

Identifying a Path for the Future--Latin America in the Era of Emerging Markets by

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Since the 1930's Latin America has experimented with various models of political economy. Alternatives have been introduced by the more traditionalist Conservative and Liberal parties, by Social Democrats and Christian Democrats, and by various strains of revolutionary Marxism and the theology of liberation. During much of the 1970's and the 1980's academics argued that the probable future course for Latin America was some rendition of social democracy or the revolutionary Marxist models suggested by Cuba and Nicaragua. Nevertheless, with the decline of military governments in Latin America and the virtually unanimous political shift toward liberal democracy, Latin America appears to have settled on a new model of development. In their recently released book *The Capitalist Revolution in Latin America* (1997), American political economists Paul Craig Roberts and Karen LaFollette Araujo review the privatization initiatives of numerous Latin American countries, highlighting developments in Chile, Argentina, and Mexico. The authors assess the economic developments in these countries in a largely positive manner. They especially review the innovative approach of the Chilean economy which for over two decades has pioneered privatization including pension plans and health care. Roberts and Araujo point out that the average per capita earnings on privatized pension funds has been 14% per annum since 1985. They also trace how the success of the Chilean model has played a central role in the more recent economic transformation of Argentina and Peru, two nations which have long been Chile's archrivals. The move toward privatization helps to explain why in the fiscal year 1996 four of the ten emerging market countries which received the largest foreign fund infusion were Latin American. The countries were Mexico (US\$28.1 billion invested in 1996), Brazil (US\$14.7 billion) Argentina (US\$11.3 billion), and Chile (US\$4.6 billion) and they ranked second, fifth, seventh, and tenth respectively in terms of the amount of foreign investment received in 1996.

Various criteria have been established for classifying a country as an "emerging market." The Economist includes Argentina, Brazil, Mexico, and Venezuela in its listing. Other authorities and publications have also included Chile, Costa Rica, and Uruguay in this category. With the exception of Cuba, virtually all Latin American countries would at least be viewed as pre-emerging markets.

The Emerging Market as New Model of Political Economy

While the term "emerging market" clearly has significance from a commercial perspective, it is increasingly apparent that this concept could represent a new model of political economy. Dr. Vladimir Kvint, a political economist who has served as Managing Director of Emerging

Markets for the multinational financial service firm Arthur Andersen, points to various criteria which should be taken into consideration in determining whether or not a country should be classified as an emerging market. Kvint points to an annual per capita GDP between \$4000 and \$9000 per annum in most Emerging Markets. Kvint also maintains that the nation in question has to be both politically stable and democratic (due to its undemocratic government and institutions, Kvint does not consider the Peoples Republic of China to be an emerging market). He points to the need for an educated citizenship, an adequately developed infrastructure and the availability of commercial insurance for foreign investors. Dr.Kvint, who serves as Senior Advisor to the University of Bridgeport's New England Center for International and Regional Studies, also includes the onsite presence of a major international financial services firm such as Price Waterhouse or Arthur Andersen as an additional precondition. He also argues that to be considered as an emerging market, a country must evince strong ethical underpinnings. This implies moral commitment and example on the part of the political leadership and day-to-day respect for the rule of law.

In this regard, the Organization of American States 1993 Santiago Commitment represented a resounding hemispheric endorsement of democratic institutions. The Commitment indicates that OAS members will collaborate in promoting democracy in the region and in sanctioning those who would violate this by attempting to establish non-democratic regimes. This development, in effect, has institutionalized democratic institutions on the American continent in an unprecedented fashion, as evidenced by the unified hemispheric opposition to the 1996 attempt to destabilize the democratically elected government of Paraguayan President Juan Carlos Wasmosy. While certain circles continue to express concern about possible outcomes in the next round of elections in Argentina, Brazil, Paraguay, and Peru, the anticipated outcomes (re-election of several Presidents and the possible election in Paraguay of General Lino Oviedo, who played the central role in the 1996 coup attempt in Paraguay), nevertheless, do appear to conform with the overall parameters of the Santiago Commitment and should not constitute a threat to the hemisphere's revived commitment to democracy.

To synthesize, we can say that Latin America's new Emerging Market model of political economy is characterized by democratic institutions, free market principles, an appreciation of family values and classical morality, and a heightened interest in greater Latin American integration. The commitment to greater economic integration helps to explain why U.S. President William Clinton has visited the Southern Cone twice in less than a year's time. Whereas in the past, the United States, the European powers, and Japan could benefit from intraregional rivalries, it became more evident at the April, 1998 F.T.A.A. deliberations in Santiago, Chile that, Latin America countries, and MERCOSUR in particular, have recognized the overwhelming benefits of greater Latin cohesion and lend their growing commitment to these initiatives.

Exorcizing the Ghosts from Latin America's Economic Past

Brazilian economist Celso Furtado has elaborated on Latin American economic development during the period between 1840 and 1930. During this period, Latin American economies relied heavily on exporting primary products to Great Britain and other industrialized countries. Nations such as Uruguay and Argentina benefited from this model until the world economic crisis of 1929 which resulted in industrialized countries suddenly cutting back drastically on Latin American imports, resulting in a total destabilization of development in the region. Furtado points out that it was this sudden shock to Latin American economic and trade policy which resulted in state-supported import substitution coming to be the dominant Latin American economic model until the Post Cold War period in which monetarist and free market models have helped to propel the current enthusiasm for and interest in emerging markets. Yet one might ask:

“What is to guarantee that what occurred in 1930 will not repeat itself in the present era in spite of the arduous Uruguay Round negotiations and the resultant World Trade Organization? Is it not still the case that developed nations may later find it in their interest to renege on such commitments in the name of national interest, just as they did almost seventy years ago?”

One could make the case that the emerging market model with its strong emphasis on free markets and free trade is reminiscent of the earlier export-based model which dominated Latin America until 1930.

This issue helps to shed light on the significance of the MERCOSUR initiative. Through MERCOSUR, the relationships between the United States and the Southern Cone, and between Europe and the Southern Cone have substantively changed. The cohesiveness of MERCOSUR seems to have been recognized by the Andean Pact as well, given their decision in the April, 1998 F.T.A.A. exploratory talks to recognize the MERCOSUR leadership role in those deliberations. The United States, Japan, and the European Union are beginning to recognize the implications of a more unified bloc of South American nations. MERCOSUR itself constitutes an extremely significant market, with the four member nations of Argentina, Brazil, Paraguay, and Uruguay having a combined GDP of more than \$1.2 trillion. Established economic powers such as the United States are clearly impressed by the extent of economic reform in MERCOSUR, especially those of 4 + 1 affiliate Chile.

One of Latin America's key mechanisms for protecting its current accomplishment and parlaying future developments with Europe, the United States, and Japan will depend upon intensifying efforts to foster economic and political ties among all constituent nations of Ibero-America. Leadership in this initiative must continue to be taken by Brazil and Argentina and continued good relations between these two countries will be crucial. A long history of military jockeying as well as protectionism sparked by implementation of import substitution policy contributed to the gap which long existed between Buenos Aires and Brasilia. After all, it was only in 1987 that the first trade show took place in Brazil which featured Argentine industrial products. The continued economic integration of these two giants based on the Treaty of Asuncion will set a tone, allowing other countries to emulate their example.

The Need for Educational Reform

Educational reform is another extremely important issue which needs to be addressed if Latin America is to continue with favorable economic development. For too long, the Latin American university system has been politicized. More often than not, major state-supported institutions of higher education have served as prime spawning grounds for radicalism and revolutionary activity. While revolutionary zeal may have dissipated in recent years, the reality is that the curriculum and the faculty in many “autonomous” institutions of higher learning continue to reflect political and social agendas which conflict with the emerging market model which promotes liberal democracy and free markets. With the end of the Cold War, a consensus seems to exist that, regardless of where it has been applied, Marxism-Leninism has proven to be an abysmal failure. When even former communist powers such as Ukraine, Russia, and China have demonstrated more serious interest in the emerging market model as their preferred paradigm for future development, it is apparent that radical reform in Latin America is likewise no longer tenable.

These realities reflect the need for educational and, more particularly, curricular reform in Latin America. In the Cold War era, Latin Americans had access to inexpensive books on history, philosophy, social sciences, and economics from Progress and other Soviet-supported publishing houses. The elite of numerous Latin American countries, consciously or unconsciously, were thus inculcated with Marxist “solutions” to their social problems during the Cold War era. While administrators at state-controlled institutions may now wish to revise their curricula in order for it conform with the demands of an emerging market model of political economy, it would seem self-evident that this cannot be accomplished without re-educating faculty. There is also the need to provide students and faculty with updated study materials. This needs to be done through books which reflect recent social, political, and economic trends. This can also be advanced through providing students with computer and Internet access. We should add here that not only students but Latin American educators themselves also need opportunities to participate in courses, seminars, and symposia either onsite or online which can permit them to upgrade their background in business, information science, political science, economics, and philosophy.

In its 1997 Annual Report the Inter-American Development Bank pointed out that one of the key factors slowing Latin America’s continuing development is the lack of a more educated workforce. The Inter-American Development Bank (IDB) points to a current average educational level in Latin America of five to six years of formal education. The 1997 IDB report argues that if the average educational level could be increased even by two years, Latin America would find itself in a far better position to reach the levels of per annum growth which emerging market countries are achieving in other regions of the world such as Southeast Asia.¹

¹At the time of this writing, East Asian and Southeast Asian economies clearly face their own crises. It is argued that one of the fundamental causes of the existing crisis stems from excessive government involvement in the national economy.

In places such as Nicaragua, UNESCO has played an important role in working to improve the quality and level of education of University professors and other educators. Crucial to protecting the economic advances of any Latin American country is fostering the conditions in which an educated elite will be able to communicate the latest technical developments to their students. They likewise must prepare the next generation to fill the jobs which will result from high tech firms and other enterprises establishing a base of operations in Latin America in the coming years and decades. One of the key reasons for Chile's remarkable economic development resulted from a decision made in 1950 by the Department of Economics of the Pontificia Universidad Catolica de Chile to begin to provide fellowships so that top Chilean students would be able to undertake doctoral studies in economics at the University of Chicago. While studying onsite is always desirable, the reality is that today unique circumstances exist so that over the Internet students can study virtually any topic while remaining in their home country. Through E-mail as well as real time discussions with their professors or instructors they can be able to benefit from available expertise and begin to apply their educational experience immediately in the workplace. While studying onsite is always desirable in improving the quality of primary and higher education, distance education can play a very significant role. Distance education is not a recent development. Institutions of higher education such as the University of London have been involved in distance learning already for over a century. Over the past decade, however, distance education has exploded with thousands of institutions having begun to make all or some of their programs available over the Internet. Interested parties can complete their secondary education as well as literally earn an accredited bachelors, masters, or doctoral degree or develop specialized skills in a particular academic discipline through a wide variety of distance learning modalities. Traditional education limits students to study at a particular time and a specific location. Through today's distance learning, however, students can study according to their own schedule and pace. They can access their courses and lessons anywhere and at any time in the world via the Internet.

Harmonious labor-management relations are also crucial to productivity. Foreign and domestic firms would do well to consider developing creative benefit packages for their employees which might include tuition benefits for job skills-related education. When a substantial number of students from a certain locale and company enroll in a course or program, significant discounts can often be arranged with the provider institution. In American labor history, the period prior to 1935 is sometimes referred to as the Golden Age of Management while the period subsequent to 1935 (the year in which the powerful National Labor Relations Board was created to protect against labor infractions by North American management) is referred to as the Golden Age of Labor. What has become increasingly evident in recent decades is that neither of these dialectical management-labor paradigms suffices in an increasingly competitive world, which requires cooperation to produce quality goods and services at attractive prices. Creative, visionary employee benefits packages which include tuition benefits should be conducive to employee growth and to forging the new labor-management dynamic required in the twenty-first century.

In fostering an emerging market model of political economy, we have alluded to the fact that another crucial element will be the role of moral values. Values are central to social and business transactions, to governance and to the family. East Asian nations have long been recognized for the very important role which they ascribe to family ties. Indeed in the writings of Confucius and Mencius, the family serves as the working paradigm to insure more harmonious patterns of governance. While on the one hand, one hears a great deal of discussion in the Americas about the importance of the family, the reality is that in many parts of the continent, reality differs starkly from discourse. For example, according to the Secretariat for the Family in El Salvador, approximately 70% of all children are born out of wedlock in that nation.

The family is meant to play a central role in the overall strengthening of the social order. Alberto Martinez Piedra, Professor of Economics at the Catholic University of America, has noted the important role which the family plays in the economic well-being of society. Societies with a strong family orientation, notably the East Asian nations of Korea, Japan, Singapore, and China tend to dedicate a far greater portion of their income to savings. Professor Martinez notes that this phenomenon stems from the fact that the citizens of these countries tend to think not only of themselves but of the education of their children. Efforts by Churches and other NGOs to strengthen the family and moral values should be welcomed in Latin America.

During the struggle for independence, Simon Bolivar contemplated the future of the continent and concluded that Latin America was not yet prepared for democracy or political integration. Jose de San Martin arrived at a similar assessment. However, today the age of isolationism and authoritarian rule in Latin America has come to a close. Will the emerging market model of political economy be the standard for the future? That requires further discussion and reflection. Nevertheless, for the immediate future, this seems to provide the most adequate model for Latin American development. As we have seen, this model implies strengthening the hemispheric appreciation of the family and moral values. If this can be coupled with prudent political and economic decisions as well as increased regional solidarity, Latin America is poised to prosper.