



Heading Off Another “Lost Decade” in Latin America

By Roger F. Noriega

Although President Barack Obama has named foreign policy teams for the Middle East, Asia, South Asia, Iraq, and Afghanistan, he has yet to designate anyone to oversee diplomacy close to home in Latin America and the Caribbean. It is just a matter of time before “Latinamericanists” renew their complaints that the region’s problems are the result of U.S. indifference. The truth is, what Obama does to put the United States’ own house in order will benefit our neighbors more than anything he can do right now for the region. Perhaps more important, Latin Americans would do well to focus on unfinished business of their own to head off another “lost decade.”¹

During the last ten years, relative political stability, sound economic policies, and high commodity prices produced respectable growth in many countries in Latin America, with average annual growth rates running from 2.4 percent to 4.1 percent in the anchor economies of the region.² With a couple of notorious exceptions, most of the region’s leaders have governed responsibly, and several countries have made strides in reducing the percentage of their populations living in poverty.³

Now comes the global financial crisis, and many observers are trying to measure its ill effects on these economies. The good news is that the acute impact of the financial crisis that is rooted in developed economies may be less dramatic in the most important economies of Latin America.⁴ The bad news is that a very real threat exists from problems that have bedeviled the region for decades: weak political institutions, authoritarian populism, and the illicit drug trade.

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Weak Political Institutions: The “Fault Line” in the Americas

One of the lessons that we have learned from the past twenty years of uneven, inequitable, and boom-and-bust growth in the Americas is that effective institutions of government, which perpetuate the rule of law without fear or favor, are essential so that democracy and the market economy can reach their full potential and benefit people from all walks of life. Lacking such institutions, many on the margins of society will never acquire a stake in democracy and capitalism.

Market policies and open trade generate economic opportunity, and free and fair elections produce political legitimacy. But effective institutions are required to spread economic opportunity and political power systematically to all citizens.

Cynics can no longer complain that “democracy” is a concept imposed by Washington. On the fateful day of September 11, 2001, the region’s governments adopted the Inter-American Democratic Charter, committing themselves to the promotion and defense of representative democracy. The charter defines the “essential elements” of

“representative democracy” in conscientious detail as “democratic order,” which includes respect for “human rights and fundamental freedoms”; the “rule of law”; “periodic, free, and fair elections”; a “pluralistic system of political parties”; the “separation of powers and independence of the branches of government”; “freedom of expression and of the press”; and the “constitutional subordination of all state institutions to the legally constituted civilian authority.”

To the extent power is concentrated in the hands of a *caudillo* (strongman), arbitrariness will drift inevitably to injustice and abuse. Without representative and empowered legislatures, public opinion and citizens’ needs are not likely to be honored. Judicial systems that are corrupted by commercial or political interests will undermine faith in the rule of law, which is the linchpin of any democratic society. Functional political parties are essential to generating policy options, defending and advancing principles, and waging coherent campaigns. Independent electoral authorities are at the heart of democratic processes that produce a social consensus and political mandates.

Each of these foregoing essential elements of representative democracy is lacking, to one degree or another, in each of the countries in the region. In Bolivia, Ecuador, and Venezuela, the executive branch has moved aggressively to curtail the free exercise of power by the national legislature. In several states in Central America, corrupt courts are manipulated for narrow political ends, and in far too many countries the judicial systems are opaque, inaccessible, or dysfunctional. Venezuela’s electoral council is a wholly owned subsidiary of President Hugo Chávez’s political movement. This became all too evident on February 15, as Chávez succeeded in amending his country’s constitution and abolishing term limits—putting him one step closer to becoming “president for life.”

It is unfortunate that the inter-American solidarity that accompanied the adoption of the Democratic Charter appears to have disintegrated in the few years since its adoption, as the Organization of American States’ (OAS) current officeholders have refused to exercise their discretion to hold governments to their commitments to respect the precepts of democracy. But it also is true that the toughest work of perfecting democratic institutions requires domestic fortitude that

cannot be imposed from outside. Moreover, while the reckless abandon of Chávez’s very personal political project might be readily reversed when he loses power one day in Venezuela, the building of more effective legislatures, courts, and political parties in other countries will require many years of concerted effort and

commitment of a nation’s political class. Fighting poverty through transfer payments is far less complicated and demanding than implementing systemic changes that extend genuine clout to the very poor who are now shut out of a nation’s power structure.

Unless political power is forced to circulate by functioning institutions, a concentration of wealth and privilege will undermine social mobility and breed

dissatisfaction with democratic capitalism itself. In turn, individuals with little or no access to power under the prevailing system will be more receptive to destructive and polarizing populism.

The conscious political empowerment of the powerless and the building of institutions that will effectively defend the rights of all citizens without fear or favor are the unfinished business of the Americas today. Without urgent progress on this front, democracy and the market economy can neither function nor endure. Moreover, as governments in the region scramble to respond to the current global economic crisis, their energies will be far better spent renovating institutions than raising taxes or over-regulating economies.

The Curse of the *Caudillo*

From Fidel Castro in Cuba to Anastasio Somoza in Nicaragua to Juan Perón in Argentina to Juan Velasco Alvarado in Peru, Latin America has a long history of *caudillos* who usurp power and hold on to it by strumming populist chords. In that sense, Chávez and his acolytes Evo Morales in Bolivia, Rafael Correa in Ecuador, and Daniel Ortega in Nicaragua are following a well-worn path. However, the latest is a more virulent strain of authoritarian populism because it is part of an international movement sustained by Chávez’s imperialist petrodollar diplomacy and is characterized by hijacking, concentrating, and retaining power through putatively democratic means.

Politicians falling into this authoritarian populist model—some receiving substantial material and political

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backing from Chávez—have also emerged in Argentina, El Salvador, Honduras, Mexico, Panama, and Peru.⁵ While these leaders have leftist economic agendas in common, what is far more disturbing is that in most cases they advocate the dismantling of the political and constitutional orders of their countries and the concentration of power in their hands. These states have also cooperated in the OAS to shatter the consensus in favor of the defense of democracy. For example, because these authoritarian regimes hold on to power by manipulating elections, they strenuously object to OAS electoral observation that might uncover their machinations. And several of these leaders have gone to the extreme of making common cause with terrorist and armed guerrilla movements that threaten democratically elected neighbors.⁶

Although many countries in the region have imperfect democratic institutions, the proposition that the rights of individuals would be better protected by concentrating power in the hands of *caudillos* is more than a little implausible. Indeed, the course of events in Venezuela reveals the abuse of power and corruption that accompanies this authoritarian populist model. Moreover, these *caudillos* often sow social and racial division as a political tactic, and the unrest that comes with rigged elections and the arbitrary abuse of power stirs instability. In short, this pattern of authoritarian populism has shaken the confidence of international investors and repelled foreign capital from certain countries in the region.⁷

Nations in which political power is wielded arbitrarily already have seen a significant drop in foreign direct investment. For example, as table 1 indicates, Argentina, Bolivia, Ecuador, and Venezuela—each with authoritarian populist leaders—have experienced breathtaking decreases in foreign direct investment in 2003–2007 compared to the prior five-year period. As policymakers plot a course toward their own recovery in the current troubled global climate, countries where unpredictable *caudillos* hold sway will find themselves falling even further behind in the fierce competition for the traditional sources of foreign capital needed to buoy their recovery.

Despite all of the *caudillos*' rhetoric about redistributing wealth, the resulting decline in economic growth, the inefficiency of unaccountable government programs,

and the corruption of institutions will likely condemn millions to stubborn poverty in countries that fall under the sway of Chávez-style populism. Of course, most of the region's major nations are far from vulnerable to this

raw brand of populism, and Chávez's influence is bound to wane with falling oil revenue and trouble at home. Unless the region's responsible governments take a more effective stand against this strain of authoritarian populism, other countries may still find themselves trapped on the road to nowhere.

Drug Corruption: The Spreading Transnational Threat

The threat of corruption sown systematically by transnational organized crime is serious, and it requires the region's urgent attention. The United States shares much of the responsibility

for helping governments respond to this challenge, but nations on the front lines bear the brunt of the challenge. Although illegal drug operations continue in the Andes and the transit zones of Central America and the Caribbean, they have emerged in recent months as an increasingly deadly threat on the southern border of the United States.

In Mexico, the administration of President Felipe Calderón has identified the criminality surrounding the illicit drug trade as a "serious national security threat" that undermines the nation's quality of life, development, and citizen safety.⁸ For too many years, these illegal groups have bribed, blackmailed, and terrorized public officials and citizens so that they could operate with virtual impunity in some parts of the country. Calderón recognizes that such impunity breeds corruption, disrespect, and cynicism that undermine the credibility of Mexico's institutions. He knows that strengthening those very institutions is indispensable to building a modern Mexico that can reach its full potential.

Calderón is not the first Mexican leader to confront these cartels; President Vicente Fox launched a similar effort after first being elected in 2000, but he deescalated and was forced to tolerate local "truces" with the gangsters once the violence got out of hand. As in Colombia a decade ago, a genuinely national commitment to "winning the war" against these illegal groups is indispensable to victory. The Mexican people must not consider this

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TABLE 1
FOREIGN DIRECT INVESTMENT INFLOWS TO LATIN AMERICA AND THE CARIBBEAN, BY RECIPIENT COUNTRY, 1993–2007
 (Millions of dollars and percentages)

	1993–1997 ^a	1998–2002 ^a	2003–2007 ^a	2006	2007	Difference 2006–2007	Difference 2006–2007 (percentages)
Brazil	8,015	26,463	19,345	18,782	34,585	15,803	84
Mexico	10,681	18,946	20,594	19,211	23,230	4,019	21
Chile	3,332	5,000	8,056	7,358	14,457	7,100	96
Colombia	2,410	2,290	6,094	6,464	9,028	2,565	40
Argentina	5,629	9,202	4,360	5,037	5,720	683	14
Peru	2,443	1,539	2,864	3,467	5,343	1,876	54
Costa Rica	343	552	1,082	1,469	1,889	420	29
Panama	502	651	1,429	2,574	1,825	-749	-29
Dominican Republic	266	997	1,160	1,459	1,698	239	16
El Salvador	22	448	555	219	1,526	1,305	597
Uruguay	135	233	775	1,399	879	-520	-37
Trinidad and Tobago	510	736	892	883	830	-53	-6
Honduras	65	259	608	674	816	142	21
Venezuela	2,111	3,408	1,234	-590	646	1,236	–
Bahamas	91	160	463	706	580 ^b	-126	-18
Guatemala	89	325	280	354	536	182	51
Nicaragua	100	235	262	282	335	53	19
Ecuador	545	870	530	271	179	-92	-34
Bolivia	370	814	86	278	164	-114	-41
Paraguay	140	127	74	110	142 ^b	32	29
Belize	26	36	84	100	92 ^b	-8	-8
Other Caribbean (estimate)	518	1,017	1,469	2,079	1,425	-654	-31
South America	25,131	49,946	43,417	42,574	71,143	28,568	67
Mexico and the Caribbean Basin	13,211	24,364	28,838	30,101	34,782	4,772	16
Total	38,342	74,310	72,254	72,585	105,925	33,340	46

SOURCE: Economic Commission for Latin America and the Caribbean, estimates on the basis of official figures as of April 30, 2008.

NOTES: a) Annual averages. b) Extrapolation performed on the basis of data for the third quarter.

conflict “Calderón’s war”—they must take ownership of this campaign to secure their country’s future from powerful and bloody cartels that will inflict mortal damage to their country if not confronted effectively.

Calderón has marshaled extraordinary resources to do battle with these criminal gangs, and the campaign has cost the lives of thousands of Mexican police and military personnel, with many deaths among the criminals themselves.⁹ Although too many innocent citizens have been caught in the crossfire, over 90 percent of the violent deaths have been the direct result of action taken by security forces against criminals involved in the trade. Still, the violence is alarming, and most experts believe that it will get worse before it gets better.

Moreover, Mexico’s efforts have pushed criminal syndicates to move some of their operations to Central America. For example, Guatemala and Honduras are experiencing an influx of illicit activities and related violence. Those countries in particular do not have the security resources to confront the gangs, and many fear that their political and law enforcement institutions are either outgunned or vulnerable to the corrupting influences of well-heeled gangsters.

Although the United States has provided about \$500 million in assistance to Mexico and Central America under the so-called Mérida Initiative, urgent additional support is needed to give the smallest of these nations a fighting chance. Mexico, Colombia, and the

Central American states are stepping up to the fight, invigorating preexisting cooperative security mechanisms to diagnose the threat and coordinate a regional response.

Of course, Andean nations remain the epicenter of cocaine and heroin production. Unfortunately, Bolivia's government has shattered the ceiling on legal coca production, and Bolivia, Ecuador, and Venezuela have rejected cooperation with the United States to combat drugs. However, with substantial economic and security support from the United States, Colombia has made substantial strides toward bringing the narcoterrorist rebel group FARC under control, virtually eliminating opium poppy cultivation (which is the source of black tar heroin) and reducing the amount of cocaine available on U.S. streets.¹⁰

Eighteen nations in Central and South America have agreed to a Colombian-led effort to produce a "transit zone" strategy to "confront all the links" in the drug chain.¹¹ Although these activities have been long on rhetorical commitments and short on concrete actions in the past, at least these countries have begun to recognize the growing internal security threat. They also appear to realize that they lack the intelligence and security resources to confront this threat on their own. The United States can and must do its part to support antidrug activities among willing nations.¹² But this battle will require an unprecedented buy-in from governments in the region to adopt domestic antidrug programs, strengthen their law enforcement capabilities, and redouble international cooperation.

Urgent Tasks Ahead

No doubt President Obama will soon deploy a team of diplomats determined to devise a strategy to address U.S. priorities in Latin America. However, U.S. neighbors do not need "marching orders" from Washington to press forward on the unfinished agenda of building more modern, effective states that will make them just and stable at home and more competitive in the world. Addressing these persistent challenges will have a wholesome, synergistic effect: strong democratic institutions will discredit authoritarian populism. Effective courts will help combat drug cartels by redeeming a nation's faith in its police and judges and mobilizing a

national commitment to fighting organized crime. And the rule of law will sustain widespread economic opportunity and political stability.

Of course, the United States must do its part: its diplomacy must never be reticent when it comes to defending democracy and the rule of the law. Solidarity is not intervention, and neo-*caudillos* should not be able to hide behind phony protests about "nationalism" so they can act with impunity to undermine institutions and destabilize the American neighborhood. The Obama administration also must consider the importance of the regional economy to the U.S. recovery as it

makes decisions about mutually beneficial trade agreements pending with Colombia and Panama. Moreover, it can provide adequate funding of unconventional aid programs that sow the seeds of sustainable, equitable growth by strengthening political institutions and incentivizing economic modernization.

The problems outlined here are very much a part of Latin America's past. Resolving them is a challenge for today and the key for a brighter tomorrow.

Notes

1. Due to economic stagnation, high inflation, and a ballooning foreign debt, the 1980s were coined Latin America's "lost decade." (Margaret Daly Hayes, "The U.S. and Latin America: A Lost Decade?" *Foreign Affairs* 68, no. 1 [1988/89].)

2. Data includes average GDP growth since 2000 for Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. See International Monetary Fund, World Economic Outlook Database, April 2008, available through www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx (accessed February 26, 2009).

3. According to the United Nations, the percentage of people living in extreme poverty (indigence) decreased by 4.9 percentage points from 2003 to 2006 in Brazil (13.9 percent to 9 percent), 4.4 percentage points from 2002 to 2005 in Colombia (24.6 percent to 20.2 percent), and 5.5 percentage points from 2003 to 2006 in Peru (21.6 percent to 16.1 percent). See United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2007* (October 2008).

4. While economic growth projections for Latin America have been reduced since the onset of the financial crisis, Brazil, Colombia, and Chile are still expected to continue growing by

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approximately 2 percent annually in the coming year, and Mexico, Argentina, and Venezuela will have zero to slightly negative rates of growth. Furthermore, evidence shows that credit markets still remain fairly open in Latin America. Recently, Mexico, Brazil, and Colombia have all been able to issue international debt at low financing costs. See Mauricio Cárdenas and Arturo Galindo, "Latin America's Economic Outlook for 2009: No Time for Optimism," Brookings Institution, January 22, 2009; and Sara Miller Llana and Andrew Downie, "Latin America Better Girded for Financial Crisis," *Christian Science Monitor*, October 24, 2008.

5. Néstor Kirchner was president of Argentina from 2003 to 2007; Cristina Kirchner was elected president of Argentina in October 2007 and will serve until 2011. In El Salvador, the Farabundo Martí National Liberation Front (FMLN) candidate Mauricio Funes is seeking the presidency in March 2009. Manuel Zelaya was elected president of Honduras in 2006 and will serve until 2010. Andrés Manuel López Obrador ran for president of Mexico in 2006. Balbina Herrera is running for president of Panama in an election scheduled for May 2009. And Ollanta Humala ran for president of Peru in 2006.

6. The governments of Venezuela, Ecuador, and Nicaragua and the FMLN in El Salvador are known to have ties with the narcoterrorist group FARC. Hugo Chávez has courted Iran and other Middle Eastern radical groups.

7. From 2003 to 2007, Venezuela averaged \$1.234 billion in foreign direct investment (FDI) inflows, Bolivia averaged \$86 million, Ecuador averaged \$530 million, and Argentina averaged \$4.36 billion, while Brazil, Mexico, Chile, and Colombia averaged \$19.345 billion, \$20.594 billion, \$8.056 billion, and \$6.094 billion, respectively. FDI inflows to Bolivia decreased by 41 percent from 2006 to 2007 and by 34 percent in Ecuador, while in Brazil, Chile, and Colombia, FDI inflows increased by 84 percent, 96 percent, and 40 percent, respectively, from 2006 to 2007. See ECLAC, *Foreign Investment in Latin America and the Caribbean 2007* (May 2008).

8. Felipe Calderón's own "National Development Plan, 2007–2012," published upon the beginning of his presidential mandate, made the following sober assessment of the threat of illegal drug cartels. "The narcotrafficking cartels . . . have strategically shifted from being transporters of drugs to assuming leadership of these operations. . . . Narcotrafficking generates insecurity and violence, tears at the social fabric, harms the well-being of the individual, and poses a risk to the physical and mental health of our children and youth. . . . [N]arcotrafficking challenges the state and presents a serious national security threat."

9. Approximately six thousand people were killed in 2008 due to drug-related violence. Out of these, approximately two hundred were innocent civilians, according to General Alfredo Duarte, commander of the 2nd Military Zone in Tijuana, Mexico. See Jonathan Hunt, "Top General Says Mexico Is Winning Drug Wars That Claim 15 Lives Every Day," Fox News, February 2, 2009.

10. U.S. Drug Enforcement Administration (DEA), "Cocaine Price/Purity Analysis of STRIDE Data," news release, available at www.usdoj.gov/dea/concern/cocaine_prices_purity.html (accessed February 26, 2009).

11. The Non-Aligned Movement's "Regional Summit on the Global Drug Problem, Security, and Cooperation" was held on August 1, 2008, in Cartagena de Indias, Colombia. The communiqué of the summit commits each state to help reduce the supply and demand for illicit drugs and to cooperate against related crime. The initiative engaged several states—including Bolivia, Cuba, and Venezuela—that refuse to cooperate with U.S. antidrug programs.

12. The recent joint-national operation by the DEA and state and local police that resulted in the arrest of more than 750 operatives of the Sinaloa drug cartel in the United States illustrates the transnational nature of the threat as well as the type of U.S. efforts that will aid Mexico's domestic offensive against these criminal organizations. See Randal C. Archibold, "U.S. Moves against Top Mexican Drug Cartel," *New York Times*, February 25, 2009.