



The
Americas
at the
Millennium:

A Time of Testing

A report of the Sol M. Linowitz Forum

INTER-AMERICAN DIALOGUE

The Inter-American Dialogue

The Inter-American Dialogue is the premier center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue engages public and private leaders from across the Americas in efforts to develop and mobilize support for cooperative responses to key hemispheric problems and opportunities.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision-makers in local, national, and international organizations. We also give diverse Latin American and Caribbean voices access to Washington policy discussions. Although based in Washington, the Dialogue conducts its work throughout the hemisphere, in close collaboration with institutions in Latin America, the Caribbean, and Canada. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations. President Bill Clinton observed, “For 14 years the Inter-American Dialogue has played a leading role in framing the debate on issues that really matter to the people of our hemisphere.” President Fernando Henrique Cardoso of Brazil, a founding member of the Dialogue, stated that the Dialogue “has made a great contribution to the favorable atmosphere prevailing in hemisphere affairs at present.”

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Foreword

This is the Inter-American Dialogue's tenth comprehensive policy report on Western Hemisphere affairs. It is the second report issued by the Sol M. Linowitz Forum, which brings our entire membership together in plenary session approximately once every two years. In Forum discussions, Dialogue members and guests probe their differences and seek to forge a common agenda, identify cooperative solutions to regional problems, and develop consensus proposals for actions.

Our report this year focuses on the failure so far of most democratic governments in Latin America and the Caribbean to satisfy the demands of their citizens for steadier and faster economic growth, accelerated social progress, full political participation, and greater personal security. We argue that democratic politics and market economics are on trial across the region, and are at grave risk in some countries. We also express concern that this decade's encouraging advances toward hemispheric cooperation are now stalled.

The report urges Latin American and Caribbean governments to stick with and reinforce their economic reform programs, but also to turn their commitments to reduce poverty and inequality into more effective action. We call on the United States to take greater leadership on such key issues as regional free trade and economic policy coordination, and to exercise that leadership through multilateral initiative. Changes are also proposed in U.S. policies toward Cuba and illicit drugs. Finally, we emphasize how vital it is for governments to find ways collectively to confront new challenges to democratic rule.

The report reflects the consensus of the Dialogue's members. Not every signer agrees fully with every phrase in the text, but—except as noted by individual statements—each of them endorses the report's overall content and tone, and supports its principal recommendations. Signers subscribe as individuals; institutional affiliations are for purposes of identification only.

We want to express our gratitude for the many contributions we have received for the Dialogue's endowment fund, which helps support the Forum. Our campaign chairs, John Whitehead, Cyrus Vance, and Javier Pérez de Cuéllar deserve particular thanks, and we are grateful for the strong financial support of our board of directors, our members, and others closely associated with the Dialogue. We are especially pleased to acknowledge generous gifts from Andean Development Corporation (CAF), Bloomberg Inc., the Ford Foundation, Frank Russell Company, Offitbank, Price Charities, Time Warner, Weingart Foundation, Whirlpool Corporation, Whitehead Foundation, Xerox Corporation, and other individual and corporate donors too numerous to mention.

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NOVEMBER 1999

The Americas at the Millennium: A Time of Testing

This is a time of testing in the Western Hemisphere. The powerful trends that have shaped hemispheric affairs over the past dozen years—the embrace of democratic politics across Latin America and the Caribbean, the region's decisive turn toward market economics, and the strengthening of inter-American cooperation—show signs of ebbing. Together, these trends have profoundly altered Latin American politics and society, and redirected the course of inter-American relations. But skepticism is growing about whether democratic rule and market economic policies will ever be able to satisfy the demands of Latin America's citizens for good government, steady economic advance, social justice, and personal security. Democracy and markets are still on trial for most Latin Americans, and regional cooperation has waned.

- ◆ The global economic turmoil of the past two years has revealed the continuing vulnerability of Latin America's economies and cast into question whether the region can, in fact, achieve rapid growth without recurrent crises. For this entire decade, 1990 to 1999, average growth will not reach 3 percent per year, substantially below the 6 percent the World Bank estimates is necessary to reduce poverty in the region.
- ◆ Despite the renewal of political life that came with the return of elected governments in Latin America, fundamental institutions of democracy—judicial systems, legislatures, political parties, even the presidency—remain weak and discredited in many countries, and scarcely function in some. Freedom of the press has been a bright spot, but the media is still restricted in some countries. Throughout Latin America and the Caribbean, there has been a destructive upsurge in criminal violence, making life for ordinary citizens dangerous and insecure. In only a handful of countries has the quality of public services improved much under democratic rule. Corruption is widespread.
- ◆ Although democratic norms are widely accepted in the region and well entrenched in most places, they are under severe challenge in some countries. In Peru, an autocratic president retains considerable popular support, even though he has curtailed the practice of democracy for years. Voters in Venezuela last year elected the leader of a failed military coup d'état as president, and have overwhelmingly supported

“Most of Latin America's political leaders and financial managers are still betting on market economics and democratic politics.”

his campaign to overhaul the country's political institutions. In Colombia and Ecuador, the authority of democratic governments has sharply eroded, along with their ability to address the nations' problems. Five years after Haiti's military takeover was reversed, the country remains in disarray.

- ◆ Inter-American relations, for the most part, remain cordial and constructive. In the past year, several long-standing inter-state conflicts—between Ecuador and Peru, Chile and Argentina, and El Salvador and Honduras—were resolved peaceably. Most countries enjoy productive ties with their hemispheric neighbors, and intra-regional trade has soared. Yet shared inter-American commitments to expanding economic and political cooperation have receded in the past few years. The failure of the U.S. Congress to approve fast track authority has stalled hemispheric free trade negotiations, while Brazil and other major countries have demonstrated scant enthusiasm for faster progress toward regional free trade. Few governments have shown interest in strengthening the Organization of American States or other inter-American institutions. Peru's withdrawal from the Inter-American Court of Human Rights provoked little reaction from other nations.

This is an unsettled moment in hemispheric affairs. Setbacks and shocks are testing the capacity of leaders and institutions. Most of Latin America's political leaders and financial managers are still betting on market economics and democratic politics—and they are working hard to build pragmatic hemispheric cooperation. But, these efforts will endure and prosper only if Latin America's governments are able to produce better results and recapture the confidence of ordinary citizens.

Latin America's Economic Future

The global financial turmoil of the past two years has starkly illuminated the problems and uncertainties of Latin America's economies. Its impact has underscored the region's acute vulnerability to international economic disturbances. In key countries—Brazil, Argentina, Chile, and Mexico among them—Latin America's restructured economies have shown considerable resilience and proved their capacity for intelligent and effective response. Even so, the recent crisis, which began in Asia in 1997, has been extremely damaging.

To varying degrees, every Latin American nation has been affected—as capital fled the region, external credit dried up, and stock markets went into a tailspin. Brazil was particularly hard hit at the outset, and the fallout from its financial difficulties was quickly felt across Latin America. Aside from Mexico, with its close links to the booming U.S. economy, export earnings sank everywhere, as prices and demand for the region's commodities fell worldwide. The resulting regionwide slump has brought record levels of unemployment, shrinking wages, and cutbacks in social expenditures.

This economic reversal has been a sharp and disappointing blow for Latin America. After a 5 percent expansion in 1997 (the second highest rate in two decades), the region's economies slipped to 2 percent growth in 1998. This year, a 1 percent contraction is projected, which translates into a per capita loss of 2.5 percent. For the entire decade of the 1990s, the region will grow at an average rate of less than 3 percent a year. That is better than the 1 percent growth in the 1980s, but is less than one-half of Latin America's 6 percent average in the 1960s and 1970s, and far below what the region's economic reform and restructuring were supposed to deliver.

Of 33 Latin American and Caribbean countries, only four—Argentina, Chile, Peru, and Guyana—will grow at an average annual rate of 5 percent or more for the full decade. Three others—the Dominican Republic, Panama, and El Salvador—will exceed 4 percent per year. A disturbing number of countries—including Venezuela, Colombia, Ecuador, and Jamaica—will have a lower per capita income in 2000 than they had ten years earlier. This will be the second decade in a row that poverty has increased in Latin America as a whole, leaving most Latin Americans poorer in 2000 than they were in 1980. At the same time, inequalities of income and wealth are worsening almost everywhere in a region already beset by huge disparities.

Latin America has suffered two economic downturns in a three-year period. The collapse of the Mexican peso in 1995 also provoked a deep recession in the region—with growth for Latin America as a whole dropping from nearly 6 percent in 1994 to 1 percent the following year. This unrelenting economic volatility has been as damaging to Latin America as slow growth. The combination has been especially ruinous for poor families, whose low incomes, limited assets, and unstable employment make them acutely vulnerable.

Whether Latin America's policy reforms ultimately deliver

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the growth and stability they once promised will hinge on the ability of the region’s governments to attract and prudently manage international capital flows. That is a crucial challenge for every country. Nothing is likely to affect the future of Latin America’s economies more than global capital movements into and out of the region.

For most of the 1990s, Latin America enjoyed unprecedented inflows of foreign capital. At the start of the decade, foreign direct investment (FDI) to the region totaled about \$7.5 billion, of which one-half went to Mexico. By 1998, the annual flows of FDI had risen to \$54 billion, of which only one-sixth was destined for Mexico. Flows to Brazil grew from virtually zero in 1991 to more than \$20 billion last year, much of it in connection with the country’s massive privatization efforts, and they remain strong this year. Portfolio investments in Latin American stock markets have been even larger, though more volatile. These flows fueled Latin America’s growth in the 1990s and—along with expanding exports and increased domestic savings—they offer the region its best hope for sustained economic and social advance into the future. Without them, Latin America’s economies would have been stagnant, as they were in the 1980s. But these same flows, when they reversed course in 1995 and, then again, in 1998 and 1999, provoked a regionwide economic recession.

The core, unanswered question is whether Latin American nations can effectively manage their economies in a globalized world. Can Latin America avoid future crises—or are its economies destined continuously to move in boom to bust cycles? How many countries are in position to take good advantage of the huge flows of international capital seeking investment opportunities? How many will be able to avoid the associated dangers of economic turbulence, volatility, and financial shocks? Will Latin American companies be able to export more and profit from the world’s increasingly open trading rules? Or will they find themselves overwhelmed by cheaper, higher quality imports? And if Latin America is able to take fuller advantage of foreign trade and investment, what can be done to distribute the benefits more equitably and protect those who lose out?

These are the central challenges for Latin America’s political leaders and financial managers. Most of them are convinced that their countries can be competitive in the world economy, and plan to continue organizing their economies and shaping their policies to make that happen. Market strategies are not

only considered the best way to achieve economic stability and rapid growth. They also yield political advantages. Candidates committed to market reforms have won nearly every presidential election in Latin America in the past half-dozen years, and that trend shows no sign of abating. Disciplined, market-oriented economics appears to have become smart politics. But the bottom-line results have been elusive. Only Chile has so far achieved stable, high rates of economic expansion. Poverty and unemployment remain rampant throughout Latin America. Inequality is worse than in any other major world region, and income and wealth are becoming more, not less, skewed.

To systematically reduce poverty and inequality, Latin American nations have to grow faster and more steadily than they have in the past. That can be accomplished only if Latin America remains integrated into the global economy. The countries of the region do not save enough to finance growth on their own. Building a greater capacity for domestic savings is an important priority almost everywhere in the region, but that will take time. Foreign capital—from trade, investment, and borrowing—is essential for sustained economic development in Latin America.

Large risks are associated with financial inflows, particularly of short-term capital. Economies throughout the world have stumbled when investors and speculators, foreign and national, for whatever reason, have withdrawn their assets. Many ideas have been put forth for revamping international arrangements to avert, contain, and respond to economic crises linked to global capital flows. Many of these ideas are attractive and should be pursued, at the hemispheric as well as the global level. In the end, however, the task will still mostly fall to each nation.

No developing country can fully protect itself from global financial upheaval. But it is possible to limit the damage and hasten recovery—by making sure financial institutions are well managed and carefully regulated, public and private agencies are accountable and their transactions transparent, economic policies are designed to keep deficits and imbalances in check, and the poor are provided with some protection against the fallout. Economic reform efforts need to be deepened, and substantial improvements made in labor legislation, tax policies, educational programs, and judicial systems. Capital controls may make sense in some places, but they are tough to implement, will not work everywhere, and can carry signifi-

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cant costs. Countries have to build and maintain the confidence of investors, domestic and international. Prudent economic management is the best antidote to financial crisis, as well as the best way to produce economic growth. The recent global crisis has cost Latin America dearly. The price, however, would have been far higher—as it was in Russia and several Asian countries—if the region's economies had not been shielded by a dozen years of policy and institutional reform.

Despite the disappointing showing of most Latin American economies in this decade, the right choice for the region's governments is to stick with their market reform programs. They need to expand, deepen, and consolidate economic and institutional reforms, while taking measures to achieve a fairer distribution of benefits.

The Political Challenges

Democracy is under strain in Latin America and the Caribbean. It is still the only legitimate form of government in the region and elections remain, everywhere but Cuba, the route to political power. No elected government in Latin America or the Caribbean, aside from Haiti, has been displaced by armed force since Argentina's 1976 coup. Yet the quality of democratic governance is low in many countries, and deteriorating in some. Polls indicate that ordinary people, even though they prefer democracy to dictatorship, are increasingly unhappy with the institutions and results of democratic rule. Latin America's continuing lackluster economic and social performance has aggravated their dissatisfaction. Nowhere is there more cause for concern than in the Andean region.

In Peru, following a series of failed military and civilian governments, political power is now concentrated in the hands of an autocratic president. Institutions critical to any functioning democracy—among them, political parties, congress, the courts, and the press—have lost autonomy and influence. President Alberto Fujimori retains considerable popular support, and appears likely to win a third term in office. His appeal to ordinary Peruvians comes from his success in defeating hyperinflation, remaking the economy, and ending the country's brutal guerrilla insurgencies. It also reflects the feebleness of his political opposition, which—after ten years—has yet to establish a credible alternative. His authority is further reinforced by the loyalty he commands from the country's armed forces and intelligence services.

Like the Peruvians, Venezuelans were angered and frustrated by the failure and corruption of successive governments, and turned against the political leaders and parties that had long run the nation. Former Lt. Col. Hugo Chavez, the author of a failed military coup in 1992, was elected president last year with a clear mandate to replace the existing political order. The reasons are clear. A generation ago, Venezuela, the largest oil-exporting country outside the Middle East, boasted Latin America's highest per capita income, but over the past 20 years, income levels have plummeted, impoverishing most Venezuelans. The public institutions of this oil-rich nation—its congress, judicial system, schools, hospitals and clinics, prisons and police—have long been considered among the worst managed in South America. Since taking office in February, President Chavez, with the enthusiastic support of a large majority of Venezuelans, has moved quickly to reshape Venezuela's politics. Congress and the Supreme Court have been stripped of most of their powers, although arguably within the law. Chavez supporters won upwards of 90 percent of the seats in the National Constituent Assembly, charged with drafting a new Venezuelan Constitution for approval in a national referendum later this year.

It is still early to know whether the government of President Chavez will, in the end, respect democratic procedures and protections. The president and his advisors, time and again, have committed themselves to leading a democratic transformation, and have asserted their intent to enrich and consolidate democracy in Venezuela. They have also shown their willingness to take account of international opinion in carrying out their programs. Yet, the constraints on executive power normally associated with democratic rule have been weakened in Venezuela, and the extensive involvement of the military in government is troubling.

Aside from a short period of military rule in the 1950s, Colombia has a long and impressive history of democracy. Every one of Colombia's presidents for the past 40 years completed his term of office. Power continues to be shared among the different branches of government, and the press is vigorous and independent. Yet today, no country in the hemisphere is under siege from more quarters than Colombia.

Colombian governments have become increasingly overwhelmed by a complex matrix of problems. The country is the world's leading producer and shipper of illicit narcotics. Nowhere in South America is violence and criminal activity

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higher, homicide more rampant, or the lack of personal security greater. The judicial system, despite efforts at reform, has broken down. Some 20,000 guerrillas, living off the income from drugs, kidnapping and extortion, have free run of nearly one-half the country. Upwards of 3,000 deaths a year result from Colombia's internal warfare, and more than one million Colombians have been displaced from their homes. Human rights abuses—committed mostly by paramilitary groups, but also by the armed forces and guerrilla bands—are massive and endemic, unmatched anywhere else in the Americas. The once envied Colombian economy is deeply depressed, with more than 20 percent of the country's workers without jobs. Like the Venezuelans and Peruvians before them, Colombians of all sectors and social classes are losing confidence in their leaders and institutions—and, indeed, in the country itself, as record numbers of people are emigrating. The question is how long the Colombian people can be expected to tolerate this nightmarish range of problems before giving up on democracy.

Ecuador, too, is deeply mired in crisis. The country has been badly governed over many years. Presidential leadership has been weak. Political leaders and groups—including parties, business associations, labor unions, indigenous organizations, and others—have aggressively promoted their own narrow regional and sectoral interests to the detriment of national policy. They have stubbornly resisted the compromises and concessions that are essential for governments to function. Nowhere in Latin America are politics conducted less responsibly.

Ecuador's political conflicts have stifled economic reforms over the years—as the country consistently squandered its sizeable oil revenues. Now partisan confrontation is blocking needed responses to the country's worst economic distress in memory, resulting from the destructive force of *El Niño*, the costly (but now resolved) border war with Peru, and the sharp dip in oil prices earlier this year—all in the context of grave policy and institutional weaknesses. Recently, Ecuador became the first South American country in years to default on its external debt. President Mahuad has been battered politically by his repeated failures to gain either public support or congressional approval for an economic program that would qualify Ecuador for needed international support. If the standoff continues, the country's economy and politics will be pushed into an accelerating downward spiral—with prospects of economic collapse and political breakdown.

These four Andean countries have had to contend with a

daunting set of problems, far worse than most other Latin American nations. Aside from El Salvador, which settled its guerrilla conflict in 1991, no Latin American country in this decade has endured the intense and debilitating internal warfare that Colombia now, and Peru earlier, have had to confront. Both countries, in addition, have been tormented by the criminality and violence associated with drug cultivation and trafficking. Since 1980, in Latin America only Nicaragua and Haiti have had worse performing economies than Venezuela, which suffered a drop in per capita income of nearly 40 percent in real terms. That Venezuela was at peace during this entire period, and is one of the world's richest oil producers, underscores the failure of the country's political leadership. Few nations in this hemisphere have consistently been more ill managed than Ecuador—or have had a recent streak of worse luck. (Ironically, Bolivia—among the poorest and historically most troubled countries in Latin America—is the only member of the Andean Community that has succeeded in avoiding this wave of economic and political trauma.)

Despite their special circumstances, the experience of the Andean nations is cause for concern about the future of democracy everywhere in Latin America. What has left democracy so debilitated in the Andes is the dismal performance of its governments—a common malady across the region. Continuing mediocre economic results—with living standards in most Latin American nations about where they were twenty years ago and unemployment at its highest level in recent memory—are, in themselves, good reason for apprehension. It does not matter where the blame lies, whether with the disruptions of a turbulent global economy or with the institutions and policies of each nation.

And economic shortcomings are not the only problem. With few exceptions, Latin America's democracies are failing, across the board, to attend to the basic needs of their citizens. A large share of the region's population has no access to such minimal government services as law and order, decent education, clean streets, and adequate water supply. In many countries, cities are crumbling, and school and health systems are deteriorating. Traffic and pollution, along with skyrocketing crime and ingrained corruption, degrade the quality of life and welfare of citizens almost everywhere in Latin America. In country after country, democratic governments are failing to deal effectively with the problems that most trouble their citizens.

The news is not all bad. However shaky, democratic rule

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endures throughout the region, and is still vigorous in some places. Aside from Peru, where controversy over Fujimori’s standing for a third term may mar the elections, presidential votes this year and next in Latin America—in Argentina, Uruguay, Guatemala, the Dominican Republic, Chile, and Mexico—are all expected to be free and fair, and the results will readily be accepted by all sides. For the first time ever, Mexico’s long-dominant *Partido Revolucionario Institucional* (PRI) will select its presidential candidate in an open primary, and the subsequent election is likely to be the most competitive in the country’s history.

Moreover, Latin America’s democratic leaders have shown that they can resist popular pressure, and take and sustain difficult policy decisions under adverse circumstances. Leaders such as Fernando Henrique Cardoso in Brazil, Carlos Menem in Argentina, Julio Sanguinetti in Uruguay, Eduardo Frei in Chile, and Ernesto Zedillo in Mexico have all responded forcefully and constructively to recent economic reversals. Despite eroding support and presidential election campaigns, the governments all stuck with unpopular economic strategies they thought had the best chance of working. For their part, democratic governments in Central America have shown enormous resilience in the face of both economic setbacks and natural disaster (of the terrifying magnitude of Hurricane Mitch).

Nowhere in Latin America today is democratic rule threatened by military takeover—as it has been throughout most of the region’s history. Latin America and the international context have changed too much for a return to military dictatorships. Although in some countries the armed forces continue to exercise undue influence, they are no longer regarded as arbiters of political disputes. Both civilian and military leaders are fully aware of the immense costs that financial markets can impose on economies rent by political disruption. Nearly every hemispheric government would repudiate a military coup in the region. The military rulers would be isolated, and potentially subjected to sanctions. There is today a high price to be paid for ousting an elected leader and, everywhere in Latin America, the armed forces know that.

Democratically elected governments will survive almost everywhere in Latin America. What is uncertain is whether they will find ways to defeat the weakness, inefficiency, and corruption that plague their institutions, and produce more vibrant democratic practice. There are also doubts about whether the region’s democratic governments will be able to

satisfy the basic needs of ordinary citizens—for security, economic opportunity, and public services—and regain their support and confidence. Nor can anyone be certain that governments will find ways to reconcile the polarizing differences between rich and poor, and overcome the ethnic and racial divides that affect so many nations. And there is the risk that democratically elected leaders will themselves subvert democratic procedures and rule autocratically—as has occurred in Peru and may yet happen in Venezuela.

Cooperation in the Western Hemisphere

The promise of hemispheric economic integration and enhanced political cooperation, a driving force of inter-American relations earlier this decade, is proving hard to fulfill. Latin America's economic downturn and the intensifying strains on democracy pose new and formidable obstacles to regional cooperation—just when vigorous cooperation is most needed to solve these and other shared problems.

The commitment to greater cooperation in hemispheric affairs has weakened on many fronts.

- ◆ The U.S. government is still without fast track negotiating authority, raising doubts about the United States' commitment to regional free trade, and dampening Latin American enthusiasm for this goal—which is widely regarded as the cornerstone of productive hemispheric cooperation. As a consequence, negotiations toward the Free Trade Area of the Americas (FTAA), launched last year in Chile at the second Summit of the Americas, have slowed to a crawl. It remains uncertain whether fast track will be approved after a new U.S. president and congress take office in January 2001.
- ◆ The United States has also failed to meet the pledges it made at the 1994 Summit in Miami to incorporate Chile into the North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico—and to provide the countries of Central America and the Caribbean with the same access to the U.S. market as Mexico.
- ◆ Despite the economic benefits it has produced for both the United States and Mexico, NAFTA has generated opposition in both countries. In the United States, the opposition is particularly intense, and it has become a major stumbling block to the approval of fast track and to the successful

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negotiation of other free trade agreements, in this hemisphere and elsewhere.

- ◆ After many years of impressive performance, the Mercosur trade group has been struggling this year. Disagreements between the group's two major partners, Brazil and Argentina, have flared on many critical issues, especially since Brazil's sharp currency devaluation in January 1999. Compounded by deep economic recession in both countries, the differences are proving difficult to bridge. Efforts toward greater economic coordination among the members of the Central American Common Market seem to have stalled. Political and economic turmoil has weakened Andean Community ties. These unfortunate setbacks in Mercosur and the other regional trade pacts are likely to hobble the FTAA negotiations further.
- ◆ A dangerous precedent has been set by the Peruvian government's rejection of recent decisions of the Inter-American Court of Human Rights and by Trinidad-Tobago's withdrawal from the Convention of Human Rights. These actions reveal the fragility of hemispheric human rights institutions, and potentially threaten their ability to function at all. The public silence of other Latin American governments (aside from Costa Rica) in the face of the Peruvian and Trinidadian challenges is disturbing, as is the continuing failure of the U.S. and Canadian governments to ratify the Inter-American Convention.
- ◆ U.S. policies toward drugs and Cuba continue to be designed and implemented unilaterally, taking little account of the views of other nations. Washington remains wedded to the widely disparaged drug certification process, which requires the White House and Congress to assess whether or not other countries are reliable allies in fighting narcotics, and then to decide on penalties for those that do not pass the test. Every March, when certification is carried out, U.S. relations with Latin America and the Caribbean become more tense. Although U.S. policy toward Cuba has become more open and flexible in the past year, Washington still deals with this issue in isolation from other hemispheric governments—and it remains a source of friction in inter-American affairs.

These developments have reinforced doubts about how far the nations of the hemisphere can advance toward building an enduring framework of political and economic cooperation. It

looks doubtful that negotiations for the FTAA will be concluded by the 2005 deadline, and other regional trade and investment initiatives may have to be postponed as well. No one can be confident that the United States will refrain from unilateral action on drugs or other issues when it cannot get its way through cooperative initiative, or that the United States and Latin America will ever agree on how to reform and increase the effectiveness of inter-American institutions, including the Organization of American States and the Summits of the Americas. There just may not be sufficient agreement on the future shape of hemispheric economic and political arrangements—and enough mutual confidence—among the United States and major countries like Brazil and Mexico to make progress possible.

Efforts to build cooperation in inter-American relations are lagging. Regaining lost momentum will require that the United States and the other nations of the hemisphere renew their commitment to regional initiatives, and work to mobilize public support for them.

First, the United States has to take greater leadership on some key issues and muster the support of other governments. Multilateral initiative is vital. U.S. leadership will fall short if it is exercised unilaterally.

As a start, the Clinton Administration or its successor must secure congressional approval of fast track authority to negotiate the FTAA, the new round of the World Trade Organization, and other trade agreements. This will only happen if a broad, bipartisan coalition can be forged, which will require that new trade legislation incorporate labor and environmental standards acceptable to both Democrats and Republicans. Fearing new U.S. import barriers, most Latin American governments have resisted including such standards in trade pacts, but U.S. participation may now depend on them.

U.S. leadership is needed to meet other challenges as well. Washington can help shore up the economies of Central America and the Caribbean Basin by promptly enacting legislation to provide them with NAFTA-equivalent trade benefits. It can improve hemispheric coordination in the fight against illicit drugs by actively participating in the OAS's new multilateral mechanism for evaluating the anti-narcotics efforts of hemispheric governments, and considering it as an eventual replacement for the U.S. certification process. Enhanced U.S. cooperation with Mexico on the full range of issues affecting

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the two countries is vital. The quality of that bilateral relationship critically influences broader U.S.-Latin American relations and Western Hemisphere affairs generally.

Second, it is time for the governments of the hemisphere to get beyond trade matters and pursue wider economic policy coordination, with the Inter-American Development Bank taking a leading role. Latin America's financial reversals, in 1995 and 1998, make this urgent. Two themes ought to be part of the exchange: 1) how finance ministries and central bank presidents can work together to prevent and respond to financial crises, and 2) whether the nations of the hemisphere should establish a common set of macroeconomic targets—inflation, budget deficits, debt to GDP ratios, for example—and a timeline for meeting them (in the fashion of Europe's Maastricht criteria).

Third, governments across the Americas have to do a better job of turning their verbal commitments to reduce poverty and inequality into more effective action. Despite the pledges made at the 1998 Summit in Santiago, most Latin American governments have done little to enhance educational opportunities—a failure that is as damaging to economic progress as it is to social advance. No regional arrangements or incentives to encourage school reform have yet been put in place. Across the region, social improvements will require more efficient and accountable public sectors, a significant reallocation of government expenditures toward lower income groups, an end to discrimination against women and minorities, and far tougher measures to collect taxes from the better off. There is no greater impediment to democratic stability and sustained economic growth in Latin America than the region's dismal social conditions.

Fourth, the governments of the hemisphere need to find ways collectively to confront new challenges to democratic rule. Those coming from elected leaders who fail to respect constitutional limits are particularly disturbing. Since 1991, OAS resolution 1080 has provided a political mechanism for the hemisphere's governments to respond to disruptions of the democratic process anywhere in the Americas. They have responded four times, with varying degrees of success. The question is whether and how this mechanism could be adapted to situations in which the threats to democracy are more ambiguous, where democratic forms persist, but power is concentrated and political competition constricted.

Every country stands to benefit from more cooperative

hemispheric relations. By integrating their economies and coordinating macroeconomic policies, the nations of the Americas can more rapidly expand trade and investment flows, and develop practical responses to regional and national crises—which together should promote faster and more stable growth. Sustained political cooperation among governments can help to protect democracy and human rights, and to strengthen regional institutions. By joining together, the governments have a better chance to anticipate and successfully address shared problems such as drug and arms trafficking, terrorism and criminal violence, immigration, threats to public health, environmental deterioration, and natural disasters.

The opportunity to build productive cooperation in Western Hemisphere affairs is fading. It can be revived, but renewed progress must be made soon on several fronts. The challenge for the United States and every other nation of the hemisphere is straightforward: they must take action to fulfill their stated commitments to protect and reinforce democracy, integrate their economies, raise the living standards of the poor, and improve regional institutions.

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Supplemental Comments

Jimmy Carter

I believe this report is an important wake-up call for the hemispheric leaders as we enter the next millennium. I agree with the problems identified in the report, but the report seems overly pessimistic, focusing on two disappointing years to project long-range negative trends. Countries in the region have developed different capabilities to respond to external and internal pressures, and are choosing their own paths. It is true that the Andean countries are facing intense pressures and are responding with either uncertainty or questionably authoritarian tactics, but Brazil, Mexico, Argentina and Chile have withstood and are adjusting to severe external economic pressures, and the latter two are facing elections this year with confidence. Latin America and the U.S. continue to be partners. I urge the Inter-American Dialogue to issue a strong call for democratic leadership to address the problems identified in this report.

Lee Cullum

This report addresses the right issues at the right time. But, as a journalist, I am unable to endorse its conclusions. I applaud the thought and effort behind it.

Karen DeYoung

As a practicing journalist who covers U.S. policy, I cannot offer a judgment regarding the report's recommendations on trade and U.S. participation in multilateral organizations.

Jack Fuller

As president of Tribune Publishing Company, I have always felt it best not to endorse political or policy statements. Therefore I must stand on the disclaimer in the introduction that the views expressed in the document are not necessarily my own.

Xabier Gorostiaga

The report does not sufficiently reflect my concern—which is shared by the World Bank and an increasing number of economists—that the opportunities of democracy are now being restricted by the prevailing economic model. The concentration of wealth, power, and technology, which is the hall-

mark of globalization, is a threat to democracy—in the United States as well as in Latin America and the Caribbean. I think that the report does not sufficiently address the social and economic roots of what it refers to as populism.

Lee Hamilton

The trends identified in the report are worrisome. Yet, the report should have given more emphasis to the progress that has been made. Latin America is in better shape than it has been in the past; relations between the United States and Latin America are friendlier; and the quality of life for the peoples of the hemisphere is improving, although not evenly.

There are a number of favorable trends. While the democracies in the region need to be strengthened, I am encouraged that the process of strengthening democracy is in the hands of the citizens of each country. Globalization and rapidly increasing dissemination of information have made people everywhere more aware of their government's actions and more focused on accountability. And, while reversals are to be expected, the trends still remain positive.

The pace of economic reform has slowed and growth is not what it should be; but, the nations of the region know what they have to do to become more competitive. Specifically, it is imperative to add or refine regulatory regimes. These reforms are additional instruments citizens use to hold their representatives accountable.

The most serious challenge facing Latin America today is poverty and inequality. In virtually every country in the region, the economic reforms of the decade have led to increasingly unequal distribution of wealth. Worse, in many cases, there has been an increase in the incidence of poverty. This is the most urgent challenge for governments in the region, for the multilateral lending agencies, and for the United States.

There is a message in this report for the United States and other interested parties. The United States and the other parties must find the basis for a coherent and coordinated plan to help the Latin Americans help themselves. Finally, we in the United States must do everything we can to help the peoples of Latin America hold their elected representatives accountable and help the governments of the region support one another in their efforts to become more democratic.

Enrique V. Iglesias

While I do not agree with some specific aspects of the report, I fully support its call to the governments of the Americas to protect and strengthen democratic institutions in the hemisphere, and foster social and economic development.

Fernando Léniz

I have four comments on the report.

- Market economies and democracy are necessary but not sufficient conditions to achieve social progress.
- Our fundamental message should be that educational systems are failing to provide a quality education for every child in the region.
- The full implications of globalization for the region are not discussed—for example, its impact on labor, the environment, technology, and the harmonization of laws and rules.
- The United States and European Union still exhibit protectionist tendencies, which have a significant political and economic influence on Latin America's exports.

Dulce Maria Pereira

I believe the report should have included the following statement: It remains uncertain whether Latin American governments will promote the structural changes needed to overcome social inequalities, particularly those resulting from discrimination against women, indigenous peoples, and individuals of African descent, and from the limited opportunities available to the young and poor in our countries.

Tommy G. Thompson

While I strongly support and respect the valuable work of the Inter-American Dialogue and the spirit of the report, matters relating to my work as the Governor of Wisconsin direct that I stand on the disclaimer offered in the introduction. The views expressed in this report are not necessarily my own.

Judy Woodruff

As a journalist, I cannot endorse the specific aspects of this report, but I do concur in the spirit of it.

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