LATIN-AMERICA2

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LATIN AMERICA

After the horrors of the Depression and the Second World War, Allied nations recognized the need for greater coordination of the future international economy. In 1944, a conference of 44 nations in Bretton Woods, New Hampshire, created two new instruments for international financial and monetary cooperation, the World Bank and the International Monetary Fund. The following year, these institutions set up shop in Washington, D.C. For twenty-five years, the world's new 'Bretton Woods economy' functioned rather smoothly. Gold was the base for the world monetary system, with international currencies maintained at fixed rates relative to the US dollar. With a strong anchor for world currencies, governments were motivated to keep financial discipline.

The early 1970s brought a sea change. The Great Society programs and the Vietnam War had driven America's budget deficit deep into the red. At the same time, many of the world's former colonial nations, having industrialized gradually through the 1950s and 60s, were manufacturing a substantial volume of products for export. International speculators began pulling capital out of the United States in search of more stable currencies. As foreign holdings of US dollars increased, there was a run on American gold reserves. When the US could no longer guarantee a reserve backing for the world's currencies, the post-war system of monetary discipline came to an abrupt close. On August 15, 1971, President Richard Nixon cut off the convertibility of dollars into gold, ushering in a new era of floating exchange rates.

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This 'managed flexible exchange rate system' had problems right from the outset. Without monetary stability, interest rates shot up. Where the regular demands of international trade had previously driven exchange rates, volatile capital movements were now driving exchange rates. The world economy was shifting and developed countries were exposed. Oil prices skyrocketed. Inflation ratcheted upward. Unemployment soared. Many rich nations experienced balance of payments problems. As Willy Brandt explained, "The western industrialized countries had grown at more than 4 per cent a year from 1950 to 1960, and more than 5 per cent from 1960 to 1973, but from 1973 to 1979 they grew at an average rate of only 2.5 per cent a year" (N-S, 40).

In the meantime, the newly rich Organization of Petroleum Exporting Countries – a coalition of oil producers – promised to exert its growing economic power and influence on behalf of impoverished nations, which hoped to control their own resources, increase their stake in world trade and productivity, and share in the international political and decision-making process. It was thought that other new cartels from developing nations might follow suit, increasing the price of their raw materials and pressuring the rich nations for changes in the world economy. At the United Nations General Assembly, there were calls by the Group of 77 – a large affiliation of developing nations – for a new economic order.	

Table 1: Table1

During the same period, a new field of interdisciplinary research on global problems was emerging. There was much investigation of whole systems theory, 'limits to growth', and global modeling. Linkages between finance, poverty, population, consumption, technology, and the environment were recognized and considered methodically for the first time. In late 1977, Willy Brandt convened a distinguished panel of international leaders and an expert staff to integrate this research with new analyses and practical proposals on international development.

The Brandt Commission's signature – a motif starkly portrayed on the covers of North-South and Common Crisis – was a jagged line drawn across a map of the world, depicting the gulf between the rich nations of the North and the poor nations of the South. "It cannot be accepted," Brandt's panel concluded, "that in one part of the world most people live relatively comfortably, while in another they struggle for sheer survival" (N-S, 64).
The publication of North-South caused a stir worldwide, receiving major media coverage and generating spirited discussion everywhere. It became available in more than twenty

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languages, including Arabic, Chinese, Swahili, and Romanian. In the early 1980s, thousands of people attended peaceful assemblies in many parts of the world in support of the Brandt proposals, early versions of today's anti-globalization rallies. Speakers traveled the world to bring the message of the Brandt Reports into local communities. North-South was widely discussed at churches, civic organizations, conferences, universities, non-governmental organizations, and national and international agencies. More than three quarters of the world's nations endorsed the Brandt proposals at the 35th and 36th sessions of the United Nations General Assembly.

	"This Report deals with great risks," said Brandt, "but it does not accept any kind of fatalism. It sets out to demonstrate that the mortal dangers threatening our children and grandchildren can be averted; and that we have a chance – whether we are living in the North or South, East or West – if we are determined to do so, to shape the world's future in peace and welfare, in solidarity and dignity" (N-S, 7).

Table 2: Table2

The moment was not right. Just as North-South was published, the Soviet Union invaded Afghanistan, and Western nations were suffering from a severe economic downturn. The Brandt Reports had a sustained impact on public opinion, institutional analysis, and intergovernmental diplomacy, but fear of communism and sluggish markets were of greater concern to the developed world. By 1982, the North was experiencing its worst recession since World War II, and Western leaders began to lose sight of the Brandt Commission's views on world economic recovery and the plight of poor nations.

By 1983, when Common Crisis was published, Helmut Kohl had joined ranks with Margaret Thatcher and Ronald Reagan as leaders of the Big Three powers, stock markets were beginning to take off, and Western economies were vibrant once again. By 1985, the Brandt Reports had been brushed aside by policy makers and the public, dismissed as out of step with the times, and relegated from the desktop to the bookshelf. Developing countries were still suffering, but few seemed to care. The markets were ascendant, and the developed world was celebrating its recovery from a rocky decade.

It is instructive to look back at that period to see why the Brandt Commission was so concerned about the prospects for the North, as well as the South. Since the early 1970s, as noted, the world's newly deregulated monetary system had a severe recessionary effect on the advanced economies. Without monetary discipline, the world lurched from crisis to crisis. Interest rates soared and growth was held back, which meant rising unemployment, lower wages, slumping currency values, and lower savings and investment. This led, in turn, to budget deficits, increased borrowing, and diminished demand in most developed economies.

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Developing countries also found themselves in a desperate liquidity crunch. Petroleum exporting countries – flush with cash after the oil price increases of 1973-74 – invested their money with international banks, which 'recycled' a major portion of the capital as loans to Latin American governments. With recession smoldering in the developed economies, commodity prices collapsed in many nations, protectionist tariffs thwarted exports, and aid and investment capital slowed to a trickle. Having begun to build new infrastructure around these investments, Latin nations suddenly found this money withdrawn by the big banks.	

Table 3: Table3

It would not be the last instance of massive capital flows overwhelming the economies of small nations, with sudden swells of investment, then drastic implosions wrought by the outflow of monies.

"The South needs, above all, finance," the Brandt Commission announced in North-South. "Most rich countries have accepted the target of giving 0.7 per cent of their GNP in the form of official development assistance, but few have lived up to it. Most aid goes to finance the foreign exchange costs of projects, but many of the poorer countries also need support for local expenditures and for imports of non-capital goods. Some of the more prosperous countries in the South have recently borrowed extensively from commercial banks, causing heavy problems in rolling over their loans, which by the end of the 1970s were causing anxiety to borrowers and lenders alike. And many developing countries will need much more finance over the next twenty years to produce any real improvement in health and nutrition, in mineral and industrial development, or in sustaining satisfactory growth" (N-S, 43).

Mexico nearly defaulted in August, 1982. Private international banks in New York City, which held the bulk of Mexican loans, were panic stricken. A financial rescue package for Mexico was cobbled together by the US and other G-7 Central Banks through the IMF and the World Bank. As other developing nations struggled to pay the interest on their loans, the big banks had to reschedule the debt and reduce additional lending for them as well. By forcing developing countries to maintain their interest payments, a major banking collapse was averted; but growth rates fell, and a debt crisis spread through Latin America, rippling across the world to Asia and Africa.

This government-sponsored bailout of the private banks was a turning point. Mexico had been saved and a possible world economic collapse averted. More significantly, a new practice had been successfully tested: private debt was converted into public liquidity at the international level.

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	In the Mexican bailout, national public assets underwrote international capital ventures with virtually no accountability. Taxpayers in the G-7 nations were not even aware they were footing the bill. It was the first step in a new global approach: unofficial financial guarantees through the international system by developed nations, offering government subsidies for private investment in developing nations.

Table 4: Table4

To receive their new loans, debtor nations in Latin America had to agree to certain conditions. They were required to reduce government programs, slash investments, and run trade surpluses to repay the interest. In many cases, nations were also required to devalue their currencies. These measures were supposed to increase the prosperity of the developing economies, but the new loans were not channeled into productive investment or antipoverty programs. They were used instead to pay the interest on existing loans.

Depression lingered in Latin America from 1981-1986, but it took the US stock market crash of 1987 to jolt developed nations back to economic reality. There was a new sensitivity on the part of officials that developing country debt was a serious matter and required new solutions. What would happen, after all, if a major default in the Third World were to coincide with a stock market crash?

In Common Crisis, the Brandt Commission warned of a global economic crisis resulting from the unpaid debt of developing nations. Brandt called for external financial support from banks and international agencies, and debt relief to ease the balance of payments problems. The Commission envisioned a new framework for development finance, including increased aid, greater lending through international financial institutions, massive resource transfers to developing nations, and a new World Development Fund. Brandt's panel also proposed that revenues be gained from use of the global commons – the oceans and the sea-bed – as well as international taxes and levies on arms trade.

"Our situation is unique," Brandt exclaimed. "Never before was the survival of mankind itself at stake; and never before was mankind capable of destroying itself, not only as the possible outcome of a world-wide arms race, but as a result of uncontrolled exploitation and destruction of global resources as well. We may be arming ourselves to death without actually going to war – by strangling our economies and refusing to invest in the future. Everybody knows – or should know – where the world economic crisis of the 1930s ended. Everybody	

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should know what immense dangers the present international crisis holds, and that only a new relationship between industrialized countries and developing countries can help overcome this crisis" (CC, 9).	

Table 5: Table5

Two decades later, the problem remains: how to ensure a steady flow of capital to poor nations without the heightened risks that force investors to pull back sharply, causing developing economies to implode. Common Crisis asked the developed world to increase investment in the developing world, but under the terms of a stable, globally managed economy. That, of course, is not what happened. While international banks were too skittish to reinvest in developing nations as they had in the late 1970s and early 80s, there emerged a new source of development finance.

is an honor for me to address this second annual conference. Once
again, the Miami Herald has assembled a distinguished group of speakers.
And from the faces which I recognize in the audience, I can see that I
have the pleasure of addressing an audience which is highly
knowledgeable about Latin America and the Caribbean. I look forward to a
stimulating exchange during the question-and-answer period.
I'd like to lay out very briefly some of the key points of U.S. policy
toward Latin America and the Caribbean as we move into the 21st century.
I assume that the turmoil in financial markets is foremost in many minds
today. Indeed, it is one of my major concerns, but I would like to
discuss this critical issue within a broader context.
Let me start by outlining for you the major goals of U.S. policy toward
the region. These goals represent a continuum from previous U.S. policy,
reflecting our long-term interests in the region but also the growing
closeness of our relationship. We want to:
-- Protect U.S. citizens and our borders.
-- Expand economic growth and prosperity.

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-- Consolidate democratic institutions and promote respect for human rights.
-- Improve judicial systems to deliver transparent, equitable justice for all citizens.
-- Combat transnational crime and stem the flow of illegal narcotics to the United States.
-- Increase sustainable development and sound environmental practices.
-- Improve education and health.
-- Reinforce military subordination to civilian leadership and support military professionalization.
-- Strengthen national institutions in each of these areas.

Perhaps more important than our specific objectives is our general approach. U.S. leadership today expresses itself largely through multilateral actions undertaken in the spirit of cooperation among equals. Our policies and programs are aimed at building the capacity of our neighbors to achieve these goals cooperatively. The Miami and Santiago Summits provide us with a special policy tool to push forward in all these areas.

As a long-time observer of the U.S.-Latin American relationship, I am struck that we have already entered a "new age" in our relationships within this hemisphere--well before we actually enter the new century and the new millennium.

First, we are now looking at Latin America in a broader focus--the Western Hemisphere. For the first time ever, there is wide-ranging consensus in the whole hemisphere--Latin America, the Caribbean, the United States, and Canada--on basic political and economic values, on democracy and free markets. The Summit of the Americas reflects that. So does the launching of the negotiations for a Free Trade Area of the Americas. Canada, more than ever, is not only active but a leader in hemispheric affairs. It is not only the current chair of the FTAA negotiations but will also chair the next summit and the OASGA in the year 2000. To reflect this new reality, Secretary Albright decided this summer to establish a new Bureau of Western Hemispheric Affairs in the State Department, to cover all the countries of this half of the world.

Second, our policy toward the Western Hemisphere is no longer dominated by ideological battles. For the past 200 years, history could be described as a battle between different systems--monarchy vs. republicanism, conservatives vs. liberals, capitalism vs. socialism, democracy vs. authoritarianism. Today, the challenges before us are far more complicated, with outcomes far less certain. They put the essential

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needs and expectations of the individual citizen at the center of government legitimacy.

All this, of course, has resulted in a new U.S. partnership with Latin America. The word "partnership" has been widely used in the past to describe U.S.-Latin relations, but in my view now it accurately describes the reality of that relationship. More and more of our problems cross borders. Combating drug trafficking, maintaining a safe environment, fighting terrorism, fighting the spread of disease--these and other issues require the countries of the hemisphere to work as partners to develop solutions. The summit process and the FTAA provide us an opportunity to do so. As in any partnership, all of the participants share in both the benefits and the obligations.

"Integration" is another word which has been widely used in the past, but it is only now that there is real momentum toward economic integration in the hemisphere. The potential benefits of the summit process and of the FTAA are enormous; they can be life-transforming for the vast majority of our citizens. Our principal challenge for the next decade is to make sure that we realize that potential, and that the benefits of integration will flow to all the people of the Americas, not just a chosen few.

I have spoken so far in terms which may be taken to imply that a Golden Age is upon us. Not so, or at least not yet. I am optimistic, but also realistic. There are formidable obstacles to achieving our goals. Let me enumerate just a few and outline our basic strategies to overcome them.

As I mentioned before, the turmoil of the last few weeks in Latin American financial markets has been a major concern to the U.S. Government not only for how it will affect our foreign policy, but also how it will affect the people of the hemisphere. Is this the end of our vision of a democratic and prosperous community of the Americas?

I believe not. First, the whole issue of global financial instability is a major priority for the United States. President Clinton made this very clear in a far-sighted speech several days ago at the Council on Foreign Relations. He said that the United States had an "inescapable obligation" to lead and to seek ways to find concrete solutions to the recent instability in global financial markets. He outlined a 6-point program to help contain the spread of financial contagion and to spur economic growth. On Latin America, President Clinton said:

"We have to be ready to respond immediately and with financial force, if necessary, to the currency crisis if it spreads, especially if it threatens the economies of Latin America, where nations have struggled

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to make progress to do the right thing only to find themselves buffeted
by economic storms outside of their control."
He also said he would be urging "the major industrial economies to stand
ready to use the $15 billion in IMF emergency funds to help stop the
financial contagion from spreading to Latin America and elsewhere."
(Note: He is also urging our Congress on IMF replenishment legislation.)
Global markets responded favorably to the President's commitment to
restore stability to global markets and to seek to reform the
international financial architecture. Those measures can begin to repair
some of the damage done to several Latin American economies caused by
the fraying of investor confidence in emerging markets, and by recent
drops in commodity prices such as oil. We must remember that it was the
financial conditions of countries in Asia and of Russia that triggered
the turn-around in investor confidence in emerging markets in general.
Overall, a decade of market-based reforms has made the economies of
Latin America stronger and more resilient than they have ever been. I am
reminded of the well-known economist, Arnold Harberger, who points out
that economies, like the human body, need to be maintained in good
condition. Exercise and proper diet do not guarantee good health, but
they ensure that when the inevitable malady strikes, the body will be
better prepared to deal with it and recovery will be faster. In effect,
economic reforms properly done make an economy more limber in dealing
with new challenges, more resilient in dealing with setbacks, and more
prosperous in times of good health.
Latin America's commitment to the market model has already been tested
once, in the financial crisis which followed the Mexican devaluation of
the peso in December 1994. That crisis left a lot of suffering in its
wake. But the Mexican economy recovered quickly and has been growing
since. That crisis reinforced the commitment of the region's leaders to
continue with market-based reforms within a framework of democracy and
hemispheric cooperation. In some ways, the crisis actually strengthened
the region's economic institutions.
In 1997, Latin American economies as a whole had their best performance
in a generation, with real growth of 5% and inflation of 11%--the lowest
in 50 years. As Secretary Rubin said when he met with Latin America's
finance ministers and central bankers 2 weeks ago, this region is the
world's "most forward-looking" in carrying out reform.
It is unfortunate that many investors look at emerging markets as if
they are all alike. The savviest investors, of course, differentiate the
strong reformers from the others, and evaluate each country on its

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merits. In this age of instantly available information, our challenge is for investors to absorb it and make informed decisions that differentiate between countries by way of their macro-economic performance.

Inevitably the new spirit of partnership in the hemisphere will be tested as we address the lower growth and social problems resulting from this crisis. But by working together in bad times as well as good, we will develop an even stronger partnership and trust among us, and eventually stronger democratic and market institutions.

Another one of my major concerns is to explain more clearly and persuasively to my fellow-citizens that we have an enormous stake in our relations with our hemispheric neighbors. U.S. trade with our hemispheric neighbors has been growing faster than with any other region in the world. Canada has long been our largest trading partner. Mexico is now our second-largest, having overtaken Japan last year. Our merchandise exports to the hemisphere in 1997 amounted to $285 million, substantially more than to Western Europe ($155 million), or the Pacific Rim ($194 million). The projections are that by the year 2010 this hemisphere will be a larger market than Western Europe and the Pacific Rim combined. I believe that only the most knowledgeable Americans know that trend, or the fact that U.S. trade in the broadest sense (goods and services of both imports and exports to the world) now accounts for close to one-third of our GNP. Or the fact that air travel within the hemisphere is projected to pass travel to Europe plus the Pacific Rim by the year 2008. My sincerest expectation is that along with the "delights" in the U.S. that Latins will enjoy, that my fellow Americans will sample the "flavor" of the Caribbean islands, the Amazon, the Galapagos and the Pampas and conclude (as I have) that there is much that binds us together by way of a shared history and values and a dream of a better future.

Another key issue within the United States is to demonstrate that trade is not a zero-sum game, where one country's gains are offset by another country's losses. This widely held assumption is certainly reinforced by the actual language of trade negotiations, including such terms as "trade concessions" and "reciprocity." Somehow we need to get across the notion that the U.S. economy--like any economy-- benefits not only from opening up other markets for our exports, but also from opening up our own market to imports. It is ironic that "trade" and especially "imports" have become dirty words to much of the public at a time when the U.S. is experiencing extraordinarily good economic times--the

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longest period of sustained growth in postwar history, combined with remarkably low inflation. Since 1993, about 13 million jobs have been created, and the unemployment rate is the lowest in a generation. With the budget deficit approaching zero, we are now engaged in debates about what to do with the coming budget surplus--a situation which was unthinkable even a few years ago. The globalization of the U.S. economy has contributed enormously to this happy state of affairs. But the vast majority of U.S. citizens are unaware of the connection between non-inflationary growth and open markets.

Clearly, when it comes to trade and globalization, the attention of the media and the public is focused primarily on those cases where jobs are lost and the lives of individual families (and sometimes communities) are disrupted. Trade is often blamed when in fact it is technological change which accounts for the biggest share of changes in production and employment patterns.

Nevertheless, it is undeniable that open trade may cost some jobs and may lower wages in those parts of the economy where we are less competitive. Generations of economists have shown that such losses are more than offset by gains to workers in other sectors, and society as a whole experiences a net benefit. Somehow, we must make that clearer to our public.

And we must continue to mitigate the painful effects of job losses where they do occur. We must above all maintain the U.S. economy's extraordinary job-creating power by continuing sound economic policies. And we must continue to invest in our workers, both through retraining and other assistance to help them adjust, and through education to prepare our young people with skills for the 21st century.

This is a challenge which all hemispheric leaders have in common--the need for continual reform and never-ending renewal. Building democracy and free markets and addressing the basic needs of the people will always remain a work in progress. American prosperity and democracy are built on the assumption of equal opportunities. But with galloping globalization and the dizzying pace of technological progress, those individuals who are ill-prepared will not get the benefits of the modern economy. The challenge is to make our people not only literate, but also science literate and computer literate and politically literate. Our electorates need to be knowledgeable and involved. And we need to help our people continually update their skills in response to new technology and new consumer demands. Over the long run, universal quality education (and whether it is provided) will be key to achieving our vision of a

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democratic and prosperous community of the Americas.
As you know, education--improving its quality and expanding its availability--was a major theme of the Santiago Summit in April. Indeed, the Santiago Plan of Action is a commitment of the Americas to move into what has frequently been called "a second generation of reforms"--to expand the capacity of all our citizens to participate in the economy and society. The World Bank, IDB, and USAID have responded to the leaders' call by programming $8.3 billion of loans and grants for education projects in this hemisphere between now and 2001. Today's financial crisis shows more forcefully than ever that appropriate macro-economic policies are indispensable. And also that they are not enough. Resilient societies are those whose institutions are efficient, transparent, and responsive to present and future human needs.
With technology shrinking the globe at an ever faster rate, issues which were not so long ago considered to be purely domestic--like the environment, drugs, crime, or health--are now clearly transnational. And areas which were considered too sensitive even for international dialogue--like human rights, corruption, or judicial reform--have now become the subjects of multilateral cooperation.
We in the Americas have an extraordinarily ambitious agenda before us. It will require extraordinary effort and extraordinary leadership to achieve it. But I see no alternative to this agenda if we are to fulfill the expectations which the ideas of democracy and free markets have aroused in the people of the Americas. The hemisphere is blessed with a wealth of natural and human resources. I am confident that the coming century will witness some of our most remarkable, collective achievements ever.

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