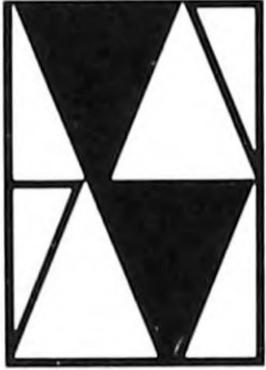


Rebuilding Cooperation in the Americas

1986 Report of the
Inter-American Dialogue



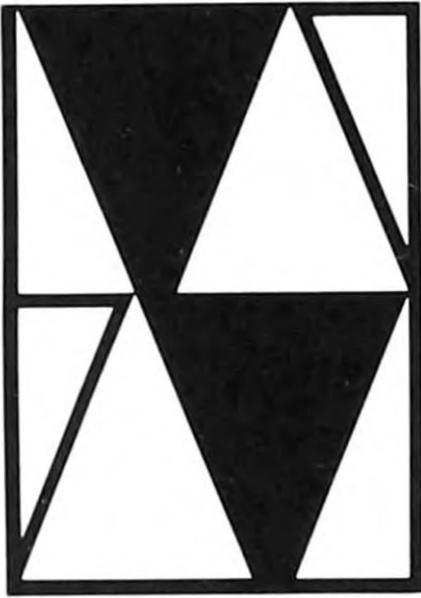
Inter-American Dialogue

The Inter-American Dialogue is a group of concerned citizens from the United States, Canada, Latin America, and the Caribbean who meet regularly to discuss and offer recommendations on major hemispheric issues.

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 Galo Plaza, former President of Ecuador and Secretary General of the Organization of American States. Other participants in the Dialogue include men and women with experience in government; bankers, industrialists, and labor officials; scholars, media executives, and foundation heads; and religious, political, and military leaders. To assure frank discussions, all members participate as individuals, acting in their personal capacities. Persons currently exercising national government responsibility are not included in the Dialogue.

The Inter-American Dialogue is a nonpartisan and nongovernmental project supported by grants from foundations and corporations. It operates under the auspices of the Aspen Institute for Humanistic Studies. The Dialogue has now met in plenary session four times and issued two previous reports—**The Americas at a Crossroads** (April 1983) and **The Americas in 1984: A Year for Decisions** (May 1984). Copies of the 1984 and 1986 reports can be obtained by writing to:

Inter-American Dialogue
1333 New Hampshire Avenue, N.W.
Suite 1070
Washington, D.C. 20036
Telephone: (202) 466-6410



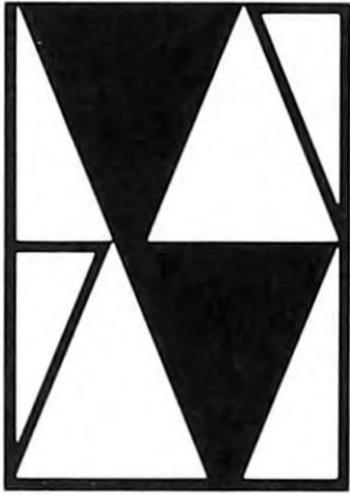
Rebuilding Cooperation in the Americas

1986 Report of the Inter-American Dialogue

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April 1986

Aspen Institute of Humanistic Studies, Washington, D.C.



Executive Summary

Overview

- It is a dangerous delusion to think that Latin America's financial crisis has passed. The Baker plan is a welcome step in the right direction, but it is not sufficient to get Latin America very far on the road to recovery from its worst depression since the 1930s. We propose a comprehensive program of inter-American economic cooperation to bring Latin America's massive debt under control and restore economic health to the region. (Chapter 1)
- We believe that verifiable and enforceable security arrangements can be achieved in Central America. Such arrangements would be far more effective in protecting the region's security than efforts to alter the Sandinista regime in Nicaragua by force. All military and paramilitary support for the contras should be ended, including so-called "humanitarian" assistance that helps the contras wage war. This aid obstructs progress toward a negotiated settlement in Central America, as do Nicaragua's increasing ties to the Soviet Union and Cuba. (Chapter 2)
- The crucial political challenge in Latin America today is how the region's fragile democratic openings can be consolidated. The major obstacles are economic stagnation regionwide and violent conflict in Central America. Hemispheric cooperation is needed to help remove these obstacles and to advance democracy more directly. (Chapter 3)
- The drug trade is a tragedy of immense proportions for our Hemisphere. Growing awareness, North and South, of the deadly consequences of drug abuse must now be turned into a shared inter-American commitment to confront narcotics trafficking. Stronger programs of education, eradication, and enforcement are all needed; selective legalization is an idea that should be studied as well. (Chapter 4)

Chapter 1: Facing up to the Crisis of Debt and Growth

Latin America remains mired in deep depression. Since the onset of the debt crisis four years ago, Latin American countries have drastically cut domestic consumption and imports in order to pay interest charges. Most countries have made major changes in the management of their

economies. Recovery, however, continues to be frustrated by large outflows of capital. The region's huge debt burden is compounded by stagnant export earnings, limited access to commercial credit, and low investment. Since 1981, Latin American nations have been getting poorer, reversing two earlier decades of economic progress.

The drop in international petroleum prices has exacerbated the economic problems of Mexico and other regional oil exporters. Latin America's economies remain distressingly vulnerable to external events beyond their control. Even Brazil has been forced recently to enact a series of tough economic measures to confront large budget deficits and high inflation.

Latin American governments face a double bind. They are committed to repaying their debts in fulfillment of their international obligations. But they must also fulfill their obligations to their own citizens who are demanding economic growth, jobs, and social equity. Most countries cannot simultaneously repay their debts and invest for growth with the limited resources they now command. If economic health is not restored soon, confidence in democratic institutions may weaken.

The plan advanced late last year by U.S. Treasury Secretary James Baker was a welcome initiative to deal with the crisis of debt and growth. But, even if fully implemented, it would not be enough to get Latin America's economies very far down the road to recovery.

We propose a comprehensive, long-term program of economic cooperation, on a scale unprecedented in the Americas. Concerted efforts are needed by all relevant actors: the Latin American countries, the United States and other industrial nations, the multilateral financial institutions, and the commercial banks.

This program of economic cooperation must accomplish five critical tasks:

First, Latin America's debt must be restructured so that it can be more effectively managed. The debt of a few countries may have to be written down.

Second, agreement must be reached among all parties on Latin America's financial needs. A joint declaration of such a target figure would be important in gaining funding commitments from the different financial institutions.

Third, the necessary additional funds—some \$20 billion each year for the next five years—must be mobilized through a combination of reduced interest payments, increased lending from private and official sources, and new investments. Most of the money will have to be generated from the commercial banks. The rest must come from the multilateral financial institutions, official bilateral lending agencies, increased foreign investment, and returned capital flight.

Fourth, the Latin American countries must continue to improve the management of their economies by sustaining efforts to reduce public sector deficits; divest themselves of inefficient state enterprises;

strengthen their private sectors; expand national savings and investment; and promote exports and more efficient import-substitution. These measures have to be tailored to the economic and political circumstances of each country, and they must be accompanied by adequate levels of external financing.

Fifth, the industrial countries must undertake policies to reduce international interest rates and expand world trade. The United States must adopt sound policies to reduce its fiscal deficit and continue to resist pressures for new import controls.

To achieve the coordination required to accomplish this five point program, a standing group of high-level representatives from debtor and creditor governments and from the various financial institutions should be established.

Chapter 2: Central America: The Search for a Secure Peace

Central America's civil wars take thousands of lives each year, displace hundreds of thousands from their homes, and lay waste to the region's economies. No end to these conflicts is in sight. Every effort must be devoted to negotiating solutions to Central America's wars before they become more destructive. Political solutions—not military victories—are the realistic alternatives to protracted war in Central America.

The struggle in Nicaragua between the Sandinista government and the anti-Sandinista rebels (the contras) is particularly dangerous because it is a focal point of East-West confrontation. The present course of both Nicaragua and the United States could produce U.S. military intervention. Unilateral U.S. intervention would alienate the democratic leaders now dominant in most of Latin America and isolate the United States from its friends in the region. It must be avoided.

The internal situation in Nicaragua and the international behavior of the Sandinista regime are both disturbing, but the U.S. response to Nicaragua's challenge is ineffective and counter-productive. Escalating U.S. pressure has diminished the Nicaragua government's incentive to compromise because that pressure increasingly appears aimed at overthrowing the Sandinista regime rather than achieving a peaceful settlement.

All military and paramilitary support for the contra's campaign against the Sandinista government should be ended, including so-called "humanitarian" assistance that helps the contras wage war. Such aid to the contras offers no solution to the security problems posed by Nicaragua, and it obstructs progress toward a negotiated settlement that could protect all of Central America.

By the same token, Nicaragua must renounce its support for insurgents in El Salvador and elsewhere. It should also reduce its military ties with Cuba and the Soviet Union by withdrawing Soviet and Cuban military personnel and restricting its arms acquisitions from those countries.

Under current circumstances, essential steps toward peace are unlikely to be taken as unilateral initiatives by either the United States or Nicaragua. They can, however, be accomplished within the framework offered by the Contadora process, the diplomatic initiative undertaken by Mexico, Colombia, Venezuela, and Panama.

All countries in the Hemisphere, and particularly the United States and Nicaragua, must give wholehearted support to the Contadora efforts through their actions—not merely their words. Contadora cannot succeed as long as the United States insists on fundamental changes in the Sandinista regime as a prior condition for agreement on security matters.

It is important for the United States and other countries of the Hemisphere to press Nicaragua to move toward internal reconciliation, political pluralism, and democracy. Nicaragua should end its state of emergency, lift restrictions on freedom of the press and association, respect the rights of minorities, and begin an active dialogue with the full range of opposition. But efforts to achieve a workable regional security arrangement should not be held hostage to the accomplishment of internal political reform in Nicaragua.

Security for all the countries of Central America would be best protected by ending the region's destabilizing wars and by placing appropriate restraints on Nicaragua's external behavior. Once that is achieved, democratic governments throughout the Hemisphere can and should work together—through diplomatic means, not military force—to promote a political opening in Nicaragua.

Neither democracy nor security in the Hemisphere would be jeopardized by a carefully framed and verifiable peace treaty with the government of Nicaragua. The alternative is protracted warfare, which would, indeed, threaten the security of all countries in the Americas.

Although overshadowed by the conflict in Nicaragua, civil war still rages in El Salvador, taking a terrible toll of casualties, refugees, and economic destruction. The struggle will not end with decisive military victory for either side. The best hope for peace and reconciliation in El Salvador lies in negotiations between the government and the armed opposition. Renewed talks could lay the groundwork for a gradual deescalation of the fighting and eventually for fashioning arrangements under which all parties can participate securely in free elections. The precise nature of these arrangements should emerge from negotiations; they cannot be prescribed in advance.

Chapter 3: Consolidating Democracy in the Americas

Democracy is gaining ground throughout Latin America and the Caribbean. In country after country, undemocratic regimes have been yielding to constitutional governments. The brutal years of repression in Latin America underscored the value of democracy to most people in the region. The central political issue in Latin America today is whether the region's turn toward democracy will endure.

The obstacles to consolidating Latin America's fragile new democracies are daunting. If democratic governments cannot produce economic growth and foster social equity, they could lose credibility. Populist demagogues may press for more radical policies. Armed forces might again intervene.

An historic opportunity now exists to strengthen democracy and help it take firm root. The main tasks in building democracy are internal to each nation, but there is important scope for international support.

The single best external contribution to strengthening democracy in Latin America would be relief from the region's debt burden. Democratic governments should be helped to overcome their tough economic problems, not taught lessons about particular economic orthodoxies. A secure peace would do most to improve democratic prospects in Central America.

Concrete measures that governments should undertake to help foster democracy are: public diplomacy in favor of democratic movements; a halt to economic and military assistance to regimes that systematically violate human rights; initiatives to strengthen legislatures, judicial and law enforcement systems, and non-governmental civic institutions; steadfast promotion of freedom of the press; technical assistance in support of free and fair elections; efforts to establish and preserve civilian control of the military; and aid to address the fundamental problems of inequality and injustice that breed revolution and repression.

Chapter 4: Controlling the Narcotics Trade

Drug traffic in the Hemisphere has reached immense and dangerous proportions. In the United States, drug-related crime and corruption are pervasive; in Latin America, drug corruption is weakening fragile democracies. North American levels of drug abuse, with all their disastrous social consequences, have come to plague parts of Latin America. The drug trade remains a major source of conflict between the United States and those Latin American and Caribbean countries where drugs are grown and processed.

Changing attitudes both in Latin America and the United States offer an opportunity to confront the drug problem more forcefully than has been possible so far. Latin American governments now see drugs as a threat to their own citizens and sovereignty. People in the United States are beginning to recognize that curbing the demand for drugs is as important as trying to stamp out the supply. Both "supply-side" and "demand-side" solutions are needed.

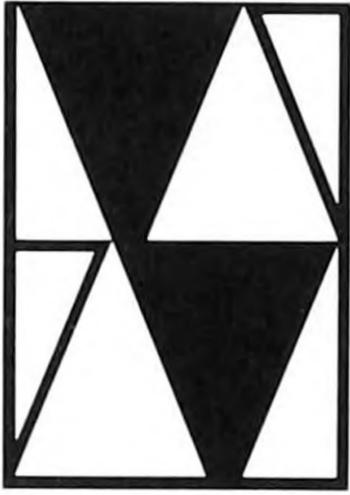
An inter-American strategy to deal more effectively with drugs should include three key elements:

- Much more serious drug education and rehabilitation efforts by the United States.

- Stepped-up eradication programs in Latin America. As Latin American governments commit themselves to expand the eradication and seizure of drugs, the United States should respond positively to requests for assistance.

- Sustained high priority to the narcotics issue in the Hemisphere, plus readiness to explore fresh approaches, including some not now on the political agenda. Continuing attention and joint resolve are essential to avoid backsliding by Latin American countries or the United States.

A regional body, on the model of the Inter-American Commission on Human Rights, should be established to collect and share information on the narcotics trade, to assess the strengths and weaknesses of different means of combating it, and to explore new approaches. Because narcotics is such a formidable problem, the widest range of alternatives must be examined, including selective legalization, which could reduce the vice and corruption associated with drug trafficking.



Preface

This report has one central message: It is time to rebuild inter-American cooperation.

The Americas in 1986 are troubled. Economic, political, and social problems are mounting. The nations of Latin America and the Caribbean must work closely with the United States and Canada to face these issues.

Most of the countries of Latin America and the Caribbean remain mired in depression, with no sustained relief in sight. The region's capacity to manage its debt and to resume growth has been eroding. The economies of the United States and of Canada are directly hurt by Latin America's plight.

Central America's destructive wars grind on, causing immense human suffering and undermining that region's future. Conditions in Nicaragua under the Sandinistas have been deteriorating. The danger of military confrontation between Nicaragua and the United States has grown.

The deadly narcotics trade is an old problem that has returned with new virulence in the 1980s. Drug abuse and associated corruption and crime are harming people and weakening governments throughout the Americas.

These three problems are grave, and they demand urgent attention. We believe there is now an unusual opportunity for the peoples and governments of the Americas to join together to confront these serious challenges.

The most heartening change in Latin America during the 1980s has been its democratic renewal. Throughout the region, military regimes have been giving way to civilian governments committed to reconstructing democratic politics.

Moderate and pragmatic leaders have come to power who are ready to work with each other to solve hemispheric problems. Through their involvement in the Cartagena group, they are seeking responses to the crisis of debt, growth, and trade. Through their involvement in and support of the Contadora process, they are trying to bring peace to Central America. These initiatives should be supported.

The opportunity for rebuilding hemispheric cooperation also reflects changing attitudes in the United States. The "Baker Plan"—the suggestions put forward by Secretary of the Treasury James Baker last October—represents a new appreciation in the United States that Latin America's economic crisis can only be resolved through inter-American efforts.

It is also becoming increasingly understood in the United States that dealing effectively with the drug trade will require cooperative action, and that peace in Central America will require regional accord.

Two years ago, the Dialogue warned that Latin America's economic problems would worsen and Central America's wars would escalate if the nations of the Americas, North and South, could not work together to resolve them. Unfortunately, our predictions proved to be all too accurate.

The members of the Dialogue—men and women who care deeply about the Hemisphere we share—call for cooperative approaches to the four issues our report addresses: restoring growth to Latin America's economies, building a secure peace in Central America, consolidating democracy in the Americas, and controlling the deadly trade in drugs. We also appeal to the governments of the Americas to commit themselves to the strengthening of inter-American institutions. We must find the will to rebuild the Organization of American States before it is too late.

The Inter-American Dialogue is unique for the quality and diversity of its participants. Our members come from many places: geographically, culturally, professionally, and politically. In our discussions, we probe our differences, search for areas of agreement, and try to offer constructive recommendations. Our report is a group effort. Not every signer agrees fully with every statement in the text, but all affirm that the report reflects the consensus of the Dialogue's participants. Except as noted by individual statements appended to the text, each member subscribes to the report's overall content and tone and supports its principal recommendations.

The signers take sole responsibility for the report. It does not necessarily represent the views of the foundations and corporations that have supported the Dialogue, the organizations with which the signers are affiliated, or the Aspen Institute for Humanistic Studies, under whose auspices the Dialogue operates.

The Inter-American Dialogue draws on the help of many people and institutions. We owe particular gratitude to Peter D. Bell and Rodrigo Botero, the Dialogue's co-vice chairmen, and to the other members of our executive committee. We also express our appreciation to the Dialogue's able and hardworking staff: Abraham F. Lowenthal of the University of Southern California, executive director; Peter Hakim, full-time staff director in Washington; Sallie Mitchell, executive assistant; and Charles Becker.

We are grateful, as well, to Margaret Crahan, Richard Feinberg, Ricardo French-Davis, Mary Hoyt, William LeoGrande, Luis Pásara, and Gregory F. Treverton for their major contributions to the Dialogue's work throughout the past year; to the many other persons who prepared background papers and memoranda and contributed advice; to Linda Robinson and Robert Kraus for editorial help; and to Evelyn Devlin, Helen

Soderberg, Marge Fitzgerald, Karen Pokraka, David Ayón, Kathy Meyer, Jocelyn Rotter, and Konrad Stenzel for administrative assistance.

We thank Brazil's Ambassador to the United States, Sergio Correa da Costa, for hosting the reception following our plenary meeting; the Secretary General of the Organization of American States, João Baena Soares, for sharing his ideas with us; the many ambassadors and government officials who contributed their thoughts; and staff members of the Inter-American Development Bank, the World Bank, the Economic Commission on Latin America, and the Organization of American States who provided advice. We express our special gratitude to the staff of the Aspen Institute, both in Washington and at the Wye Plantation. We are indebted as well to the Helen Kellogg Institute at the University of Notre Dame and the Corporation for Latin American Economic Research (CIEPLAN) for their sustained cooperation in the Dialogue's work.

We very much appreciate the major financial support the Dialogue has received from the Ford, Rockefeller, William and Flora Hewlett, and John D. and Catherine MacArthur Foundations; the Carnegie Corporation; and the Canadian International Development Research Centre. We are also grateful for contributions from the ARCA Foundation, IBM-Americas/Far East Corporation, Chemical Bank, the First Boston Corporation, the Aspen Institute, and Marshall Coyne.

We note here with great sadness the death in the past year of two charter members of the Inter-American Dialogue, both of them from Mexico. Bernardo Quintana was a business leader of vision and integrity whose counsel was sought by several Mexican presidents, and by many others around the Hemisphere. Antonio Carrillo Flores, one of the wisest men of public affairs in the Americas, served his country in many important capacities, including the posts of Minister of Foreign Affairs and Minister of Finance. We shall miss them.

The two of us have worked together over many years. Although we are concerned about the problems facing the Americas, we are also heartened by Latin America's turn toward democracy, and by the increased opportunities for cooperative action we see throughout the Hemisphere. Together with other members of the Dialogue, we believe that these opportunities can and must now be turned into real progress.

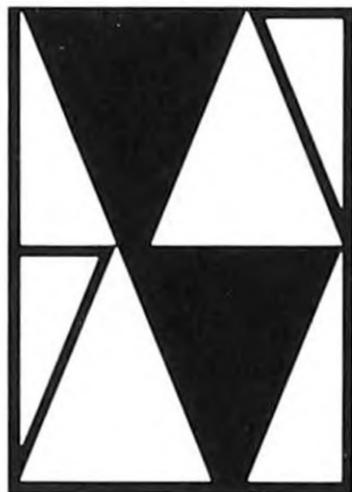
Sol M. Linowitz
Galo Plaza
April 9, 1986



Dialogue Co-chairman Sol M. Linowitz



Dialogue Co-chairman Galo Plaza



Chapter I

Facing Up To The Crisis Of Debt And Growth

The idea that Latin America's debt crisis has passed is a dangerous delusion. With few exceptions, Latin American nations are less able to manage their debt today than they were when the financial crisis first erupted in 1982.

Latin America has now suffered through four years of its worst economic depression since the 1930s. For most countries and people in the region, no relief is yet in sight. Latin America is currently unable either to earn or borrow the capital it needs for economic recovery. Latin American nations are getting poorer, reversing two earlier decades of economic progress.

Since the onset of the debt crisis, Latin American countries have drastically curtailed domestic consumption and imports to pay the interest due on their debts. Most countries have introduced major changes in the management of their economies to correct past policy mistakes and adjust to a more difficult international economic environment. The large drain of capital resulting from their debt burdens, however, frustrates efforts to resume growth and remains a serious barrier to economic reform.

After three years of economic decline, the region registered modest gains in 1984. But most countries suffered new reverses in 1985. In recent months, the economies of Mexico, Venezuela, and several smaller oil exporters have been further strained by plummeting international petroleum prices. Although the drop in oil prices has benefited some countries, it has on balance hurt the region, which is a net exporter of energy.

Brazil has been a notable exception to Latin America's otherwise dismal economic picture. Since mid-1984, Brazil has expanded its exports significantly and produced the growth that has eluded other countries. Last year, Brazil increased its gross domestic product by more than seven percent, while the rest of Latin America grew by less than one percent. But even Brazil has recently had to enact tough economic measures to deal with persistent problems of large budget deficits, high inflation, and low rates of investment.

Latin American governments face a double bind. They are committed to fulfilling their international obligations and to repaying their debts. But they must also respond to their own citizens, who demand economic growth, jobs, and social equity. It has become clear that most countries cannot simultaneously repay their debts and restore growth with the limited resources they now command.

Democratic progress in Latin America, as well as financial stability worldwide, requires the region's leaders and their private and official creditors to chart a new course. The current course, which deprives Latin America of the resources it needs for recovery, is likely to backfire over the longer term. Latin American countries today are struggling to meet their interest payments by forgoing the investment essential for future growth, and then scrambling for whatever new loans they can obtain to meet inevitable shortfalls.

Latin America is falling deeper into debt, but without building its capacity for subsequent repayment; it has been putting off, not preventing, the day of reckoning. Four years of this debt management strategy have left Latin America's economies distressingly vulnerable to external events beyond their control. Just two years ago, Mexico was considered well on the way to recovery; now that country's already troubled economy has been plunged into crisis by declining oil prices. Another shock in the international economy next year could well expose other countries to similarly devastating setbacks.

Declining international interest rates will reduce the burden of Latin America's debt payments. Moreover, lower interest rates, combined with the oil price drop, should spur growth in the industrial countries. This, in turn, will bolster Latin America's exports. But these favorable trends are not sure to last. Even if they do, they will not, by themselves, be enough to assure sustained recovery in the region. A new approach must be found to end Latin America's economic ordeal—to resolve the problems of debt, growth, and trade.

Late in 1985, U.S. Treasury Secretary James Baker set forth a number of proposals to alleviate third world debt problems. In a major shift of U.S. policy, he appealed to the commercial banks and multilateral financing agencies to expand their lending to Latin America and to debtor countries elsewhere. He also recommended that the countries themselves adopt "growth-oriented" policies and that the industrial nations expand world trade.

The Baker initiative is a welcome step in the right direction. It recognizes the need for new capital infusions and emphasizes growth rather than austerity. If carried out, his recommendations would address some of the problems that Latin America will face within the next two or three years. But these measures, even if fully implemented, will not be enough to promote Latin America's recovery. That task demands a far more comprehensive effort.

To restore Latin America's economic health, we propose a five point program of sustained economic cooperation among Latin American governments, the United States and other creditor nations, the commercial banks, and the multilateral financing agencies. Jointly formulated and managed, the program we envision would aim to revive economic and social dynamism in Latin America.

It would also strengthen international finance and trade and reestablish sound economic relations between Latin America and the rest of the world economy.

Latin America's Economic Decline

Latin America's current economic and social problems have their roots in the 1960s and 1970s, a period of unprecedented growth for the region. In two decades of uninterrupted expansion, overall production more than tripled in real terms. Per capita income rose by an average of 3.3 percent per year, faster than in most other regions and twice as fast as in the United States. Latin America emerged as a dynamic actor in the world economy. Brazil led the region's growth and became the eighth largest market economy in the world.

Not all countries shared equally in this economic expansion. There remained great disparities in income and wealth among the nations of the region. Income distribution within most countries, already far from equitable, became even more skewed. Middle and upper income groups captured most of the new wealth while the bottom 60 percent of the population advanced slowly, if at all. But expectations for material progress were high in all countries and among all income groups. Those expectations were shattered in the 1980s—for nearly everyone, everywhere—as economic growth came to an abrupt halt.

Over the past five years, every Latin American country has lost ground. For the region as a whole, per capita income has receded by 12 to 15 percent, and now stands at what it was a decade ago. In many countries—including Chile, Argentina, Peru, Bolivia, Haiti, Jamaica, Nicaragua, and El Salvador—per capita income has declined to levels of the early to mid-1960s. This reversal has been especially hard on the region's lowest income groups.

Social justice has become an empty phrase for most of the region's poor. Deprivation has visibly expanded in Latin America's overcrowded cities and poverty-stricken countryside. Inadequate housing, deteriorating public services, food shortages, and street crime have all worsened. Infant mortality, after years of decline, is on the rise again in many places.

Unemployment rates have never been higher in most countries. Many millions of part-time, low paid workers are living at the margin of subsistence. Upwards of 40 percent of the region's workers lack regular jobs or are out of work completely. The employed, too, are suffering. Real wages have dropped in many countries, and most workers are worried about losing their jobs. The hardships caused by unemployment and low wages have been compounded by deep cuts in public expenditures for health, housing, education, and social security. Malnutrition, poor health, and substandard education are depleting Latin America of its single most critical resource—the potential of its young people.

In the 1970s, Latin America's economic expansion was fueled by external financing, particularly by massive commercial borrowing that was spurred by very low international interest rates. In this climate of rapid growth and easy credit, the region's indebtedness grew more than ten-fold between 1970 and 1982, from \$27 billion to about \$300 billion.

During the early 1980s, debt obligations soared as interest rates skyrocketed to record levels. At the same time, Latin America's capacity to meet those obligations dropped precipitously when global recession cut deeply into export earnings and the region's access to commercial credit was sharply curtailed. This vicious scissors effect was the immediate cause of the regionwide debt crisis.

The problems were made worse by a legacy of economic mismanagement from the period of high growth. Public sectors throughout Latin America were bloated; inefficient state enterprises were operating at large losses. Many private firms became dependent on cheap credit and other government subsidies. In some countries, military spending added to the drain on government budgets. Overvalued exchange rates discouraged the growth of export industries.

The debt crisis burst into public view in August 1982 when Mexico announced that it could not meet its external financial obligations. Default by Mexico or any of Latin America's large debtors threatened to undermine international financial markets because of the magnitude of the region's debt to commercial banks worldwide.

Latin America's creditors devised a three-pronged strategy to assure that the countries would continue to meet their interest obligations. First, Latin American countries were called upon to impose stringent austerity measures in order to reduce domestic consumption and expand income from trade. Second, creditor banks and governments agreed to reschedule loans to push principal payments into the future. Third, the International Monetary Fund (IMF), other official agencies, and the commercial banks provided some new loans to cover shortfalls in interest payments.

The strategy was partially successful. Private banks did not suffer major losses, and avoided any widespread writing down of the debt. The Latin American countries generated a large trade surplus by squeezing imports to 60 percent of pre-crisis levels. Most managed to pare their budget deficits. But the main problems were not solved. The strategy did not reactivate growth, expand export earnings, or renew access to commercial credit.

The debt burden itself continues to be the primary obstacle to Latin America's economic recovery. Each year since 1982, interest payments have absorbed some \$35 billion out of the region's export earnings of \$90 to \$100 billion per year. Without significant new commercial lending, Latin America has had to extract those payments directly from domestic savings, stripping away capital needed for investment and growth. Huge resources have been transferred out of the private sector to permit

servicing of the public debt. Real interest rates have come down in the past year, but they remain far above the rates of the 1960s and 1970s. Adding to the problem have been the sharp decline in foreign investment and the flight of domestic capital, both largely due to the depressed state of Latin America's economies. Overall investment in the region is now less than 70 percent of what it was in 1980–82. Latin America is not investing enough to provide for future growth. Instead of rebuilding their economies, Latin countries are living hand-to-mouth.

A sluggish global economy has seriously complicated recovery efforts. Slow growth in the industrial countries has meant slack demand and low prices for Latin America's exports, and has led to increased pressure for trade restrictions. Over the past five years, Latin America managed to expand the volume of its exports by 24 percent, but earnings today are barely above their 1980 level because of falling commodity prices. The losses resulting from this drop in commodity values have been far greater than the savings from declining interest rates.

To generate foreign exchange, Latin American countries have had to maintain a tight lid on imports. In most countries imports had been excessive, but the steep decline—from \$100 billion in 1980 to \$60 billion in each of the past three years—has created a serious bottleneck in domestic production. Shortages have occurred in spare parts, equipment, raw materials, and intermediary goods that previously were imported and for which no domestic substitutes are available.

Adjustment programs have also slowed domestic production in Latin America. By dampening demand and forcing up internal interest rates, they have dramatically weakened industry, commerce, and agriculture. Latin America is running down its industrial base and economic infrastructure.

Austerity has been associated, paradoxically, with the highest inflation rates in the region's history. Even excluding Bolivia's hyperinflation of 10,000-plus percent, inflation overall in the region jumped from 60 percent in 1980 to an average of approximately 150 percent in the past two years. In 1985, inflation topped 100 percent in five countries, and exceeded 20 percent in ten others. This inflation is a source of great instability in Latin America's economies.

Thus far Latin American countries have, by and large, complied with the strategy devised by their creditors. They cannot do so much longer. Political pressures are mounting throughout the region for renewed growth and an end to austerity. The sacrifices and hardship demanded of Latin America's people have produced surprisingly little political turmoil to date. Discontent, however, is becoming widespread and potentially dangerous. The people of Latin America justifiably expect their sacrifices to produce results.

We fear that economic discontent may increase the appeal of undemocratic solutions of the extreme left and right. Unless elected leaders can provide relief for their citizens, they will almost certainly lose popular

support. In some countries, military rule may once again replace civilian authority; in others, more nationalistic, populist, and radical governments may emerge. Consolidating stable democracies in Latin America requires that the region's economic depression be brought to an end. If it is not, our best hope for developing a community of democratic nations in the Hemisphere could be lost.

A New Program of Economic Cooperation

In our 1984 report, we concluded that "a cooperative effort at the global level" was needed to confront the economic and financial crisis afflicting Latin America. During the past two years, the region's economic problems have intensified and now openly threaten the stability of both democratic governments and international financial arrangements. Concerted action is even more urgently needed today.

This view is increasingly shared not only by Latin American debtor countries, but also by the United States and other industrial nations, the commercial banks, and the multilateral financing agencies. All these parties now agree on three critical issues. First, economic growth must be revived and sustained in Latin America. Second, new infusions of capital are required to promote that growth. Third, economic policy reform must continue in Latin America to remove domestic obstacles to development.

Cooperation from many different parties will be needed to alleviate Latin America's economic crisis. Additional lending is required from the commercial banks, as are larger disbursements from the World Bank and the Inter-American Development Bank (IDB). The Latin American countries must further cut public deficits, encourage public and private investment, and bolster exports. The industrial countries should expand their economies more rapidly, open their markets more widely to Latin American products, and work to reduce international interest rates even further.

The Baker proposals reflect this shared assessment of Latin America's economic problems and of the steps that must be taken to deal with them. We are encouraged by the promise of leadership from the United States on the debt issue. We urge the Latin American countries to work closely with the commercial banks and multilateral agencies to take advantage of the new credits proposed in the Baker plan.

But the time has come to undertake a far more comprehensive effort. We call upon Latin America and its creditors now to work jointly to develop and implement a broad, long-term program of economic cooperation. Five critical tasks must be accomplished in order to confront the obstacles to economic growth in Latin America.

- Latin America's debt must be restructured;
- Agreement must be reached among all parties on the real magnitude of the region's financial needs;

- The funds required for sustained growth in the region must be made available through a combination of reduced interest payments, increased lending from private and official sources, and new investment;
- Latin American countries must persist in efforts to reform their economies;
- World trade must be expanded and the international economy strengthened.

1. Restructuring Latin America's Debt

Latin America's debt obligations must be restructured so they can be effectively managed. This would eliminate the prolonged negotiations and crisis atmosphere that characterize repeated debt reschedulings. It would also establish long-term contractual arrangements that would be more realistic and thus more likely to be fulfilled.

Several countries have already had large portions of their loans rescheduled. The bulk of the region's debt, however, is still short-term and will eventually have to be renegotiated. **All of Latin America's outstanding debts, public and private, should now be restructured under the most favorable conditions the commercial banks and official creditors can offer.** Repayment periods in most cases should be extended to 15 years or longer, commission fees waived, interest surcharges held to an absolute minimum, and payments on principal deferred for at least five years.

Most countries in Latin America are meeting their debt obligations, albeit with great sacrifice. A few countries, however, are clearly overloaded with debt. No matter how restructured, their debt burdens will remain too high a percentage of gross domestic product and too great a multiple of annual export revenues ever to be soundly managed. In those cases, a portion of the debt may have to be written off to restore order to the countries' financial transactions. This expedient should be used with care, as continued activity by private lenders and investors is to Latin America's long-term benefit.

We encourage the commercial banks, together with their government regulators, to take the lead in developing procedures for dealing with such unmanageable debts. Limited write-downs have already occurred in a few countries, but more are necessary. The number of cases should be kept small and regulatory changes introduced to allow the banks to absorb the losses over several years.

Overall, the restructuring of Latin America's debt would serve to enhance the quality of the banks' loan portfolios, as it would improve the borrowers' ability to pay. Since a majority of countries are not currently paying principal on their loans, restructuring would not free large resources for the countries. It would, however, help to alleviate the disorder and uncertainty that characterize Latin America's financial relationship with its creditors. For both the banks and the countries, it

would create a sounder and more credible basis for economic planning and management.

2. Reaching Agreement on Latin America's Financial Needs

Prior to 1982, Latin America was a large importer of capital. Net transfers to the region exceeded \$5 billion in 1980 and again in 1981—as then seemed appropriate to the development needs of a middle-income, industrializing region. This vital flow has been drastically reversed since 1982. In each of the past three years, some \$35 billion was transferred out of the region—about six percent of the region's gross domestic product and over 35 percent of its annual exports. An outflow of these proportions cannot be sustained: it forecloses growth prospects, undermines Latin America's future capacity to service its debt, and is politically untenable. Latin America cannot continue to send abroad the resources it needs for recovery at home.

If fully implemented, the Baker proposals would provide to 15 of the third world's largest debtors about \$10 billion more capital per year than has been available to them over the past several years. Perhaps \$7 to \$8 billion of this would go to the ten Latin American countries on the Baker list. Unless interest rates decline dramatically and the region's export earnings expand sharply (neither of which is probable), this amount will not be sufficient. The Baker plan does not offer enough funds to get Latin America very far down the road to recovery.

We call upon the Latin American countries and their creditors jointly to establish a realistic target figure for reducing the outflow of funds from the region. The target should allow for long-term growth rates of at least four to five percent per year—which would begin to drive down unemployment levels. A jointly established target figure would signal that all parties agree on the full dimensions of Latin America's economic problems. This would be an important step toward gaining eventual funding commitments from the different financial institutions. Agreement on Latin America's financial needs is essential for broader cooperation.

To achieve four to five percent growth, we estimate that Latin America will need approximately \$20 billion of new capital each year for the next five years. This amount would enable the region to step up the imports it needs to revive domestic production. The net drain of funds would be reduced from six to approximately three percent of gross national product. This would still be a burdensome loss, but it would be compatible with growth rates of four to five percent if the Latin American countries pursue needed economic reforms, particularly those that encourage national savings.

The flow of funds should be reversed. Latin America should once again become a net importer of capital. But this will happen only when

the commercial banks resume voluntary lending to the region and foreign investment is restored to pre-crisis levels. These are major objectives of the recovery program we propose.

3. Mobilizing the Funds

Decreasing the annual net transfer of funds from Latin America by \$20 billion is a formidable task that must be shared by many different financial institutions. The multilateral agencies (the World Bank, IDB, and IMF) will have to expand their lending, as will government agencies in the United States and other industrial countries. Foreign investment is another source that must be tapped, and capital flight from the region must be turned around. The largest share of funding will have to come from the commercial banks.

The Commercial Banks: To meet a \$20 billion target, we estimate that **\$12 billion** per year will have to be generated from commercial banks in the United States, Europe, and Japan. No other source can provide this level of funds. It should be possible to obtain such a major commitment from the commercial banks, for they have at stake the far larger amounts they lent previously. It would be to their advantage to make this additional effort as part of a larger program to promote economic recovery in Latin America.

New lending is one way to make the funds available; another is for the banks to defer current interest collections and add the unpaid amounts to existing loans (i.e., interest capitalization). Under current regulations, capitalizing interest payments is far more costly to U.S. banks than providing the same amount through new loans. Operating under different rules, many European banks prefer to capitalize interest. Combining these two approaches will be necessary to assure the participation of lenders from different countries. Once an overall target for bank financing is established, each national banking community should participate in the way it finds most prudent. We urge removal of regulatory obstacles that prevent or discourage banks in any country from joining in this effort. U.S. banks in particular may require greater flexibility in dealing with overseas debtors. Changes in the rules under which loans are classified as non-performing would be helpful, for example.

We also encourage both commercial banks and Latin American countries to give greater attention to possibilities of trading debt for equity. Rather than extending new loans or deferring interest payments, there may be attractive opportunities for the banks to invest a portion of interest payments in the countries from which they are collected. This has already been happening to a limited extent. Banks have occasionally been willing to accept ownership shares in private businesses in lieu of interest payments on loans.

The banks clearly stand to benefit from improvements in the economies of the debtor nations. They will, however, understandably resist placing

large amounts of new capital at risk. Official agencies, bilateral and multilateral, will have to accept some of that risk—by supporting, directly or indirectly, portions of capitalized interest, new loans, or restructured debt, and by expanding their own lending. Such cooperation is the only way to ensure adequate funding; it is, indeed, the backbone of the program proposed here.

The Multilateral Financial Agencies: The IMF, the World Bank, and the IDB must be centrally involved in Latin America's economic recovery. This will require larger contributions from member governments as well as some changes in the operating policies and procedures of these international financial institutions.

Since 1982, the IMF's lending to Latin America has exceeded that of the commercial banks and of other official agencies. In 1986, however, the IMF is slated to become a net recipient rather than a provider of funds as debtor country repayments will begin to exceed new loans. We urge participating governments to assure that the IMF is able to maintain its current contribution to Latin America of at least \$5 billion per year; longer-term lending should be encouraged as well. We also recommend an expansion of the IMF's present program for compensatory export credit to protect countries against commodity price fluctuations. We favor the creation of a new program to provide similar protection against variations in interest rates. Finally, we foresee the need for a new issue of Special Drawing Rights to build up the depleted international reserves of many Latin American countries.

The World Bank and the IDB have both expanded their lending to Latin America since 1982. Disbursements of the two banks rose from \$3.2 billion in 1981 to nearly \$6.0 billion by 1985. This sum must now be increased by another **\$4.0 billion** per year if the \$20 billion target we estimate necessary for Latin America's recovery is to be met. New funding on this order from the multilateral banks is crucial for obtaining the larger amounts asked of the commercial banks; it would reassure them that the financial burden is appropriately being shared by official agencies. It is imperative that the United States and other member governments increase their commitments to the World Bank and IDB.

In the past several years, the development banks have been making funds available more quickly through faster-disbursing loans. We urge that even greater use be made of these loans. The banks should also step up disbursements on existing loans, mainly by assuming even more of the costs of the projects they finance. Moreover, we encourage expanded use of private loan guarantees and more co-financing with commercial lenders. Risk-sharing with commercial banks is essential to mobilizing their resources. The importance of official backing for private lenders cannot be overemphasized; it is crucial to the program.

Direct Bilateral Lending: Official export credit agencies, like the U.S. Export-Import Bank (Eximbank), are now the main sources of

bilateral official lending to Latin America. The amounts, however, have declined from \$2.6 billion in 1982 to about \$1.0 billion in 1985, reflecting in part the drop in exports to the region which are financed through official credits. We urge the industrial country governments to increase the financing available to Latin America from these agencies by **\$1.5 billion**. The additional resources would allow for a needed expansion in the region's imports.

Bilateral U.S. development assistance, once a main source of foreign exchange for all of Latin America, has declined markedly from its peak in the mid-1960s and is now restricted to Caribbean and Central American countries and a few of the poorer Andean nations. A major increase in such support would be welcome, but that is unlikely in view of U.S. budget constraints and efforts to reduce the fiscal deficit. We strongly urge that current levels of development assistance at least be maintained. The burden of debt, aggravated by low commodity prices, has been particularly onerous for many of the small countries that are still eligible for bilateral aid.

Foreign Investment: In the past two years, foreign direct investment in Latin America has averaged about \$2.5 billion, sharply down from an average of more than \$6.0 billion for the 1980-82 period. Many companies have been divesting their holdings in the region. The overall business climate militates against a large immediate increase in foreign investment. Once growth is rekindled, however, outside investment should expand rapidly.

In the meantime, over the next few years, most countries could still attract additional investment, if they made greater efforts to do so. We encourage Latin American governments to review their policies toward foreign investment, with the aim of removing burdensome restrictions and providing new incentives where appropriate. Particular attention should be given to easing limitations on foreign ownership, special performance requirements, restraints on local borrowing, and regulations that affect specific sectors and industries. Adopting and maintaining suitable exchange rates may be the single most important initiative that countries can undertake to attract overseas investment.

Latin America should aim to expand foreign investment by **\$1.0 billion** per year in the near term. To reach this goal, local efforts must be effectively reinforced by the lending, insurance, and technical assistance activities of such agencies as the World Bank's International Finance Corporation (IFC) and its new Multilateral Investment Guarantee Authority (MIGA), and the IDB's International Investment Corporation. With the necessary financing from member governments, these agencies can help stimulate investment by issuing guarantees against non-commercial risks, providing policy advice to governments, helping to structure projects, disseminating information about investment opportunities, and participating directly as investors in some cases.

Capital Flight: Latin Americans currently hold more than \$100 billion in assets outside the region. Much of the capital flight occurred in the early 1980s; the amounts now being sent overseas appear to have tapered off for most countries. But the bulk of the money held abroad will not be returned until there is clear evidence of sustained improvements in economic policy and performance and in the climate for private business.

Mobilizing even a small portion of these assets for reinvestment in the region would contribute importantly to Latin America's economic recovery. A reasonable goal would be to attract the return of **\$1.0 to \$2.0 billion** per year. Measures that promote foreign investment will provide incentives for the return of local capital, particularly maintaining realistic exchange rates and curtailing inflation. Sound domestic tax and interest rate policies would help as well.

We also encourage consideration of more specific inducements. One idea that should be examined is the creation of a mutual fund, perhaps under the auspices of the World Bank or IDB, to attract flight capital and other funds for reinvestment in Latin American countries. Commercial banks might be more willing to reinvest some portion of their claims in Latin America if such a mechanism were available.

Latin America will not recover unless the massive outflow of resources from the region is reversed. This will take the combined efforts of many institutions, public and private: approximately \$12 billion per year from the commercial banks, \$4 billion from the multilateral agencies, \$1 to \$1.5 billion each from foreign direct investment and from bilateral lending, and \$1 to \$2 billion in recaptured flight capital. If these amounts are mobilized, Latin America's economic depression could be ended and healthy growth resumed. The region would then be able to meet its debt obligations without sacrificing the material and social progress of its citizens.

4. Economic Policy in Latin America

To create a solid basis for long-term, stable growth, the countries of Latin America must continue to improve the management of their economies. Since 1982, most countries have introduced important economic reforms. But past policy mistakes are still exacting a high cost, and further improvements are needed.

Latin American countries must sustain efforts to reduce their public sector deficits; divest themselves of inefficient state enterprises; bring inflation under control; curtail subsidies, price controls, and automatic wage increases; strengthen their private sectors; expand both public and private investment; and promote both exports and more efficient import-substitution.

The content and timing of these measures must be consistent with economic growth and social equity, and they must be tailored to the needs of each country. Policy reforms must be directed to reviving

domestic agriculture and industry, to increasing national savings, and to overcoming problems of unemployment, low wages, and absolute poverty. External financing is essential to achieve these aims. Better economic policies can remove domestic obstacles to growth, but that growth will only occur if Latin America has adequate access to capital. Economic reform alone will not lead to recovery; without sufficient resources, it will only prolong austerity.

Conditions will, and should, be placed on Latin American countries in exchange for new financing, but we believe that creditor institutions should be flexible in pressuring for sounder economic policies in the debtor countries. Each country should devise its own development strategy that gives appropriate attention to needed policy improvements, requirements for external financing, and arrangements for servicing debt obligations. Governments, particularly democratic governments, must retain the capacity to manage their own economies.

5. Strengthening the World Economy

The economic policies of the United States, Japan, and Western Europe critically affect Latin America's prospects for recovery. The industrial countries must undertake policy measures to reduce international interest rates further and to expand world trade. Such policies would serve their own interests as well as those of Latin America.

Global interest rates have dropped over the past year, but are still too high. Concerted action among the industrial countries can lead to further reductions, thereby diminishing the yearly interest burden of Latin America. Lowering interest rates would also contribute to industrial country growth, and hence to expanded markets for Latin American products. It would, in addition, reduce incentives for capital flight. We urge the United States to adopt sound policies to reduce its fiscal deficit. The deficit is now financed by international borrowing which sustains high interest rates throughout the world.

Exports will remain the major source of foreign exchange for Latin America. Since 1981, Latin American countries have built up sizeable trade surpluses, but largely through sharp reductions in imports. Some growth in imports is now essential to restore domestic production and bolster exports. The continued squeezing of imports is self-defeating. **Expanding exports is ultimately the only way the region can repay its foreign debt.**

Most Latin American countries have been struggling to expand their export earnings. They still have to do more, especially in the area of tariff reform, but they have made progress toward establishing appropriate exchange rates, reducing subsidies for domestic consumption, and promoting investment in both export and import-substituting industries. Their efforts, however, continue to be frustrated by low commodity prices, depressed markets, and trade restrictions—all factors outside

their control. Higher growth rates, on the order of three or four percent a year, are needed in the United States, Europe, and Japan to increase the demand for Latin America's exports and to reverse the downward trend in commodity prices.

We commend the U.S. government for resisting domestic pressures for new import controls, and call on other industrial countries to open their markets more widely. Expanded trade is in everyone's benefit, as is recovery in Latin America. They go hand in hand.

Multilateral Coordination

We have outlined five key priorities for a new cooperative program to promote Latin America's economic recovery and reestablish a sound basis for hemispheric development. All of these priorities must be addressed in concert if the program is to succeed. Combined action that confronts the full range of problems must replace piecemeal, step-by-step approaches. If not, emergency situations, like that facing Mexico today, will almost certainly arise in other countries of Latin America in the future. Measures to address Mexico's situation must be taken promptly—but these should be the start of a broader program to deal with problems of economic instability and stagnation in every country of the region.

The program must be built on the collective efforts of the Latin American countries, the United States and other industrial nations, the international financial organizations, and the commercial banks. They must all work jointly to resolve outstanding issues, overcome the inertia that has impeded progress so far, and construct a truly multilateral approach. **Unilateral policy statements such as the Baker plan, no matter how well conceived, cannot produce the commitment required.**

To achieve the coordination needed, we advocate the creation of a standing group of high-level representatives from debtor and creditor governments and the financial institutions. Such a group would meet regularly to provide continuing direction to the cooperative program for Latin America's recovery.

The group's initial tasks would be to develop an overarching strategy, gain agreement on it, and then formulate specific proposals for action. The group would also establish criteria and procedures for measuring results and for reconciling differences as they arise. The recommendations of the standing group would be advisory and non-binding on the participating entities. Each would have to take responsibility for assuming its share of the burden, but would do so as part of a collective effort with the confidence that other participants are also doing their share.

The case-by-case approach should not be abandoned, but it should be carried out within a jointly-developed strategy. The countries themselves will still have to devise and implement their own

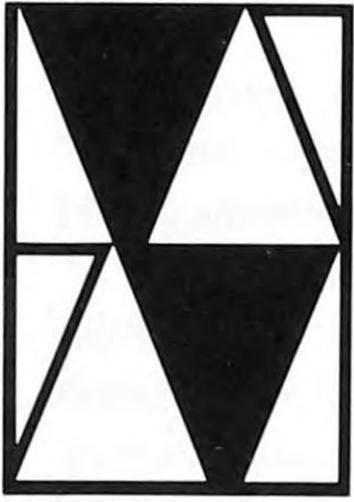
plans for adjustment and growth and negotiate their own arrangements with their creditors. The proposed program of multilateral cooperation would provide the needed framework for resolving the individual problems of each Latin American country.

Ending Latin America's economic crisis requires a shared sense of purpose among the region's countries and their creditors, a strong commitment to common objectives, agreement on the responsibilities of each party, and effective coordination among them.

Promoting Recovery

There is no more important or urgent challenge for the Hemisphere than to revive the damaged economies of Latin America and the Caribbean. The challenge will not be met by stumbling from crisis to crisis. The region must not be depleted of the resources it needs for sustained recovery. Prolonging the present course will leave Latin America economically stagnant, socially regressive, and politically unstable. The region's economic problems will imperil world financial arrangements.

We call for a cooperative effort— on a scale unprecedented in the Hemisphere—to reconstruct Latin America's economies. Nothing less will be enough to bring the massive debt under control, to promote sustained growth, to foster social equity, and ultimately to build a solid foundation for democracy in the Americas.



Chapter II

Central America: The Search For A Secure Peace

Central America is still a region at war. The struggle in Nicaragua between the Sandinista government and the anti-Sandinista rebels (the “contras”) is the most dangerous of the region’s conflicts. With the deepening involvement of the United States and the Soviet Union, Nicaragua’s war has become a focal point of East-West confrontation. It threatens to engulf the neighboring countries of Costa Rica and Honduras and perhaps the entire region. But El Salvador’s now stalemated clash also grinds on, with both sides adopting increasingly destructive tactics. Guatemala’s long insurgency has subsided, but continues to smolder. None of these bitter conflicts is near resolution.

Negotiations are the best route to a secure peace in Central America. Political solutions—not military victories—are the realistic alternative to protracted war. The Contadora countries—Colombia, Mexico, Panama, and Venezuela—have persisted for more than three years in trying to fashion a regional settlement. They have developed a sound framework for such a settlement and have gained agreement among all the relevant parties, including the United States and Nicaragua, on the basic principles for a peace treaty. It is urgent to translate this agreement on principles into verifiable and enforceable accords. The deadlock that prolongs Central America’s ordeal can and must be broken.

If the deadlock is not broken, the violence in Central America will continue to cause great human suffering. More than 160,000 Central Americans have been killed in the past decade. Two million have been displaced from their homes. One tenth of all Salvadorans now live in the United States. While the violence goes on, the region’s battered economies cannot recover. More and more resources are being consumed by war and preparation for war. The combination of armed conflict and economic stagnation frustrates efforts to build democratic politics and to remedy the deep inequities underlying the region’s struggles. It is those efforts that will ultimately be the key to a lasting peace.

No country in Central America is now secure, and the region’s conflicts may expand further if they are not ended soon. The fighting on Nicaragua’s borders could flare into a wider war, directly involving the two neighboring nations, Honduras and Costa Rica. The possibility of direct U.S. military intervention, and perhaps even broader conflagration,

cannot be dismissed. Every effort must be devoted to negotiating solutions to Central America's wars before they become more destructive.

Our previous reports set forth five points for understanding and addressing Central America's crisis. Each of them remains valid today.

1) The roots of insecurity in Central America are primarily economic, social, and political, not military. Although Cuba and the Soviet Union exploit the region's turmoil, the fundamental problems in each country are domestic.

2) The solutions to Central America's problems lie in economic and social development and political dialogue, not in more weapons and military advisers. Long-term international support is urgently needed for the economic development and integration of Central America.

3) Respect for national sovereignty and the commitment to nonintervention are vital principles of inter-American relations. No peaceful solution to Central America's crisis is possible while these principles are violated.

4) Most citizens and governments throughout the Hemisphere oppose the installation of combat forces or strategic facilities in Central America by the Soviet Union or its allies. The United States should make it unmistakably clear that it will use whatever means are necessary to prevent the introduction of such forces or facilities.

5) The Contadora initiative provides the best available means for advancing toward a political solution. It deserves the full support and cooperation of all the nations of the Hemisphere.

Deterioration in Nicaragua

We are deeply distressed by the growing hostility between Nicaragua and the United States. The present course of both governments could result in U.S. military intervention. Unilateral U.S. intervention to change the government of a Latin American country would be bitterly opposed throughout the Hemisphere. It would alienate the pragmatic and democratic leaders now dominant in most Latin American countries, and isolate the United States from its friends in the region. It must be avoided.

We are greatly concerned about the internal situation in Nicaragua under the Sandinistas. Civil liberties and other freedoms are harshly restricted, particularly since the government imposed a "state of emergency" in October 1985. Few of us believe these restrictions are justified as a response to the contra threat.

The international behavior of the Sandinista regime is also troubling. With Cuban and Soviet support, Nicaragua has aided revolutionary movements beyond its borders. Neighboring countries fear and resent this assistance for subversion. Nicaragua's military build-up is also seen as menacing in the region, and has accelerated a local arms race. We deplore the Sandinistas' growing ties to the Soviet Union, which further entangle Central America in the East-West struggle.

We are disturbed as well by the response of the United States to Nicaragua's challenge. Thus far it has been ineffective and, most of us believe, counterproductive. Escalating U.S. pressure has diminished the Nicaraguan government's incentive to compromise because that pressure increasingly appears aimed at overthrowing the Sandinista regime rather than achieving a peaceful settlement.

In January 1985, the United States broke off direct negotiations with Nicaragua. It has since refused to resume them despite repeated appeals from the Contadora nations, and more recently from Argentina, Brazil, Peru, and Uruguay—the four Latin American democracies that have formed a “support group” to bolster the Contadora effort. In May 1985, the United States imposed an economic embargo on Nicaragua; this embargo has thus far failed to win support from any other country. The following month, the U.S. Congress lifted a year-long ban on aid to the anti-Sandinista insurgents, and approved the Administration's request to provide them with non-lethal assistance. Now the Administration seeks to renew military aid as well.

Nicaragua has suffered from these pressures. Thousands of Nicaraguans have been killed and wounded. In 1985 alone, the war took the lives of 6,000 people, equivalent to half a million deaths for a country as large as the United States. Nicaragua's economy has been badly damaged; nearly half the national budget is now spent on defense while the country's productive capacity deteriorates. But, crucially, this suffering has not been translated into support for the contras. Instead, the Sandinista regime has consolidated its hold on the country and become more intransigent.

There is no realistic basis for believing that the contras can or will drive the Sandinistas from power. Nor has the contra insurgency led the Sandinistas to limit their arms build-up, to loosen their ties with Cuba and the Soviet Union, or to open their political system. On the contrary, the Sandinistas have stepped up their acquisition of weapons, tightened their bonds with the Soviet bloc, and imposed greater restraints on their internal opposition. At a minimum, the contras have given the Sandinistas justification for continuing—indeed, intensifying—those aspects of their behavior we find most objectionable.

We oppose all military and paramilitary support for the contras' campaign against the Sandinista government. We also oppose so-called “humanitarian” assistance which is used as a means to help the contras wage war. Such aid to the contras offers no solution to the security problems posed by Nicaragua, and it obstructs progress toward a negotiated settlement that could protect all the countries of Central America.

By the same token, Nicaragua must renounce support for insurgents in El Salvador and elsewhere. The Sandinista government cannot have it both ways. It cannot hope for peace with its neighbors

unless it refrains from intervention in their domestic affairs. Only if every nation of the Americas is protected from external intervention can all countries of the Hemisphere be secure.

Contadora and Hemispheric Security

Under current circumstances, essential steps toward peace are unlikely to be taken as unilateral initiatives by either the United States or Nicaragua. They can, however, be accomplished within the framework offered by the Contadora process.

We are impressed by what Contadora has achieved, against great odds, in laying the groundwork for peace. Contadora observer teams have lowered tensions on the border between Nicaragua and Costa Rica, and the Contadora countries and the South American support group are now proposing to establish a joint monitoring force to prevent further clashes. Contadora's intermediation has helped to defuse conflict along the border of Nicaragua and Honduras as well. Contadora has provided Central America's leaders a forum in which they can explore their differences.

Contadora's most important achievement has been to formulate a comprehensive framework for a regional settlement. All the parties—including Nicaragua and the United States—have accepted the 21 points put forth by Contadora as agreed objectives. They have also announced support for the Contadora process as the best means for achieving these aims. The basis has thus been established for constructing a security agreement that is verifiable and enforceable. Real progress has been made toward this goal, though much remains to be done.

In September 1984, the Contadora countries completed their first effort at drafting a Central American peace treaty. The treaty's security provisions sought to remove the region from the East-West conflict by ending international military maneuvers, prohibiting foreign military bases and training facilities, halting arms imports, and eliminating arms trafficking and other outside support for insurgent movements. The security provisions also mandated future negotiations to limit the number and role of foreign military advisors as well as the size and weaponry of the region's armed forces.

Nicaragua almost immediately announced its intention to sign the treaty, but objections were raised by Costa Rica, El Salvador, and Honduras—and by the United States. Specifically, these countries objected to proposed procedures for monitoring and verification, which they considered too vague. They also found fault with the complete ban on international military maneuvers and with the proposed deferral of negotiations for establishing precise limits on regional armaments and scheduling the withdrawal of foreign military advisors. Costa Rica, El Salvador, and Honduras produced an alternative draft treaty in October 1984. Having reached an impasse, the Contadora countries resumed efforts to formulate an agreement that would be acceptable to all parties.

In September 1985, the Contadora foreign ministers circulated a new draft treaty, which included more detailed provisions for implementation, verification, and enforcement. This time Nicaragua objected to terms that permitted foreign military maneuvers under specified conditions and allowed certain types of external military advisers to remain. Moreover, Nicaragua conditioned its signing of the Contadora treaty on a halt to U.S. support of the contras.

Faced with this new setback, the Contadora nations decided to suspend negotiations in December 1985, but early in 1986 they went back to work. At a January meeting at Caraballeda, Venezuela, the Contadora countries and the members of the South American support group called for a series of linked actions to foster peace, including the resumption of bilateral talks between the United States and Nicaragua, an end to support for insurrectional movements, suspension of international military maneuvers, and effective steps toward national reconciliation. A month later in Washington, they repeated their appeal to the U.S. Secretary of State.

So far, however, these measures have not been implemented. Nicaragua has made no serious move toward reconciliation with either the armed or unarmed opposition, nor has it shown any inclination to loosen its ties with the Soviet Union or Cuba. The United States, for its part, refuses to sit down with Nicaragua at the negotiating table, persists in supporting the contra insurgency, and conducts extensive military maneuvers in the region.

Despite the current obstacles to progress, we believe that Contadora remains the best hope for forging a regional peace. Moreover, if the Contadora process can succeed in bringing a secure peace to Central America, a powerful precedent will have been created for collective action by Latin American states to respond to threats to regional peace and security. Such a commitment to collective action in pursuit of shared objectives has been too long absent in the Americas.

We call upon all countries in the Hemisphere, particularly the United States and Nicaragua, to give unqualified support to the Contadora efforts through their actions—not merely their words. The Contadora countries are primarily mediators. They cannot resolve the conflicts in Central America unless the parties themselves want to make peace and are prepared to work toward that goal.

We believe that the common interest of all Central American nations in ending the region's conflicts can and should override their current disagreements. We urge the Central American governments—especially Nicaragua, which rejected the most recent draft treaty—to rededicate themselves to resolving their remaining differences. The recent initiative of Costa Rica and Nicaragua to establish a bilateral commission to supervise their border was an encouraging step in the right direction.

The attitude of the United States is especially critical to the peace effort. Although the United States does not formally participate in the Contadora process, no agreement can be implemented without Washington's concurrence. For some time now, U.S. actions have been inconsistent with the spirit of the negotiating process and at odds with specific requests made by the Contadora nations. **The Contadora peace effort cannot succeed as long as the United States insists on fundamental changes in the Sandinista regime as a prior condition for any agreement on security matters.**

We call upon the United States government to modify its position. It should work closely with the Contadora countries and also revive direct discussions with the Nicaraguan government. U.S. negotiators should participate in efforts to develop verifiable and enforceable security arrangements in Central America, and make clear that, if Nicaragua and its Soviet bloc suppliers abide by them, the United States will do so as well. Enforceable security arrangements, if implemented, would be a far more effective means of protecting the region against any security threat from Nicaragua than trying to alter the Sandinista regime by force.

The proposed Contadora treaty commits all the countries of Central America to the goals of reconciliation, political pluralism, and democracy. We call upon Nicaragua to end its state of emergency, lift restrictions on freedom of the press and association, respect the rights of national minorities, and begin an active dialogue with the full range of opposition.

It is important that the United States and other countries of the Hemisphere press Nicaragua to move in these directions. But we believe that efforts to achieve workable regional security arrangements should not be held hostage to the accomplishment of internal political reform in Nicaragua. **Security for all the countries of Central America is best guaranteed by ending the region's destabilizing wars and by placing appropriate restraints on Nicaragua's external behavior. Once that is achieved, democratic governments throughout the Hemisphere can and should work together—through diplomatic and political means, not military force—to promote the building of democracy in Nicaragua.**

Progress toward peace in Central America depends upon the willingness of both Nicaragua and the United States to compromise. As specified in the proposed Contadora treaty, Nicaragua must make verifiable commitments to live peaceably with its neighbors. It must reduce its military ties with Cuba and the Soviet bloc nations by agreeing to the withdrawal of military personnel and to restrict arms acquisitions from those nations. At the same time, the United States must agree to accept a verifiable security agreement achieved through negotiations, rather than trying to overthrow the Nicaraguan government. Unless the United States is willing to do this, negotiations have no prospect for success. All these steps are necessary if the escalation of violence in Central America is to be reversed.

We welcome the initiative of the current U.S. administration to discuss issues of regional security with leaders of the Soviet Union. Such discussions, pursued within the spirit of lowering international tensions, could help to prevent superpower competition from intensifying. In the same vein, we believe it is worth exploring whether discussions between the United States and Cuba might advance the cause of peace. Despite their different objectives in Central America, neither country stands to gain from escalating conflict in the region.

The Continuing War in El Salvador

Although the deepening conflict between Nicaragua and the United States dominates current discussion of Central America, we are painfully aware that El Salvador is still gripped by a civil war.

Broad public support for President José Napoleon Duarte was demonstrated by his own election in 1984 and by the subsequent victory of his Christian Democratic Party in the 1985 legislative and municipal elections. Of particular appeal were promises to eliminate human rights abuses by the armed forces, promote social and economic reforms, and negotiate an end to the civil war. These commitments were also welcomed in Washington, and led to large increases in military and economic assistance to the Salvadoran government.

El Salvador has made only limited progress on this program so far, in part because its civilian government must share power with the armed forces. Protection of human rights has improved, and the number of people killed by death squads has been significantly reduced. But abuses have not been eliminated, and few of those responsible have been brought to justice. The economic damage done by the war, along with resistance from a powerful economic elite, has crippled efforts to redress poverty and inequality.

Despite the hope kindled in 1984, there has been little, if any, progress toward a negotiated settlement of the Salvadoran conflict. In October 1984, President Duarte acted on his commitment to seek such a settlement by initiating talks with the armed opposition. At the first meeting in the town of La Palma, agreement was reached on the need to "humanize" the war, and a second meeting was scheduled. When the two sides reconvened at Ayagualo in November 1984, however, both hardened their positions and further progress was blocked. An agreed-upon third meeting has not yet been convened.

In 1984 we warned, "Reliance on a military answer to El Salvador's conflict is a recipe for further war." Sadly, the past two years have demonstrated the aptness of that warning. Increased military assistance from the United States has strengthened the Salvadoran armed forces considerably, improving their mobility and their capacity for aerial warfare. There has been a change in the nature of the war, and an increase in its level of violence. The armed forces have conducted aerial bombardments

that terrorize whole regions, including thousands of noncombatants. The guerrillas, in turn, have adapted to the army's new capabilities by breaking into smaller units and waging a war of attrition aimed at destroying the country's economic infrastructure. They have also come to use the brutal tactics of kidnapping and assassination.

El Salvador's armed forces have grown sufficiently strong to force the guerrillas to alter their tactics, but the rebels retain sufficient strength to deny victory to the armed forces. In the meantime, the war is taking a terrible toll of casualties, refugees, and economic destruction.

The best hope for peace and reconciliation in El Salvador lies in renewed negotiations between the government and the armed opposition. We urge both sides in El Salvador to begin the way toward peace by taking measures to reduce the brutality of the war. The government's aerial bombardment in populated zones and the guerrillas' attacks on economic targets should be halted, as must assassinations and kidnappings. Additional prisoner exchanges should be arranged. **Renewed talks could lay the groundwork for negotiating a gradual deescalation of the fighting and eventually for fashioning arrangements under which all parties can participate securely in free elections.** The precise nature of these arrangements should emerge from negotiations between the two sides; they cannot be prescribed in advance.

Negotiations will no doubt be very arduous. The Catholic Church of El Salvador has been tireless in its efforts to promote peace, but it has sometimes seemed to be a lone voice. In both the government and rebel coalitions, there are some who are willing to negotiate in good faith and others who prefer to fight on in search of military victory. We are encouraged by the decision of several members of the opposition to return from exile to participate openly in El Salvador's political life; yet they, like those in the government who are working for peace, face opposition and distrust. International support is crucial for those who favor a negotiated settlement. The Contadora nations, individually and collectively, can help provide such support, as can the United States.

Democrats throughout the Hemisphere support President Duarte's commitments to improve the Salvadoran human rights situation, carry out social and economic reform, and negotiate a solution to the war. Assistance from the United States and from other democracies should be conditioned upon progress toward these goals.

Costa Rica, Honduras, and Guatemala

Costa Rica, Honduras, and Guatemala have all held presidential elections within recent months. In Costa Rica, a genuinely democratic country, elections determine real political power. In Guatemala and Honduras, however, the new civilian presidents must deal with powerful and independent armed forces. As in neighboring Panama, where the armed forces

ousted President Nicolás Ardito Barletta in 1985, military leaders retain inordinate power that interferes with the building of democracy.

The election of Marco Vinicio Cerezo as president of Guatemala offers reason for hope. President Cerezo has pledged to work toward improving the deplorable human rights record of the Guatemalan armed forces, and he has recognized the need to negotiate with the Guatemalan guerrillas in order to restore peace. Guatemala's effort to build a democratic future deserves the respect and support of every country in the Hemisphere.

The use of Costa Rican and Honduran territory by the contras has become a divisive issue in the domestic politics of both nations. There is little sympathy in these two countries for the Sandinistas, but many Costa Ricans and Hondurans are concerned about the presence of thousands of armed anti-Sandinista insurgents in their territory. Both countries have lost control of substantial areas along their borders, and their own citizens have at times been the victims of lawlessness and violence by the contras.

Concern in Costa Rica and Honduras about the potential danger from Nicaragua's military build-up has led them to devote greater attention to national security. Every nation has a responsibility to provide for its legitimate security interests. The arms race in Central America, however, is diverting scarce resources that are desperately needed for social reform and economic development.

The economic problems of Costa Rica and Honduras are exacerbated by the conflicts of their neighbors. Tens of thousands of exiles from the fighting in neighboring countries have sought safety in Costa Rica and Honduras, putting an added strain on their already weak economies. Severe and prolonged economic recessions endanger social peace in both Costa Rica and Honduras.

No Central American nation can recover economically until regional peace is established. The conflicts stimulate capital flight from each country, and discourage foreign investment and tourism. **Nothing would strengthen the prospects for economic recovery and for democracy in Central America more than a settlement of the region's military conflicts.**

The Will for Peace

The struggles in Nicaragua and El Salvador will not end with decisive military victory for either side. Unless peace can be negotiated, these wars will continue to take 5,000 to 10,000 lives annually, and to displace hundreds of thousands more people from their homes. They will continue to lay waste to the productive capacity of Central America's economies. Hopes for democratic development and economic recovery will dwindle.

The Contadora negotiating process now provides a workable framework for ending Central America's agony while safeguarding the Hemisphere's security interests. Within the Contadora framework, bilateral

negotiations and mutual accommodation between Nicaragua and the United States are urgently required.

No effort at achieving a negotiated agreement, whether under the auspices of Contadora or any other entity, can succeed unless the nations at conflict are fully committed to it. The prime requisite for making peace in Central America is not more aid, more weapons, or more advisors, but political will.

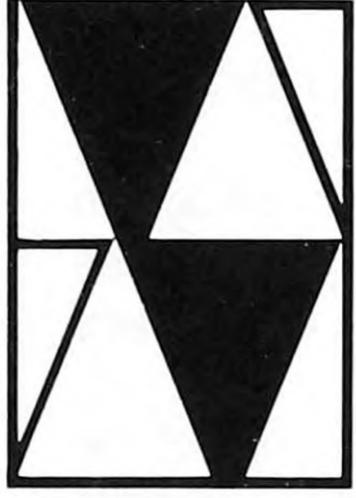
Some basic choices have to be made.

The Sandinistas must decide whether they will respect the sovereignty of their neighbors, and remove their nation from the East-West struggle, as part of a settlement that assures Nicaragua's own sovereignty. We believe they must do so.

The United States, in turn, must decide whether or not to prolong a war to undo the Sandinista regime. We believe the United States should concentrate first on guaranteeing its legitimate strategic interests and the security interests of its allies, and then promote democracy and pluralism inside Nicaragua through nonviolent means.

The strength of democratic forces in the Americas, and in particular the power and influence of the United States, is beyond question. We are convinced that neither democracy nor security in the Hemisphere would be jeopardized by a carefully framed and verifiable peace treaty with the government of Nicaragua.

The alternative to a negotiated peace is protracted warfare that does, indeed, threaten the security of the Americas. The choice that best serves the Hemisphere is clear.



Chapter III

Consolidating Democracy In The Americas

The long-cherished vision of a democratic Hemisphere is closer than ever before to becoming a reality in the 1980s.

Despite severe economic and social obstacles, the nations of the Americas have been reestablishing civilian rule. **The central political issue in Latin America today is whether the region's turn toward democracy will endure.**

We believe the consolidation of democracy in the Americas is possible, although it is by no means certain. To achieve a democratic Hemisphere, Latin America's immediate economic crisis needs to be resolved and its long-standing social inequities must be faced. Civilian control of Latin America's armed forces must be established. The destructive civil wars in Central America must end. Cooperation to strengthen democracy in the Hemisphere is needed. These are all difficult challenges, but they are within reach.

Latin America's Return to Democracy

Democracy is gaining ground in Latin America and the Caribbean. In country after country, authoritarian regimes have been yielding to constitutional governments.

In the past year alone, military officers have turned power over to civilians in Brazil, Uruguay, and Guatemala, and the Duvalier family dynasty in Haiti has finally crumbled.

Brazil's political opening survived the tragic death of Tancredo Neves, chosen to be the country's first civilian president in more than twenty years. The continent's largest nation is now moving steadily toward a constituent assembly and direct presidential elections.

After a decade of military dictatorship, Uruguay has restored the democracy for which it was once known. Guatemala has held its first truly competitive national election in a generation. An impressive civilian reformer has pledged to curb the power of that country's armed forces.

Argentina's democratic government, elected in 1983, has boldly confronted deep economic problems and carried out its promise to bring to trial the top military leaders responsible for human rights violations. Congressional elections last October further strengthened the democratic process.

In Peru, an elected president has turned over office to an elected successor for the first time in 40 years. The new president has moved to

exert civilian control over the armed forces and police, fight drug traffickers, root out corruption, and actively protect human rights.

Bolivia saw the presidential sash transferred from one elected civilian to another in 1985 for the first time in 25 years. The new administration has imposed tough but needed austerity measures in a country ravaged by hyper-inflation.

In the remaining South American dictatorships, the beginning of the end may at last be at hand. Under the aegis of the Church, eleven Chilean political parties—from the left, right, and center—have agreed on political principles and procedures for a democratic transition. One-man rule in Paraguay is under siege in the face of mounting internal opposition and with the examples so close of Argentina and Brazil.

The transitions to democracy are not universal, and where they have occurred they are often still precarious. Democracy is clearly not on Cuba's horizon. Haiti's dictatorship has collapsed, but democracy is not assured in its place. The constitutional prerogatives of the Supreme Court and Congress have been threatened in Ecuador. Violence disrupted the presidential nominating convention of the Dominican Republic's governing party. Intimidation and fraud marred recent elections in Guyana. In Panama, a civilian and constitutional president was pushed aside by the military.

In Central America, internal and international pressures have helped to foster elections in every country, but full democracy remains distant except in Costa Rica. Parties and movements that represent significant segments of Central America's populations cannot campaign securely. Violations of human rights scar the region. Despite the inauguration of civilian presidents, the armed forces still wield decisive power in some countries. Central America's continuing civil wars thwart the building of democracy.

Yet despite its obvious limits, Latin America's return to democracy is unmistakable. Only the most optimistic among us imagined four years ago that South America would enter the second half of the 1980s with more than 90 percent of its population living under civilian and constitutional governments. Even in Central America, the holding of competitive elections, a first step, has been notable.

The Democratic Ideal

Democratic ideals have a long tradition in Latin America. Even dictators typically promise elections and justify their repression as necessary to reestablish a democratic order. However cynical these proclamations, they reflect the Hemisphere's prevailing aspirations. Regimes that cannot claim to rule with the consent of the governed ultimately lose their legitimacy.

Democratic renewal has occurred before in Latin America. Twice previously since World War II, Latin America has seen a region-wide swing toward democratic politics. The first, in the immediate aftermath

of the war, faded away almost immediately, although it did cause a commitment to democracy to become part of the charter of the Organization of American States. The second, at the end of the 1950s, was hailed as the “twilight of the tyrants.” By 1961, only one South American country was still under military rule. Ruling dynasties toppled in the Caribbean Basin. Twenty-five years ago, when the Alliance for Progress was established, democratic politics seemed likely to spread.

But the democratic euphoria of the early 1960s proved short-lived. Widespread impatience with political stalemate, growing insurgencies and the reactions they provoked, changing national security doctrines, and U.S. concern with the threat from the left—all contributed to the breakdown of democracy in one country after another. A plague of repression soon swept Latin America. By 1976, Colombia and Venezuela were the only remaining South American nations with civilian governments, and Costa Rica was the only Central American democracy. A new breed of military regime took hold in Argentina, Brazil, Chile, and Uruguay—more pervasive and longer-lasting than previous dictatorships. Democracy in Latin America proved hard to sustain.

The crucial political challenge in Latin America today is how the region’s current democratic openings can be consolidated.

The obstacles confronting Latin America’s new democracies are daunting. If democratic governments cannot produce economic growth and foster social equity, they could lose credibility. Populist demagogues may press for more radical policies. Political parties that have refrained from fratricidal opposition during the delicate transition process may begin to attack each other. Terrorist movements that have been relatively contained may gain ground. Governments may be tempted to suspend constitutional guarantees in order to quell subversion. As open political competition produces results that disappoint many sectors, some may lose patience. The armed forces may again feel the need to intervene.

Some go much farther. They contend that structural and cultural obstacles are bound to undermine democracy in Latin America. These skeptics suggest that deeply-held attitudes in Latin America are anti-democratic and that rhetoric about democracy is often mere lip service. They argue that democracy and dictatorship inevitably follow each other in Latin America, that failing governments of one stripe are replaced by the other in a never-ending circle of ins and outs.

We strongly reject this view. Latin Americans of all sectors and classes yearn for democracy. People throughout the Americas are firmly committed to the progressive achievement of social justice in a context of political freedom, broad participation, regular and free elections, and constitutional guarantees. Most Americans, from North and South, believe that democratic governments are the only guarantors of fundamental human rights and individual liberties, and that democracies are more apt than dictatorships to carry out equitable social and economic

reforms. The region's bitter experience with authoritarianism during the past decade has reinforced these views.

Democracy is not a panacea. Alone, it cannot reverse economic decline, end injustice, or stop violence. But it can contribute to national reconciliation, improved equity, social harmony, and the stability needed for economic advance. People throughout the Hemisphere want to live in democracy.

An Historic Opportunity

We believe that an historic opportunity now exists to strengthen democracy in the Americas and help it take firm root.

Our belief that democracy can prevail in Latin America is well grounded.

First, the brutal years of repression in much of Latin America underscored the value of democracy to most people in the region. Many Latin American leftists who used to disparage "formal" democracy now recognize that competitive politics can provide scope for progress. Many on the right who once relied on authoritarian solutions to problems of disorder have come to see that genuine stability flows from the legitimacy of democratic participation. Military leaders themselves understand that democratic development can provide the best protection against insurgencies.

Second, a great deal of political learning has occurred in Latin America. These painful years taught people across the political spectrum the need to moderate their demands in order to sustain civilian politics. Latin American leaders, and ordinary citizens, have become more pragmatic. They do not want governments to be undermined by the ideological disputes and the destructive stalemates that discredited democratic politics in the past. Despite the drastic regionwide decline in living standards, many Latin Americans are committed to making civilian regimes work. They are organizing, mobilizing, lobbying, and campaigning—not plotting coups or revolutions.

Third, the circumstances under which the armed forces have withdrawn from office are propitious. Military leaders themselves came to realize that governing takes a great toll on an army's institutional coherence and morale, and that it interferes with the capacity of the armed forces to perform its primary role. At the same time, the armed forces have been able to leave office reassured that their institutional integrity will not be threatened. Civilian governments therefore have some precious time to establish effective control over the military.

Fourth, the government of the United States, under successive administrations of both political parties, has in several key instances backed Latin America's return to democracy. As the largest and most powerful democracy in the world, the United States has great influence on the political climate of the Hemisphere. Despite its own values, it has not always exercised that influence positively in Latin America and the

Caribbean. But since the mid-1970s, the support of the United States for human rights and democracy has made a significant difference.

Finally, and perhaps most important, the fact that so many countries of the Americas have turned toward democracy makes possible expanded inter-American cooperation to reinforce this welcome trend. A democratic network is growing, involving governments, parties, trade unions, professional associations, women's groups, religious organizations, and students. Like-minded people are ready to help each other build a democratic hemisphere. The Communists and the military establishments are not the only ones who can call on international solidarity.

Supporting Democratic Renewal

Latin America's heartening turn toward democracy can and must be supported.

The main tasks in building democracy are internal to each nation. Democracy arises from the interplay of domestic economic and social forces, and it reflects their delicate balance. Although democracy can and should be nurtured from abroad, it cannot be successfully transplanted from one country to another.

But the Hemisphere's democratic openings do provide important new scope for international support. External actors can more effectively strengthen democracy when it already exists than promote it where it is still absent. And where authoritarian rulers still cling to power, their stark isolation in an ever more democratic hemisphere may weaken them decisively.

The single best external contribution to strengthening democracy in Latin America today would be timely and adequate relief from the region's debt burden. The importance for democracy in the Americas of a concerted effort to ease Latin America's financial crisis cannot be exaggerated. What we have said in chapter 1 bears repeating. Consolidating stable democracies in Latin America requires that the region's economic distress be alleviated. If it is not, our best hope for developing a community of democratic nations in the Hemisphere could be lost.

Latin America's moderate and pragmatic new civilian leaders must be helped to face their economic problems. If these governments fail, populist demagogues will have their day and military intervention will probably be close behind. Latin American democracies need breathing space to resume economic development.

We urge international financial institutions, the governments of the industrial countries, and private commercial banks to recognize the social and political limits of austerity programs. It makes no sense to insist that a government meet economic targets that cannot be sustained politically. Democratic governments should be helped pragmatically to overcome the difficult problems they face, not taught lessons about particular economic orthodoxies.

Where possible, we believe that the international financial community should give a margin of preference to democratic countries. Constitutional governments that are trying to face up to their economic difficulties should receive sympathetic consideration in the restructuring of debts. Even when a democratic country's per capita income is high enough so that concessional assistance would not ordinarily be appropriate, international emergency relief should be available when external conditions force sharp and painful adjustments.

It is also crucial that Latin American and Caribbean governments be helped to improve income distribution, create jobs, and reduce poverty. Poverty-focused programs for basic education, primary health care, low-cost housing, small farmers, and small enterprises can yield high economic returns and strengthen the local underpinnings of democracy. **To construct the basis for lasting democracy, Latin America must face the problems of inequity and injustice that breed revolution and repression.**

Another important step to improve the prospects for a democratic Hemisphere would be to resolve the civil wars in Central America. These bloody struggles not only hinder democratic development in the nations immediately involved; they also fuel the polarization and the militarization of neighboring countries. If the conflict in Central America continues to escalate, its effects may well spill over to poison the politics of South America as well. The intensifying Central American conflict, and the increased involvement there of the United States and of the Soviet Union, may result in people throughout the Americas focusing on East-West issues rather than on how to work together on their major problems.

These three steps—debt relief, attention to social equity, and resolving the conflicts in Central America—are indirect ways to support democratic consolidation, but they are extremely important. Removing these obstacles in the way of Latin America's return to democracy may well be more significant than direct and positive measures.

Concrete Steps Toward Democratic Consolidation

We remain cautious about the capacity of governments to foster democracy by direct efforts in other countries. Outside attempts to promote democracy easily become entangled with sensitive internal issues, and they may be seen as interventionist. Even when they mean well, foreign governments—especially those of the larger and more powerful countries—can damage the fragile prospects for democracy. A "Democracy Agenda" should not be imposed by any one nation on others.

But now that so many countries in Latin America and the Caribbean are, in varying degrees, increasingly democratic, opportunities exist for multilateral cooperation to support democratic openings.

We recommend eight concrete steps to help consolidate democracy in the Americas.

1) **The democracies of the Hemisphere should make it clear—consistently and openly, not only through “quiet diplomacy” that all too often goes unheard—that they are closer to other democracies than to authoritarian regimes of either the right or the left.** They should provide symbolic and material backing, in bilateral relations and in multilateral forums, for other countries in the Hemisphere trying to achieve or sustain democracy. State visits and other instruments of public diplomacy should be used to express support of the democratic process. Authoritarian regimes, in turn, should be denied such expressions of solidarity. Without choosing sides in internal political contests or exporting domestic political antagonisms to other settings, the democratic governments and parties of the Hemisphere should strengthen their political relations with democratic movements that stand in opposition to authoritarian regimes.

2) The democratic governments of the Americas should cooperate to promote fundamental human rights throughout the Hemisphere. The protection of human rights and the consolidation of democracy go hand in hand; democracy cannot be sustained where human rights are jeopardized. **Democratic governments should not provide economic or military assistance to regimes that systematically engage in violations of basic human rights.** They should expand the mandate, resources, and influence of the Inter-American Commission on Human Rights and of the Inter-American Court on Human Rights, and the Inter-American Institute of Human Rights. They should also support the important network of nongovernmental organizations that monitor human rights without partisan or ideological favor. There is no more important safeguard for democracy than assuring that individual human beings can express themselves without fear of repression.

3) Inter-American assistance should be available to help strengthen the institutions of democratic government. During the 1960s and 1970s, Latin American legislatures were all too often converted into mere rubber stamps or else into forums for unrelenting opposition; they rarely functioned as policy-making bodies. If democracy in the Hemisphere is to flourish, legislatures must have a constructive and sustained role in the formation of policy. Technical assistance and advice should be provided by democratic legislatures, on request, in such matters as budget, legislative oversight, and congressional supervision of the military and intelligence communities.

Attention should also be devoted to helping strengthen the integrity and professional competence of judicial and law enforcement systems. In many countries of the Americas, judges played lonely and heroic roles in helping to reestablish the rule of law during the long night of authoritarian rule. In others, corruption or incompetence in the judiciary or the police weakened the prospects of democracy. Democracy cannot last without the rule of law. We urge support for multilateral programs to

improve the training and reinforce the commitment of judicial and law enforcement officials, such as the United Nations' Latin American Institute for the Prevention of Crime and Treatment of Delinquents (ILANUD).

4) A great deal can be done throughout the Hemisphere to support non-governmental organizations that are vital to democratic development. International associations of democratic political parties can contribute by training cadres, providing technical assistance and advice, exchanging ideas and information, and helping to rebuild party structures. Churches, trade unions, business organizations, cooperatives, professional associations, private voluntary organizations, and other such intermediary organizations can also be helped internationally to strengthen their contribution to the democratic process. Such civic associations comprise the very fabric of democratic politics.

5) The democratic countries of the Americas should cooperate to promote and protect freedom of the press. In accord with the recent decision of the Inter-American Court of Human Rights, we oppose the establishment of licensing procedures that allow governments to decide who will be allowed to practice journalism. We are deeply concerned by measures in some countries that increase the duties and price of newsprint as a means of controlling the press. All citizens should have the opportunity to present their views in the print and electronic media, whether government owned or not. Governmental efforts to monopolize media ownership or restrict television, radio, and print media through subjective licenses, censorship, or other means undermine democracy. Free and independent media are vital for democracy.

6) We urge that international technical support be made available, on request and preferably on a multilateral basis, to help conduct and monitor free and fair elections in countries that lack a sufficient tradition of democratic politics to inspire public confidence. We particularly commend the work of the Center for Technical Assistance and Electoral Promotion, established by the Organization of American States in San Jose, Costa Rica.

7) We recommend careful attention to the work being done by the National Endowment for Democracy, a private foundation established and financed by the U.S. government to support democracy abroad, and of the similar foundations established by European governments and political parties. These programs offer important potential for supporting democratic movements and institutions, but they also carry with them the danger of unwanted intervention in domestic political affairs.

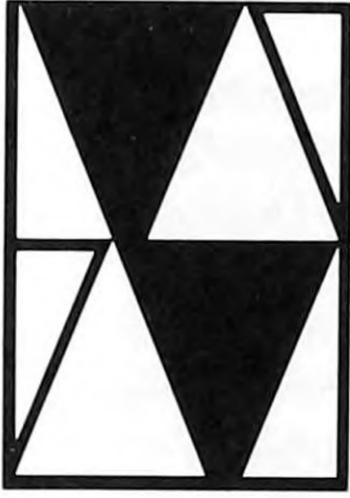
8) Finally, and perhaps most important at this juncture in Latin America's history, **the democracies of the Americas can help each other reinforce civilian control of the military.** External powers, and especially the government of the United States, should make sure that their security concerns do not fuel Latin American arms races or draw the armed forces of Latin America back into obtrusive political roles. They can also help Latin American countries develop the institutional mechanisms and professional competence to establish and preserve civilian supremacy.

The issue of civil-military relations is crucial for democratic consolidation in Latin America today. The relationships involved are complex and sensitive, and they vary from one country to another. The Dialogue intends to establish a special task force, including civilian and military leaders from both Latin America and the United States, to analyze successful attempts to institutionalize civilian control of the armed forces and to develop detailed recommendations on this important subject.

Our conviction that democratic openings can be consolidated is a bias toward hope.

We know that democratic rhetoric is sometimes devoid of meaning and that electoral trappings can be deceiving. Elections themselves do not make real democracy; democracies make elections. Even honestly elected governments lose the legitimacy that popular support confers when they do not address fundamental social and economic problems.

The next few years will no doubt see some setbacks for the democratic cause. Some civilian regimes may fall by the wayside; others may turn to repression. There will be difficult times. But we believe that the future lies with democratic forces in the Hemisphere.



Chapter IV

Controlling The Narcotics Trade

Drug traffic has afflicted our Hemisphere for decades, but it has recently reached immense and dangerous proportions. **In Latin America, drug corruption is weakening fragile democracies and challenging the very sovereignty of governments.** In the United States, too, drug-related crime and corruption are pervasive. North American levels of drug abuse, with all their disastrous social consequences, have come to plague parts of Latin America.

That these problems are now common to both halves of the Hemisphere should offer a stronger basis for cooperation in fighting drugs than in the past. Even so, the drug trade remains a major source of conflict between the United States and those Latin American and Caribbean countries in which the production of drugs is concentrated. The crisis of debt and economic stagnation compounds the drug dilemma. Waging war on drugs costs money. More important, it will inevitably result in the loss of jobs, income, and foreign exchange that the drug trade provides, unless legitimate economic growth provides a decent alternative.

We can offer no simple or definitive solutions to this dilemma. The problem will persist for some time to come, and we had best prepare ourselves for a long battle. But there are two signs of hope. The first is a new attitude among Latin American governments, who now see the drug trade as a threat to their own citizens and sovereignty. The second is a new attitude in the United States, which is beginning to recognize that curbing its own demand for drugs is as important as trying to stamp out the supply. We need both "supply-side" and "demand-side" approaches. We also need to consider other solutions, perhaps even selective legalization.

The Shape of the Problem

The United States is the world's largest market for illicit drugs. The sums of money involved are staggering: drugs are estimated to be a \$100-plus billion business in the United States, equivalent in value to 10 percent of the country's industrial production. More than a dozen Latin American countries are involved somewhere in the chain of production and distribution. Together they supply about two-thirds of the U.S. market.

Traditionally, the United States has been most concerned about the effect of drug abuse on its citizens, while Latin American societies have

suffered from the crime and corruption bound up in the narcotics trade. But today, all countries increasingly worry about both problems. In this new community of tragedy lies the possibility of future cooperation.

Drug use is burgeoning in the United States. An estimated four million Americans use cocaine each month, while 20 million use marijuana. Heroin remains a social disaster in the inner cities of the United States, ruining the lives of countless numbers of users and breeding urban squalor and street violence. In 1984 alone, cocaine use in the United States is estimated to have increased by 11 percent. Marijuana use declined by three percent. Some of that decrease, however, may represent diversion to cocaine. There are no good estimates of the long-term costs of drug abuse, but drug-related deaths have nearly doubled in the last four years. Deaths from cocaine have grown far faster than those from other narcotics.

Latin Americans are picking up this deadly habit. Per capita cocaine usage is now higher in Colombia, Peru, and Bolivia than in the United States. Moreover, the health dangers for Latin American cocaine users are especially great because they smoke coca paste that is crudely refined with kerosene and other harmful additives.

Because narcotics are illegal, and because of the enormous profit to be made from them, crime and corruption are inevitably associated with drug abuse. In the United States, a major share of urban crime can be attributed to drugs, and drug profits provide much of the financing for organized crime. Drug scandals have rocked police departments in many U.S. cities. Major U.S. banks continue to be implicated in the “laundering” of illegal drug profits.

For Latin America, the scale of the corruption and the power of the drug traffickers endanger fragile political institutions. In many Latin American countries, corruption has deeply penetrated police forces, military establishments, judicial systems, and elected officials. In some countries, drug traffickers challenge governments for control of large segments of national territory.

Drug criminals and anti-government guerrillas often cooperate with one another. In a few cases, the guerrillas themselves are involved in the narcotics trade. More typically, traffickers and guerrillas operate in the same regions, distant from national capitals and beyond the control of central governments—the common enemy against which they are tacitly allied. And when governments seek to destroy drug crops, they risk losing the support of local populations.

Narcotics and the corruption they bring with them are debilitating to governments, but the political and economic costs of moving against the drug trade are high as well. In many rural areas of Latin America, the drug trade provides the only escape from desperate poverty and the only source of jobs and incomes amidst rampant unemployment. For example, as many as ten percent of Bolivians—or a half million people—

are involved in the drug business in some way. Poor coca farmers in Latin America do not receive much of the huge profit from drugs, but what they do get is five to ten times more than they would receive from alternative crops like cacao. To curtail drug production is to destroy the livelihoods of tens of thousands of people, to cripple local economies, and to foment political opposition.

Moreover, although only a small fraction of drug profits return to producing countries in Latin America, the amounts are substantial for strapped economies carrying large burdens of external debt. In Peru, repatriated drug profits of an estimated \$600 million a year represent 20 percent of official export earnings. For Bolivia, cocaine earnings have been estimated at three times the value of all other exports of the country.

At times, the narcotics trade has seriously strained relations between the United States and Latin American producing nations. U.S. administrations have pressed Latin American governments hard to eradicate illegal drug crops and seize drug shipments. The United States has provided funding, technical assistance, and personnel for anti-drug programs in Latin America. It has also resorted to political and diplomatic pressure, threats to cut off aid, and sharp, even intemperate, public rhetoric. Latin Americans resent heavy-handed U.S. pressure, especially when they see the runaway demand for illicit drugs in the United States. For their part, North Americans and their political leaders, angry and frustrated at the spread of the drug problem, are often tempted to place major blame on the Latin American countries in which drugs are grown and processed.

A Basis for Hope

The potential for conflict and mutual recrimination remains, but there are also new prospects for cooperation. Latin Americans now recognize that narcotics are their problem as well as that of the United States. This change in attitude reflects, in part, the widening circle of drug abuse in the region, but more importantly the political challenge of corruption to democratic governments.

Latin American countries have concluded that it is in their own interests to do battle against the drug trade, despite the costs and risks. And they have begun to call on the United States to step up its own anti-drug efforts. In the Declaration of Quito of August 1984, seven Latin American governments, including all of the largest drug producers, formalized their joint determination to fight drugs. **The shared perception throughout the Hemisphere that narcotics is an urgent problem must now be turned into a shared inter-American commitment to confront it.**

It is clear that efforts by one nation alone will not suffice; nor will focusing only on the supply of illicit drugs. Successful efforts to eradicate marijuana in Mexico in the mid-1970s produced short-term disruptions,

but production shifted to Colombia within three years. Similarly, as increased surveillance has made it more difficult to smuggle marijuana into the United States, domestic production has increased to the point where it may account for as much as half of U.S. consumption. The smugglers themselves have shifted to cocaine, which is far less bulky and much harder to detect than marijuana—a kilo of cocaine has the same market value as a ton of marijuana. Official U.S. statistics make clear that while eradication and seizures have increased, so have the production and movement of drugs. Between 1981 and 1984, cocaine imports to the United States expanded by about 50 percent.

The war against narcotics in the Hemisphere will be long and difficult. What is imperative is that the United States and the Latin American countries begin to devise a joint strategy to deal more effectively with drugs.

That strategy should include three key elements:

- much more serious drug education and rehabilitation efforts by the United States to reduce the demand for narcotics;
- stepped-up eradication programs in Latin America; and
- sustained high priority to the narcotics issue in the Hemisphere, plus readiness to explore fresh approaches, including some not now on the political agenda.

Cutting Demand in the United States

For the United States, as for all other countries of the Hemisphere, the narcotics problem begins at home. That self-critical recognition must be the basis for U.S. drug policy. Eradication and interdiction can play a role in reducing the supplies of illicit drugs, raising their prices, and thus limiting the number of people who can afford them. The enormity of the narcotics problem, however, will not diminish unless the demand for drugs is reduced.

Federal expenditures on drug education programs have declined from \$400 to \$250 million since 1981 (in contrast to budgets for drug enforcement, which climbed from \$700 million in 1981 to \$1.2 billion in 1985). **We urge the United States to assign first-order priority to drug education and rehabilitation programs.** We also encourage Latin American countries to mount their own educational campaigns against drugs.

We cannot be sure exactly how effective such programs will be, but there are hopeful precedents. Aggressive public education played a role in diminishing the number of daily marijuana users among U.S. high school seniors, from 11 percent in the mid-1970s to about five percent today. Moreover, the dramatic effect of anti-smoking campaigns on young people in the United States suggests a model for anti-drug efforts. **Nothing is more important in the fight against drugs throughout the Hemisphere than a sustained reduction in U.S. demand.**

Stepping Up Eradication

As Latin American governments commit themselves to expand the eradication and seizure of drugs, the United States should respond positively to requests for assistance. Current U.S. assistance for those programs—\$50 million annually—is small by comparison to the dimensions of the problem. The Latin American countries do not have the resources to mount major campaigns on their own. Economic austerity has forced sharp cutbacks in public spending throughout the region; there is little money to divert from already tight budgets to drug control programs. We are well aware of the United States' own budgetary constraints, but any serious expansion of eradication and interdiction efforts will require more external assistance, primarily from the United States. We believe there are few better purposes to which U.S. foreign aid could be put.

We recognize that eradication and seizure programs in Latin America alone will probably not have much effect on the availability and price of drugs in the United States. There are just too many alternative sources of narcotics at present. Eradication programs, however, do drive up the local price of illicit drugs, and thus can reduce drug consumption within Latin American producing countries. After moving downward for several years, street prices for coca products in Latin America rose in 1984, suggesting that eradication and enforcement may have begun to make a dent in the supply. Eradication efforts can also help curtail the influence of drug traffickers and reduce the corruption they promote. They are also a symbol of national determination.

Eradication programs would be much more promising if there were other sources of income for the peasant farmers who depend on growing drug crops. By themselves, alternative crops are not the answer because they are so much less profitable to farmers than drug crops. Over the long run, only sustained development can wean coca-producing regions from their dependence on that crop. The link back to the debt crisis is inescapable: sustained development will not happen so long as massive debt obligations deprive Latin America of the capital it needs for investment and growth.

Sustaining the Fight Against Drugs

Hemispheric efforts to combat narcotics must be maintained at a high level for years to come. Significant gains will be slow in coming, and at times there surely will be disheartening setbacks. Continuing attention and joint resolve are essential to avoid backsliding by Latin American countries or the United States.

Because drug trafficking is such a serious and long-term problem, we urge that a regional body, on the model of the Inter-American Commission on Human Rights, be established to collect and share information on the narcotics trade, to assess the strengths and weaknesses of different

means of combating it, and to explore new approaches. Its work should begin with a hard look at current efforts to address the narcotics problem: What is the effect of current eradication and interdiction efforts—for Latin American nations and for the United States? Is there a strong justification for expanding them? At what cost? What are the realistic possibilities for replacing the lost income of farmers who choose or are compelled to stop growing drug crops? What are the prospects that education programs might begin to cut into U.S. narcotics demand? Are there alternative strategies, for either Latin or North America?

A major inter-American conference on drugs, an initiative proposed by Mexico, would be a useful first step toward organizing the proposed regional body. By bringing together political leaders with specialists on the drug trade and inter-American relations generally, such a conference would be helpful in focusing further attention on the problem, strengthening the shared commitment to face the issue, and developing a framework for regional action.

Because narcotics is such a formidable problem, the widest range of alternative approaches must be examined. It may be useful, for example, to consider policies that distinguish between the damage caused by the use of narcotics per se, and the harm that results from the illegality of the drugs.

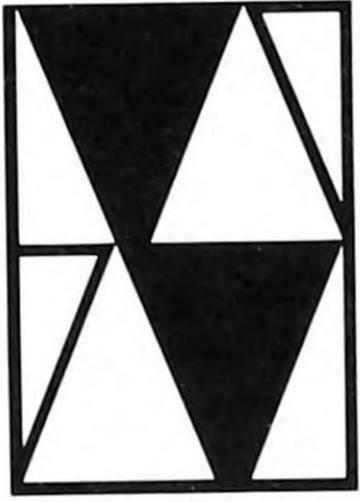
Drug addiction is a tragedy for addicts. The illegality of drugs, however, makes the damage greater for both the addicts and for the societies of the Americas. Addicts must deal with criminals, and hence run the risk of death from contaminated drugs. Society suffers from the crimes committed to finance drug habits. And Latin America and the United States are wracked by the corruption and organized crime associated with illicit drugs. If selective legalization of drugs could reduce the enormous profits derived from drug trafficking, it would decrease vice and corruption. It might also shift demand away from the most harmful drugs.

We are well aware of the risks of making dangerous drugs available legally, and are not ready ourselves to advocate it. The British experiment with legalized and supervised use of heroin, initially promising, resulted in an expansion in the number of addicts. Legalization only addresses the crime and corruption that feed on illegal profits from the narcotics trade. It does not reduce the number of users, and would in fact probably increase them. By one estimate, as many as 60 million North Americans might become cocaine users, though not necessarily addicts, if the drug were legal. Societies must proceed with great caution in considering whether to legalize the use of drugs, but all possibilities for dealing with the problem must be studied.

The Continuing Challenge

Narcotics will remain a sensitive and controversial issue for both the United States and Latin America. Disagreements, reinforced by domestic

political pressures, will lead to inter-American tensions. They must not obscure the long-term interest we all share in curtailing drugs, nor should they be allowed to spill over to worsen other problems of the Hemisphere. Indeed, solving those other problems—especially the debt crisis—is a critical part of solving the drug problem. Confronting the deadly tragedy of drugs demands sustained, searching, high-priority attention by governments and citizens alike. The health of the Americas—and the fabric of inter-American relations—is at stake.



Appendix A

Supplemental Comments of Dialogue Members

Peggy Antrobus

I believe in the value of the Dialogue, which brings together people of varied experiences and different perspectives. This report will contribute importantly to current debates on the problems of debt, drugs, democracy, and security in the Americas. The analysis, however, fails to recognize that these problems are all natural consequences of a growth-oriented model of development which does not challenge the fundamentally inequitable distribution of power and resource within and between countries.

This model also neglects the links between economic, political, social, and cultural factors, and it ignores gender as a critical factor in development. An understanding of why women have remained the "poorest of the poor" and the "most powerless of the powerless" is necessary to overcome the problems of poverty and "underdevelopment," which underlie all the issues we discuss. In my view, what is needed is a new social, economic, and political order in the Hemisphere.

Maurice A. Ferré

This report's recommendations on Latin America's economic crisis and on the drug trade are important and deserve attention. I agree with the general analysis on Central America and particularly with the emphasis on a negotiated settlement, but I believe that continued military pressure against Nicaragua may be required.

Jorge Fontaine

I have three reservations.

1) I take exception to the incomplete reference to Chile in chapter three. It should be noted that the "beginning of the end" was set forth by the Chilean constitution of 1980, ratified by a great majority, which provides for a return to congressional and presidential elections and full political rights in 1989.

2) The suggestion in chapter three that international financial institutions should prefer democratic countries is the kind of political criterion that Latin American governments have opposed, insisting these institutions be managed on a technical basis.

3) I believe that the report takes insufficient account of the Cuban and Soviet role in Nicaragua. Until Nicaragua acts as a democratic

government and grants full political rights to the opposition, it is inevitable that the United States will continue to consider Nicaragua as a Soviet client which seriously impairs its own security.

Carlos Fuentes

I cannot sit in judgment of the first Nicaraguan government in this century that has given its people a sense of dignity and independence. We all wish that Nicaragua were as democratic as Sweden. Unfortunately, democracy cannot grow from nothing. There has never been democracy in Nicaragua.

The historical memory of Mexico reminds me that we, too, had to grow through divisive experience with the churches, the private sector, opposition groups, the press, foreign interests, and many groups before equality under the law was reached. Yet Mexico, while under tremendous pressure from the United States to “mend its ways” (Secretary of State Kellogg called Mexico “an outlaw nation” and President Coolidge saw my country as a source of communist intervention in Central America), was never physically assailed, as Nicaragua is, through a proxy army financed and directed by the United States. Mexico lived through its moment of violence between 1910 and 1930 and only found its moment of equality later. Nicaragua is now going through its moment of violence, a necessary prelude to its moment of equality.

Let the aggression cease and let us pick up President Ortega’s vow at the United Nations last October that, in peace, Nicaragua will abandon present restraints dictated by war. Let us all join the peace effort headed by Contadora and make sure that all the countries in the region abide by their agreements. Right now, who will cast the first stone at the glass houses of democratic purity in Central America?

Xabier Gorostiaga

I agree with the key points of the Central America chapter: a military solution is not a solution; aid to the contras is prejudicial to peace in the region; and a negotiated settlement, Contadora specifically, is urgently needed.

What is not sufficiently clear in the chapter, in my view, is the cause of the crisis. If Central America were left alone, it could find a way out of its trouble. But it is not left alone. The key obstacle to peace in Central America, as the chapter implies but does not state clearly enough, is U.S. policy towards the region.

More than anything else, the militarization of the region shows the incapacity of the United States to adapt to demands for change. Demands for *pan, techo, trabajo y dignidad*—part of a Third World phenomenon which stretches from Haiti to the Philippines—require broad social, political, and economic transformations in order to ultimately obtain peace and development. The United States has traditionally “demonized” such demands by equating them with the spread of international communism.

So powerful is the identification of social change with international communism that it has made the United States reluctant to negotiate peaceful solutions to Third World conflicts. It has also led to a profound double standard in the evaluation of elections, human rights, the strength of oppositions, and freedom of the press. For example, elections in Nicaragua, unlike those of the Philippines, were not accompanied by massive vote fraud, political assassinations, or goon squads attacking electoral observers; yet even before the results were counted, the Reagan Administration dismissed them as a sham. Such double standards do, indeed, relate to dictatorships: they help maintain authoritarian rule that prevents change.

Central America today is a test case for U.S.-Latin American relations. A negotiated peace—based on the recognition that profound change is necessary—represents an opportunity to place these relations on a new footing of mutual respect. A negotiated peace is the only genuine national security guarantee for every nation in the Americas.

Don Johnston

I would emphasize, perhaps even more strongly than is done in chapter two, that the United States should make clear that it can and will prevent the expansion of Soviet military influence or capability in the Hemisphere. We should not try to dictate the form of internal government in other countries, but should keep threats to our military security out of the Americas.

Elsa Kelly

I have several comments on the report's analysis of Latin America's economic situation, which I believe is a very positive contribution.

The debt crisis does not affect Latin America alone. The industrial countries are suffering the consequences as well, because they have lost export markets and jobs. The report should emphasize more than it does the need to increase international trade. The GATT countries must reduce protectionism and expand the use of the general system of preferences.

I disagree with the idea of providing special incentives to attract foreign investment. The same incentives should be given to all investors, foreign and national. Likewise, international guarantee programs should be extended to include the reinvestment of flight capital in its country of origin.

I strongly endorse the proposal for a high-level standing group to address Latin America's economic problems. A major world conference of debtor and creditor countries could also contribute to developing responses to the debt situation.

Juanita M. Kreps

I strongly support the recommendations on Central America and the emphasis on the need for Hemispheric cooperation to face the problems of debt and to restore growth. I must reserve judgment, however, on

the specific recommendations concerning the write-off of debt and reduction of interest rates.

Pedro-Pablo Kuczynski

Perhaps too much hope is placed in the economics chapter on large amounts of new commercial bank lending, in view of the simultaneous recommendation for interest relief. The two recommendations, commendable in isolation, do not go together in practice. A crucial element for the future is development based on private initiative, without which investment and export growth will face great difficulties.

The chapter on Central America places laudable and correct emphasis on dialogue and negotiations. Our report shows little evidence, however, that the Nicaraguan authorities would have curbed their export of arms and ideology if the attitude of the United States had been more accommodating. For that reason, the United States and the neighboring Central American countries have not had many realistic choices in their policies toward Nicaragua.

Hernán Padilla

I do not personally oppose U.S. assistance for the contras as long as Nicaragua remains a threat to the security of its neighbors. The policies of the Sandinista government appear to me to be the major obstacle to peace in the region, not the U.S. response to these policies. A negotiated peace settlement should be the objective, but the Sandinistas will have to change their conduct to make that possible.

José Francisco Peña Gómez

I endorse most of the analysis and recommendations of this report. I disagree, however, with its approach to the problems of Central America. Its focus on security issues is clearly directed to a North American public. In my view, the emphasis should be on the fundamental problems of poverty, oppression, and social injustice which are the underlying causes of the region's conflicts. Outside intervention from whatever source must be condemned; it only exacerbates these problems. The report lacks balance in that it fails to repudiate U.S. intervention in as strong terms as that of the Soviet Union and Cuba. Finally, I doubt that elections in El Salvador can be considered meaningful while the armed forces hold real power in that country.

Robert D. Ray

In my opinion, this report accurately assesses the situation in Central America. For the most part, I concur in its findings and recommendations, particularly concerning the need for negotiated solutions to the region's conflicts. However, the fast moving changes in regard to Nicaragua make it difficult to stay ahead of events. While I believe aid to the contras

creates problems and gives the Sandinistas excuses to accelerate their militarization, I fail to see that the cessation of contra aid in the absence of a negotiated settlement offers hope of resolution. Therefore, at this time, I would not want to foreclose all such support as this report recommends.

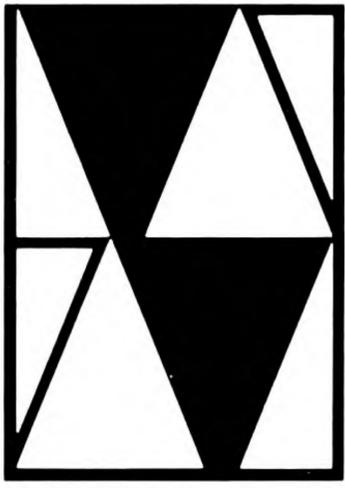
Cyrus Vance

While I fully agree with the thrust of the rest of the report, particularly chapter 2, I do not agree with some elements of the new program of economic cooperation set forth in chapter 1—particularly those dealing with a call for restructuring all of Latin America's outstanding debt and huge increases in lending from private sources. I feel that on this point the report paints with too broad a brush and draws region-wide conclusions that are sometimes inaccurate.

Some conclusions are both overly optimistic and unrealistic. Others are overly pessimistic. For example, the suggestion that for the next five years \$12 billion a year in new funds must be generated from the commercial banks in the United States, Europe, and Japan is unrealistic. I also believe it is overly optimistic to assume that regulatory obstacles that would discourage such new lending can be substantially changed. The suggestion that the situation in Latin America has gone from bad to worse, except for Brazil, is overdrawn. I, of course, recognize the seriousness of the financial problems the countries in the region face, but I note Latin America's underlying economic strength and potential and feel that the tone of the chapter is excessively bleak and negative.

Mario Vargas Llosa

I agree with the recommendations of the Central American chapter against any U.S. intervention in Nicaragua, but it is important to underline with equal strength that intervention by the Soviet Union and Cuba is repugnant to the people of Latin America and the Caribbean.



Appendix B

Participants in the Inter-American Dialogue

From the United States and Canada:

Sol M. Linowitz (Co-Chairman)

Sol M. Linowitz is senior partner of the international law firm 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. In the mid-1970s, he was Chairman of the Commission on U.S. -Latin American Relations. From 1966 to 1969, he was U.S. Ambassador to the Organization of American States. Previously, he had been Chairman of Xerox.

Peter D. Bell (Co-Vice Chairman)

Peter D. Bell was recently named 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 the Refugee Policy Group.

Bruce Babbitt

Bruce Babbitt has been Governor of Arizona since 1978. He was Arizona's Attorney General from 1974 to 1978. He is Co-Chairman of the Democratic Leadership Council and Chairman of the Democratic Governors' Association. Governor Babbitt served on the President's Commission on the Accident at Three Mile Island from 1979 to 1980, and was Chairman of the Nuclear Safety Oversight Committee from 1980 to 1981.

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.

Terence C. Canavan

Terence C. Canavan is Executive Vice President of Chemical Bank and heads the Latin American Division of its World Banking Group. From 1973 to 1976, he was Director of the Bank's affiliate in Caracas. Previously, he was the Chemical Bank Representative in Mexico City and Madrid.

Henry G. Cisneros

Henry G. Cisneros is Mayor of San Antonio. He served on President Reagan's National Bipartisan Commission on Central America and is a member of the Council on Foreign Relations and Co-Chairman of the International Trade Task Force of the National League of Cities.

Joan Ganz Cooney

Joan Ganz Cooney has been President of Children's Television Workshop since 1970. She serves on the boards of several corporations, including Xerox, Chase Manhattan, and Johnson & Johnson. She has been a member of presidential commissions on Marijuana and Drug Abuse and on an Agenda for the 1980s.

Ralph P. Davidson

Ralph P. Davidson is Chairman of the Board of Time, Incorporated, and was Publisher of *Time* from 1972 to 1978. He is a member of the President's Commission on Executive Exchange and the President's Commission on International Youth Exchange. He serves on the board of the National Urban League, the Committee for Economic Development, Allied-Signal, and ITT.

Jorge I. Domínguez

Jorge I. Domínguez is professor of government at Harvard University and is former President of the Latin American Studies Association. Dr. Domínguez is the author of numerous books and articles, and one of the foremost authorities in the United States on his native Cuba. He was series editor for the Public Broadcasting System's four documentaries on Central America and Cuba.

Marie-Josée Drouin

Marie-Josée Drouin is Executive Director of the Hudson Institute of Canada. An economist and public policy analyst, she has directed many studies on economic, social, and political issues in Canada. She is a member of several corporate boards, and the boards of the Canadian Center for Arms Control and Disarmament and the University of Quebec Foundation.

Dianne Feinstein

Dianne Feinstein is completing her seventh year as the first woman Mayor of San Francisco. She was also the first woman President of the city's legislative body, the Board of Supervisors. She is a member of the executive committee of the National Conference of Mayors and of the Democratic Party's Policy Committee.

Maurice A. Ferré

Maurice A. Ferré, now a business consultant, served six terms as Mayor of Miami. 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.

Albert Fishlow

Albert Fishlow is Chairman of the Department 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. Dr. Fishlow has written many books and articles, particularly on Brazil and on international financial issues.

Douglas A. Fraser

Douglas A. Fraser is the former President of the United Auto Workers, and is currently University Professor of Labor Studies at Wayne State University in Detroit, Michigan. He is a director of the Chrysler Corporation and a member of the President's Commission on Employment of the Handicapped. He serves on the board of the NAACP, Now Detroit, and the Aspen Institute.

Hanna Holborn Gray

Hanna Holborn Gray has been President of the University of Chicago since 1978. She was Acting President of Yale University in 1977 and 1978. Previously, Dr. Gray served as Provost of Yale and Dean of the College of Arts and Sciences at Northwestern University. She is a member of the board of Morgan Guaranty Trust, J.P. Morgan, Atlantic Richfield, and other corporations.

Ivan L. Head

Ivan L. Head has been President of the International Development Research Centre of Canada since 1978. From 1968 to 1978, he was Special Assistant to the Prime Minister, with responsibility for foreign policy. He served abroad as a foreign service officer and was a professor of international law. He is a member of the Independent Commission on International Humanitarian Issues.

Theodore M. Hesburgh

Theodore M. Hesburgh, C.S.C., has been President of the University of Notre Dame since 1952. He has served as Chairman of the Board 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 individual in the United States.

Don Johnston

Don Johnston is Chairman and Chief Executive Officer of J. Walter Thompson Company, the nation's oldest, and one of the world's largest, advertising companies. In 1981, he served as Chairman of the American Association of Advertising Agencies, and he is currently a director of the Advertising Council and the Advertising Educational Foundation.

Juanita M. Kreps

Juanita M. Kreps is Vice President Emeritus of Duke University. From 1977 to 1979, she was U.S. Secretary of Commerce. Dr. Kreps has been a professor, a writer, and an administrator. She currently serves on the board of Citicorp, R.J. Reynolds, AT&T, and United Airlines.

Robert S. McNamara

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

William G. Milliken

William G. Milliken was Michigan's longest serving Governor, occupying the position from 1969 until 1982. He has been Chairman of the National Governors' Association and the Republican Governors' Conference. A former business executive, Mr. Milliken serves on the board of Burroughs Corporation, Chrysler Corporation, and the Ford Foundation. He is Chairman of the Center for the Great Lakes.

Edmund S. Muskie

Edmund S. Muskie is senior partner of the international law firm Chadbourne and Parke. He was Secretary of State from 1980 to 1981, Senator from Maine from 1958 to 1980, and Governor of Maine from 1954 to 1958. He is Chairman of the Board of the Center for National Policy.

Hernán Padilla

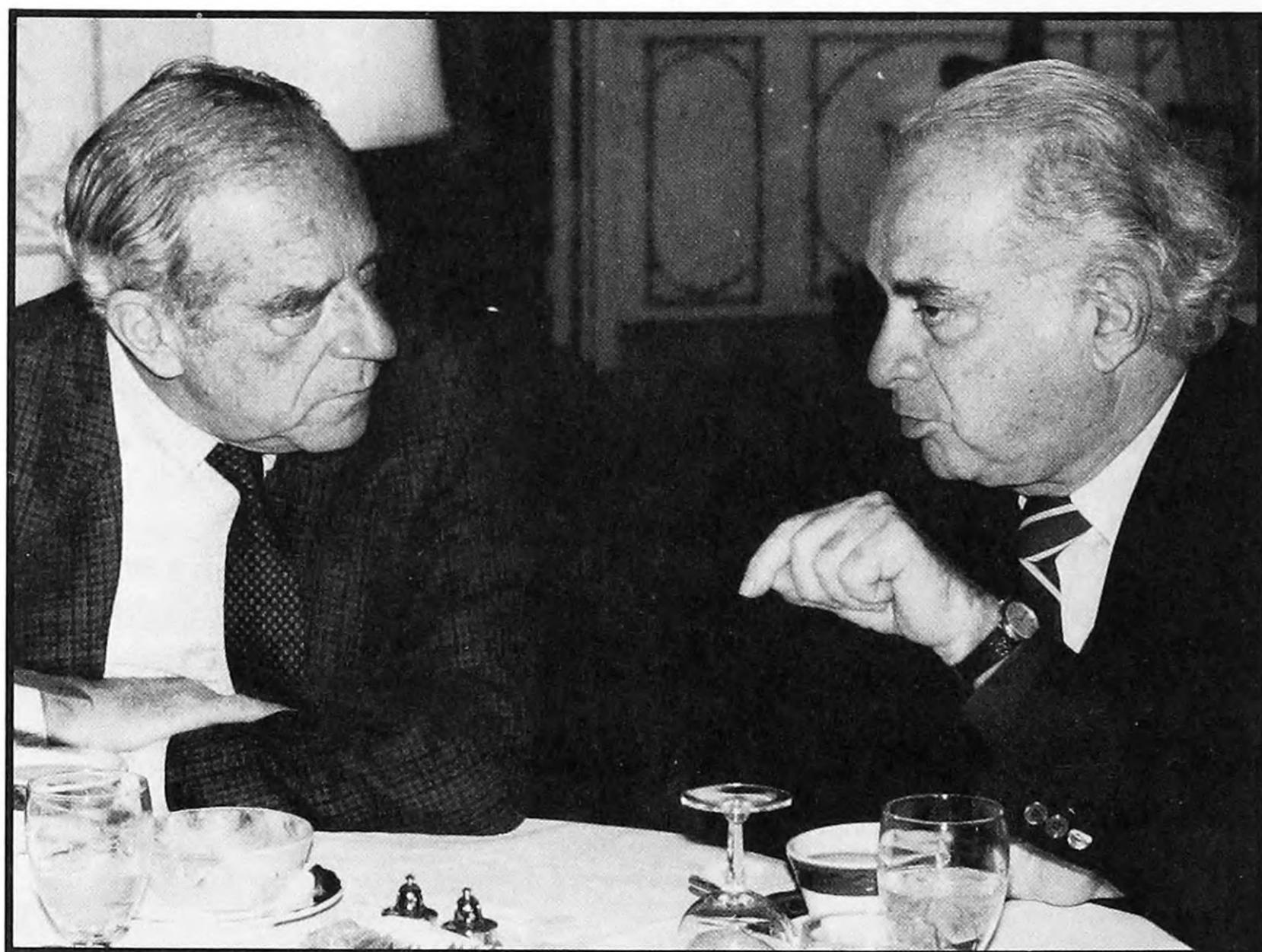
Hernán Padilla was Mayor of San Juan from 1977 to 1984. He was President of the U.S. Conference of Mayors in 1984 and alternate delegate to the U.S. Mission to the United Nations in 1982. Dr. Padilla presently practices medicine and is a member of the U.S. Presidential Scholars Commission.

John R. Petty

John R. Petty is Chairman and Chief Executive Officer of Marine Midland Banks, Inc. He was a partner and director of Lehman Brothers Kuhn and



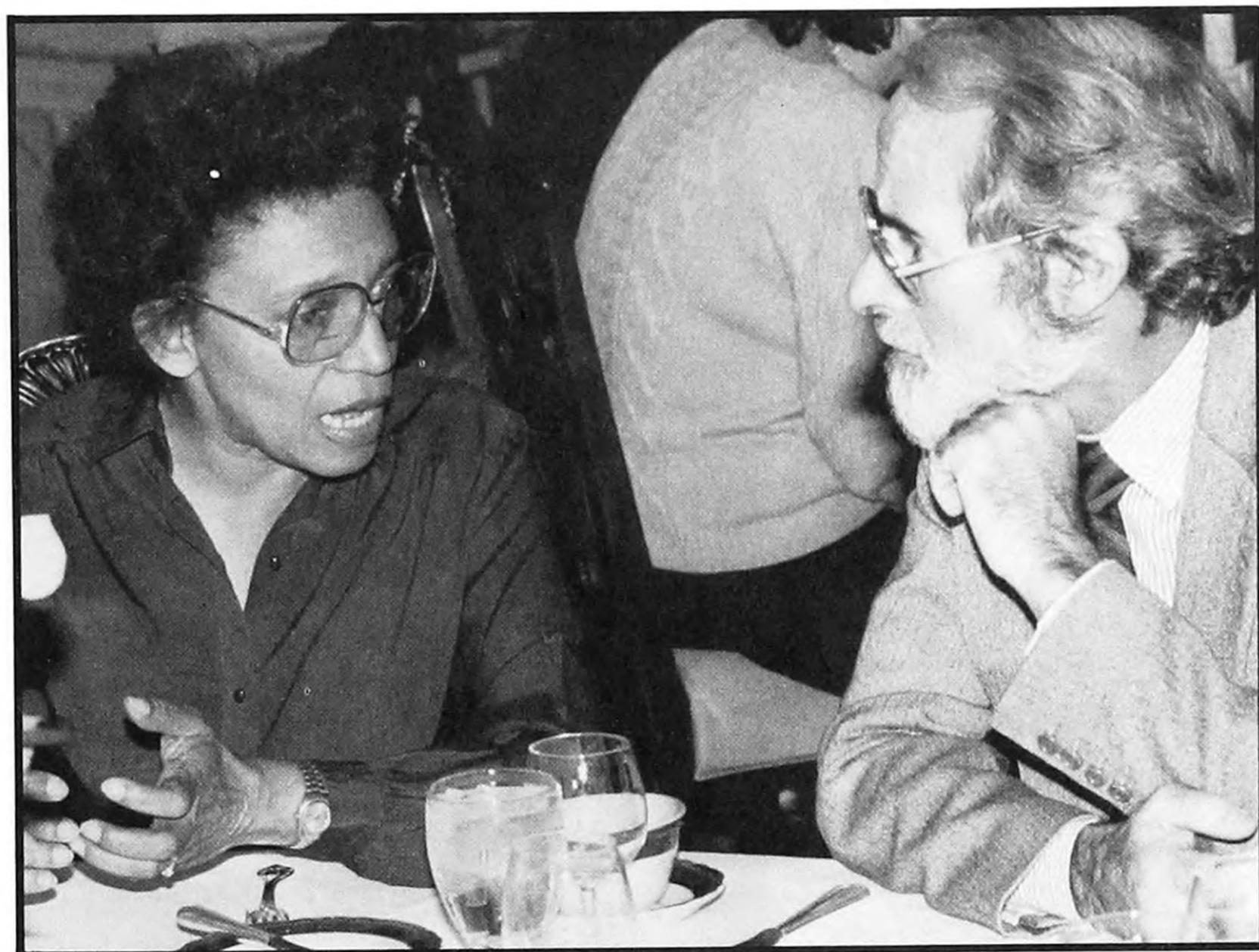
Robert S. McNamara, Rodrigo Botero, and Nicolás Ardito Barletta



Gabriel Valdés and Daniel Oduber



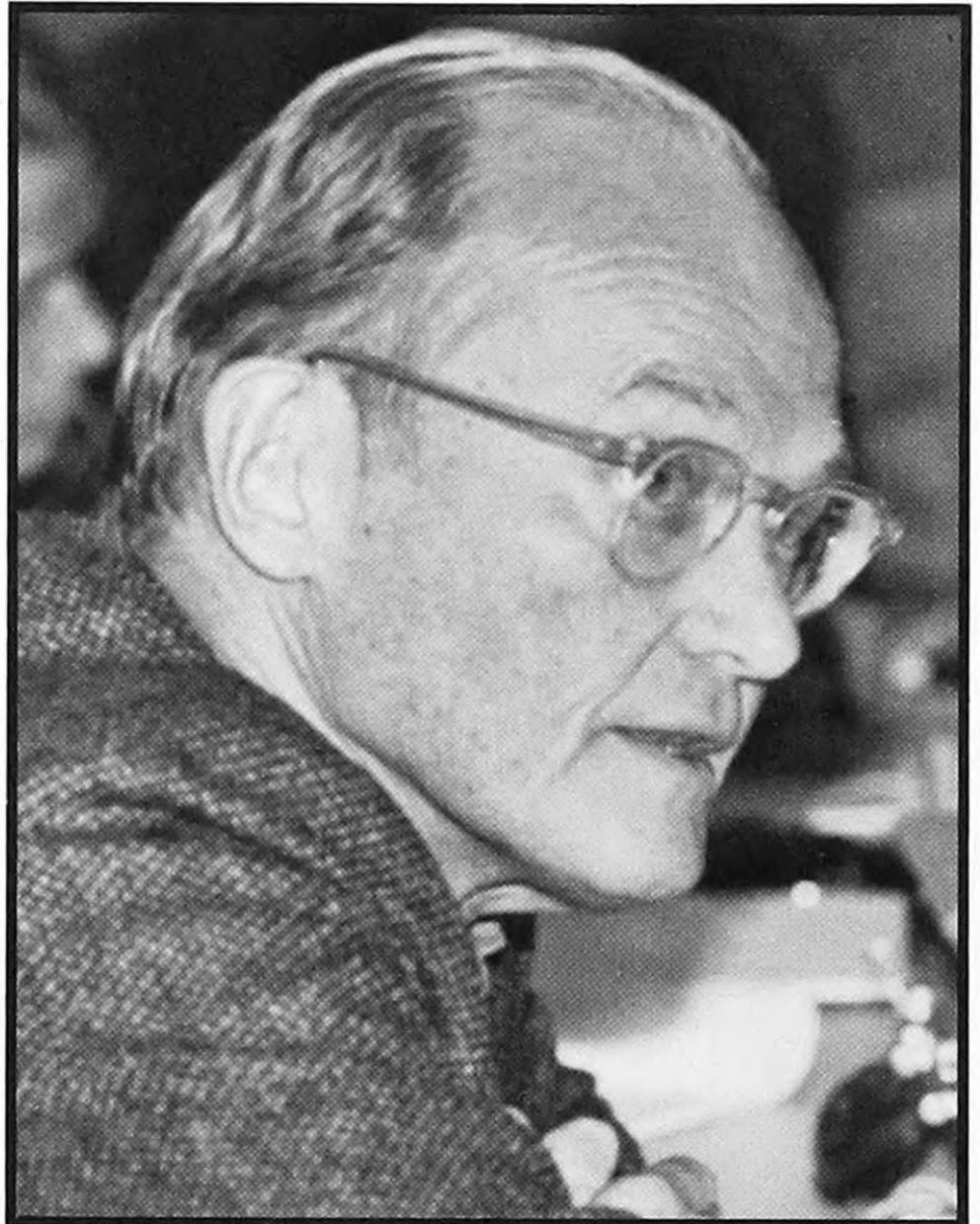
Bruce Babbitt and Galo Plaza



Peggy Antrobus and Xabier Gorostiaga



Roberto Civita



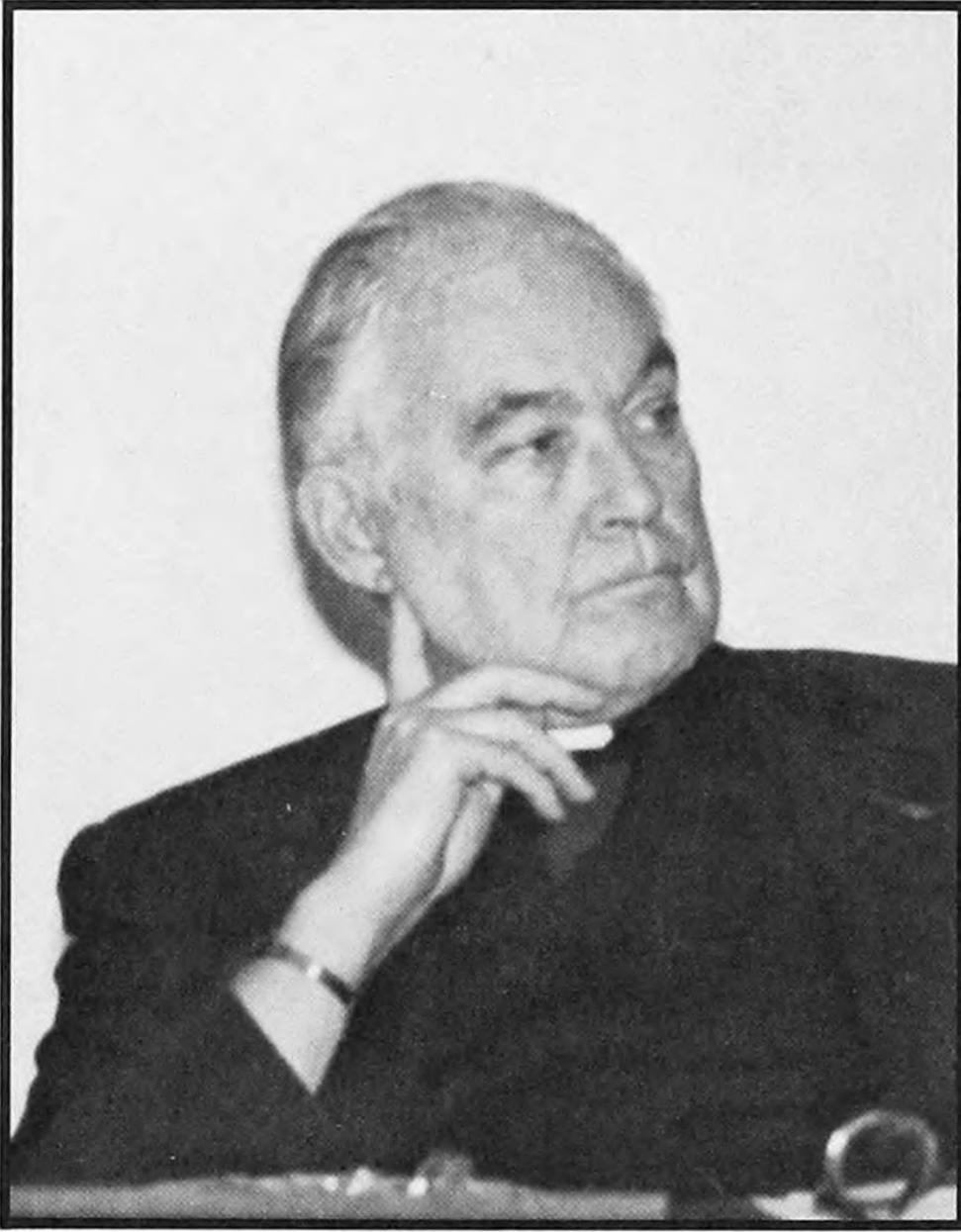
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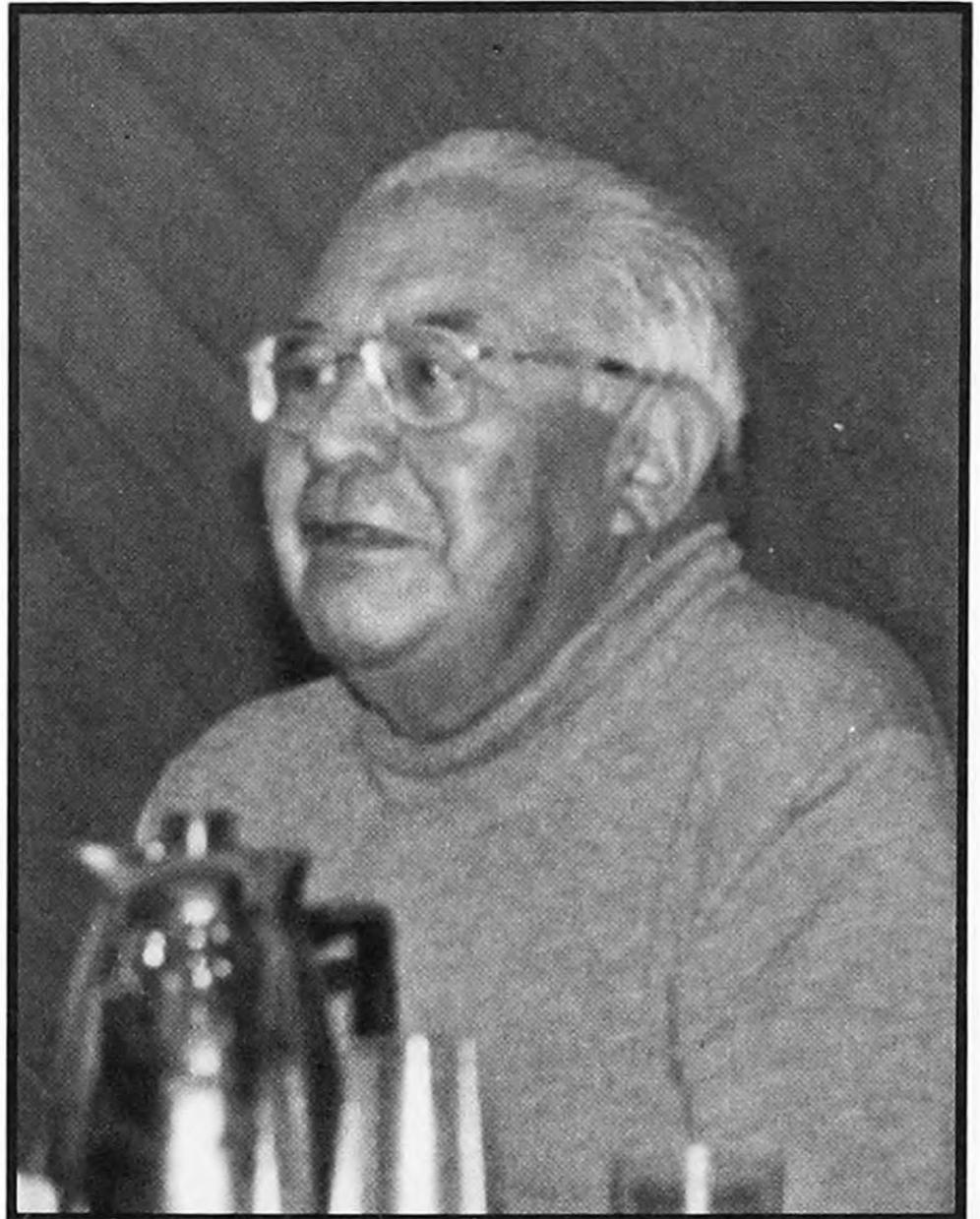
José María Dagnino Pastore



Elsa Kelly



Theodore Hesburgh



Antonio Carillo Flores

Loeb from 1972 to 1976, and Assistant Secretary of the Treasury from 1968 to 1972. He is President of the Foreign Bondholders Protection Council and a member of the board of NBC, RCA, and other corporations.

Ralph A. Pfeiffer, Jr.

Ralph A. Pfeiffer, Jr., is Chairman and Chief Operating Officer of IBM World Trade Americas/Far East Corporation and Senior Vice President of IBM. He serves on many boards, including the International Chamber of Commerce, the Center for Strategic and International Studies, the Royal Bank of Canada, and SmithKline Beckman Corporation. Mr. Pfeiffer is Chairman of the Independent College Fund of America.

Robert D. Ray

Robert D. Ray is President and Chief Executive Officer of Life Investors, Inc. He was Governor of Iowa from 1969 until 1983, and has long been a Republican Party leader at both national and state levels. Mr. Ray was U.S. Delegate to the United Nations General Assembly in 1984, and is Chairman of the Indo-Chinese Refugee Panel.

Elliot L. Richardson

Elliot L. Richardson is senior partner of the law firm Milbank, Tweed, Hadley and McCloy in Washington. He has served as Attorney General, Secretary of Defense, Secretary of Commerce, Secretary of Health, Education and Welfare, Deputy Secretary of State, Ambassador to the Court of Saint James's, and U.S. Representative to the Law of the Sea Conference.

Franklin A. Thomas

Franklin A. Thomas has been President of the Ford Foundation since 1979. From 1967 to 1977, he served as President and Chief Executive Officer of the Bedford-Stuyvesant Restoration Corporation. From 1979 to 1984, he chaired the Commission on U.S. Policy Toward Southern Africa. He is a member of several boards, including Citicorp, Alcoa, and CBS.

Cyrus R. Vance

Cyrus R. Vance is senior partner of the New York law firm Simpson, Thacher and Bartlett. From 1977 to 1980, he was Secretary of State. He was previously Secretary of the Army and the Defense Department's General Counsel. He serves on several corporate boards, including Manufacturers Hanover Trust, IBM, U.S. Steel, and The New York Times.

Clifton R. Wharton, Jr.

Clifton R. Wharton, Jr., is Chancellor of the State University of New York System and Chairman of the Board of the Rockefeller Foundation. From 1970 to 1978, he was President of Michigan State University. He

serves on numerous boards, including the Federal Reserve Bank of New York, Ford Motor Company, Time, Federated Department Stores, and the Aspen Institute. He is a member of the Council on Foreign Relations and the Foreign Policy Association.

From Latin America and the Caribbean

Galo Plaza (Co-Chairman)

Galo Plaza was President of Ecuador from 1948 to 1952, and Secretary General of the Organization of American States from 1968 to 1975. He acted as mediator in Cyprus from 1964 to 1966, and served with the United Nations in the Congo in 1960 and in Lebanon in 1958. He was Ecuador's Ambassador to the United States from 1944 to 1946, and Minister of Defense from 1939 to 1940.

Rodrigo Botero (Co-Vice Chairman)

Rodrigo Botero is a private consultant in Bogotá, Colombia. 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 Bogotá, and is a member of the board of the Ford Foundation and the Aspen Institute.

Peggy Antrobus

Peggy Antrobus is 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 serves on the board of the Caribbean Conference of Churches, the International Women's Tribune Center, and other regional and international agencies.

Nicolás Ardito Barletta

Nicolás Ardito Barletta 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. Dr. Ardito Barletta also served as Director of Economic Affairs at the Organization of American States and President of the Latin American Export Bank.

Guillermo Bueso

Guillermo Bueso, now a private banker, is former President of the Central Bank of Honduras. Mr. Bueso previously served as economic advisor to the President of Honduras and as Executive Director for Central America at the International Monetary Fund.

Oscar Camilión

Oscar Camilión is a professor at the faculty of law of the University of Buenos Aires. He served as Argentina's Foreign Minister in 1981 and as Ambassador to Brazil from 1976 until 1981.

Fernando Henrique Cardoso

Fernando Henrique Cardoso is Senator from the State of São Paulo, Brazil. He was the founding President of the Brazilian Center for Analysis and Planning (CEBRAP) and is President of the International Sociological Association.

Roberto Civita

Roberto Civita is President of Editora Abril, Brazil's largest publishing concern. He is Publisher of *Veja*, and a member of the board of Brazil's Audit Bureau of Circulation, São Paulo's Advertising and Marketing School, and the World Wildlife Fund.

Oliver F. Clarke

Oliver F. Clarke is Chairman of the Board and Managing Director of *The Gleaner*, Jamaica's daily newspaper. He was 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 Argentina. He has been Vice President of the Foundation for Latin American Economic Research, ambassador in Europe, and Chairman of the Argentine Investment Bank.

Jorge Fontaine

Jorge Fontaine is President of the Chilean Confederation of Production and Commerce. He served as Vice Minister of Mining and was active in the creation of PROCHILE, an organization that promotes Chile's exports.

Alejandro Foxley

Alejandro Foxley is President of the Corporation for Latin American Economic Research (CIEPLAN) in Santiago, Chile, and Helen Kellogg Professor of Economics and International Development at the University of Notre Dame. He is the author of many books and articles on economic and political issues.

Carlos Fuentes

Carlos Fuentes is a leading Latin American novelist and political commentator. From 1975 until 1977, Mr. Fuentes served as Mexico's Ambassador to France. He is currently teaching at Cornell University. His most recent book is the *The Old Gringo*.

Florángela Gómez Ordóñez

Florángela Gómez Ordóñez is President of the Banco Popular of Colombia. From 1982 to 1984, she served as Vice Minister of Public Finance and as a member of the President's Council of Economic Advisers. She was previously a university professor.

Xabier Gorostiaga

Xabier Gorostiaga, S.J., is the Director of the Regional Association for Economic and Social Research (CRIES) in Managua, 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.

Oswaldo Hurtado

Oswaldo Hurtado was President of Ecuador from 1981 to 1984. He is now President of CORDES, the Ecuadorean Corporation for Development Studies. He was the founder of the Christian Democratic Party in Ecuador and is currently President of the Christian Democratic Organization of America (ODCA). Dr. Hurtado is a professor of political science at the Catholic University in Quito, and the author of *Political Power in Ecuador*.

Elsa Kelly

Elsa Kelly is the Argentine Ambassador to the United Nations Education, Science and Culture Organization (UNESCO). Dr. Kelly served as Deputy Foreign Minister in Argentina from 1983 to 1985. She was the Alternate Chief of the Argentine delegation to the third United Nations' Law of the Sea Conference. She has been a professor of international law in Argentina.

Israel Klabin

Israel Klabin, former Mayor of Rio de Janeiro, is the Managing Partner of Klabin Irmãos, a major industrial holding company. He was President of the Economic and Financial Administration of the State of Rio de Janeiro and President of the Bank of the State of Rio de Janeiro.

Pedro-Pablo Kuczynski

Pedro-Pablo Kuczynski is Co-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 is the author of *Peruvian Democracy Under Economic Stress: An Account of the Belaunde Administration 1963-68*.

Augustín F. Legorreta

Augustín F. Legorreta is a Mexican financier and industrialist. He has been Board Chairman and President of Financiera Banamex and the Banco Nacional de México. He has also been President of the Mexican Bankers' Association.

Marcos McGrath

Marcos McGrath, C.S.G., has been Archbishop of Panama since 1969. From 1962 to 1965, he was a member of the Doctrinal Commission, the most important of the Second Vatican Council Commissions, and of the steering committee of the General Conferences of Latin American Bishops held in Medellín in 1968 and in Puebla in 1979. Archbishop McGrath was Vice President of the Council of Latin American Bishops from 1967 to 1972.

Daniel Oduber

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.

José Francisco Peña Gómez

José Francisco Peña Gómez is Mayor of Santo Domingo. He was one of the founders of the Dominican Republic's Democratic Revolutionary Party and served for many years as its Secretary General. From 1978 to 1982, he was Vice President of the Socialist International.

Alberto Quirós

Alberto Quirós is Director of *El Nacional*, a leading Venezuelan newspaper. From 1976 to 1984, he was President of Maraven, S.A., and Lagoven, S.A., both operating companies of Petróleos de Venezuela, S.A. He was previously President of Compañía Shell de Venezuela.

Javier Silva Ruete

Javier Silva Ruete is a Senator and serves as President of the Budget Commission of the Peruvian National Congress. He was Minister of Economy and Finance from 1978 to 1980 and Vice President of the Andean Development Corporation from 1976 to 1978. He was Manager of Peru's Central Reserve Bank and Minister of Agriculture.

Leopoldo Solís

Leopoldo Solís is Chairman of Mexico's Council of Economic Advisers, a member of El Colegio Nacional, and a trustee of the International Food Policy Research Institute in Washington, D.C. He was formerly Under Secretary of Commercial Planning and Deputy Governor of the Central Bank of Mexico. Dr. Solís is the author of numerous books, including *Economic Policy Reform in Mexico*.

Julio Sosa Rodríguez

Julio Sosa Rodríguez is President of Universidad Metropolitana in Caracas. From 1969 to 1972, he served as Venezuela's Ambassador to the United States. He has served on several economic missions for his government. Dr. Sosa Rodríguez is Chairman of Industrias VENOCO in Venezuela and President of Banco del Orinoco.

Gabriel Valdés

Gabriel Valdés is President of Chile's Christian Democratic Party. From 1974 to 1981, he was the Director for Latin America of the United Nations Development Program. 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 is past President of PEN International. In 1983 he headed a national commission to investigate a major outbreak of violence in the highlands of Peru. His most recent book is *The Real Life of Alejandro Mayta*.

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. Dr. Lowenthal served with the Ford Foundation in Latin America and was Director of Studies at the Council on Foreign Relations. He has authored numerous books and articles on Latin American and inter-American affairs.

Peter Hakim (Staff Director)

Peter Hakim was Vice President for research and evaluation at the Inter-American Foundation from 1982 to 1984. He was a program officer for the Ford Foundation, and served as the Foundation's Assistant Representative for the Southern Cone. He has been a visiting lecturer on nutrition policy at MIT and Columbia University. Mr. Hakim is President of the Board of the Spanish Educational Development Center in Washington, D.C.

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