but his doing so only underscored the massive repudiation of his regime. For five years since the downfall of the Duvalier family dynasty, the military in Haiti have blocked free elections, but prospects are now promising that an internationally supervised presidential vote will soon be held.

No longer is it commonly asserted that Latin America is somehow predisposed toward authoritarian rule—or that its culture is inherently anti-democratic. Year by year, Latin America is demonstrating its commitment to the fundamental democratic ideal—that government authority must derive from the uncoerced consent of the majority, tested regularly through fully competitive and broadly participatory elections.

The Challenges to Democracy

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Costa Rica, Jamaica, Venezuela, and some of the smaller Caribbean countries are the region's healthiest democracies. All of them have enjoyed uninterrupted democratic rule for more than a generation. They have strong political and civic institutions, respect human rights, and civilian authorities exercise firm control over the armed forces. The prospects for sustaining democracy are also promising in Chile and Uruguay. Although they suffered years of military rule in the 1970s and 1980s and

unsettling remnants from that period persist, the two countries boast long democratic traditions and solid representative institutions.

Elsewhere in the region, however, democracy is troubled—in some places, deeply so. In a few countries, the political opening has stopped at the ballot box. Repeated elections have not led to a significant expansion of fundamental freedoms or rights, nor have they increased public participation in political life or the accountability of governments to their citizens.

Direct military takeovers are no longer the primary danger to democratic progress in Latin America, although they are still a threat in some nations. Today, the greatest risk comes from the gradual erosion of public confidence in elected governments that are unable effectively to address fundamental problems affecting national life: prolonged economic deterioration, intense civil strife, enormous disparities in income and wealth, unresponsive public institutions, continuing military interference in political affairs, and widespread crime and official corruption. These are the challenges that democratic leaders must confront if Latin America's political openings are to be sustained and deepened—and if democracy is truly to serve the people of the region.

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Political Violence

In four countries—Colombia, Peru, Guatemala, and El Salvador—governments face insurgent challenges to their authority and to their control of national territory. All of these countries confront vicious circles of violence and counterviolence that, to varying degrees and in different ways, are undermining the institutions, procedures, and values essential to democracy. As long as the fighting continues, democratic practice will remain truncated and precarious: the armed forces will intrude in political decisions, the authority of civilian leaders and institutions will be compromised, economic progress will be hampered, politics will remain polarized, and human rights abuses will persist.

Guerrilla activity in Colombia has declined over the past several years. Sustained negotiating efforts by successive Colombian governments in the 1980s have led three guerrilla groups to stop fighting and enter politics. Two other groups, however, continue to do battle and the government has not been able to guarantee the security of former guerrilla leaders who have become active politi-

cally. Nearly a thousand of them have been murdered in the past three years, including two presidential aspirants and scores of mayoral candidates. Their deaths, the kidnapping of many prominent citizens, and the gangland-style killing of the leading candidate for president in the last election, all underscore the pervasive insecurity that grips Colombia.

Insurgent movements are not the only threat to democratic politics in Colombia today. The greater danger may come from the relentless violence of criminal drug organizations, paramilitary groups, and national security forces, which operate in complex and shifting alliances with each other and with the remaining guerrilla fighters. As devastating as this violence has been for law and order, human rights, and the legitimacy of political authority, Colombia's political leaders and the vast majority of the country's citizens remain committed to democratic rule. Civilian governments have held power for most of the century, and the armed forces are unlikely to disrupt the political order. Although visibly under siege, Colombia's political institutions continue to demonstrate resilience and flexibility.

El Salvador and Guatemala, in contrast, lack established democratic institutions and traditions. After many years of almost uninterrupted military rule, elected governments came to office in both nations in the mid-1980s amid prolonged guerrilla insurgencies. Since then, national and local elections have been relatively free and competitive and have gained a significant measure of international approval. In neither country, however, are all major political views represented at the polls, nor has democracy extended much beyond periodic elections. Civilian leaders have been unable either to establish control over the armed forces or to satisfy popular hopes for an end to the violence that wracks both societies.

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During the past decade of civil war in El Salvador, some 70,000 persons have died, hundreds of thousands have been displaced from their homes, and billions of dollars of property have been damaged. Both guerrillas and armed forces are guilty of targeted assassinations, random killings of civilians, and cruel violations of basic human rights.

The war has become a vicious stalemate. The insurgent forces control large expanses of national territory, but have little prospect of military victory. The army commands sufficient firepower to contain the guerrilla advances, but not to force their surrender. Since neither side can prevail by force of arms, the conditions may exist for reaching a negotiated settlement.

Hopes for such a settlement now rest on the United Nations-mediated peace talks that have been underway since April 1990. These are the first sustained negotiations between the government and the guerrillas, and they enjoy the declared support of both the Soviet Union and the United States as well as many other countries. Although little visible progress has been made so far, the talks are continuing.

For peace to succeed, the government, the guerrillas, and their international backers must be willing to accept some essential compromises. The guerrillas must be prepared eventually to lay down their arms, but in return, they must be assured the opportunity to participate fully in politics without risk to their personal security. For its part, the army must agree both to reduce its numbers and to remove from active service those officials who have been involved in gross violations of human rights.

In Guatemala, more than 35 years of guerrilla violence and counterinsurgency have claimed more than 100,000 civilian lives, and many thousands of others have been imprisoned, tortured, and displaced from their homes. By 1986, when the first civilian president in a generation came to office, the army controlled most of the countryside and appeared to have routed the guerrillas. But in the past two years, the rebels have managed to regroup their forces and have resisted efforts by the armed forces to dislodge them from their strongholds. United Nations-sponsored negotiations between the government and guerrillas have made some progress, but a settlement still seems distant.

The insurgency in Guatemala does not represent a major challenge to governmental authority, nor is it the central focus of national politics. But it provides the rationale for the persistent involvement of the armed forces in Guatemalan politics and for their repressive controls in rural areas. The war is fueled by bitter ethnic and class divisions, which in themselves are a major obstruction to democratic advance. Electoral politics have meant little for Guatemala's indigenous and impoverished majority, which has long been dominated by an urban minority of European ancestry. The recent elections, which were tarnished by partisan violence among competing political parties, promise little immediate change. A profound and sustained process of national reform will be necessary to end the violence in Guatemala.

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The Shining Path insurgency in Peru is an entrenched and virulent threat to democracy. With no apparent external support, the Shining Path has spread gradually through much of Peru since 1980. In the past five years, it

has demonstrated a capacity to mobilize rural and urban support, disrupt the country's economy, intimidate local government officials, and inflict violence on a large scale. Seemingly convinced that it will ultimately prevail, the Shining Path has so far rejected all government overtures to initiate peace negotiations.

Some 18,000 deaths have been attributed to the guerrillas and the military forces battling them, and the killing is expanding. Both sides engage in pervasive human rights abuses and have massacred entire villages. More than half of Peru's territory has been placed under emergency military rule with constitutional guarantees suspended. Democratic practice is increasingly restricted to Peru's urban centers, and even there it is under threat.

The drug trade adds to the violence in Peru and complicates government efforts to control the guerrillas. The Shining Path finances itself partly by taxing drug traffickers and protecting peasant growers of coca leaf. Despite intense pressure from Washington, successive Peruvian governments have refused U.S. support for military action against the narcotics network. Civilian authorities are concerned that intensifying and militarizing the anti-drug campaign will produce new recruits for Shining Path and expand the influence of the armed forces. The military itself wants to focus on counterinsurgency, for it regards the Shining Path as the more dangerous enemy. But democracy is also endangered by the persistent abuses of the counterinsurgency campaign and by political repression in areas of intense guerrilla activity.

Peru is battling against national disintegration. The government is still freely elected, but it operates under restrictive and repressive conditions and with decreasing authority

Peru is battling against national disintegration. Not only does it confront the guerrilla insurgency and narcotics trafficking, but it also faces chronic economic depression, an impoverished population, massive emigration, political polarization, and a psychology of deepening despair. The government is still freely elected, but it operates under restrictive and repressive conditions and with decreasing authority.

Controlling the Armed Forces

Even where guerrillas do not threaten, democratic rule is often challenged by armed forces that are not effectively subordinated to civilian control. Civilian–military relations vary considerably from country to country in Latin America, but they remain troublesome nearly everywhere and are a source of serious tension in many nations. Constitutional democracy requires that all military forces be subject to

the effective direction of elected civilian authorities. Today, only a handful of Latin American countries meet that basic condition.

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In Guatemala and El Salvador, the military virtually define the extent of civilian authority and influence most aspects of government policy. The armed forces of Bolivia, Ecuador, Peru, Nicaragua, and Honduras are formally subordinate to civilian officials, but they retain institutional autonomy and control security-related policies. In Argentina, the armed forces have repeatedly confronted civilian authorities in the past several years, with debilitating effects on democratic institutions. In Haiti, the military operates as a rogue force, uncontrolled by the civilian regime.

In Chile and Uruguay, two countries where civilian control of the armed forces had once seemed firmly established, the military regimes of the 1970s and 1980s have left a legacy of unresolved civilian–military tensions, some of them imbedded in law. Chile's new civilian government operates within a series of legal restraints imposed by the armed forces before they left power. Former dictator Augusto Pinochet remains commander of the army and cannot legally be removed by Chile's elected president.

Only in Costa Rica, Mexico, Venezuela, and the Commonwealth Caribbean nations are civilian leaders firmly in charge of security forces. Although direct military rule is now exceptional in Latin America, the deterrents to military intervention are still weak throughout the region. Until the armed forces are fully subordinate to elected civilian authority, democracy will remain precarious.

Fragile Political Institutions

Political violence and military incursion into politics are not the only dangers to democratic rule in Latin America. Stunted by prior coups and military governments, political and civic organizations remain weak in most countries of the region. Yet effective democratic practice requires structured and dependable institutions, accepted rules of political conduct, and established legal procedures. In their absence, politics often become personalized and erratic.

Legislatures and judicial systems lack the autonomy, stature, and competence to carry out their constitutional functions. Presidents in Latin America, frustrated by delay and indecision, often use exceptional procedures to bypass the legislative process. In doing so, they debase the

formal institutions of government, compromise legal norms, and—in the end—undercut democratic legitimacy.

Political parties in many countries of Latin America and the Caribbean lack effective ties to regular constituencies and are often little more than vehicles for contesting elections and distributing patronage. They rarely offer coherent programs and are frequently manipulated to serve the personal ambitions of their leaders. Ecuador, with its array of small parties of constantly shifting loyalties, is plagued by these problems, for example. So is the Dominican Republic, where old-fashioned *caudillismo* combines with political opportunism. The weakness of political party structures allowed independent candidates without national party affiliation to win recent presidential elections in both Brazil and Peru. It is difficult, however, for the new presidents to govern because they lack the organized support needed to forge legislative majorities and mobilize popular backing on crucial policy issues.

Democratic progress in Latin America is hampered by the lack of sustained citizen participation in political life

Democratic progress in Latin America is hampered by the lack of sustained citizen participation in political life. Few countries in the region boast a vigorous array of non-governmental institutions through which the demands of ordinary people can be expressed, mediated, and consistently brought to the attention of authorities. In much of the region, trade unions, business groups, professional organizations, and civic associations are weak, fragmented, and too narrowly based to play constructive political roles. Free and independent media are vital to democracy, and press freedoms have expanded markedly in Latin America in recent years. But in many countries, the press still represents only a relatively narrow range of opinion; in some places, governments continue to monopolize ownership of the media or limit access through licensing or censorship.

Even in those nations with relatively strong political institutions, democratic governance is threatened when citizens fail to participate in political life because of disillusionment, apathy, or a sense that they have been unfairly excluded or disadvantaged. Representative self-government depends on the active involvement of all citizens and on fundamental respect for political leadership. When these falter, democracy runs the risk of atrophy.

In many Latin American countries, there is today a growing distrust of politics. Abstention from elections and skepticism about their significance are rising at an alarming rate. That voters in many countries are casting their ballots for political newcomers reflects, in part, their low regard for established democratic leaders.

Similar problems are being experienced in North America. Many people in the United States are alienated by a political system in which campaign funding overwhelmingly favors incumbency, where negative campaigning and media manipulation abound, and where leaders often pander to the short-term and selfish interests of citizens. A significant number of North Americans have reason to feel themselves disenfranchised—because of ethnically-biased electoral districts, the limited representation of women and minorities in elected office, and constitutional anomalies, such as those affecting Puerto Rico and the District of Columbia, which deprive citizens of a direct say in federal decisions.

In Canada, a key challenge to democratic governance is the unresolved tension between cultural autonomy and political federation. An unprecedented degree of public dissatisfaction with politics and politicians has emerged in the wake of the failure of the Meech Lake accord, intended to recognize Quebec's special character.

It is not easy to govern democratically or to make democracy work. Presidents must be strong enough to lead and command respect, but they cannot dictate. Legislatures should have the authority to check executive power, but they must also be ready to cooperate and accept reasonable compromise. Courts must be independent, bound only to the rule of law. Political parties should be more than vehicles for protest or for winning elections; they must be able to effectively represent their supporters and formulate program and policy alternatives. It is proper for interest groups to serve their special constituencies, but they must respect the rights of others. Leaders and citizens alike must be willing to accept unfavorable political outcomes that result from democratic procedures. Democracy draws its strength from a politically active populace and a multiplicity of representative institutions operating within legal and constitutional norms. Few nations of the Americas can yet meet these standards.

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Economic Crisis

Each of the threats to democratic governance in Latin America—political violence, military incursions into politics, and fragile institutions—is today greatly exacerbated by the region's economic crisis.

As discussed in Chapter II, the people of Latin America have seen their wages fall and their jobs disappear over the past decade. They have had to contend with record levels

of inflation, food shortages, and mounting street crime. Health, education, and other public services have steadily deteriorated. The numbers of Latin Americans living in poverty continue to grow, and deprivation now affects many formerly middle class persons. Austerity has become a permanent fact of life in much of the region.

Economic adversity is threatening democratic rule in diverse ways:

- Worsening economic conditions help to sustain the Shining Path and other insurgencies. In some countries, economic "shock" treatments to halt rampant inflation have provoked outbreaks of violence. In Venezuela, more than 300 persons died in riots protesting rises in the price of staple products. Food riots in Argentina contributed to President Alfonsín's decision to transfer power to President-elect Carlos Menem six months before the end of his constitutional term. Similar outbursts have occurred in Brazil and the Dominican Republic, and they can be expected elsewhere.

- Democratically-elected leaders who have been unable to stem economic decline have lost support and authority, thereby making it even harder for them to institute and sustain the painful adjustments required for economic improvement. "Stop and go" policies often result in damaging economic performance and generating political instability. This vicious cycle may condemn some Latin American nations to a long period of both economic hardship and political turbulence. In few countries have incumbent governments retained office for more than one term. As one democratic leader after another loses support, the credibility of democratic rule itself may be endangered.

- Market economic reforms have become politically divisive in many places. Even though such reforms have been widely adopted throughout Latin America and the Caribbean, they continue to face stiff resistance from many quarters. In some countries, governmental authorities seem all too ready to circumvent or impose restrictions on democratic processes to overcome opposition to their economic policies. If market strategies are unable to restore growth soon and address such fundamental problems as poverty and inequity, advocates of alternative economic approaches are likely to gain increasing electoral strength. Politics then may become more polarized, and calls may inten-

sify for political restrictions to block opponents of current policies from power.

- Economic reform programs in some countries may further concentrate income and wealth, and thus widen the already large gap between the rich and the poor. Social cohesion and political stability may be at risk as class divisions deepen.

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The Role of the Inter-American Community

The main responsibility for building democracy necessarily falls on each nation and its citizens. Democracy can be achieved in practice only if national political leaders are committed to democratic values and demonstrate courage and wisdom in facing the multiple challenges that now threaten democratic institutions in so many countries of the Americas. International efforts, no matter how persistent or well-intended, cannot by themselves make democracy work anywhere. But the inter-American community, with its broad commitment to democracy, can reinforce national efforts to fortify democratic rule in four specific ways:

- The nations of the hemisphere, individually and collectively, should do everything they can to promote negotiated settlements of Latin America's remaining guerrilla insurgencies. Although there is little hope of a peace accord in Peru anytime soon, negotiations in Colombia, El Salvador, and Guatemala offer varying prospects of success. Opportunities must be sought to exert political and diplomatic pressure on the warring parties to moderate their demands and to offer the concessions needed for agreement. The United States should strongly condition further aid to the Salvadoran armed forces on their willingness to negotiate in good faith and end pervasive violations of human rights. The U.S. Congress took an encouraging step in this direction when it voted to curtail military aid to El Salvador because of the government's failure to vigorously investigate the army's killing of six Jesuit priests last year. Cuba should stop any remaining aid to insurgent groups in Colombia or Central America (as required by the Esquipulas peace accords). The United Nations mediators in Central America deserve the unambiguous support of every country.

- U.S. and other military assistance programs in Latin America must be designed to assure that they reinforce, not weaken, civilian control of the armed forces. Training programs in military strategy and other defense issues, for example, should incorporate civilian participants and seek to build the necessary civilian competence in Latin America to manage national security policy. The United States and other nations should make sure that efforts to fight the narcotics trade do not enmesh armies in political tasks, undercut civilian authority, interfere with anti-guerrilla operations, or involve the military in corruption.

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- Wherever there is the danger that national elections will be marred by fraud, manipulation, or violence, the inter-American community should stand ready to provide electoral monitors and other needed assistance. When such assistance is made available on a multilateral basis with respect for the host nation's sovereignty and laws, it can build confidence in the electoral process and increase prospects that the outcome will be accepted as fair by all parties. In the past year, internationally monitored elections in Nicaragua and Chile represented decisive steps towards political opening in those countries. Similar international monitoring arrangements, involving the United Nations, OAS, Council of Freely-Elected Heads of Government, and other groups, now provide real hope that Haiti's presidential elections will be conducted fairly and help the country end its long nightmare of tyranny.

- Greater efforts are required to protect the human rights of all citizens of the Americas. With the demise of authoritarian regimes, human rights abuses have diminished, but they are still all too pervasive. The worst violations are occurring in those nations confronting guerrilla insurgencies, but flagrant abuses abound in many other countries as well. Politically motivated atrocities continue to be perpetrated against dissidents, intellectuals, and journalists. But victims also include street children, petty criminals, indigenous peoples, convicted prisoners, and similarly vulnerable groups. In either case, they are intolerable. All nations of the hemisphere should take internal measures to strengthen protections against human rights abuses. They should, in addition, expand the mandate, resources, and influence of the Inter-American Commission on Human Rights, the Inter-American Court on

Human Rights, and the Inter-American Institute of Human Rights. The network of nongovernmental organizations that professionally and objectively monitor human rights should also be supported.

Three crucial lessons emerge from Latin America's turn toward democracy:

First, elections do not necessarily lead to genuine democratic openings or to sustained democratic advance. Free and fair elections scheduled on a regular basis are a fundamental requirement for democracy. But other vital requirements must also be fulfilled. Most important is the development of strong representative institutions that maintain the rule of law and protect the rights of all citizens, effectively respond to popular demands, and give citizens a continuing voice in government policy decisions. For such institutions to emerge and take root in Latin America, political violence has to be brought under control, armed forces must be fully subordinated to civilian authority, citizens from all social and ethnic groups must be politically engaged, and sharp inequalities of income and wealth need to be reduced.

Elections do not necessarily lead to genuine democratic openings or to sustained democratic advance

Second, democratic institutions cannot be expected to thrive under conditions of economic duress—when millions of citizens are without jobs, adequate shelter and nutrition, basic education, or hope for the future. All the countries of the Americas, individually and together, must establish and sustain economic programs that can renew investment, improve productivity, and create new opportunities for vulnerable groups. The resumption of economic growth, combined with concrete measures to alleviate poverty and inequality, would do the most to restore confidence in democratic rule.

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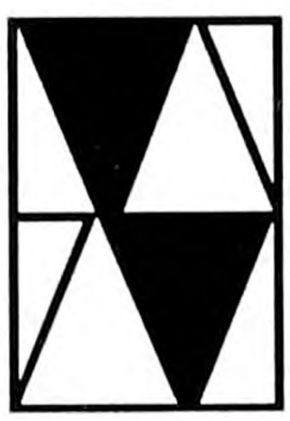
Third, democracy is never fully achieved or secured. It is always on trial. Democratic institutions and procedures must be consistently respected, protected, and strengthened. If they are not, they will remain at risk of corruption, of manipulation by those with special power or privilege, and of losing their vitality. Democracy can never be taken for granted.

Peter D. Bell and Bruce Babbitt

Fernando Henrique Cardoso



Supplemental Comments by Members of the Dialogue

Raúl Alfonsín

The 1990 report of the Inter-American Dialogue is a noteworthy effort to find the balance necessary to develop a pluralist, realistic, and progressive approach to our hemisphere.

I believe, however, that a critical reaction to the liberal economic reforms prevalent now in Latin America does not come only from so-called "populist" sectors, but from others which understand that the state must continue to play an essential role in regulating the market, in addressing income inequalities, and in promoting growth through credit and taxation policies. The people of Latin America are willing to make the effort required to overcome the current crisis through balanced fiscal policies and increased production. But they will not support policies that, while claiming to favor development, have a social impact that is unequal and unjust and imposes the greatest burden on the least protected sectors of society. We must avoid any sort of pseudo-capitalism that takes no risks but expects benefits conferred by a state that promotes profit without genuine initiative. Cooperative enterprises are one form of development that promotes both the necessary capital accumulation and a democratic and ethical society.

I also want to state that it is not "nationalism," but a popular democratic movement in Latin America that will challenge the United States if U.S.-supported policies tend to deepen social inequality and favor the concentration of wealth in the hands of the few. This is why it is important to adjust the liberal reforms of today to the existing realities of the distribution of wealth and power in our societies. What must be accomplished is the creation of true competitive markets that are not monopolistic and respect principles of social justice.

As for the external debt, which is clearly impossible to repay, we need imaginative solutions that reflect the true value of the debt as determined by the market.

Economic integration can be a particularly significant stimulant to economic growth in the region. This is essential within the current world market, which operates across great distances to determine the rhythm, form, and pace of production and the exchange and distribution of goods and services.

Finally, I believe that it is an obligation of every Latin American government to reinforce and consolidate the rule of law. A society governed by law and constitutional procedures has the greatest comparative advantage, even in the economic sphere, and especially in generating new investment.

Peggy Antrobus

The report properly recognizes the urgent need to address problems of poverty and inequality, but it fails to emphasize that there is a fundamental contradiction in trying to do so while implementing structural adjustment policies that, in fact, exacerbate these basic problems.

It will take more than market forces to eliminate poverty and social injustice, particularly in countries where the majority is poor. From long experience, we know that wealth does not trickle down. The Dialogue should face up to the basic dilemma of attempting to confront poverty within a policy framework that has been so devastating to the poor and especially to low-income women.

Daniel Evans

I believe Chapter III assumes far too much certainty about the future of the planet regarding global warming. While scientific assessments agree that there is an increase in the amount of "greenhouse gases" in the earth's atmosphere, the consequences of that increase are by no means certain.

The assertion in the chapter that confronting global warming means difficult social and economic adjustments needs clarification. Indeed, the report itself identifies some mitigation procedures that make good sense economically and for other environmental reasons including cost-effective measures to conserve energy and increase the efficiency of its use, significant efforts at reforestation and the slowing of deforestation, and policies to reduce population growth. Whether there is any global warming or not, these are all good insurance policies and not excessively expensive. They represent appropriate steps that can be taken by most nations without major economic disruption. A good start has already been made through the Montreal Protocol in removing chlorofluoro-

carbons (CFCs) from the atmosphere. These are responsible for almost 25 percent of the current global influence on warming.

Whatever is done to prevent potential global warming will likely not be enough with a rapidly growing world population. It is therefore important to pay some significant attention to how populations can adapt to a somewhat warmer climate. The chapter gives little attention to this.

I do not believe that the U.S. administration has resisted international commitments for purely fiscal reasons. I do believe they are still uncertain about the science and legitimately wish to be more certain that any actions will prove to be both beneficial and economical.

Xabier Gorostiaga

This report raises many of the right issues, but—by emphasizing neo-liberal policies—perpetuates a failing orthodoxy. The evident contradiction between the economic proposals in Chapter II and the political analysis of Chapters III and IV reflects this point.

The great global changes present a challenge that the Western Hemisphere must confront together. The Enterprise for the Americas Initiative is one-sided and insufficient; a complementary Latin American proposal is urgently needed. The following points must be addressed in such a response:

- Export-led growth based on market liberalization cannot adequately deal with Latin America's problems of inflation, deficits, and macroeconomic imbalances.
- A direct attack on poverty is the only way to promote development, social stability, and broad credibility. Land reform is essential to create employment and food security and to reduce migration.
- Latin American countries need to integrate their economies into sub-regional markets so they can participate on equal footing with the United States and Canada in shaping a hemispheric free trade zone.

I would also emphasize that Central America's crisis is far from over. Peace will not come to El Salvador and Guatemala while the armed forces are in control and allowed to act with impunity. Panama and Nicaragua remain as test cases for U.S. policy. The scant U.S. aid provided so far to these two countries, devastated by U.S. military policy, can only reinforce Latin America's lack of faith in Washington.

Finally, I would warn that Cuba could become the "island of evil" in 1991 that Panama was in 1989 and Iraq in 1990. Latin America must take the lead in finding a solution in Cuba. Pressure and intervention from Washington would only provoke further Cuban intransigence and increase hemispheric tensions.

Ivan Head

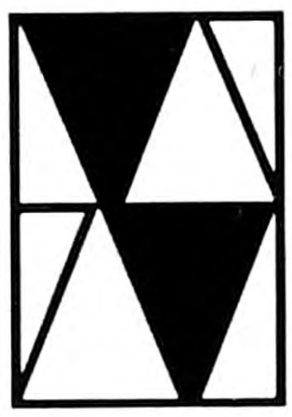
The report usefully highlights a series of distinct issues but possibly at the expense of consistency. I am concerned that what appears as a positive factor in Chapter II—"economic growth"—may be inadequately understood by readers to be a contributor to the negative consequence of "global warming" described in Chapter III. The holistic nature of all global systems demands an increased awareness of their interconnections and of the need for radical policy changes if the goals of social equity, political stability, and sustainable development are ever to be met. Economic growth, as pursued through much of this century, is no longer a viable option.

Marcos McGrath

The text of this report is very good, but I wish to make two points:

- First, the Dialogue, as well as the United States, has allowed its attention to shift too suddenly and completely from one set of problems to another. Central America may have received exaggerated emphasis in past years but that hardly justifies its near exclusion from this report. In the case of Panama, U.S. sanctions and last year's invasion, despite their laudable aim of ousting General Noriega, devastated the economy. Now we are left alone without even very much of the aid for reconstruction that President Bush once spoke of.

- Second, the report appropriately laments that the armed forces in Latin America are not effectively subordinated to civilian control. It should be emphasized, however, that the United States has supported and helped to train Latin American military leaders since the 1960s. The region has paid dearly for the United States' misconception that the Latin American military would follow the U.S. practice of submission to civilian authority.



Biographical Information

Participants from the United States

Sol M. Linowitz (Co-Chairman)
Sol M. Linowitz is senior counsel of the international law firm of Coudert Brothers. He served as President Carter's personal representative for the Middle East Peace Negotiations and as co-negotiator for the Panama Canal Treaties. From 1966 to 1969, he was U.S. Ambassador to the Organization of American States. Previously, he had been Chairman of Xerox Corporation.

Peter D. Bell (Co-Vice Chairman)
Peter D. Bell is President of the Edna McConnell Clark Foundation. He was a senior associate of the Carnegie Endowment for International Peace from 1984 to 1986 and President of the Inter-American Foundation from 1980 to 1983. He is Chairman of the Board of CARE, Vice Chairman of Americas Watch, and a member of the boards of the Institute of the Americas and the World Peace Foundation.

Bruce Babbitt
Bruce Babbitt, currently a partner with the Phoenix law firm of Steptoe and Johnson, was a candidate for the Democratic presidential nomination in 1988. He was Governor of Arizona from 1978 to 1986 and earlier was Arizona's Attorney General. He has been Co-Chair of the Democratic Leadership Council and Chairman of the Democratic Governors' Association. He has traveled widely in Latin America and is currently writing a book on the South American rainforest.

Michael D. Barnes
Michael D. Barnes is a partner at Arent, Fox, Kintner, Plotkin & Kahn in Washington, D.C. From 1979 to 1987, he was a member from Maryland of the U.S. House of Representatives and chaired the Subcommittee on Western Hemisphere Affairs of the Committee on Foreign Affairs. He is a member of the boards of the U.S. Committee for UNICEF, the Overseas Development Council, and the Center for National Policy.

McGeorge Bundy
McGeorge Bundy, Professor of History at New York University, was President of the Ford Foundation from 1966 to 1979. From 1961 until 1966, he was Special Assistant to the President for National Security Affairs. Previously, he was Dean of the Faculty of Arts and Sciences at Harvard University.

Yvonne Brathwaite Burke
Yvonne Brathwaite Burke is a Los Angeles attorney. From 1973 to 1979, she was a member from California of the U.S. House of Representatives and earlier served in the California Assembly. She was a member of the Bilateral Commission on the Future of U.S.–Mexican Relations and is a trustee of the Ford Foundation and Educational Testing Service.

Terence C. Canavan
Terence C. Canavan is Managing Director of the Institutional Banking Division of Chemical Bank. He served as Director of the bank's affiliate in Caracas from 1973 to 1976 and previously represented the bank in Mexico City and Madrid. He is Chairman of Acción and a member of the board and ex-officio Chairman of the Council of the Americas.

Jimmy Carter
Jimmy Carter was President of the United States from 1977 to 1981 and Governor of Georgia from 1971 to 1974. He is Chairman of the Board of the Carter Center of Emory University in Atlanta and Chairman of the Council of Freely-Elected Heads of Government, a group of 18 Western Hemisphere leaders dedicated to reinforcing democracy. Since 1982, he has been a Distinguished Professor at Emory University. He is the recipient of numerous awards for his work to protect human rights and promote international peace.

Warren Christopher
Warren Christopher is Chairman of the Los Angeles law firm of O'Melveny and Myers. From 1977 to 1981, he served as Deputy Secretary of State, and from 1967 to 1969, he was Deputy Attorney General of the United States. He is Chairman of the Board of the Carnegie Corporation and Vice Chairman of the Board of the Council on Foreign Relations.

Henry G. Cisneros
Henry G. Cisneros, the President of Cisneros Asset Management in San Antonio, was Mayor of San Antonio from

1981 to 1989. He served on President Reagan's National Bipartisan Commission on Central America and on the Bilateral Commission on the Future of U.S.–Mexican Relations. He is Chairman of the Board of the National Civic League and a member of the board of the Rockefeller Foundation.

Ralph P. Davidson
Ralph P. Davidson has been Chairman of the Board of Time, Inc. and President of the John F. Kennedy Center for the Performing Arts. He is a trustee of Phoenix House, the nation's largest drug prevention program, and a member of the boards of Allied-Signal and First Interstate Bancorp. He has served on the Commission on Executive Exchange and the Statue of Liberty–Ellis Island Centennial Commission.

Jorge I. Dominguez
Jorge I. Dominguez is Professor of Government at Harvard University. He has been President of the Latin American Studies Association and is a leading authority on his native Cuba and Latin American politics more generally. His most recent book is *To Make a World Safe for Revolution: Cuba's Foreign Policy.*

Daniel J. Evans
Daniel J. Evans, Chairman of Daniel J. Evans Associates in Seattle, was a U.S. Senator from Washington from 1983 to 1989 and was Governor from 1965 to 1977. He currently serves as Chairman of the National Academy of Sciences Commission on Policy Options for Global Warming and was Co-Chair of the International Commission to Observe the Nicaraguan Elections in 1990. From 1977 to 1983, he was President of Evergreen State College. He has been Chairman of the National Governors' Association and a keynote speaker at the Republican National Convention.

Katherine W. Fanning
Katherine W. Fanning is Vice President and a member of the board of the Institute for Global Ethics. She was Editor of *The Christian Science Monitor* from 1983 to 1988 and previously was Publisher and Editor of the *Anchorage Daily News*. She is a trustee of the Kettering Foundation and a member of the boards of the Center for Foreign Journalists and the Institute for Journalism Education.

Dianne Feinstein
Dianne Feinstein was a candidate for Governor of California in 1990. She served as the first woman Mayor of San Fran-

cisco from 1979 to 1987 and was the first woman President of the city's Board of Supervisors. She has been a member of the Executive Committee of the National Conference of Mayors and of the Democratic Party's Policy Committee.

Antonio Luis Ferré
Antonio Luis Ferré is President of *El Nuevo Día*, Puerto Rico's major daily newspaper. Mr. Ferré was appointed regional President for Puerto Rico of the National Alliance of Businessmen by President Ford. He is Vice Chairman of the Board of the Banco de Ponce and a member of the boards of American Airlines, the American Newspaper Publishers' Association, and the Metropolitan Life Insurance Company.

Maurice A. Ferré
Maurice A. Ferré, now a business consultant, served six terms as Mayor of Miami from 1973 until 1985. He was the first National Chairman of the Hispanic Council on Foreign Affairs and a member of President Ford's Immigration Commission and President Carter's Commission on Ambassadorial Appointments. He was also Co-Chair of Walter Mondale's Democratic Presidential Campaign in 1984.

Richard W. Fisher
Richard W. Fisher is Managing Partner of Fisher Capital Management of Dallas and Chairman of the Board of the Institute of the Americas. From 1977 to 1979, he was Executive Assistant to the Secretary of the Treasury. He serves on the visiting committees of Harvard's Center for Science and Advanced International Affairs, as Co-Chair of the Business Advisory Committee of the American Council on Germany, and Chair of the Asian Studies Program at the University of Texas. He has recently been named a U.S.–Japan Leadership Fellow.

Albert Fishlow
Albert Fishlow is Dean of International and Area Studies and Professor of Economics at the University of California at Berkeley. From 1978 to 1982, he was Director of the Concilium on International and Area Studies at Yale University. In 1975 and 1976, he served as Deputy Assistant Secretary of State for Inter-American Affairs. He is an authority on Brazil and international financial issues.

Douglas A. Fraser
Douglas A. Fraser, Professor of Labor Studies at Wayne State University, was President of the United Auto Workers

from 1977 to 1983. He is Co-Chair of the Michigan Governor's Commission on Jobs and Economic Development, a member of the executive committee of the Leadership Conference on Civil Rights, and a trustee of the Carnegie Foundation for International Peace.

Andrew J. Goodpaster
Andrew J. Goodpaster, General, U.S. Army (Ret.), is Chairman of the Atlantic Council of the United States. He was Superintendent of the U.S. Military Academy at West Point from 1977 to 1981 and Supreme Commander of Allied Forces in Europe from 1969 to 1974. He is the former President of the Institute for Defense Analyses.

Hanna Holborn Gray
Hanna Holborn Gray has been President of the University of Chicago since 1978. She has been Provost and Acting President of Yale University and Dean of the College of Arts and Sciences at Northwestern University. She is a member of the boards of Morgan Guaranty Trust, J.P. Morgan, Atlantic Richfield, and other corporations.

David A. Hamburg
David A. Hamburg, M.D., has been President of the Carnegie Corporation of New York since 1983. He has served as President and Chairman of the Board of the American Association for the Advancement of Science and President of the Institute of Medicine, National Academy of Sciences. He is a trustee of Stanford University, Rockefeller University, and Mount Sinai Medical Center.

Antonia Hernandez
Antonia Hernandez is President and General Counsel of the Mexican–American Legal Defense Fund in Los Angeles. She is a member of the boards of the Latino Museum of History, Art and Culture, Quality Education for Minorities Network, California Leadership, 2000 Partnership, California Workforce Literacy Task Force, and Skirball Institute on American Values. She has written extensively on immigration law and civil liberties.

Theodore M. Hesburgh
Theodore M. Hesburgh, C.S.C., is President Emeritus of the University of Notre Dame, where he served as President from 1952 to 1987. He has been Chairman of the Boards of the Rockefeller Foundation, the Overseas Development Council, the U.S. Commission on Civil Rights, and the Select Commission on Immigration. Father Hesburgh has received more honorary degrees than any other indi-

vidual in the United States. His autobiography, *God, Country, and Notre Dame*, has recently been published.

Don Johnston
Don Johnston is the former Chairman of the International Executive Service Corps and is a member of the boards of the Equitable Life Assurance Society, McGraw-Hill, Inc., and Johns Hopkins University. Earlier he was Chairman of the J. Walter Thompson Company.

Juanita M. Kreps
Juanita M. Kreps is Vice President Emeritus of Duke University. From 1977 to 1979, she was U.S. Secretary of Commerce. She serves on many corporate boards, including Citicorp, R.J.R. Nabisco, AT&T, United Airlines, Armco, Chrysler, Eastman Kodak, and J.C. Penney.

Modesto Maidique
Modesto Maidique has been President of Florida International University since 1986. He has taught at Harvard, Stanford, and MIT. He was President and Chief Executive Officer of Collaborative Research, Inc. and co-founder and Chief Executive Officer of Analog Devices Semiconductor.

Jessica Tuchman Mathews
Jessica Tuchman Mathews is Vice President of World Resources Institute. She has served on the staff of the Office of Global Issues of the U.S. National Security Council and on the editorial board of *The Washington Post*. She is the author of many articles on global environmental concerns and writes a regular column for *The Washington Post*.

Charles McC. Mathias, Jr.
Charles McC. Mathias, Jr. is a partner at the law firm of Jones, Day, Reavis and Pogue. From 1969 to 1987, he was United States Senator from Maryland and earlier served four terms as a member of the House of Representatives. In 1985, Senator Mathias was elected President of the North Atlantic Assembly.

Robert C. Maynard
Robert C. Maynard is President and Editor of *The Oakland Tribune*. He is a nationally syndicated columnist with Universal Press Syndicate and a commentator on "This Week with David Brinkley" and the "MacNeil-Lehrer NewsHour." Mr. Maynard is a member of the boards of the Associated Press, the Rockefeller Foundation, the Pulitzer Prize, and the Center for Foreign Journalists.

David T. McLaughlin
David T. McLaughlin is President and Chief Executive Officer of The Aspen Institute. He has served as Chairman and Chief Executive Officer of the Toro Company and President of Dartmouth College. He is a member of the boards of Dayton Hudson Corporation, Westinghouse, the Chase Manhattan Bank, the Chase Manhattan Corporation, and ARCO Chemical Corporation.

Robert S. McNamara
Robert S. McNamara served from 1968 to 1981 as President of the World Bank. From 1961 to 1968, he was U.S. Secretary of Defense. He has also been President of the Ford Motor Company. Mr. McNamara serves on numerous boards, including Corning Glass, Strategic Planning Associates, the Brookings Institution, and The Aspen Institute.

William G. Milliken
William G. Milliken was Governor of Michigan from 1969 to 1983 and a State Senator from 1961 to 1965. He has chaired the National Governors' Association and the Republican Governors' Conference. He serves on the boards of the Chrysler Corporation, the Unisys Corporation, the Ford Foundation, and Consolidated Rail Corporation and has been Chairman of the Board of The Center for the Great Lakes.

Ambler H. Moss, Jr.
Ambler H. Moss, Jr. is Dean of the University of Miami's Graduate School of International Studies and Director of the North-South Center. He was U.S. Ambassador to Panama from 1978 to 1982 and Deputy Assistant Secretary of State for Congressional Relations from 1977 to 1978. He served on the U.S. Negotiating Team for the Panama Canal Treaties.

Edmund S. Muskie
Edmund S. Muskie is a senior partner of the international law firm Chadbourne and Parke. He was Secretary of State from 1980 to 1981, Senator from Maine from 1959 to 1980, and Governor of Maine from 1954 to 1958.

John R. Petty
John R. Petty is Managing General Partner of Petty-FBW Associates in Washington, D.C. He served as Chairman of the High Level Review Committee of the Inter-American Development Bank in 1988. He was Chairman and Chief Executive Officer of the Marine Midland Bank, Inc. from

1976 to 1988 and Assistant Secretary of the Treasury for International Affairs from 1966 to 1972. He has been a Partner and Director of Lehman Brothers, Kuhn and Loeb.

Charles J. Pilliod, Jr.
Charles J. Pilliod, Jr. is Chairman and Chief Executive Officer of ABF Investors, Inc. He was U.S. Ambassador to Mexico from 1986 to 1989 and Chairman and Chief Executive Officer of the Goodyear Tire & Rubber Company from 1974 to 1983. He served as a director of the U.S. Chamber of Commerce from 1980 to 1985 and is a member of the boards of A. Schulman and the Empire Berol Corporation.

Robert D. Ray
Robert D. Ray has been President and Chief Executive Officer of Blue Cross/Blue Shield of Iowa since 1989 and previously served as President and CEO of Life Investors, Inc. He was Governor of Iowa from 1969 until 1983 and has been Chairman of the National Governors' Association and a Republican Party leader at both national and state levels. He was Chairman of the Indo-Chinese Refugee Panel and Co-Chairman of the National Leadership Commission on Health Care.

Elliot L. Richardson
Elliot L. Richardson is a senior partner at Milbank, Tweed, Hadley, and McCloy in Washington, D.C. He has been U.S. Attorney General, Secretary of Defense, Secretary of Commerce, and Deputy Secretary of State. He currently represents President Bush in the Multilateral Assistance Initiative for the Philippines and was the Personal Representative of the U.N. Secretary General for Monitoring the Electoral Process in Nicaragua.

Anthony M. Solomon
Anthony M. Solomon is Chairman of S.G. Warburg (U.S.A.), Inc. He was President and Chief Executive Officer of the Federal Reserve Bank of New York from 1980 to 1985 and served as Vice Chairman of the Federal Open Market Committee. He has been Undersecretary of the Treasury and Assistant Secretary of State for Economic Affairs. He is a member of the boards of the Institute of International Economics, the Syntex Corporation, and the United Kingdom Equity Fund.

Paula Stern
Paula Stern is president of the Stern Group, an international trade advisory firm. From 1978 to 1986, she served

as a member of the U.S. International Trade Commission, for the last two years as its Chairwoman. Ms. Stern is a member of the boards of the Carnegie Council on Ethics and International Affairs, Scott Paper Company, and Dynatech Corporation.

Peter Tarnoff
Peter Tarnoff has been President of the Council on Foreign Relations in New York since 1986. He has been Executive Director of the World Affairs Council of Northern California and served as a career Foreign Service Officer from 1961 to 1982. From 1977 to 1981, Mr. Tarnoff was Executive Secretary of the Department of State and Special Assistant to Secretaries of State Edmund Muskie and Cyrus Vance.

Viron P. Vaky
Viron P. Vaky is a Senior Associate at the Carnegie Endowment for International Peace. He was Assistant Secretary of State for Inter-American Affairs from 1978 to 1979 and has been U.S. Ambassador to Costa Rica, Colombia, and Venezuela.

Cyrus R. Vance
Cyrus R. Vance is the Chairman of the Federal Reserve Bank of New York and presiding partner of the New York law firm Simpson Thacher & Bartlett. From 1977 to 1980, he was U.S. Secretary of State. He has been Secretary of the Army and the Defense Department's General Counsel. He serves on several corporate boards, including the New York Times Company and General Dynamics.

Fred F. Woerner
General Fred F. Woerner is Professor of International Relations at Boston University. He was Commander in Chief of the U.S. Southern Command from 1987 to 1989, served earlier in Colombia, Guatemala, Panama, and Uruguay, and was Director of Latin American Studies at the U.S. Army War College from 1973 to 1977. He has written extensively on U.S. military policy in Latin America.

Participants from Latin America, the Caribbean, and Canada

Daniel Oduber (Co-Chairman)
Daniel Oduber was President of Costa Rica from 1974 until 1978. He is currently President of the Governing Board of Costa Rica's National Liberation Party and Vice President

of the Socialist International. He is a member of the Executive Committee of the Council of Freely-Elected Heads of Government.

Rodrigo Botero (Co-Vice Chairman)
Rodrigo Botero is a visiting scholar at the Center for International Affairs, Harvard University. He served as Colombia's Minister of Finance from 1974 to 1976 and was a member of the Brandt Commission on International Development Issues. He is the founder of the Foundation for Higher Education and Development in Bogotá and a member of the board of The Aspen Institute.

Raúl Alfonsín
Raúl Alfonsín was President of Argentina from 1983 until 1988, leading Argentina's transition to democracy after seven years of military rule. He now serves as President of the Radical Party (Unión Cívica Radical). He was a co-founder of the Permanent Assembly for Human Rights and is the author of two books on Argentine politics.

Peggy Antrobus
Peggy Antrobus is Tutor/Coordinator of the Women and Development Unit at the University of the West Indies in Barbados. She is a founding member of Development Alternatives with Women for a New Era (DAWN) and a member of the boards of the Pathfinder Fund, the International Women's Tribune Center, the Population Council (Caribbean Project), and other regional and international agencies.

Nicolás Ardito Barletta
Nicolás Ardito Barletta, Director of the International Center for Economic Growth, was President of Panama from 1984 to 1985. He was Vice President of the World Bank for Latin America and the Caribbean from 1978 to 1984 and Panama's Minister of Planning and Economic Policy from 1973 to 1978. He has served as Director of Economic Affairs at the Organization of American States and founder and President of the Latin American Export Bank.

Monique Bégin
Monique Bégin is Dean of Health Sciences at the University of Ottawa and was previously Chair of Women's Studies at the university. Ms. Bégin was the first woman from Quebec elected to Parliament. From 1977 to 1984, she was Canada's Minister of National Health and Welfare. She is a member of the advisory council of the Kellogg Institute at Notre Dame.

Sergio Bitar
Sergio Bitar is Secretary General of the Pro-Democracy Party (PPD), which is part of Chile's current governing coalition. He was Minister of Mines in 1973. He has written widely on economic policy issues and is the author of *Island 10*, recounting his experiences as a political prisoner.

José Octavio Bordón
José Octavio Bordón is Governor of the Province of Mendoza, Argentina. He has served in the National Congress and was Chairman of the Foreign Relations Committee. He has been President of the Justicialista (Peronist) party and a professor of political sociology at the University of Cuyo.

Oscar Camilión
Oscar Camilión is serving as a United Nations mediator in Cyprus. He was Argentina's Foreign Minister in 1981 and Ambassador to Brazil from 1976 until 1981. Mr. Camilión has been a professor at the Faculty of Law of the University of Buenos Aires.

Fernando Henrique Cardoso
Fernando Henrique Cardoso is a Senator from the State of São Paulo, Brazil. He was the founding President of the Brazilian Center for Analysis and Planning (CEBRAP) and President of the International Sociological Association. He has written widely on Latin American society and politics.

Roberto Civita
Roberto Civita is President of Editora Abril, Brazil's largest publishing concern. He is Publisher of *Veja*, President of the Brazilian Magazine Publishers Association, and a member of the board of the International Center for Economic Growth.

Oliver F. Clarke
Oliver F. Clarke is Chairman of the Board and Managing Director of *The Gleaner*, Jamaica's major daily newspaper. He has been Chairman of the Caribbean Publishing and Broadcasting Association, Director of the Private Sector Organization of Jamaica, and Treasurer of the Inter-American Press Association.

José María Dagnino Pastore
José María Dagnino Pastore is Professor of Economics at the Catholic University of Argentina. He has served as Minister of Finance, Minister of Economy and Labor, and Secretary of the National Development Council of Argen-

tina. He has been Vice President of the Foundation for Latin American Economic Research, Ambassador in Europe, and Chairman of the Argentine Investment Bank.

Oscar Espinosa
Oscar Espinosa has been Managing Director of Enrique Ferreyros S.A. in Peru since 1983. He was Chairman of the financing company FINANPRO from 1981 to 1983 and Chairman and President of the Banco Internacional del Peru from 1979 to 1981. He has served as Alternate Executive Director of the World Bank, Chairman of Peru's National Development Corporation (COFIDE), and National Coordinator of its National Planning Institute.

Celina Moreira Franco
Celina Moreira Franco is Director of the Getulio Vargas Foundation in Rio de Janeiro. She has been Director of Brazil's National Archives, President of the Latin American Association of Archives, and a founding member of the National Association for Research in the Social Sciences and has written extensively on Brazilian political and social history.

Claudio X. Gonzalez
Claudio X. Gonzalez is Chairman and Managing Director of Kimberly-Clark in Mexico. He is a Special Advisor to the President of Mexico on foreign investment and serves on several corporate boards. He has been Chairman of Mexico's Private Enterprise Coordinating Council and of the Mexican Business Council.

Xabier Gorostiaga
Xabier Gorostiaga, S.J., is the Director of the Regional Center for Economic and Social Research (CRIES) in Nicaragua. From 1979 to 1981, he was Director of National Planning for Nicaragua. Father Gorostiaga was the founding Director of the Panamanian Center for Social Studies and Action and an economic advisor to Panama during the negotiations on the Panama Canal Treaties.

Allan E. Gotlieb
Allan E. Gotlieb, former Canadian Ambassador to the United States, is a consultant with the Toronto law firm of Stikeman, Elliott. He was Under-Secretary of State for External Affairs in 1977, a Canadian member of the Permanent Court of Arbitration from 1977 to 1982, and Canadian delegate to the U.N. General Assembly in 1967 and 1968. He has written four books and numerous articles on international law.

Ivan L. Head
Ivan L. Head is President of the International Development Research Centre of Canada and was recently named an Officer of the Order of Canada. From 1968 to 1978, he was Special Assistant to the Prime Minister for foreign policy issues. He has served on the High Level Review Committee of the Inter-American Development Bank and the Independent Commission on International Humanitarian Issues.

Osvaldo Hurtado Larrea
Osvaldo Hurtado Larrea was President of Ecuador from 1981 to 1984. He is President of CORDES, the Ecuadoran Corporation for Development Studies, and writes for the newspaper *El Universo* of Guayaquil. He has been President of the Christian Democratic International (IDC) and is the author of several books, including *Political Power in Ecuador*.

Enrique V. Iglesias
Enrique V. Iglesias is President of the Inter-American Development Bank. He served as Foreign Minister of Uruguay from 1985 to 1988 and earlier as President of Uruguay's Central Bank. From 1972 through 1985, he was Executive Secretary of the United Nations' Economic Commission for Latin America and the Caribbean.

Elsa Kelly
Elsa Kelly is Director of Cultural Affairs in Argentina's Foreign Ministry. She served as a Deputy Minister of Foreign Affairs in Argentina from 1983 to 1985 and was the Argentine Ambassador to UNESCO and Alternate Chief of the Argentine delegation to the third United Nations' Law of the Sea Conference. She has been a member of the Organization of American States' Commission on Human Rights.

Pedro-Pablo Kuczynski
Pedro-Pablo Kuczynski is Chairman of First Boston International. He was Peru's Minister of Energy and Mines from 1980 to 1982. From 1976 to 1980, he was President of Halco, a mining corporation. He writes widely on international economic issues. His most recent book is *Latin American Debt*.

Celso Lafer
Celso Lafer is a member of the board of Metal Leve S.A. in Brazil and Professor of Public International Law and

Jurisprudence at the University of São Paulo. He has been Chairman of the United Nations' Conference on Science and Technology.

Augustín F. Legorreta
Augustín F. Legorreta is Chairman of the Board of Grupo Inverlat and earlier served as Chairman and President of Banco Nacional de México. Mr. Legorreta has been President of the Mexican Bankers' Association and is Chairman of its Business Coordination Council.

Fernando Léniz
Fernando Léniz is Chairman of the Board of several major companies in Chile and President of the Chilean Society of Engineers. He was Finance Minister of Chile from 1973 to 1975. He is Professor of Engineering at the University of Chile.

Marcos McGrath
Monsignor Marcos McGrath, C.S.C., has been Archbishop of Panama since 1969. He was a member of the Doctrinal Commission of the Second Vatican Council from 1962 to 1965 and of the Steering Committees of the General Conferences of Latin American Bishops held in Medellín in 1968 and in Puebla in 1979. He was Vice President of the Council of Latin American Bishops from 1967 to 1972.

Lorenzo Meyer
Lorenzo Meyer is a leading historian and political commentator in Mexico. He has been Director of the Center for International Studies at El Colegio de México. He won a national award for his outstanding contribution to journalism in 1988.

Billie A. Miller
Billie A. Miller is a Barrister and Attorney-at-Law in Barbados. She was Minister of Education of Barbados from 1981 to 1986 and Senator from the Barbados Labour Party from 1986 to 1989. She is a member of the board of the International Institute for Women's Political Leadership and of the council of the Inter-American Parliamentary Group on Population and Development.

José Francisco Peña Gómez
José Francisco Peña Gómez, the former Mayor of Santo Domingo, was a leading candidate for President of the Dominican Republic in 1990. He is a Vice President of the Socialist International and President of its Committee for

Latin America and the Caribbean. He has been President of the Dominican Revolutionary Party since 1986 and earlier served as its Secretary General for 20 years.

Sonia Picado
Sonia Picado is Executive Director of the Inter-American Institute of Human Rights and a Justice on the Inter-American Court of Human Rights. She was Co-Chair of the International Commission for Central American Recovery and Development and has served as Dean of the University of Costa Rica Law School.

Alberto Quirós Corradi
Alberto Quirós Corradi is President of Seguros Panamerican in Caracas. He was President of Maraven and Lagoven, both operating companies of Petróleos de Venezuela, and President of Compañía Shell de Venezuela. He has been President and Editor of *Diario de Caracas*, a leading Venezuelan newspaper, and Director of *El Nacional*.

Augusto Ramírez Ocampo
Augusto Ramírez Ocampo was the Regional Director for Latin America and the Caribbean of the United Nations' Development Programme from 1986 to 1990. He was Colombia's Foreign Minister from 1984 to 1986 and was earlier Mayor of Bogotá.

Shridath Ramphal
Sir Shridath Ramphal was the Secretary General of the Commonwealth from 1975 to 1990. He has served as Minister of Foreign Affairs and Justice and as Attorney General of Guyana. He has been the Chairman of the U.N. Committee on Development Planning and Vice President of the U.N. General Assembly.

Gonzalo Sánchez de Lozada
Gonzalo Sánchez de Lozada, a mining entrepreneur, was a leading candidate for President of Bolivia in 1989. He served as President of the Senate and Minister of Planning from 1985 to 1989. He is now the President of the Movimiento Nacionalista Revolucionario (MNR) in Bolivia.

Julio María Sanguinetti
Julio María Sanguinetti was President of Uruguay from 1985 to 1989. He served in the Uruguayan Legislature from 1963 until 1971 and was Minister of Industry and Trade and of Education and Culture in 1971 and 1972. He is President of the PAX Institute and the author of several works on Uruguayan politics.

Juan Manuel Santos
Juan Manuel Santos is Deputy Publisher and Editor-in-Chief of *El Tiempo* in Bogotá, Colombia. He is a member of the boards of Los Andes University and several Colombian companies. He was chief negotiator and head of Colombia's delegation to the International Coffee Organization. In 1985, he received the King of Spain Prize in Journalism.

Jesús Silva Herzog
Jesús Silva Herzog is a Director of the Center for Latin American Monetary Studies. He served as Mexico's Minister of Finance and Public Credit under two successive presidents, from 1982 to 1986. He has been Director General of Credit for the Finance Ministry and General Manager of the Banco de México S.A. and has written several books on economics and finance.

Javier Silva Ruete
Javier Silva Ruete is a Senator and President of the "Solidaridad y Democracia" Party (SODE) in Peru. He was Minister of Economy and Finance from 1978 to 1980 and earlier served as Manager of Peru's Central Reserve Bank and Minister of Agriculture. He has been Vice President of the Andean Development Corporation and General Secretary of the Andean Group.

Julio Sosa Rodriguez
Julio Sosa Rodriguez is Chairman of Indústrias VENOCO in Venezuela and President of Banco del Orinoco. He is also President of the Universidad Metropolitana in Caracas. From 1969 to 1972, he was Venezuela's Ambassador to the United States.

Gabriel Valdés
Gabriel Valdés is President of the Chilean Senate. He was President of the Christian Democratic Party from 1982 to 1987 and Director for Latin America and the Caribbean of the United Nations' Development Programme from 1974 to 1981. He served as Chile's Minister of Foreign Relations from 1964 until 1970.

Mario Vargas Llosa
Mario Vargas Llosa is one of Latin America's most widely read novelists. He was a leading candidate for President of Peru in 1990 and has been President of PEN International. His most recent book is *In Praise of the Stepmother*.

Inter-American Dialogue Staff

Abraham F. Lowenthal (Executive Director)
Abraham F. Lowenthal is professor of international relations at the University of Southern California in Los Angeles. From 1977 to 1983, he was the founding director of the Latin American Program at the Woodrow Wilson International Center for Scholars. His most recent book is *Partners in Conflict: The United States and Latin America in the 1990s.*

Peter Hakim (Staff Director)
Peter Hakim was Vice President for research and evaluation at the Inter-American Foundation from 1982 to 1984. He has been a program officer for the Ford Foundation and a visiting lecturer at MIT and Columbia University. He is the co-editor of *Direct to the Poor: Grassroots Development in Latin America.*

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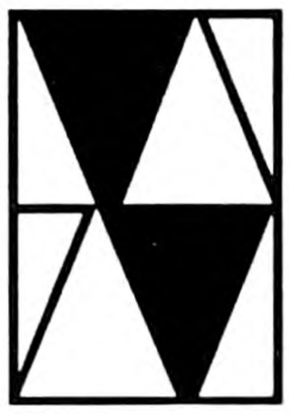
Richard A. Nuccio was director of international programs at the Roosevelt Center for American Policy Studies from 1984 to 1989. He served previously as program associate of the Latin American program of the Woodrow Wilson International Center for Scholars. He is the author of *What's Wrong, Who's Right in Central America.*



Executive Summary

I. A World in Ferment

We live in a time of stunning change. The Soviet Union's turn toward market economics, the break-up of the Soviet bloc, Germany's rush to unification, the legalization of the African National Congress, Iraq's invasion of Kuwait and the striking international response—all these and other unforeseen events reflect the rapid transformations underway on the global scene.

Five fundamental global shifts affect the Americas in the 1990s: the collapse of the old Soviet system, the ending of the Cold War, the nearly worldwide validation of democracy and free markets, the rising power of Europe and Japan, and the restructuring of the world economy.

A second revolution has begun in the Soviet Union, built upon *perestroika*, *glasnost*, and "new thinking." Exactly what will happen in the Soviet Union is far from clear, but in almost any imaginable scenario the Soviet Union will be a smaller factor in the Western Hemisphere during this decade than in the previous two. If the Gorbachev reforms are successful, they will stimulate popular demands for more consumer goods and meaningful political participation—and these demands should further limit the Soviet Union in costly foreign involvements. If the reforms fail, that would also lead the Soviet Union to be internally preoccupied. Soviet involvement in Central America and in Cuba is already decreasing.

The end of the Cold War is quickly reshaping international relations. Regional conflicts that were embroiled in the superpower competition—Afghanistan, Angola, and Central America—are winding down. Economic competition and exchange are displacing military tensions as the main arena of international conflict, although constraints on U.S. interventionism may diminish. Three centers of economic dynamism are emerging: in North America, Western Europe, and East Asia. Managing the relations within and among these centers is at the heart of world affairs. Multilateral cooperation to deal with shared

problems may become more feasible as foreign policy agendas turn to issues such as migration, trade, drugs, and the environment. The ability of the United States to deal with each of these issues will be crucially affected by developments in Latin America, and the region's importance to the United States is likely to rise accordingly.

The spread of participatory democracy and market economics is related to but distinct from the waning of the Cold War. The command economy has failed, and the very notion of dictatorship has become illegitimate. Democratic ideas and institutions are almost universally hailed, if not always practiced. But it is important not to exaggerate the appeal of neo-liberal economic policies in Latin America, for they run counter to populist traditions.

Global power is diffusing, particularly to Europe and East Asia, where economies are dynamic and political influence is rising. But neither Europe nor Asia is likely to have a major impact on Latin America in the foreseeable future. Europe's importance for Latin America as a source of investment, aid, and trade has been modest in recent years and is unlikely to expand much. Japan's financial and commercial stake in Latin America is important but is no longer growing fast.

What will be most significant for Latin America is the broader restructuring of the global economy. The ultimate impact of a shifting international economic order depends above all on Latin America's own policies. The region's role as an exporter of raw materials and a source of unskilled labor makes it extremely vulnerable in a world of synthetics and automation, but some countries are successfully finding profitable niches in international productive networks.

Latin America need not become marginal in a dynamic world economy. The region has abundant resources, a considerable (if deteriorating) infrastructure, technological capacity, significant management expertise, a large supply of unskilled labor, and relative political stability and social cohesion. Each Latin American country must adopt and sustain policies that will allow it to secure the benefits of a transformed world economy.

In such a world of flux, no precise formula can be offered to help the Americas cope with rapid change. The most important step for each country of the Americas is to put its own economic house in order. The world of the 1990s will penalize those nations that pursue autarchic policies or that do not muster enough fiscal discipline. The countries of the Western Hemisphere also have much to gain from enhanced regional and sub-regional economic integration. The Enterprise for the Americas Initiative is

an important and welcome recognition of the need for hemispheric cooperation, as is Canada's entry into the Organization of American States.

As the countries of the Americas move toward economic partnership, they must confront some difficult choices.

- They have to consider what specific kinds of regional economic arrangements make sense and how to build them.
- They must devise concrete measures to take what advantage they can of the dynamic economic expansion of Europe and Japan.
- They need to address lingering problems of the Cold War era—Central America's wars, inordinate military expenditures, and Cuba's anomalous isolation.
- And they must strengthen regional institutions in order to deal effectively with the agenda of the 1990s: trade, energy, the environment, drugs, immigration, poverty, equity, and public health.

II. Latin America's Economic Future: The Crucial Choices

Eight years after the debt crisis first struck, Latin America remains mired in depression, its deepest and longest ever. An immense debt burden of more than $400 billion, record levels of inflation, feeble investment rates, and shaken confidence are all obstacles to economic recovery. The region has not been able to finance essential imports and infrastructure, build its international competitiveness, or address staggering problems of poverty.

There is now agreement on the broad solution to Latin America's economic trauma: cut budget deficits and control inflation; abandon autarchic development strategies and emphasize exports and foreign investment; and reduce government involvement in economic production and regulation.

Yet despite the wide agreement on the need for these market-oriented economic reforms, intense debate and conflicts persist over the magnitude and pace of the changes required. Every Latin American government faces hard choices in four critical areas: how to manage outstanding debts, how to expand trade and foreign investment, how far to go in privatizing state enterprises and deregulating

economic activity, and how to confront growing poverty and inequality.

Latin America's debt problems are daunting but far from hopeless. U.S. Treasury Secretary Nicholas Brady's plan to offer debt relief while encouraging major economic reforms was an important step in the right direction, but it must be extended to every country actively pursuing World Bank- or IMF-supervised reforms. The two multilateral agencies should be called on to establish debt reduction targets and to mediate debt negotiations between the commercial banks and the debtor nations. If Latin America's feeblest economies are to recover, most of their debt will have to be forgiven. But debt relief can only help to restore growth where it is accompanied by sound economic policies.

There is no single prescription for expanding trade and foreign investment that will fit all of Latin America's diverse economies. Two basic requirements must be met, however. First, exchange rates must be kept competitive, which most countries are now doing. Second, domestic markets must be opened to imports by decreasing tariff and non-tariff protection. But governments must make decisions regarding the speed and extent to which they will open their markets. A key choice is whether to adopt uniformly low tariffs on all imports or to try to use trade restrictions to advance the growth of certain industries. Tariff barriers have helped to promote industrial development in many countries, but protected industries can lose their competitive edge.

Latin America's export and investment performance also depends on a favorable world economic environment. The region's prospects would be badly damaged by more restrictive trade barriers in the industrialized countries and by higher international interest rates. The United States in particular could help to avoid those dangers by dealing sensibly with its budget and trade deficits. All countries must redouble their efforts to achieve a successful conclusion of the Uruguay Round of GATT negotiations, including the lowering of industrialized-country farm subsidies and an easing of import restrictions on tropical products.

In part because the outcome of the Uruguay Round is so uncertain, the U.S. Enterprise for the Americas Initiative to strengthen hemispheric trade links is especially timely and welcome. The broad proposal advanced by President Bush must now be given concrete definition. Systematic consultations among all the nations of the Americas are required to shape a new hemispheric trade

strategy. Latin American countries should also pursue efforts to expand intra-regional trade.

Latin American countries can improve their economic productivity by privatizing state enterprises, lifting regulations on private business, and curtailing the subsidies and protection enjoyed by private and state firms alike. Privatization and deregulation must, however, take account of other compelling objectives such as environmental protection, worker safety, and the supervision of financial institutions.

During the 1980s, alleviating poverty and social injustice took a back seat to restoring economic stability and growth in Latin America. Some 40 percent of the region's population now lives below the poverty line. But skimping on health, education, and other social programs is not only morally offensive; it can also be economically costly—e.g., a poorly educated workforce will be less productive. Moreover, when wide gaps exist between the rich and poor, social conflict makes it difficult to implement consistent economic policies.

Even if Latin American economic growth rates hit 5 percent annually—a formidable challenge—lifting the poorest fifth of Latin Americans out of poverty would take 30 years. This time frame can only be shortened by government action. Poverty alleviation can support economic growth by targeting anti-poverty efforts directly on the poor and by focusing on enhancing their productivity. Reducing population growth must be part of any strategy to attack poverty in Latin America.

The fundamental issue in Latin America today is the economic role of the state. Nearly every crucial economic choice concerns how and to what extent governments should intervene in the national economy.

The state's economic involvement should be scaled back in much of Latin America, but not all state intervention is wasteful. Governments must act to restore economic stability and establish a climate of confidence for private business. They must control expenditures and reform tax systems, invest more in infrastructure and public services, and improve education and health. The objective should not be to strip the state of its economic role. The challenge instead is to redesign and improve that role, and—at the same time—to expand and strengthen the contribution of the private sector and the market.

It is hard to be sure in 1990 that Latin America will recover its economic vitality. There is much that lies outside the region's direct control. The most important determinants of Latin America's economic future, how-

ever, will be the choices that the countries make for themselves—and no choice will be more significant than how the state involves itself in the economy.

III. The Challenge of Global Warming

Environmental deterioration is the greatest potential threat to the Western Hemisphere's future. A concerted effort by the nations of the Americas to address the problem of global warming, which could trigger worldwide climactic catastrophe, deserves urgent priority.

Some environmental cooperation is taking place among neighboring countries on limited issues, but there has been no coordinated action on a hemispheric scale to face the danger of global warming. Western Hemisphere governments confronting desperate economic and social problems plus more immediate environmental dangers have largely postponed tackling this long-term threat. Alone among industrialized countries, the United States insists that more conclusive evidence about global warming's dangers is needed before major action is taken.

It is only through international cooperation that the dangers of climate change can be addressed. Progress toward a hemispheric approach to atmospheric warming could set the stage for the subsequent forging of needed global arrangements. In particular, fashioning an appropriate formula for needed North–South cooperation may now be possible in the Western Hemispheric context. But no Latin American government will act without a clear U.S. commitment to combat global warming. That will require the United States to join other industrialized countries in pledging to curb greenhouse gas emissions. The United States should also push to create a standing inter-American group charged with developing a joint hemispheric environmental action plan focusing on global warming. Short-term targets would be set for curbing greenhouse gas emissions from the hemisphere's countries, and each country would formulate a concrete plan for achieving them.

Four major sources of greenhouse emissions demand special attention: excessive population growth; wasteful energy use throughout the hemisphere; tropical deforestation in Latin America; and the production of chlorofluorocarbons and halons, gases that are destroying the planet's ozone layer.

Some of the policies required to address global warming and other environmental problems will promote more

vigorous long-term Latin American economic development, but coping with the heavy short-term costs of environmental protection will require financing from outside the region. President Bush's June 1990 Enterprise for the Americas Initiative may generate some funding. Within their own budget restraints, the United States and Canada could also help at modest cost by providing scientific and technical support for alternative regional energy strategies, by training Latin Americans in environmental disciplines, and by transferring existing technologies for producing CFC substitutes and controlling air pollution.

Most near-term support must come from the multilateral banks, which already invest heavily in energy and resource management projects, and help to shape environmental and development strategies in the developing world. The Global Environmental Facility being considered by the World Bank should be quickly launched and generously funded. Over the longer term, the international community should seriously consider bolder financing schemes. It is time to explore how a worldwide fossil fuel tax could be implemented. Revenues from such a tax could fund energy conservation in developing countries and various anti-global warming programs.

Although it is premature to specify the best institutional means for hemisphere-wide environmental cooperation, the nations of the Americas should concentrate initially on developing an environmental code of conduct that would set forth national obligations, handle dispute resolution, and create a framework for continuing negotiations on ecological policies. The inter-American community should also consider establishing a new institution—modeled on the Pan American Health Organization or the OAS Inter-American Commission on Human Rights—to gather and analyze data, furnish technical assistance, evaluate compliance with hemispheric targets, and spotlight violations.

Western Hemisphere efforts to address environmental problems could prove a model for coping with broader North–South environmental disputes and could add needed political momentum for wider international cooperation against global warming. The longer such action is put off, the greater the risks for all the Americas and the world community as a whole.

IV. Democracy on Trial

Throughout Latin America and the Caribbean, military regimes and personalist dictatorships have given way

to freely-elected civilian governments. But democracy today is strong only in those countries where it was well-established a generation ago. In most of the countries of the region, democracy is very much on trial.

Costa Rica, Jamaica, Venezuela, and some of the smaller Caribbean countries are the region's healthiest democracies. All of them have strong political and civic institutions, respect human rights, and maintain civilian control over the armed forces. The prospects for sustaining democracy are also promising in Chile and Uruguay where democratic traditions and institutions have been reestablished after years of military rule.

Elsewhere in the region, however, democracy is troubled; in some places, deeply so. Direct military takeovers are no longer the primary danger to democratic progress in Latin America. Today, the greatest risk comes from the erosion of public confidence in elected governments that are unable effectively to address such fundamental problems as prolonged economic deterioration, intense civil strife, enormous disparities in income and wealth, unresponsive public institutions, continuing military interference in political affairs, and widespread crime and official corruption.

In four countries—Colombia, Peru, Guatemala, and El Salvador—protracted guerrilla insurgencies have led to vicious circles of violence that, to varying degrees and in different ways, are undermining the institutions, procedures, and values essential to democracy.

Democratic politics in Colombia are threatened not only by insurgent movements but also by the relentless violence of criminal drug organizations, paramilitary groups, and national security forces. Although under siege, Colombia's political institutions continue to demonstrate resilience and flexibility.

Peru, in contrast, is battling against national disintegration. Besides the Shining Path guerrilla insurgency and narcotics trafficking, it faces chronic economic depression, an impoverished population, political polarization, and a psychology of deepening despair.

In El Salvador and Guatemala, democracy does not extend much beyond periodic elections. Civilian leaders have been unable to control the armed forces, address the needs of poor majorities, or bring an end to the violence that wracks their societies. United Nations-mediated talks in both countries, however, offer some hope for peace.

Even where guerrillas do not threaten, democratic rule is often challenged by armed forces that are not effectively subordinated to civilian control. Although direct military

rule is now exceptional in Latin America, the deterrents to military intervention are still weak throughout the region, leaving democracy precarious.

Another danger to democratic rule in Latin America is the continued weakness of political and civic organizations. Legislatures and judicial systems lack the autonomy, stature, and competence to carry out their constitutional functions. Political parties in many countries are often little more than vehicles for contesting elections and distributing patronage. Few countries in the region boast a vigorous array of non-governmental organizations through which the demands of ordinary people can be consistently brought to the attention of authorities. In many places, the press still represents only a relatively narrow range of opinion.

Even in those nations with relatively strong political institutions, democratic governance is threatened when citizens fail to participate in political life because of disillusionment, apathy, or exclusion. In many Latin American countries, there is today a growing distrust of politics, and similar problems are being experienced in Canada and the United States.

All of the threats to democratic rule in Latin America are today greatly exacerbated by the region's economic crisis. Democratically-elected leaders who have been unable to stem economic decline have lost support and authority, thereby making it even harder for them to carry out the painful adjustments required for economic improvement. Worsening economic conditions, in turn, help to sustain the Shining Path and other insurgencies. In some countries, economic "shock" treatments to halt rampant inflation have provoked outbreaks of violence. The credibility of democratic rule itself may be endangered.

The main responsibility for building democracy necessarily falls on each nation. But the inter-American community, with its broad commitment to democracy, can reinforce national efforts to fortify democratic rule in four specific ways:

- The nations of the hemisphere should promote negotiated settlements of Latin America's remaining guerrilla insurgencies.

- U.S. and other military assistance programs should be designed to reinforce, not weaken, civilian control of the armed forces. Efforts to fight the narcotics trade must not enmesh armies in political tasks and thereby undercut civilian authority.

- Wherever there is the danger that national elections will be marred by fraud, manipulation, or violence, the inter-American community should provide electoral monitors and other needed assistance.

- All nations of the hemisphere, individually and collectively, should take measures to strengthen protections against human rights abuses.

Most of all, the building of stable democracies in the Americas will require the resumption of economic growth, combined with concrete measures to alleviate poverty and inequality. Democratic institutions cannot be expected to thrive under severe economic duress—when millions of citizens are without jobs, adequate shelter and nutrition, basic education, or even hope for the future.

Executive Committee of the Inter-American Dialogue