

# The Lost Continent

*For decades, Latin America's weight in the world has been shrinking. It is not an economic powerhouse, a security threat, or a population bomb. Even its tragedies pale in comparison to Africa's. The region will not rise until it ends its search for magic formulas. It may not make for a good sound bite, but patience is Latin America's biggest deficit of all. | By **Moisés Naím***

**Movement on the left:** Many Latin Americans, like these Bolivians marching for the nationalization of gas, are increasingly turning to populist causes.



**L**atin America has grown used to living in the backyard of the United States. For decades, it has been a region where the U.S. government meddled in local politics, fought communists, and promoted its business interests. Even if the rest of the world wasn't paying attention to Latin America, the United States occasionally was. Then came September 11, and even the United States seemed to tune out. Naturally, the world's attention centered almost exclusively on terrorism, the wars in Afghanistan, Iraq, and Lebanon, and on the nuclear ambitions of North Korea and Iran. Latin America became Atlantis—the lost continent. Almost overnight, it disappeared from the maps of investors, generals, diplomats, and journalists.

Indeed, as one commentator recently quipped, Latin America can't compete on the world stage in any aspect, even as a threat. Unlike anti-Americans elsewhere, Latin Americans are not willing to die for the sake of their geopolitical hatreds. Latin America is a nuclear-weapons free zone. Its only weapon of mass destruction is cocaine. In contrast to emerging markets like India and China, Latin America is a minor economic player whose global significance is declining. Sure, a few countries export oil and gas, but only Venezuela is in the top league of the world's energy market.

Not even Latin America's disasters seem to elicit global concern anymore. Argentina experienced a

massive financial stroke in 2001, and no one abroad seemed to care. Unlike prior crashes, no government or international financial institution rushed to bail it out. Latin America doesn't have Africa's famines, genocides, an HIV/AIDS pandemic, wholesale state failures, or rock stars who routinely adopt its tragedies. Bono, Bill Gates, and Angelina Jolie worry about Botswana, not Brazil.

But just as the five-year-old war on terror pronounced the necessity of confronting threats where they linger, it also underscored the dangers of neglect. Like Afghanistan, Latin America shows how quickly and easy it is for the United States to lose its influence when Washington is distracted by other priorities. In both places, Washington's disinterest produced a vacuum that was filled by political groups and leaders hostile to the United States.

No, Latin America is not churning out Islamic terrorists as Afghanistan was during the days of the Taliban. In Latin America, the power gap is being filled by a group of disparate leaders often lumped together under the banner of populism. On the rare occasions that Latin American countries do make international news, it's the election of a so-called populist, an apparently anti-American, anti-market leader, that raises hackles. However, Latin America's populists aren't a monolith. Some are worse for international stability than is usually reported. But some have the potential to chart a new, positive course for the region. Underlying the ascent of these new leaders are several real, stubborn threads running through Latin Americans' frustration with

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the status quo in their countries. Unfortunately, the United States'—and the rest of the world's—lack of interest in that region means that the forces that are shaping disparate political movements in Latin America are often glossed over, misinterpreted, or ignored. Ultimately, though, what matters most is not what the northern giant thinks or does as much as what half a billion Latin Americans think and do. And in the last couple of decades, the wild swings in their political behavior have created a highly unstable terrain where building the institutions indispensable for progress or for fighting poverty has become increasingly difficult. There is a way out. But it's not the quick fix that too many of Latin America's leaders have promised and that an impatient population demands.

#### THE LEFT TURN THAT WASN'T

In the 1990s, politicians throughout Latin America won elections by promising economic reforms inspired by the “Washington Consensus” and closer ties to the United States. The Free Trade Area of the Americas offered hope for a better economic future for all. The United States could count on its

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neighbors to the south as reliable international allies. In Argentina, for example, the country's political and military links with the United States were so strong that in 1998, it was invited to become part of a select group of “major non-NATO allies.” Today, however, President Néstor Kirchner nurtures a 70-percent approval rating by lobbying derision and invective against the “empire” up north. His main ally abroad is Venezuelan President Hugo Chávez, not George W. Bush. Nowadays, running for political office in Latin America openly advocating privatization, free trade, or claiming the support of the U.S. government is political suicide. Denouncing the corruption and inequality spurred by the “savage capitalism” of the 1990s, promising to help the poor and battle the rich, and disparaging the abusive international behavior of the American superpower and what is seen as its “globalization” ruse is a political platform that has acquired renewed potency throughout the region. In nearly

every country, these ideas have helped new political leaders gain a national following and in Argentina, Bolivia, and Venezuela, even to win the presidency. In most other countries, notably in Mexico, Peru, Ecuador, and Nicaragua, proponents of these views enjoy wide popular support and are a fundamental factor in their countries' politics.

So what happened? The first alarm bells sounded with the election in rapid succession of Chávez in Venezuela in 1998, Luiz Inácio “Lula” da Silva in Brazil in 2002, Kirchner in Argentina in 2003, and Tabaré Vázquez in Uruguay in 2004. All of them represented left-of-center coalitions and all promised to undo the “neoliberal excesses” of their predecessors. All of them also stressed the need to reassert their nations' independence from the United States and limit the superpower's influence.

Yet, none of these new presidents really delivered on their more extreme campaign promises, especially their plans to roll back the economic reforms of the 1990s. Brazil's Lula has followed an orthodox economic policy, anchored in painfully high interest rates and the active promotion of foreign investments. In Argentina, the only significant departure from the economic orthodoxy of the 1990s has been the adoption of widespread price controls and a disdainful attitude toward foreign investors.

In Venezuela, the rhetoric (and sometimes the deeds) are more in line with rabid anti-American, anti-free trade, and anti-market postures. Chávez routinely denounces free-trade agreements with the United States: He has been known to say that “[c]apitalism will lead to the destruction of humanity,” and that the United States is the “devil that represents capitalism.” Chávez's anti-trade posture conveniently glosses over the reality that Venezuela enjoys a de facto free trade agreement with the United States. In fact, America is the top market for Venezuela's oil. During Chávez's tenure, Venezuela has become one of the world's fastest-growing markets for manufactured American products. And even the capitalist devils that are the objects of Chávez's wrath aren't suffering as much as might be expected. As the *Financial Times* reported in August, “Bankers traditionally face firing squads in times of revolution. But in Venezuela, they are having a party.” Local bankers close to the regime are reaping huge profits. Foreign bankers who cater to the wealthy return from trips to Caracas with long



**A sea of problems:** President Lula of Brazil is one of a handful of leaders whose elections were driven by Latin Americans' frustrations.

lists of newly acquired clients in need of discreet “asset management” abroad.

Although some of these populist leaders have so far failed to live up to the radical economic changes they promised on the campaign trail, the gaps between incendiary rhetoric and actual practice have been far narrower in the region's foreign policies—especially in Venezuela and its relations with the United States. President Chávez, easily the world's most vocal anti-American leader, has called President George W. Bush, among other things, a “donkey,” “a drunkard,” and “an assassin.” Not even Osama bin Laden has spouted such vitriol. Chávez has embraced Cuban leader Fidel Castro as his mentor and comrade-in-arms, and in so doing, he has become the region's most visible leader since Che Guevara. Like Che, Chávez often seems hell-bent on sparking an armed confrontation to further his revolution; he calls Saddam Hussein a “brother,” and is arming new local militias with 100,000 AK-47s to repel the “imminent” U.S. invasion. His international activism now routinely takes him around the world. In Damascus this summer, Chávez and Syrian President Bashar Assad issued a joint declaration stating that they were “firmly united against imperialist aggression and the hegemonic intentions of the U.S. Empire.”

The main concern is not just that Chávez is developing close ties with prominent U.S. foes worldwide, but rather his efforts to refashion the

domestic politics of his neighboring countries. His persona and his message are certainly attractive to large blocs of voters in other countries. Politicians elsewhere in Latin America who emulate him and his platforms are gaining popularity, and it's hard to imagine that Chávez is refraining from using his enormous oil wealth to support their political ascendancy. The international concern about trends in Latin America peaked in late 2005, as 12 presidential elections were scheduled for the ensuing months. In several countries—Bolivia, Costa Rica, Ecuador, Mexico, Nicaragua, and Peru—leftist candidates with Chávez-sounding platforms stood a good chance of winning.

Yet that expectation did not come to pass. So far, the only election where a Chávez ally has won is Bolivia. There, Evo Morales, the leader of the coca growers, announced that he would become “the United States' worst nightmare,” and quickly proceeded to enter into a close alliance with Venezuela and Cuba. But the election of Chávez-backed candidates turned out to be more the exception than the rule. Surprisingly, running for office with too close an identification with Chávez or his policies has become an electoral kiss of death. Not even his promises of supplying cheap oil and financial aid if his candidate won were enough to compensate for the strong voter backlash against a foreign president openly trying to influence the outcome of national elections.

women more political and civil powers. They are now beginning to think about how to make these macho societies a bit more gay friendly. The impulse to empower women has made impressive strides, culminating with the groundbreaking election of Michelle Bachelet in Chile, who campaigned on a platform of "gender parity." As for efforts to make Latin American society less machista, that may take decades.

The revolutionaries, the protectionists, and to some extent, the hypernationalists and egalitarians are the most determined enemies of market reform. Market-oriented politicians will have little success cracking their ranks. The other groups, however, have more confused loyalties and represent demands that could be met while pursuing market reforms.

If the left is to remain in power, it must prevent groups like the egalitarians from peeling away from the movement. And that means the left will have to grow up. A protest movement can accommodate almost any grievance. A functioning government cannot. As rulers, the left will not avoid the wrenching process of prioritization. That could lead to political maturity. But the infighting might also lead to economic and political disaster, as happened in Ecuador under Lucio Gutiérrez, in Argentina under Fernando de la Rúa, and very nearly in Brazil under Luiz Inácio "Lula" da Silva.

High commodity prices have improved the economic situation and made governing easier, but the day of reckoning will come for these leftist coalitions. Compromise with market forces and the various leftist currents will be essential. Radicals have gone the farthest in Venezuela, and this has produced a degree of polarization unseen in the region since the Sandinistas governed Nicaragua in the 1980s. No other government will want to take that perilous route. How successful the inevitable process of adjusting to power will be depends on which left wins out. **FP**

But the electoral defeat of candidates running on platforms perceived to be too extreme or too close to Chávez does not mean that the ideas they represent are unappealing. Latin American voters are aggrieved, impatient, and eager to vote for new candidates who offer a break with the past and who promise a way out of the dire present.

## IF NOT LEFT, THEN WHERE?

Since the late 1990s, Latin American political systems have been rocked by a wide variety of frustrations. Therefore lumping the different types of discontent under generic "leftist" or "populist" monikers is misleading. Indeed, in today's Latin America, some of the grievances are clearly anti-market, while others are rooted in dissatisfactions caused not by overreliance on the market but by governmental overreach. Curbing corruption, for example, is a strong political demand that is unlikely to be satisfied by increasing the economic activities controlled by an already overwhelmed and corrupt public sector. Other grievances unite the far left and the far right. Economic nationalists who resent the market-opening reforms that allow foreign products to displace locally made ones include both right-wing business groups who profited handsomely from the protectionism, as well as leftist labor leaders who have seen their ranks shrink as local factories went out of business, unable to compete with foreign imports.

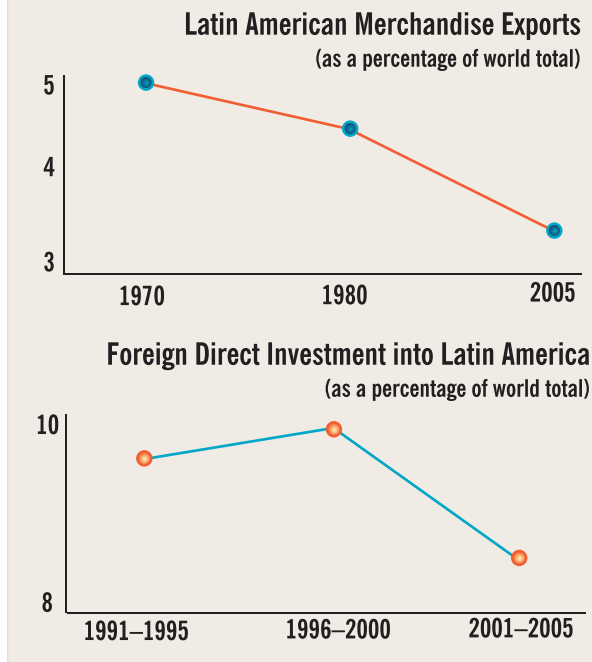
The responses to these political demands have also been varied. Some leaders, like Chávez and Kirchner, are behaving in a traditional, populist fashion, relying on massive and often wasteful public spending, on prices kept artificially low through governmental controls, or the scapegoating of the private sector to cement their popularity. Many others, however, like Lula in Brazil, Vicente Fox in Mexico, Alvaro Uribe in Colombia, or Ricardo Lagos in Chile have been models of more responsible economic governance and have shown a willingness to absorb the costs of unpopular but necessary economic policies.

What unites almost all Latin American countries, however, are two long-standing trends that multiply and deepen the variety of the grievances that are sprouting throughout the region: Prolonged mediocre economic performance, and the decay of traditional forms of political organization, and political parties in particular.

Latin America has suffered from slow economic growth for more than a quarter-century. Episodes of rapid growth have been short lived and often ended in painful financial crashes with devastating effects on the poor and the middle class. Economic growth in Latin America has been slower than it was in the 1960s and 70s, worse relative to all other emerging markets in the world, and unremittingly less than what the region itself needs to lift the poor standard of living of most of the population. This economic disappointment has become increasingly unacceptable to voters who have been promised much and gotten little and who have become better informed than ever about the standards of living of others at home and abroad. Latin Americans are fed up. Naturally, the frustrations produced by the wide gap between expectations and reality and between the living standards of the few who have so much and the many who have almost nothing create fertile ground for the fractious politics that make governing so difficult. Inevitably, political parties, and

## Shrinking Share

Latin America's economic clout continues to slide



especially those in power, have suffered tremendous losses in loyalty, credibility, and legitimacy. Some of this disrepute is well deserved and often self-inflicted, as most political parties have failed to modernize their thinking or replace their ineffectual leaders. Corruption, patronage, and the use of politics as the fastest route for personal wealth are also rampant.

But it is also true that governing in a region where the political attitudes of large swaths of the population are imbued with rage, revenge, and impatience, and where the machinery of the public sector is often broken, is bound to end in failure. Because the region is resource-rich, the most common explanation for poverty amid so much imagined wealth is corruption. End the corruption and the standard of living of the poor will more or less automatically improve, goes the thinking. This assumption of course ignores the fact that a nation's prosperity depends more on being rich in competent public institutions, rule of law, and a well-educated population than in exportable raw materials.

Moreover, while the widespread presence and ravaging effects of corruption are indisputable, the reality is that poverty in Latin America owes as much, if not more, to the region's inability to find ways to compete more effectively in a globalized economy than to the pervasive thievery of those in power. It is hard to

argue that China or India or the fast-growing economies of East Asia are substantially less corrupt than Latin America. Yet their growth rates and their ability to lift their populations out of poverty have been better than those of Latin America. Why? The fact is that the region's democracy and activist politics make its wages too high to compete with the low-wage Asian economies. Latin America's poor educational systems and low level of technological development make it unable to compete effectively in most international markets where success is driven by know-how and innovation. With its high wages and low technology, Latin America is having a hard time fitting into the hypercompetitive global economy. That fact gets far less attention than others that are more urgent, visible, or politically popular. Yet many of these problems—unemployment, poverty, slow economic growth—are manifestations of national economies that are ill-suited to prosper under the conditions prevalent in today's world.

### THE WAITING GAME

Like all fundamental development problems, Latin America's global competitive shortcomings cannot be reduced simply or quickly. The specific reasons behind a country's disadvantageous position in the global economy vary. Alleviating them requires simultaneous efforts on many fronts by different actors over a long period. And herein lies a central difficulty besetting all attempts to create positive, sustained change in Latin America: They all take more time than voters, politicians, investors, social activists, and journalists are willing to wait before moving on to another idea or another leader.

Latin America's most important deficit is patience. Unless the patience of all influential actors is raised, efforts will continue to fail before they are fully tested or executed. Investors will continue to ignore good projects that cannot offer quick returns, governments will only pick policies that can generate rapid, visible results even if they are unsustainable or mostly cosmetic, and voters will continue to shed leaders that don't deliver soon enough.

Reducing the patience deficit is impossible without alleviating Latin America's most immediate and urgent needs. But it is a mistake to assume that sustainable improvements will only occur as a result of radical, emergency measures. Large-scale social progress will require years of sustained efforts that are not prematurely terminated and replaced by a new, "big-bang" solution. Continuous progress demands

the stability created by agreement on a set of basic shared goals and ideas among major political players. In the past, this patience was either ruthlessly forced on the population by military governments or induced by the adoption of a similar ideology shared by influential social groups. Both approaches are highly problematic and not viable in the long run.

Therefore, rather than seeking ideological consensus or forcing ideological hegemony, Latin Americans should build from what exists and seems to be working, rather than dismiss what already exists just because its champions are political competitors. Only those individuals and organizations who are able to bridge ideological divides and bring together different approaches will fix Latin America's long-standing problems. And give them time.

It's not as though there's no precedent for this kind of progressive governance. Former Presidents Fernando Henrique Cardoso in Brazil and Lagos in Chile integrated different ideological perspectives and developed pragmatic approaches to balance conflicting demands. Both came from socialist backgrounds and while in office made enormous and often successful efforts to fight poverty and improve social conditions. But they were also quite sensitive about the need to maintain economic stability—which often meant painful cuts in public spending—and to foster an attractive business environment for investors. Although neither Cardoso nor Lagos was able to drastically over-

haul his nation's poor social conditions, both easily rank among the most effective and successful presidents of the last decade—anywhere. They made far more progress in alleviating poverty in their countries than any of the more strident Latin American revolutionaries whose radical efforts on behalf of the poor so often ended up creating only more poverty and inequality.

It is natural for Latin American citizens and politicians to be captivated by promises that seem too good to be true. People who find themselves in dire straits

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## With its high wages and low technology, Latin America is having a hard time fitting into the global economy.

naturally want extreme, quick solutions. Latin Americans have been experimenting with brutal, heavy-handed swings in their political economies since the 1970s. Yet, this search for silver-bullet solutions, though understandable given the grave problems of the region, is mistaken. Latin Americans must learn that, precisely because their illnesses are so acute, the solutions must be, paradoxically, more tempered. It might seem counterintuitive to reject the promises of the men and women offering radical change for a region so used to failure and neglect. But it may be the only way to lift millions out of poverty. And in the process, get Latin America back on the map. **FP**

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### [ Want to Know More? ]

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For more of Moisés Naím's writings on Latin American politics and economics, see "Latin America: Post-Adjustment Blues" (FOREIGN POLICY, Fall 1993) and "The Second Stage of Reform," (*Journal of Democracy*, October 1994). In *Missing Links*, his column in FOREIGN POLICY, Naím has tackled issues endemic to Latin America. See, for example, "Bad Medicine" (March/April 2005), which reconsiders the war on corruption, and "Our Inequality Anxiety" (May/June 2006), which examines popular misconceptions about global gaps in wealth.

Jeromin Zettelmeyer's *Growth and Reforms in Latin America: A Survey of Facts and Arguments* (International Monetary Fund, September 2006) is perhaps the best recent overview of Latin America's economic performance. *The Politics of Policies: Economic and Social Progress in Latin America* (Cambridge: Harvard University Press, 2006), a report by the Inter-American Development Bank, is one of the most rigorous looks at policymaking in Latin America. In "Hugo Boss" (FOREIGN POLICY, January/February 2006), Javier Corrales examines how Chávez amassed power under the guise of democracy.

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