



Latin America

The End of an Era

Mark Weisbrot

December 2006

Center for Economic and Policy Research
1611 Connecticut Avenue, NW, Suite 400
Washington, D.C. 20009
202-293-5380
www.cepr.net

Contents

| | |
|---|----|
| Executive Summary | 1 |
| Introduction..... | 2 |
| Causes and Consequences: Latin America’s Long-Term Economic Failure | 3 |
| The Collapse of a Cartel..... | 4 |
| A Brighter Future..... | 10 |
| Washington Confronts Venezuela..... | 14 |
| References | 21 |

About the Author

Mark Weisbrot is co-director of the Center for Economic and Policy Research in Washington, D.C.

This article was published by the International Journal of Health Services, Vol. 36, No. 4 (2006).

Executive Summary

This paper looks at Latin America's political shift over the last several years. The author argues that these changes have largely been misunderstood and underestimated here for a number of reasons:

- Latin America's unprecedented growth failure over the last 25 years is a major cause of these political changes and has not been well-understood
- The collapse of the IMF's influence in Latin America, and middle-income countries, is also an epoch-making change
- The availability of alternative sources of finance, most importantly from the reserves of the Venezuelan government, is very important
- The increasing assertion of national control over natural resources is also an important part of the new relationship between Latin America and the United States

The author argues that for these and other reasons, the relationship between Latin America and the United States has undergone a fundamental and possibly irreversible change, and one that opens the way to new and mostly more successful economic policies.

Introduction

The changes that have taken place in Latin America in recent years are part of an epoch-making transformation. To borrow from the Cold War framework that still prevails in U.S. foreign policy circles: we have witnessed the collapse of the Berlin Wall, and the formation of newly independent states. A region that has been dominated by the United States for more than a century has now, for the most part, broken away. Of course there are still strong commercial, political, cultural and even military ties; but as in the states of the former Soviet Union after 1990, these do not have the same economic or political implications that they had a decade or even a few years ago.

These changes seem to have been largely misunderstood – and vastly underestimated – across the political spectrum. They are certainly noticed. Hardly a day goes by without prominent warnings that the region – or at least a good part of it – is on the road to “populist” ruin, or worse. On the right – including the Bush administration – this process is viewed through a Cold War prism, a Castro-Chávez-Evo Morales axis that poses a strategic threat to the United States.¹ Imagined or implied links to terrorism and the drug trade (little or no evidence is provided) are sometimes added for effect, as when the State Department cut off arms sales to Venezuela on May 15 for “lack of cooperation” in fighting terrorism.²

The liberal/center views are less bellicose, but similarly pessimistic about what is happening in the region. Foreign Affairs has run three articles since the beginning of the year warning of the dangers of Latin America’s left-populist drift, as well as sorry state of U.S.-Latin American relations. The news reports, editorials, and op-ed pages of America’s major newspapers mostly carry the same themes.^{3,4,5}

But from the point of view of the vast majority of the hemisphere, including people in the United States, there is actually much to be optimistic about. As French President Jacques Chirac noted during a recent visit to South America, “there is a strong movement in favor of democracy in Latin America, a movement that is growing”.⁶ He added that the newly elected leftist presidents cannot be cause for concern because they were elected in free democratic elections. Furthermore, there is every reason to believe that the changes of the last few years will not be reversed, and that the region will continue in the direction of further economic and political independence, diversification of trade and finance, some regional integration, and more successful macroeconomic policies. Not all of these economic policies and experiments will succeed, but most importantly it appears very possible that Latin America’s long quarter-century of economic failure will be reversed in the foreseeable future, and that its hundreds of millions of poor people will be among the main beneficiaries.

¹ Brookes, Peter. Hugo Chavez: Castro’s mini-me. Heritage Foundation. 2005.

[<http://www.heritage.org/Press/Commentary/ed040505a.cfm>] (November 2006).

² Urbancic, Frank. Venezuela: terrorism hub of South America? Testimony presented to the House Committee on International Relations, Subcommittee on International Terrorism and Nonproliferation, Washington, DC, July 13, 2006. [<http://www.state.gov/s/ct/rls/rm/2006/68968.htm>] (November 2006).

³ Castaneda, Jorge. Latin America’s left turn. *Foreign Affairs*. 85:3: 28-43, 2006;

⁴ Hakim, Peter. Is Washington losing Latin America? *Foreign Affairs*. 85: 1: 39-53, 2006;

⁵ Shifter, Michael. In search of Hugo Chávez. *Foreign Affairs*. 85:3: 45-59, 2006

⁶ Gallardo, Eduardo. France’s Chirac praises democracy in Latin America, says leftist governments no cause for concern. Associated Press Worldstream. May 27, 2006.

Causes and Consequences: Latin America's Long-Term Economic Failure

The most important cause of Latin America's regional leftward shift has been vastly misunderstood: it is the long-term economic growth failure in the region. This is something that even most critics of "neoliberalism" – a one-word description of the last quarter-century's economic reforms that is more common in Latin America than it is here – have barely mentioned. Most often we read that these reforms have been successful in promoting growth, but that too many people have been left behind and that poverty and inequality have worsened, leading to political unrest.

This explanation misses the most important, indeed historic change, that has taken place in Latin America over the last 25 years: the collapse of economic growth. If we ignore income distribution and just look at income per person – the most basic measure of economic progress that economists use – the last quarter-century has been a disaster. From 1960 to 1980, per capita income in Latin America grew by 82 percent, after adjusting for inflation. From 1980 to 2000, it grew by only 9 percent; and for the first five years of this decade (2000-2005), growth has totaled about 4 percent. To find a growth performance in Latin America that is even close to the failure of the last 25 years, one has to go back more than a century, and choose a 25-year period that includes both World War I and start of the Great Depression.

Of course, Latin America also has the worst income inequality in the world. The contrast between the luxury condos in the Barra da Tijuca neighborhood of Rio de Janeiro and the favelas in the hillsides where the police fear to tread, or between the poor barrios of Caracas and the wealthy estates of Alta Mira jumps out at you. But inequality in the region has not increased dramatically over the last 25 years. It is the growth failure that has deprived a generation and a half of any chance to improve its living standards.

And without growth, it is very difficult to do anything about inequality or poverty. If the economy is growing rapidly, it is at least possible to redistribute some of the increases in income and wealth towards those who need it most. When it is not growing, any gains for the poor must be taken from someone else – something that is difficult to do without violence.

Poverty and inequality are glaringly obvious in Latin America, and take the form of flesh and blood, street children and beggars – whereas economic growth is an abstract concept that most people do not follow. So it is understandable that the main cause of Latin America's political changes is overlooked. But economic growth – which is primarily defined by increases in productivity, or output per hour of labor – is vital, especially over such a long period of time. It is the main reason that we live better than our grandparents. Mexico would have average living standards at the level of Spain today if its economy had simply continued to grow at the rate that it grew prior to 1980. There would be far fewer Mexicans willing to take the risks of illegal immigration to the United States. Since these pre-1980 growth rates were good but not spectacular (e.g. as compared to South Korea or Taiwan), there is no obvious reason that they shouldn't be the relevant level of comparison. In Washington, policy-makers engage in a special form of denial about Latin America's economic failure. After all, they have gotten most of what they wanted: governments have drastically reduced restrictions on international trade and on investment flows. Public enterprises have been privatized, even including social security systems in many countries. Governments are running tighter budgets and central banks are more independent and tougher on inflation. The state-led industrial policies and development planning of the past have been abandoned.

But the cumulative results have been an economic disaster, and so it is not surprising that presidential candidates who campaigned explicitly against “neoliberalism” have in recent years won elections in Argentina, Bolivia, Brazil, Ecuador, Uruguay, and Venezuela. The question of which policies contributed to the many and varied national economic failures is more complex, and the possible alternatives for restoring growth and development – only now beginning to be explored – vary greatly by country. But it should be clear that what we are now witnessing is a response to this epoch-making economic failure, and – following a series of revolts at the ballot box, and some in the streets – a number of governments looking for more practical and effective ways to make capitalism work.

The long era of “neoliberalism” in Latin America has not yet come to an end – that end is just beginning, for reasons discussed below. What really defines this as a new era is that the influence of the United States in a region that was until very recently its “backyard” has plummeted so rapidly, drastically, and probably irreversibly, that the current situation is truly unprecedented in the modern history of the hemisphere.

This is a dramatic change, especially if we consider that Washington in the 1980s spent billions of dollars, and supported the murder of tens of thousands of innocents, just to keep control over a few small, economically insignificant countries in Central America. President Clinton issued a rare public apology for the United States’ role in what the United Nations determined to be genocide in Guatemala, and Washington’s participation in the mass slaughter of El Salvador and the destruction of Nicaragua was even greater and more direct.⁷ Yet in the last few years these same people – literally in the case of such current and recent administration personnel as Elliot Abrams, Otto Reich, and John Negroponte – have watched almost helplessly as the bulk of the region, in population and economic terms, has slipped out of their grasp.

The Collapse of a Cartel

One reason the historic nature of these changes has not been appreciated is that Washington’s most powerful influence over the region – especially in the realm of economic policy – has never gotten much attention. And that particular influence has now quietly collapsed. Until recently the International Monetary Fund (IMF) headed a powerful creditors’ cartel that was arguably more important than Washington’s other levers of power – including military, para-military, diplomatic and other “soft power” projections such as foreign aid and “democracy promotion” programs. This cartel was not a conspiracy but rather an informal arrangement – not written into law or into the charters of the participating financial institutions – but nonetheless generally very effective.

The way it worked is that the IMF was the “gatekeeper” for most other sources of credit for developing country governments. If a government did not reach an agreement with the IMF, it would not be eligible for most lending from the World Bank, regional banks such as the important Inter-American Development Bank in this hemisphere, G-7 government loans and grants, and sometimes even the private sector. The 184-member IMF has always been dominated by the U.S. Treasury Department. Technically, the other rich countries, including European nations and Japan, could outvote the United States (voting is proportional to a quota system of contributions which gives the rich countries a huge majority) but this has virtually never happened over the last 62 years.

⁷ White House Office of the Press Secretary. Remarks by the President in roundtable discussion on peace efforts. U.S. National Archives and Records Administration. March 10, 1999. [<http://clinton2.nara.gov/WH/New/centralam/19990311-96238.html>] (December 2006)

During the last 25 years especially, this creditors' cartel was enormously influential in shaping the "Washington Consensus" policies that were adopted throughout Latin America and most other low and middle income countries. It extended far beyond just the raw power of using control over financial resources to influence policy.

As has been known for decades, the IMF acting as gatekeeper and enforcer of "sound economic policy" allowed the United States (and sometimes the other rich countries) to operate through an ostensibly multilateral, neutral, technocratic institution when pressuring developing country governments to privatize their natural resources or run huge primary surpluses to pay off debt. It is much more politically delicate for U.S. officials to publicly tell sovereign governments what to do. And as we witnessed in the recent Argentine debt restructuring, individual creditors – even big banks – do not have all that much power against a government that is willing to go to the brink. In a default situation, it is in their individual interest to settle for what they can get, cut their losses, and look to the future. It takes an external enforcer – outside of the market – to hold the threat of future punishment over the offending government, in the interest of the creditors as a class.

This arrangement began to break down in the wake of the Asian economic crisis of the late 1990s, after which the middle-income countries of that region piled up huge foreign exchange reserves. They had suffered through a terrible and humiliating experience with IMF-imposed conditions during the crisis, and although the post-crisis accumulation of reserves had other causes, it also ensured that they would never have to take the Fund's advice again.

But it was in Latin America that the IMF was reduced to a shadow of its former self. Argentina defaulted on \$100 billion of debt at the end of 2001, the largest sovereign debt default in history. The currency and banking system collapsed, and the economy was continuing to shrink. Almost everyone assumed that the government would have to reach a new agreement with the IMF and receive an injection of foreign funds in order to get the economy growing again.

But a year went by without any agreement, and when it was finally reached there was no new money. In fact, the IMF took about \$4 billion net – a huge sum amounting to four percent of GDP – out of the country during 2002. Yet in defiance of the experts, the Argentine economy contracted for only three months after the default before beginning to grow. Four years later it is still growing quite rapidly. In fact it has grown at the highest rate in the hemisphere, more than 9 percent annually for three years, despite a continued net drain of money out of the country to pay off the official creditors (the IMF, the World Bank, and the Inter-American Development Bank) that reached more than \$14 billion between 2002 and 2005.

The Argentine government under Nestor Kirchner, who took office in May 2003, also enacted a series of unorthodox economic policies that were strongly opposed by the Fund, including a hard line in bargaining over defaulted debt, which invoked hostility from the international business press, along with predictions of prolonged economic punishment and stagnation.⁸ In one of a number of showdowns with the Fund, Argentina even temporarily defaulted to the IMF itself in September of 2003 – an unprecedented and uncharted move that had previously only been made by failed or pariah states such as Congo or Iraq. Default to the Fund had hitherto carried the threat of economic isolation, even the denial of export credits necessary for trade. But the world had already changed, and the IMF backed down. Argentina's long battle with the Fund – from the disastrous four year depression, brought on and exacerbated by IMF-backed macroeconomic policies, through the

⁸ After default: Argentina needs a very substantial reduction in its debt. *Financial Times*. June 30, 2003, p. 18.

standoff of 2002, and the economy's subsequent rapid recovery on its own – was the final blow to not only the Fund's credibility as an economic advisor, but as an enforcer.

How much difference does the collapse of this creditors' cartel make? Consider Bolivia today, where the leftist, indigenous former leader of the coca growers' union, Evo Morales, was elected with the voters' largest mandate ever in December. He promised to nationalize the country's energy resources — it was really more of a return to constitutionality, since the current contracts with foreign energy companies were not approved by the congress, as required by the constitution — which account for the biggest chunk of its export earnings, and to use these resources to increase the living standards of the country's poor and indigenous majority. On May 1st, Morales announced that the government was indeed nationalizing the gas and oil industry, and that foreign companies would have six months to renegotiate existing contracts. Many details remain to be worked out, and the situation is complicated by the fact that Petrobras, the state-run Brazilian energy company, is the largest gas producer, and that Bolivia can only export natural gas (which is the main energy export) by pipeline to Argentina and Brazil. But the Bolivian government has already increased its revenue from the gas producers, from 3.4 to 6.7 percent of GDP as a result of last year's hydrocarbons law. The increase amounts to a share of the economy comparable to most of the United States' federal budget deficit. The May 1st nationalization will increase these revenues even more, allowing the government to deliver on some of its promises to the poor.

The Bolivian government has since announced its intention to pursue an ambitious land reform program, which has also been met with hostility from the media. According to the ministry of rural development, over the next five years the government hopes to redistribute some 54,000 square miles of land, an area the size of Greece, to some 2.5 million people – about 28 percent of the population.⁹ The Bush administration had expressed its displeasure with the new government a couple of times, but until very recently has been relatively cautious about public statements ever since the U.S. Ambassador's denunciation of Morales sent the charismatic leader surging in the polls and almost carried him to victory in the 2002 Presidential election. But on May 22, in an ominous new turn, President Bush told the press that he was “concerned about the erosion of democracy” in Bolivia and Venezuela.¹⁰

There will be further frictions in the near future, not least over drug policy. Washington has pursued its coca eradication agenda in Bolivia for years with little regard to its political, economic, or environmental impact on an increasingly angry local population. Anyone who has been to Bolivia and seen how ubiquitous coca is there, from the coca tea in restaurants to the leaves that people chew as a stimulant and to relieve altitude sickness, can only imagine what it would be like if people in United States were told that they must co-operate in a “coffee eradication” program at the behest of a foreign government so as to help prevent foreigners from abusing the product. Most of Morales' electoral base wants to kick the DEA (the U.S. Drug Enforcement Agency) out of the country tomorrow.¹¹ Morales has taken a moderate position, pledging to co-operate in the fight against cocaine and drug trafficking, while supporting the legalization of the coca plant and the

⁹ Valdez, Carlos. Bolivian farmers fearing land reform plan to create “self-defense” groups. Associated Press Worldstream. June 1, 2006.

¹⁰ Miller, Scott. U.S. Concerned with irresponsible governance in Latin America. U.S. State Department Washington File. May 24, 2006. Available online: [<http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=May&x=20060524135822ASrelliM0.1630823>]

¹¹ Keane, Dan. Morales seeks middle way on cocaine and pleases neither U.S. nor growers. Associated Press Financial Wire. December 7, 2006.

development of new markets for legal products. The Bush administration will most likely find this unacceptable.

But what can Washington do about its new “problem” government? Not all that much. This is all the more unprecedented because Bolivia is not Venezuela, the world’s fifth largest oil exporter, nor Argentina, which until the late 1990s depression had practically the highest living standards south of our border. It is not a giant like Brazil, with a land area as big as the continental United States. It is the poorest country in South America, with nine million people and an economy not even one-thousandth the size of the United States’, at current exchange rates. It is poor and indebted enough to have qualified for the IMF/World Bank HIPC (Heavily Indebted Poor Country) debt cancellation initiative, and in fact had its IMF and World Bank debt – about 35 percent of the country’s total foreign public debt – cancelled this year after passing through the requisite gauntlet of conditions for several years.

But Bolivia is a free country now. On March 31, after twenty straight years of operating continuously (except for eight months) under IMF agreements – and a real per capita income amazingly less than it was 27 years ago – Bolivia let its last agreement with the IMF expire. The government decided not to seek a new agreement with the Fund. One of the first questions that arose was, what about money from other sources? Bolivia receives not only loans but grants from the governments of high-income countries, and until now even grants from the more liberal European countries were contingent on Bolivia meeting the IMF’s approval. But it appears that this requirement has disappeared along with the IMF agreement. The Bush administration cut military aid – an insignificant \$1.6 million – and may reduce other aid flows related to anti-drug efforts. The Spanish government expressed some concern over Bolivia’s nationalization of the gas industry, since Repsol YPF, Spain’s largest oil company, is the second biggest producer there.¹² But so far none of the rich country governments have tried to use the threat of cutting off loans or grants as a mean of trying to change Bolivia’s policies. Such a threat, or even an actual aid reduction, would almost certainly not alter the government’s behavior; it would therefore be useless and counter-productive from their point of view.

The fact that we have arrived at such a situation illustrates how dramatically hemispheric relations have changed. A few years ago, a government like that of Evo Morales would have had a pretty short life expectancy. Washington would have had the ability to economically strangle the country, as it did to Haiti in order to topple the democratically elected government there just two years ago. The government of Haiti, which was overwhelmingly dependent on foreign aid flows, was cut off from virtually all international funding from 2001 on, thus assuring its ultimate downfall in the U.S.-backed coup of March 2004. For very poor countries and especially those that are without allies or media attention, the old rules may still apply – although even that is beginning to change. And in many low-income countries, for example in Africa, major economic policies are still subject to IMF approval.

But the Fund has lost its influence in middle-income countries, and that includes almost all of Latin America. Although it has received little attention in most of the media, the collapse of the IMF-led creditors’ cartel is by itself probably the most important change in the international financial system since the end of the Bretton Woods system of fixed exchange rates in 1973. This is especially true for developing countries.

¹² Egurbide, Peru. El gobierno español advierte del daño a la relación bilateral. *El País*. May 3, 2006

In Latin America this has coincided with a major and unanticipated change that, combined with the IMF's loss of influence, has helped usher in the new era of independence. A new international lender has emerged: Venezuela. When Argentina decided last December to say its final goodbye to the IMF by paying off its remaining debt of \$9.8 billion (5.4 percent of GDP) at once, Venezuela committed \$2.5 billion to the cause. "If additional help is needed to help Argentina finally free itself from the claws of the International Monetary Fund, Argentina can count on us," Chávez announced on December 15.¹³ Kirchner's statement announcing the decision was even harsher: "[the IMF has] acted towards our country as a promoter and a vehicle of policies that caused poverty and pain among the Argentine people," he said.¹⁴ Last year Venezuela also committed to buying \$300 million of Ecuador's bonds; in December, it turned out that Ecuador had sufficient demand for its bonds that it only needed to sell \$25 million to Venezuela, but the latter's commitment was there as a lender of last resort. Chávez has proposed to formalize this new relationship by establishing a "Bank of the South," to finance development in the region, and offered to start it off with a \$5 billion contribution. In the meantime, Venezuela is also providing discounted oil financing for the Caribbean countries under its PetroCaribe program.

The result for Bolivia is that despite its poverty and underdevelopment, the new government will not have to worry too much about whether the United States approves of what it is doing with regard to foreign energy companies, trade negotiations (a bilateral trade deal, long sought by Washington, is now pretty much dead), macroeconomic policies, or drug policy. Any aid cuts from Washington, Europe, or international lending agencies will be more than replaced by Venezuela. When Bolivia was about to lose \$170 million in soybean exports to Colombia as a result of the latter's decision in April to sign a bilateral trade agreement with the United States, Venezuela stepped in as a replacement buyer. Such is the paradox of the new hemispheric order: it is now even easier for a small, poor country to reject "the Washington Consensus" than it is for larger, middle income countries to do so – although the choices for all have been greatly expanded. Venezuela has more than \$30 billion in foreign exchange reserves; whatever Bolivia might need will be pretty small relative to Venezuela's capacity for lending and aid. In just the last month (May), Venezuela has announced a \$100 million loan to Bolivia and a similar amount to support the proposed land reform, as well as numerous other forms of aid. And Venezuela's lending and aid programs, unlike that of the international financial institutions or the G-7 governments, do not have economic policy conditions attached to them. This makes all the difference in the world.

Viewed through the Cold War lens of official Washington and the foreign policy establishment, these disbursements and initiatives are seen either as part of an attempt to build an "anti-American" axis, or, as Chávez simply buying friends in the region. Chávez himself, who has named his revolution after the 18th century liberator Simon Bolivar, sees it as freeing South America from the grip of the U.S. empire. But regardless of how it is seen in ideological terms, the impact of this alternative source of financing has already had an enormous impact on the ability of governments to ignore pressures from Washington. This trend is likely to continue unless there is a sudden and very severe collapse of oil prices.

There are two other important economic changes that will reinforce Latin America's drift away from the United States in the coming years. One is that the United States will no longer provide a rapidly

¹³ Venezuela's Chavez applauds Argentina's decision to repay IMF debt. Associated Press Worldstream. December 16, 2006.

¹⁴ Balls, Andrew and Adam Thomson. Argentina to pay off loans from IMF. *Financial Times*. December 16, 2005, p. A1.

growing market for the region's exports, as it has in the past. The reason is that the United States is running a record trade deficit, now more than 6 percent of GDP, that almost all economists recognize must adjust over the next decade. The United States does not have to balance its trade, but the deficit must fall to a level that allows the U.S. foreign debt to stabilize, rather than growing at an explosive rate. If the U.S. trade deficit were to remain at its current level, in 18 years the U.S. foreign debt would exceed the value of our entire stock market. This is not going to happen; instead, the dollar will fall and the deficit will be reduced. But one consequence of this adjustment is that the U.S. market for imports, measured in non-dollar currencies, will barely grow or possibly even decline. This means that Latin American countries hoping to expand their exports to the U.S. in the near future will mainly have to displace other exporters, which will be very difficult. So the United States does not have so much to offer in its proposed bilateral trade agreements. On the other hand, it is demanding concessions that are economically costly, as in the areas of patented medicines, where Washington insists on even stronger protectionism than is afforded by the World Trade Organization; and politically costly, as in agriculture, where the demands for opening up to subsidized exports from the U.S. have sparked considerable political opposition in most countries in the region.

At the same time, just as the growth of the U.S. import market will be slowing to a standstill, another market to which Latin American countries can export is expected to grow by about \$1 trillion Euros over the next decade: China. This will reinforce the decline in the United States' relative economic importance to Latin America. Perhaps even more importantly, China has the potential to be an enormous alternative source of financing for investment in Latin America. So far the Chinese have proceeded relatively slowly; but they have discussed plans for \$20 billion worth of investment in Argentina, for example, including major investments in railroads and infrastructure. The Chinese government now holds more than \$800 billion in foreign exchange reserves. Most of this money is sitting in U.S. treasury bonds, where the government has lost tens of billions of dollars in the last few years – both from currency changes, as the dollar has fallen against other currencies, and capital losses, as U.S. long-term rates have risen. These trends are likely to continue. Until now, the Chinese have held these bonds as part of their overall economic strategy, which presumably has included keeping U.S. long-term rates low so as to support the economic recovery here (since 2001) and therefore increase demand for their exports. But this strategy will not persist indefinitely. As it stands now, the Chinese could invest hundreds of billions of dollars in Latin America, get a zero return on their investment, and still come out ahead as compared to their present strategy of holding U.S. treasuries. In reality they would most likely get a positive return. The Chinese are already interested and investing in energy and extractive industries to secure supplies of these materials for their booming economy. But as an emerging economic superpower, they may also come to see it as part of their strategic interest to have closer political and economic ties with Latin America. This would be especially true if current tensions between the United States and China get worse, but it is likely to happen in any case.

The energy and extractive industries in Latin America have also been deeply affected by the shift in regional power relations, with important economic and political implications. Although the run-up in energy prices has provided a strong incentive for governments throughout the region – including Venezuela, Bolivia, and Ecuador – to renegotiate their contracts and legal arrangements with foreign corporations, such moves would be more risky and probably less successful if the IMF consortium, and the United States government, had the power that it wielded just a few years ago. On May 16, the Venezuelan Congress voted to double the royalties on joint ventures with foreign oil companies, from 16.7 to 33.3 percent, thus increasing the government's total take to 50 percent. This was the second major hike for this heavy oil production, which a few years ago paid royalties of only 1

percent. The government is also demanding a controlling 60 percent stake in four joint ventures with foreign oil companies that account for about one-fifth of Venezuela's oil production. In Bolivia, even before the May 1 nationalization decree, last year's hydrocarbons law had already added hundreds of millions of dollars to the government's revenue by increasing taxes and royalties.

On May 16 the government of Ecuador announced that it would seize an oil field from Occidental Petroleum, the fourth largest U.S. oil company, as a result of a dispute in which Occidental is alleged to have illegally transferred part of an oil block that it operated to a Canadian company. Washington retaliated almost immediately by announcing that it was suspending negotiations with Ecuador over a proposed bilateral trade agreement. It's not clear how much of a punishment this is – the negotiations had already become a big political liability for the government. In March, indigenous groups staged 11 days of protests – including highly disruptive roadblocks – demanding a halt to the negotiations, as well as a national referendum on whether to proceed, suspending the protests only after the government declared a state of emergency. On May 28, President Chávez announced that he would meet with Ecuador's President Palacio to expand Venezuela's energy ties to Ecuador and its state-owned oil industry, Petroecuador. One proposed accord would allow Ecuador to refine oil at Venezuelan-owned refineries, which according to press reports could save Ecuador some \$300 million a year.

National control over energy and other natural resources – and demands that these resources be used to benefit the poor majority – played a major role in the revolutions at the ballot box in both Venezuela and Bolivia. In Venezuela it was the driving force: although Venezuela has had a state-owned oil company since 1976, by the 1990s it was turning over so little revenue to the government that the state was not fiscally viable. Something had to give, but it was not until the elected government of Hugo Chávez had gone through a U.S.-backed military coup (2002) and an economically devastating oil strike (December 2002- February 2003) that the government finally gained control over its own nationalized oil industry. In Bolivia, mass discontent over the privatization and looting of the country's natural resources helped bring down two presidents and contributed to the election of Evo Morales. In Peru, populist candidate Ollanta Humala took first place in the first round of voting, partly by promising to get a bigger share from foreign mining and energy companies and use it to benefit the poor. With some of the largest mining companies there exempt from royalties altogether (although they pay other taxes), there is plenty of room for negotiation.

These struggles by various governments to capture more of the rents from energy and natural resources are likely to continue. Latin America's newfound economic and political independence has increased its bargaining power, and there is increasingly less reason to concede any more to foreign producers than is necessary to make use of technology that these governments need. The shift in power relations has already provided billions of dollars of gains to the region, and there is likely more to come.

A Brighter Future

Despite the consternation in Washington, the collapse of U.S. influence in Latin America has already brought important and tangible positive results. In Argentina, almost 8 million people – 18 percent of the population – have been pulled over the poverty line as a result of the rapid economic recovery there – the demise of which has been predicted by most economists and the business press

practically every month since it began four years ago.¹⁵ In order to achieve this extraordinary economic success, the government had to implement a number of unorthodox economic policies that were vehemently opposed by the IMF, most of which were presented as reckless and wrong in the international business press. This included not only hard bargaining to clear away about two-thirds of the country's foreign public debt, but also some macroeconomic policies that were essential to the recovery, including maintaining a stable and competitive exchange rate and lower interest rates. The government also refused to raise utility prices as demanded by the foreign owners and their governments (with the IMF as an advocate). More recently, the Kirchner administration instituted price controls to stem inflation rather than sacrifice employment and income by slowing the economy, as has become the norm in macroeconomic policy. The Argentine recovery is a remarkable achievement, one that both helped clear the path towards regional independence, and then continued to flourish in the new environment. It is easy to see how much weaker it might have been, or even collapsed altogether, had the government simply followed the orthodox advice that had been accepted in the past. At the same time, Kirchner has won high praise among human rights groups for revoking the impunity of military officers who committed atrocities during the brutal 1976-1983 dictatorship.¹⁶

Venezuela has also had notable successes, most importantly in providing free health care for the first time to an estimated 54 percent of the population, mostly poor people, as well as subsidized food for more than 40 percent, and increased access to education. It is common to attribute these successes to high oil prices, but oil prices were even higher in the 1970s in real terms, and the country's GDP per capita actually fell during that decade. Chávez is best known – and reviled – in the international media for his confrontation with the Bush administration, but at home his unshakable popularity derives mainly from delivering on his government's promise to share the country's oil wealth with the majority of Venezuelans. And even aside from distribution, it must be recalled that the Venezuela suffered one of the worst economic declines in the region (and the world) – a 35 percent drop in per capita income from 1970-1998, prior to Chávez' election. The current government, which took office in 1999 and is almost certain to be re-elected in December, will probably be most remembered as the one that finally reversed Venezuela's long-term economic deterioration. The economy has recovered remarkably after stability finally returned to the country, following several opposition attempts to overthrow the government through a military coup and oil strikes. In just the past two years it has grown by more than 28 percent and it is still booming.

Bolivia, too, seems poised to reverse its long economic stagnation and begin to meet the needs of its poor, indigenous majority. It has created a new water ministry with the goal of providing clean drinking water to everyone, as well as water for agriculture. The increased revenue from control over its natural resources should make this, as well as the proposed agrarian reform and other anti-poverty programs, feasible.

Of course, all of these governments are still a long way from coming up with a sustainable, long-term development strategy. This is not necessarily because they don't want one, but mainly because – after decades of corrupt rule, as well as the deliberate shrinking of the state's capacity for economic regulation and decision-making – they simply don't have the administrative capacity to even make such plans, much less implement them. That is why even in Venezuela, where President Hugo Chávez talks about “21st century socialism,” the private sector is a larger share of the

¹⁵ Lapper, Richard and Adam Thomson. Argentina faces doubts over recovery as finance chief is forced to resign. *Financial Times*. November 29, 2005, p. A1.

¹⁶ Rohter, Larry. After 30 years, Argentina's Dictatorship stands trial. *The New York Times*. August 20, 2006, p. A3.

economy today than it was before he took office. The Venezuelan government, contrary to popular perceptions, has embarked on a project of gradualist reform, experimenting with land reform, some production and credit co-operatives, and microcredit programs – but officials are very aware of the limitations of the corrupt and debilitated state that they inherited. In Argentina, which has a more developed economy, there is still little to nothing in the realm of development planning or industrial policy that could lead to the sustained growth and development of the Asian success stories, or perhaps even that of Latin America's pre-1980 past.

Nonetheless the renewal of economic growth, made possible by more sensible macroeconomic policies, is a vitally important beginning. It is a necessary but not sufficient condition for long-term economic and social progress in the region. And it is likely that more changes will follow as the various new experiments achieve success. The increased control over energy and natural resources, and a new commitment to poverty reduction, health care and education – as in Venezuela and Bolivia – are also important first steps, not only in their own right but also for the sake of democracy. Although both the Morales and Chávez governments are accused of authoritarianism by their detractors – which in Venezuela's case includes almost everyone who has access to large media outlets – from a more objective viewpoint, what we are witnessing is a revival of democracy. This is most obvious in the sense that people are actually getting what they voted for – in terms of social and some economic policy. It is for this reason that Venezuela came in first last year when one of Latin America's best polling firms, *Latinobarómetro*, asked people in each country how democratic their government was. On the question of how satisfied people were with their country's democracy, Venezuela came in second, after Uruguay.¹⁷

Ironically, Latin American countries in the age of dictators had more national control over their economic policies than they have had since formal democratization, and therefore much more successful development and rising living standards under dictatorships. Hence the long term trends, now beginning to reverse, of citizens losing respect for democracy in Latin America – after 25 years of losing ground under democratic governments.

Fortunately, the mass discontent, organization, and revolt at the ballot box has not been aimed at a return to authoritarian government but rather its opposite, demands for an extension of democracy to include social and economic policy, as well as the increased participation of previously marginalized groups – the poor in Venezuela, the indigenous in Bolivia. The recent mass protests in Ecuador against the proposed trade negotiations with the United States should also be seen in that light. So too, the waves of mass organization that brought Evo Morales to power, and are actively encouraging the government to pursue pro-poor and pro-indigenous economic policies.

But it is not only in the countries that have already changed their economic and social policies that the impact of this huge shift in hemispheric relations is relevant. Consider Brazil, which continues to provide a classic example of the failure of “neoliberal” policies in Latin America. Brazil was once a fast-growing developing country: income per person grew by 123 percent from 1960-1980. But over the last 25 years, it has averaged about 0.5 percent annually. The country's president, Luiz Inácio Lula da Silva of the leftist Workers' Party, was elected in 2002 on a platform that promised to restore economic growth through lower interest rates, implement industrial and agricultural policies, and return to a national development strategy. The Workers' Party also promised redistributive

¹⁷ Corporación *Latinobarómetro*. Informe *Latinobarómetro* 2006. Santiago, Chile, December 9, 2006. Available online: [http://www.latinobarometro.org/fileadmin/intranet/Informe_Latinobarometro_2006.pdf]

policies to help the poor, in a country that has perhaps the most unequal distribution of income on the planet.

Since taking office, however, Lula's government has steadfastly maintained the economic policies of his predecessor, Fernando Henrique Cardoso, and achieved the same sluggish growth. Interest rates set by the Central Bank are currently at 15.75 percent (compare this to our own at 5 percent, after the Fed has raised interest rates 16 consecutive times). The country's currency is very much overvalued, which makes imports artificially cheap, and therefore makes it difficult for Brazilian industry to compete in either domestic or international markets. The federal government is paying off debt to the tune of more than 7 percent of GDP annually, leaving little in the way of funds for any anti-poverty initiatives.

But it is important to understand that these policies are the result of Brazil's internal politics, and the United States today has little to do with it. In almost every country there are conflicting interests over economic policy, especially monetary policy, between the financial sector and nearly everyone else. Bondholders, banks, and creditors generally do not have the same interest in economic growth that most people have. For the vast majority of people, more rapid growth means a better chance at employment and higher income. For the financial sector, economic growth is primarily seen as a threat of increased inflation, which lowers the value of bonds. This is a conflict of interest in the United States too, as the Fed sometimes raises interest rates and slows the economy when most people who have a stake in a growing economy would not do so. Brazil has an extreme form of this problem, in that this overwhelming political dominance of the financial sector – which prevails in all of the major political parties – has led to a prolonged period of stagnation and slow growth that the economy cannot seem to improve upon. For the financial sector, the 2.3 percent growth (about 1.2 percent per capita) of last year is considered to be just right, even if it does not create enough jobs to match the new entrants to the labor force.

Washington is very pleased with Lula's government, and has been supportive, including at key points in the corruption scandal that has engulfed the government and led to the resignation of Lula's chief of staff, finance minister, and top party officials.¹⁸ The international press is also very pleased, as have been the international financial markets – in fact the markets were nervous at the prospect of Lula's impeachment because his vice president, the conservative Jose Alencar, has committed himself to lower interest rates.¹⁹ So there is much international support for the current set of economic policies, but when there is a Brazilian government that decides to go in another direction, there will be little that anyone can do to prevent it. Last December, Brazil paid off its entire debt to the IMF, which was one the largest in the world owed to the Fund, at \$15.6 billion dollars.

Furthermore, Lula's government has not been all that supportive of U.S. foreign commercial policy. Brazil was one of the leaders of the rebellion in Cancun in 2003, when developing countries decided that they were not going to negotiate any more concessions to the rich countries in the World Trade Organization if the latter were not willing to commit to cutting their agricultural subsidies. (The Brazilian delegation was more conciliatory at the latest WTO ministerial in Hong Kong.) Brazil has also, together with Argentina and Venezuela, soundly rejected the proposed Free Trade Area of the Americas after ten years of negotiation; the rejection by this bloc has pretty much doomed the agreement.

¹⁸ See, for example, U.S. Treasury Secretary John Snow's visit and laudatory speech in Rio de Janeiro (19).

¹⁹ The U.S. and Brazil: Partners in growth. Prepared remarks of Treasury Secretary John Snow. Rio de Janeiro, Brazil, August 2, 2005.

Latin America's independence has been spilling over into other multilateral institutions as well. Chile and Mexico, two governments that the Bush administration counts among its favorites, killed the United States' proposed UN Security Council resolution to confer legality on its invasion of Iraq. Last May, Washington failed for the first time in nearly six decades to get its candidate elected to head the Organization of American States. After Washington's two failed attempts, the body elected Jose Miguel Insulza, who was supported by Brazil, Argentina, and Venezuela. The OAS met in June that year and promptly rejected a U.S. proposal to amend the Inter-American Democratic Charter that would have empowered the organization to evaluate the functioning of democratic institutions in member countries – a move that was widely understood to be directed against Venezuela.

Washington Confronts Venezuela

In U.S. foreign policy circles, there have been a number of approaches to Latin America's new independence. The main cause of the electoral shift – Latin America's unprecedented long-term growth failure – is almost never mentioned, although it is well known among economists. Instead there are acknowledgements that the reforms have been “disappointing,” or failed to sufficiently reduce poverty. The rise of nationalism and especially “populism” is seen as a cyclical phenomenon, one that will run its course as these governments drive away foreign investment, spend their way into debt crises, and pursue failed economic policies generally. Argentina's economic recovery has been buried so many times in the business press over the last four years that it seems a miracle it has survived.

Latin America's drift away from the United States is seen as a result of the Bush administration's preoccupation with the Middle East, especially the war in Iraq, which has caused Washington to ignore this hemisphere. The administration is criticized for the “lack of attention,” for cutting foreign aid, and for alienating many Latin Americans with the Iraq war, demanding exemption of Americans from the International Criminal Court as a condition for military aid, failure to make progress on immigration reform, and other mistakes. Venezuela is seen as competing for influence in the region on the basis of its oil revenues; according to this view, its influence and its economic growth, as well as social programs for the poor, will collapse when the price of oil drops.²⁰

The foreign policy establishment also divides the elected leaders of the left into “market-friendly” vs. “populist,” or a “Right Left versus Wrong Left,” in the words of Jorge Castañeda in the May/June 2006 issue of *Foreign Affairs*.²¹ The “Wrong Left” is Chávez, Morales, and Kirchner – coincidentally the ones who have delivered most on their electoral promises; the “Right Left” is Lula, Michelle Bachelet of Chile, and Tabaré Vázquez of Uruguay.

And it is Chávez that has become Washington's main enemy, even eclipsing Cuba as the demon to be overcome.²² Although it is recognized that the Bush administration has mishandled Venezuela, the Chávez government is still portrayed across most of the political spectrum, and especially in the press, as “anti-democratic,” “authoritarian,” and a threat to the region. Part of this is a result of our peculiar electoral system, which gives 900,000 Cuban-Americans in the pivotal state of Florida

²⁰ Lula's leap. *The Economist*. March 4, 2006; A partnership constrained;

The United States and Latin America. *The Economist*. October 7, 2006

²¹ Castaneda, Jorge. Latin America's left turn. *Foreign Affairs*. 85:3: 28-43, 2006

²² Harper, Tim. Chavez seeks lofty platform. *The Toronto Star*. September 18, 2006, p. A3.

disproportionate influence on our presidential race and hemispheric foreign policy. But much is simply based on ignorance and some of the worst U.S. foreign policy journalism in decades.

In fact anyone who has been to Venezuela in recent years can verify that it remains, despite the extreme political polarization and the turmoil that wracked the country until recently, one of the more open and democratic societies in the Americas. The vast majority of the media, including the largest television stations, are controlled by the opposition. It is the most anti-government media in the hemisphere²³, and carries on political campaigns that would not be allowed in most western democracies.²⁴ Indeed, even the United States would surely bring back the Fairness Doctrine if any of our major media outlets were to become the partisan political actors that they are in Venezuela, not to mention the Venezuelan media's active participation in a military coup and other attempts to overthrow the government.²⁵ The Venezuelan state is anything but authoritarian – in fact it is more of an anarchistic state, a weak state that suffers from all the problems that plague the rest of Latin America, in terms of enforcing the rule of law. That is why the main victims of political repression in Venezuela are not opposition partisans, even those who have tried to overthrow the government, but rather the pro-government activists organizing for land reform in the countryside, who have been murdered by the landowners' hired guns. The state cannot enforce the law even against murderers, even to protect its own supporters.

No reputable human rights organization would claim that Venezuela has deteriorated in terms of democracy, human rights, or civil liberties under the Chávez government; nor that it compares unfavorably with the rest of the region in these areas. But the Bush administration has created an image of undemocratic government in Venezuela and has managed to frame it that way for the media.

The administration has also tried to isolate Venezuela, but has so far succeeded only in further isolating itself in Latin America. Lately the war of words between Venezuela and the United States has become more heated; last March U.S. Secretary of Defense Rumsfeld compared Chávez to Hitler. Chávez responded by comparing President Bush to Hitler and fixing his rhetoric at that level of animosity. This will likely continue; for Chávez, the anti-Bush, anti-imperialist rhetoric plays well both at home and throughout most of the region. As Larry Birns of the Council on Hemispheric Affairs noted at a recent Congressional briefing, Chávez has become “the mayor of the Latin American street”.²⁶ That Chávez could increase his popularity with this kind of confrontational posture speaks volumes about how U.S. foreign policy is perceived in the region. And for Chávez there is nothing to lose: the Bush administration has done everything it could do to undermine and topple his government, and will continue to do so, regardless of anything he says or does.

It is easy to understand this if one looks at the recent historical evidence. First, the Bush administration not only publicly supported the April 2002 military coup against Chávez, it was actually involved in trying to make the coup succeed. This can be seen from CIA documents of March and April 2002, which show first of all that the Bush administration had advance knowledge of the coup. When it occurred, both the White House and State Department spokespersons publicly denied that a coup had taken place, falsely claiming that President Chávez had resigned, and before

²³ Klein, Naomi. Venezuela's media coup. *The Nation*. March 3, 2003.

²⁴ Venezuelan Media: Powerful Opposition Stakeholders. Venezuela Information Office. (November 2006)

²⁵ Wilson, Scott. Venezuela crisis lacks impartial referee. *The Washington Post*. December 17, 2002, p. A20.

²⁶ Birns, Larry. Venezuela, the United States, and the Americas: fact and fiction. Congressional staff briefing. February 10, 2006.

resigning had conveniently dismissed his Vice President and cabinet – so that the head of the Venezuelan Chamber of Commerce could take power and proceed to dissolve the Congress, Supreme Court, and the constitution.²⁷ That fact that administration officials had prior knowledge of the coup and yet publicly lied about what was happening, in order to help the coup succeed, is an important form of involvement that has mostly gone unnoticed here. More supporting evidence comes from the State Department Office of the Inspector General, which found that that “NED [National Endowment for Democracy], Department of Defense (DOD), and other U.S. assistance programs provided training, institution building, and other support to individuals and organizations understood to be actively involved in the brief ouster of the Chávez government”.²⁸ And from Jorge Castañeda, who stated that “there was a proposition made by the United States and Spain, to issue a declaration with Mexico, Brazil, Argentina and France recognizing the government of [coup leader] Pedro Carmona”.²⁹ But the documentary evidence combined with the administration’s own statements leave no doubt about its involvement.

All this has been almost completely ignored by the major media outlets³⁰; when mentioned it is in the form of an “accusation” by Chávez³¹ – and not a very credible one – that the United States was involved in the coup.³² Furthermore, Washington did not admit its mistake and change course after supporting the coup, but rather stepped up its funding to anti-Chávez groups, also tacitly supporting the devastating opposition oil strike of 2002-2003, which ironically for the first time disrupted oil supplies to the United States and raised the price of gasoline here. This demonstrated again how much Washington was committed to “regime change” in Venezuela, by any means necessary. This commitment continued with funding for the recall effort in 2004, which Chávez won overwhelmingly. At that point a number of Latin American and European governments that had been sitting on the sidelines told the State Department to give it up – that this was a legitimate, democratic government and they should learn to live with it. But they did not.

The Bush administration attacked further with a series of economic sanctions against Venezuela (e.g. at multilateral lending institutions) which, as oil prices continued to rise, had no impact on Venezuela other than to further inflame passions there. Last December, the Venezuelan opposition boycotted national elections, despite statements from the OAS and European Union observers that opposition demands had been met and they were expected to participate. Once again, Washington was tacitly supportive. This more than any other recent action – beyond the economic sanctions, the blocking of military aircraft and patrol boat sales from Brazil and Spain, and a host of other provocations -- shows how firmly the Bush administration, along with its allies in the Venezuelan opposition, is committed to a strategy of destabilizing and overthrowing the Venezuelan government. The opposition could have won an estimated 30 percent of the National Assembly but – with Washington’s blessing – gave that up just to establish the pretense that Venezuela is a one-party state. And so they have constructed an Orwellian reality, with help from the media, which now reports that “the [Venezuelan] National Assembly ... is completely controlled by President Chávez”.³³ The reader is not informed that this is only because the opposition deliberately and

²⁷ Fleischer, Ari. White House press briefing. April 16, 2002. Available online: [\[www.whitehouse.gov/news/releases/2002/04/20020416-5.html\]](http://www.whitehouse.gov/news/releases/2002/04/20020416-5.html)

²⁸ U.S. Department of State. A review of U.S. policy toward Venezuela: November 2001 - April 2002, Report 02-OIG-003, July 2002. Available online: [\[www.oig.state.gov/documents/organization/13682.pdf\]](http://www.oig.state.gov/documents/organization/13682.pdf)

²⁹ Forero, Juan. Documents show C.I.A. knew of coup plot in Venezuela. *The New York Times*. December 3, 2004.

³⁰ Bachelet, Pablo. Rice bashes Venezuelan leader. *The Miami Herald*. February 17, 2006.

³¹ Obiko Pearson, Natalie. Venezuela marks coup anniversary. Associated Press. April 12, 2006.

³² Venezuela’s president has friends, enemies. United Press International. October 16, 2005.

³³ Forero, Juan. Venezuela seizes control of two oil fields. *The New York Times*. April 4, 2006.

without any legitimate reason – according to OAS and European Union observers –refused to participate in a democratic and transparent electoral process.³⁴

These details are important because they show how mired Washington remains in the strategy and tactics of the past, how divorced our leaders are from the changed reality in the hemisphere. Indeed if one looks at the report of the U.S. Senate’s Church Committee from 1975, on the CIA’s destabilization efforts leading to the overthrow of Chile’s elected government in 1973, it reads remarkably like the events of 2001-2003 in Venezuela. You just have to change the name Allende to Chávez, Chile to Venezuela, and substitute the National Endowment for Democracy and USAID for the CIA; a truckers’ strike (in Chile) instead of an oil strike. In both cases, there is opposition control of the media so as to blame the government for any and all economic problems, even those caused by the opposition; and manipulation of the international press to portray an elected social democratic government as despotic and Communistic.

But this is a new world; Chávez remains as head of state, and without the country having sacrificed civil liberties or democratic rights – despite all that it has been through. That, too, is part of the new reality. Democracy is here to stay. As OAS Secretary General Jose Miguel Insulza told the *Financial Times* on May 22, "Latin America is not a baby. When the left or right win in Europe, nobody pronounces about the destiny of the continent or anything like that. You have to let the political process take its course".³⁵ But that is the one thing Washington is least likely to do. Its refusal to accept the results of democratic elections in Venezuela will continue for the foreseeable future, and few if any leaders in Latin America will want to be seen as taking the Bush administration’s side in this ongoing fight.

Most recently the U.S. media has made disputes between Latin American countries a major theme, putting forth the idea that current rifts will prevent any serious moves toward regional economic integration or independence from the United States. And of course Chávez is described as exacerbating these divisions. There is no doubt that there are real disputes and conflicts of interest: Argentina and Brazil must settle with Bolivia over the terms and conditions of the natural gas that they receive from Bolivia; Argentina and Uruguay are in dispute over the potential environmental damage from two paper mills on the latter’s side of the Uruguay River; the government of Vicente Fox in Mexico has been in a fight with Chávez since he responded to an attack from Fox in November by calling him a “lapdog of imperialism.” Peru withdrew its ambassador from Caracas in protest of Chávez’ endorsement of Ollanta Humala in the current election; the winner, former president Alan García denounced Chavez throughout his campaign and in his victory speech. But none of these conflicts are likely to disrupt the overall trends toward increased nationalism, regional cooperation, and independence from the United States. After Bolivia nationalized its energy industry on May 1, the Brazilian media was spoiling for Lula to start a fight with Morales on behalf of Petrobras, the Brazilian state-run energy giant that is the largest producer of Bolivia’s gas. The pressure on Lula became so intense that at one point he turned to the press and said, “I haven’t had a fight with George W. Bush; why should I fight with my comrade Morales?”³⁶ Indeed, a fight with Evo Morales might be very disconcerting to Lula’s political base, which sees Morales as a hero, a champion of indigenous rights and the poor. On May 4, Lula met with Morales, Kirchner, and

³⁴ Miller, Scott. Venezuelan electoral environment prompts international concern. U.S. State Department Washington File. December 7, 2005. Available online: [<http://usinfo.state.gov/wh/Archive/2005/Dec/08-763910.html>]

³⁵ Lapper, Richard. US “too hasty” in move to condemn Ecuador: FT interview with Miguel Insulza. *Financial Times*. May 23, 2006.

³⁶ Amaral, Ricardo. Lula defende relações com governos de esquerda na América Latina. Reuters. April 28, 2006

Chávez and they issued a statement affirming Bolivia's "sovereign right" to nationalize its energy resources. It probably didn't hurt that Venezuela is buying \$3 billion dollars worth of oil tankers from Brazil, which will create an estimated 10,000 jobs in an election year there; or that Venezuela is lending \$2.5 billion to Argentina.

Lula has repeatedly defended Chávez and his government in public statements. "A president that wins elections, passes a constitution and proposes a referendum on his own presidency; holds a referendum and wins the election again – nobody can accuse such a country of not having democracy," he said last September. "Indeed it could be said that it has an excess of democracy".³⁷

So has Kirchner: on May 21, while the stories about Latin American disunity were reaching their peak in the major English language media, Kirchner told the press: "I believe that Chávez is working with determination for the integration of Latin America; his dealings with Argentina have been admirable and with solidarity . . . Argentines should be very thankful to President Chávez, who has done very good things for this country".³⁸ He also said that nothing would stop the process of regional integration.

Michelle Bachelet, who is classified as one of the "good leftists" in Washington's lexicon, stood up for both Chávez and Morales when the international press was raining scorn on them at the European Union-Latin American and Caribbean Summit of May 11-13: "I would not want us to return to the Cold War era where we demonize one country or another," she said. "What we have witnessed in these countries (Bolivia and Venezuela) is that they are looking for governments and leaders that will work to eradicate poverty and eliminate inequality".³⁹

The fact that all of these leaders would not only offer support, but in some cases unqualified praise for Hugo Chávez, who has called President Bush a terrorist, a murderer, a donkey, a drunkard, and a lot of other names including his favorite "Mr. Danger" – a reference to a nasty American in a famous 1929 Venezuelan novel by Romulo Gallegos – is another indication of how much the hemisphere has changed. And all this after more than four years of efforts by the Bush administration to isolate Chávez, combined with overwhelmingly negative and one-sided international media coverage of Venezuela.

On May 26, President Jacques Chirac of France threw his weight behind Bolivia's oil and gas nationalization, despite the fact that the French energy giant Total is the third largest producer affected by the decision. He praised Evo Morales as "a man who has restored honor to a people who had lost it for centuries and centuries".⁴⁰

A collapse of oil prices would change the immediate political equation, but to reverse current trends it would have to be a crash of a magnitude that almost no one currently foresees. Venezuela has been pretty conservative in its fiscal policy, budgeting for oil at about half the price that materialized last year, while vastly increasing tax collections. The country is enjoying a budget surplus, a nearly \$9

³⁷ Lula da Silva, Luiz Inácio. Discurso do presidente da República, Luiz Inácio Lula da Silva, no cerimônia de assinatura de atos entre Brasil e Venezuela. September 29, 2005. Available online: [http://www.info.planalto.gov.br/download/discursos/PR903.DOC.]

³⁸ W., M.; S.M.; and F.C. La region y los Estados Unidos. Página 12. May 12, 2006. Available online: [http://www.pagina12.com.ar/diario/elpais/subnotas/1-21986-2006-05-21.html.]

³⁹ Bachelet defends Morales and Chavez, indirectly mocks Bush. *The Santiago Times*. May 12, 2006.

⁴⁰ Gallardo, Eduardo. French president: Leftist governments in Latin America no reason for concern. Associated Press. May 27, 2006.

billion trade surplus, and has more than \$30 billion in foreign exchange reserves. Its ad hoc “Bank of the South” is not likely to go bankrupt anytime soon. And certainly not so long as the current tensions – with possibly worse to come – between Washington and Iran continue to add to the already war-inflamed risks of oil supply from the Persian Gulf.

There are a number of potential economic problems in the near future. As interest rates continue to rise in the United States, the possibility of the kind of destabilizing capital outflows that set off the Mexican peso crisis in 1995 – when the Fed raised interest rates from 3 to 6 percent beginning in 1994 – is still real, although the risk is smaller as compared to that of the fixed exchange rates of the 1990s. And Mexico especially, with more than 85 percent of its exports now going to the United States, is vulnerable to a likely downturn here when the U.S. housing bubble breaks. Also, as noted above, a sharp drop in the dollar would hurt those countries that are most dependent on exports to the United States. But it is unlikely that even hard times would cause Latin America to go back to its prior allegiance to U.S. policy-makers.

As economic integration proceeds, Washington’s influence will continue to wane. When the Colombian government kidnapped Rodrigo Granda, the FARC guerrilla’s “foreign minister,” from Venezuela last January, Chávez was furious and Washington was hoping for a serious fight.⁴¹ But Venezuela cut off commerce with Colombia, and as Venezuela is now Colombia’s second largest trading partner, the impact was immediately felt on the Colombian economy. Colombia’s President Uribe flew to Caracas and the two presidents settled their differences. They have had remarkably good relations ever since, as they have through most of Chávez’ presidency, despite being at opposite sides of the political spectrum. Uribe is Washington’s closest ally in the region, and highly dependent on U.S. aid.

The governments of Argentina, Brazil, and Venezuela are discussing a proposed 6,000 mile, \$20 billion natural gas pipeline. Bolivia is also involved in the discussions, and other countries may be included. This type of energy integration, if it materializes, would also promote further economic and political integration in the region.

Successful examples of economic and social policy also have a way of spreading. Argentina’s phenomenal growth rate, more than twice that of the region, cannot remain unnoticed indefinitely. Nor can the provision of health care and increased access to education in Venezuela, which are likely to follow in Bolivia. In Brazil, one of the largest and most organized social movements in the world, the Movement of Landless Workers (MST), is watching hopefully as Bolivia embarks on what promises to be the largest land reform program in decades.

From the north, there is little indication that Washington will make major policy changes in the foreseeable future to accommodate the new reality in Latin America. Even if the Democrats were to win the House of Representatives in November, the ranking Democrat and likely chair of the House International Relations Committee would be Tom Lantos, who is about as hawkish as the Bush administration on these issues. U.S. policy will therefore almost certainly continue to reinforce and contribute to current trends, including the loss of U.S. influence in the region.

There will undoubtedly be political conflicts, mistakes, backlashes, and unanticipated events as various countries move forward along more independent pathways. But a tipping point has been

⁴¹ Erel, Adam. Daily Press Briefing. January 24, 2005. Available online: [http://www.state.gov/r/pa/prs/dpb/2005/41167.htm#Colombia]

reached, and there will be no turning back of the clock. The most difficult task will be finding new, country-specific economic policies and development strategies, after more than a quarter-century of governments refusing to even think about these things, instead submitting to a narrow range of mostly unsuccessful choices. In this new era the economic choices have expanded rapidly, and the rules of the game are changing from month to month. However, a thick ideological fog, which denies that even the most modest alternatives are possible, still prevails among the international financial institutions, central banks, the media, and the institutions where most economists are trained. Governments that want to do anything different, like Kirchner's in Argentina, will need some vision, leadership, and courage to confront a lot of ideological opposition, in addition to varying political opposition. But so far they are doing pretty well.

References

- A partnership constrained; The United States and Latin America. *The Economist*. October 7, 2006.
- After default: Argentina needs a very substantial reduction in its debt. *Financial Times*. June 30, 2003, p. 18.
- Amaral, Ricardo. Lula defende relações com governos de esquerda na América Latina. Reuters. April 28, 2006.
- Bachelet, Pablo. Rice bashes Venezuelan leader. *The Miami Herald*. February 17, 2006.
- Bachelet defends Morales and Chavez, indirectly mocks Bush. *The Santiago Times*. May 12, 2006.
- Balls, Andrew and Adam Thomson. Argentina to pay off loans from IMF. *Financial Times*. December 16, 2005, p. A1.
- Birns, Larry. Venezuela, the United States, and the Americas: fact and fiction. Congressional staff briefing. February 10, 2006.
- Brookes, Peter. 2005. "Hugo Chavez: Castro's Mini-Me." Washington, D.C.: Heritage Foundation (5 April). <http://www.heritage.org/Press/Commentary/ed040505a.cfm>
- Castaneda, Jorge. 2006. "Latin America's Left Turn." *Foreign Affairs* 85:3 (May/June), 28-43.
- Corporación Latinobarómetro. Informe Latinobarómetro 2006. Santiago, Chile, December 9, 2006. Available online: http://www.latinobarometro.org/fileadmin/intranet/Informe_Latinobarometro_2006.pdf
- Egurbide, Peru. El gobierno español advierte del daño a la relación bilateral. *El País*. May 3, 2006
- Ereli, Adam. Daily Press Briefing. January 24, 2005. Available online: <http://www.state.gov/r/pa/prs/dpb/2005/41167.htm#colombia>
- Fleischer, Ari. White House press briefing. April 16, 2002. Available online: www.whitehouse.gov/news/releases/2002/04/20020416-5.html
- Forero, Juan. Documents show C.I.A. knew of coup plot in Venezuela. *The New York Times*. December 3, 2004.
- Forero, Juan. Venezuela seizes control of two oil fields. *The New York Times*. April 4, 2006.
- Gallardo, Eduardo. France's Chirac praises democracy in Latin America, says leftist governments no cause for concern. Associated Press Worldstream. May 27, 2006.
- Gallardo, Eduardo. French president: Leftist governments in Latin America no reason for concern. Associated Press. May 27, 2006.
- Hakim, Peter. 2006. "Is Washington Losing Latin America?" *Foreign Affairs* 85:1 (Jan/Feb), 39-53.

- Harper, Tim. Chavez seeks lofty platform. *The Toronto Star*. September 18, 2006, p. A3.
- Keane, Dan. Morales seeks middle way on cocaine and pleases neither U.S. nor growers. Associated Press Financial Wire. December 7, 2006.
- Klein, Naomi. Venezuela's media coup. *The Nation*. March 3, 2003.
- Lapper, Richard. US "too hasty" in move to condemn Ecuador: FT interview with Miguel Insulza. *Financial Times*. May 23, 2006.
- Lapper, Richard and Adam Thomson. Argentina faces doubts over recovery as finance chief is forced to resign. *Financial Times*. November 29, 2005, p. A1.
- LaFranchi, Howard. United Nations compromise shows limits to US power. *The Christian Science Monitor*. November 3, 2006, p. 2.
- Lula's leap. *The Economist*. March 4, 2006.
- Lula da Silva, Luiz Inácio. Discurso do presidente da República, Luiz Inácio Lula da Silva, no cerimônia de assinatura de atos entre Brasil e Venezuela. September 29, 2005. Available online: <http://www.info.planalto.gov.br/download/discursos/PR903.DOC>.
- Miller, Scott. U.S. Concerned with irresponsible governance in Latin America. U.S. State Department Washington File. May 24, 2006. Available online: <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=May&x=20060524135822ASrelliM0.1630823>
- Miller, Scott. Venezuelan electoral environment prompts international concern. U.S. State Department Washington File. December 7, 2005. Available online: <http://usinfo.state.gov/wh/Archive/2005/Dec/08-763910.html>.
- Obiko Pearson, Natalie. Venezuela marks coup anniversary. Associated Press. April 12, 2006.
- Rohter, Larry. After 30 years, Argentina's Dictatorship stands trial. *The New York Times*. August 20, 2006, p. A3.
- Shifter, Michael. 2006. "In Search of Hugo Chávez." *Foreign Affairs*.85:3 (May/June), 45-59.
- The U.S. and Brazil: Partners in growth. Prepared remarks of Treasury Secretary John Snow. Rio de Janeiro, Brazil, August 2, 2005.
- Urbancic, Frank. 2006. "Venezuela: Terrorism Hub of South America?" Testimony presented to the House Committee on International Relations, Subcommittee on International Terrorism and Nonproliferation, Washington, DC (13 July). <http://www.state.gov/s/ct/rls/rm/2006/68968.htm>
- U.S. Department of State. A review of U.S. policy toward Venezuela: November 2001 - April 2002, Report 02-OIG-003, July 2002. Available online: www.oig.state.gov/documents/organization/13682.pdf

- Valdez, Carlos. Bolivian farmers fearing land reform plan to create “self-defense” groups. Associated Press Worldstream. June 1, 2006.
- Venezuela’s Chavez applauds Argentina’s decision to repay IMF debt. Associated Press Worldstream. December 16, 2006.
- Venezuelan Media: Powerful Opposition Stakeholders. Venezuela Information Office. (November 2006).
- Venezuela’s president has friends, enemies. United Press International. October 16, 2005.
- White House Office of the Press Secretary. Remarks by the President in roundtable discussion on peace efforts. U.S. National Archives and Records Administration. March 10, 1999. <http://clinton2.nara.gov/WH/New/centralam/19990311-96238.html> (December 2006).
- Wilson, Scott. Venezuela crisis lacks impartial referee. *The Washington Post*. December 17, 2002, p. A20.
- W., M.; S.M.; and F.C. La region y los Estados Unidos. *Página 12*. May 12, 2006. Available online: <http://www.pagina12.com.ar/diario/elpais/subnotas/1-21986-2006-05-21.html>.