



“Keeping Democracy on Track: Hotspots in Latin America”

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**Subcommittee on the Western Hemisphere, House International Relations
Committee**

Chairman Burton, distinguished Members of the Committee:

I am very honored to have been invited to testify on this important subject: “Keeping Democracy on Track: Hotspots in Latin America.”

Like a student who fails a final exam after studying very hard, so too do the Latin American countries feel that two decades of economic transformation with market oriented reforms have not made a dent in the mass of poverty that afflicts the region. Sadly, today there is more poverty and inequality than at the time when reforms were embraced by forward-looking governments as a panacea for the entrenched social maladies inherited from the past. Poverty and inequality also have become fertile ground for populism.

Such discouragement, however, should not hide from view the bright side of the picture, because the accomplishments achieved during this period are praiseworthy.

Dramatic Changes

Little more than two decades ago, in most of the region it was necessary to look hard in order to find, all together in a single package, democracy, respect for human rights, responsible monetary and fiscal policies as well as trade liberalization.

Now, there are good reasons to be concerned about some hotspots in Latin America, but nobody can deny the positive political and economic changes undergone by most countries over the last two decades.

Twenty years ago there were only three democratically elected governments. Presently, only two countries do not have freely elected leaders. Then, annual inflation was measured in high double—and sometime triple—digits. Today, the average inflation runs somewhat less than ten percent. Fiscal deficits by now have dropped almost fifty percent in relation to GDP from where they stood two decades ago. Likewise, on average, tariffs on trade have come down from forty to ten percent, while the reduction of non-tariff barriers is even deeper.

We could quote from an abundance of data, but the lesson is clear: most Latin American countries have worked hard in the last two decades seeking to improve their chances for development and the well-being of their citizens.

Inadequate Results

In this regard, a passionate academic debate still goes on today concerning the reforms adopted pursuant to the so-called Washington Consensus. Such discussion has in many instances defined political and ideological battlefields in the hemisphere. Thus, in some quarters the Washington Consensus remains the culprit for every problem past, present and future in Latin America. Others, more sympathetic, hold that the reforms were not implemented properly and, for this reason, actually impeded the expected good results.

Let us set aside that discussion for now and agree that positive changes have taken place in the last twenty years. We can also agree that with free elections, people expected a commensurate improvement in their standard of living with the implementation of sometimes-difficult economic programs and more open trade. They had done their homework and expected what they were promised.

Yet, democracy, fiscal and monetary restraint, and increased foreign trade did not bring about the growth in economic levels, or the reduction of poverty, inequality and social exclusion that were expected.

On the contrary, there is now in Latin America more poverty, both in absolute and relative terms, than in 1980 or 1990. According to the Economic Commission of Latin America and the Caribbean (ECLAC), in 2004 a total of 222 million people were living in poverty and 96 million of them suffered from extreme poverty. This means a total poverty rate of 42.9 percent and an extreme poverty rate of 18.6 percent. In comparison, total poverty rates were, respectively, 35 percent in 1980 and 41 percent in 1990.

Sluggish economic growth partially explains these results. Between 1990 and 2004 the average annual rate of economic growth was only 2.7 percent, while the population was increasing at an average of 1.6 percent every year. The slow growth was compounded by an increase in the unemployment rate from 6.9 percent in 1990 to 10 percent in 2004.

Furthermore, the spread of democracy did not generate a corresponding increase in opportunities for most people as would have been expected. On the contrary, a study conducted by the Inter-American Development Bank (IDB) shows that throughout the 1990's, inequality rates in Latin America remained the worst in the world: the lowest fifth of the population received 4.5 percent of national income, while the highest fifth accounted for 55 percent.

Compounding the problem is that poverty today is more predominant in some groups than in others, especially the rural population, women and indigenous peoples. The IDB estimates that in Latin America as a whole 25 percent of poor people are indigenous, and

in the Andean and Meso- American countries (Central America and the South of Mexico) it rises to 60 percent. It is not by chance, therefore, that among the regional hotspots, countries with high proportions of indigenous populations stand out.

Frustration

In spite of the expansion of democracy and market-oriented economic reforms, nations have not experienced significant improvements in their standard of living—some have even suffered setbacks—and socioeconomic gaps have widened. Here lies the most important single source of the current wave of political and economic instability in Latin America.

Expanding over the region, feelings of frustration and hopelessness have had a pervasive effect in the general attitudes towards democracy, free markets, political and legal institutions, and even with regard to the United States as the main point of reference for those values. Countries with strong democratic traditions and functional institutions, as well as nations with reasonable growth and adequate social policies, have coped better with the tide of pessimism. Others have found ways to channel frustrations through legitimate political change, but the most fragile democracies risk floundering.

Bolivia and Ecuador

Bolivia and Ecuador come to mind as examples of the latter. Vast majorities of their populations are indigenous people who feel left behind. They sense the large gap between expectations about democratic rule versus the lack of improvement in their standards of living. Their dire situation is deeply rooted in the past. Given the changes the political system has undergone, they rightly expected a better outcome from democracy.

Added to this historic and social background is the intensity of present complications derived from the weaknesses of public institutions as well as from more visible social tensions in those countries.

Deep divisions along regional, ethnic and economic lines—frequently evidenced in the political parties' platforms, structure and the kind of popular support they gather—are well-known features of the Bolivian and Ecuadorian political environments. Regional antagonisms have encouraged political parties usually incapable of compromising with each other and political leaders with a very narrow space to maneuver. Such features have nurtured an increasing radicalization of positions rendering agreements among parties more difficult to achieve.

A proliferation of small parties, many of them created exclusively to serve as bargaining tools, has made it more difficult to articulate stable majorities in Congress. Likewise, Heads of State often lack a congressional majority or even a modest block of votes. In such conditions, promoting changes that demand specific legislation becomes a Herculean task and an avenue for corruption, particularly when the changes affect special interests.

In this regard, Ecuadorian President Lucio Gutiérrez lost his sizable majority in Congress as a result of promoting urgent restrictive fiscal measures. The struggle to pass legislation without adequate congressional backing led him to negotiate with opposition groups. He entered into an alliance with discredited former President Abdalá Bucaram, which eventually led to the end of Gutiérrez' presidency in April 2005.

We should recall that Gutiérrez was elected on a platform to fight corruption. However, the arbitrary sacking of Supreme Court magistrates to allow the return of the exiled Bucaram triggered massive street protests which, coupled with the maneuvers of his adversaries in Parliament, sealed his fall.

In Bolivia's case there is no doubt that the identification with market-oriented reforms introduced by Gonzalo Sánchez de Lozada during his previous presidency in 1993-1997, turned out to be a crucial debilitating factor as he began his second term in 2002. For the indigenous groups, already mobilized by De Lozada's efforts to eradicate coca, as well as his initiative to export natural gas to North America and other markets through Chilean territory, they became an additional call to arms that intensified street protests and deposed him in October 2003.

This specific instance gives us an insight into how an inadequate response by the U.S. contributed to bring down a friendly leader in Latin America. Sánchez de Lozada was under stress on several fronts. He was facing fierce opposition from coca growers and their leaders as a consequence of his effort, at the behest of Washington, to eradicate coca and substitute it with other products. On the other hand, because of his friendship with the American administration—he was raised and educated in the U.S.—Sánchez de Lozada tried to enlist the support of the White House to obtain a sizable package of financial aid to fend off the backlash triggered by the coca eradication program. He was not shown the support he badly needed and soon he was out of office. The U.S. lost an important ally while the coca growers' movement gained a decisive political battle.

The most visible leader of the coca growers, Evo Morales, a member of Congress who boasts of his friendship with Fidel Castro and Hugo Chávez, is one of the two top contenders for the Presidential elections in Bolivia. Currently he leads in the polls for the coming elections in December 2005. The importance of this contest can hardly be missed. Former President Jorge Quiroga, a young, talented and responsible leader, is the other main contender. He most probably keeps a fresh memory of the Sánchez de Lozada fiasco.

Coca eradication is understandably a priority for the U.S. Government, widely supported by its partners in the war against drugs in the region. However, it is a policy with social implications that need to be addressed in a creative and sustainable manner. Such an impact cannot be shouldered entirely by poor Andean countries like Bolivia. Neither is it in the best interest of the U.S. to contribute to the instability of friendly governments by not lending timely help to cope with the acute social problems afflicting those nations.

This is perhaps the most important lesson to be learned in order to develop a comprehensive approach in dealing with hotspots in Latin America.

The Chávez Conundrum

Venezuela's case shares some traits with Bolivia and Ecuador, but has important differences too. The widespread dissatisfaction with the lack of improvement in the well-being of millions of poor people in a country rich in natural resources was a key factor in the rise to power of Hugo Chávez. But in addition, and perhaps even more important, was the fact that a majority of citizens had lost faith in the corrupt political parties which governed Venezuela during four decades, which led them to elect as President the unrepentant leader of a failed military coup.

While in office since 1999, Chávez has increasingly and systematically drifted away from democratic procedures. The trend has become more notorious as he has gradually suppressed the opposition, imposed drastic limits to fundamental freedoms, seized private businesses, and embraced Fidel Castro.

From the beginning it was not an easy task to deal with this complex situation. However, things worsened by mistakes in the overall handling of the coup that briefly ousted Chávez from office in 2002. These errors gave currency to the impression that somehow the U.S. looked favorably upon the attempted break of constitutional order in Venezuela.

Chávez seized the occasion to spread the notion that the U.S. had a role in the plot to depose him. Since then, the rhetorical confrontations with Chávez have not been helpful for the U.S. The truth of the matter is that Chavez craves and seeks to provoke such confrontations because it enhances his image among important sectors of the Venezuelans and other nations. At the same time, it diverts attention from his actions and is an easy way to avoid a serious assessment of his misdeeds by other countries in the region that could evolve into a peer-pressure difficult to withstand.

In the meantime, Chávez has been doing his best to gain friends and political weight in the region. High oil prices have helped him immensely in this endeavor. Taking advantage of the huge oil windfall, he has been busy negotiating agreements with Caribbean nations for the supply and refining of oil at very attractive prices. This month, the Central American Presidents agreed to petition Chavez for a better oil bill. He has also started his own multinational news outlet—TeleSur—to promote his views against U.S. policies, in particular CAFTA-DR, the FTAA and other free trade agreements presently under negotiation by the U.S. with Andean nations. He does so at a time when, except for the fight against drugs and the trade agreements, the U.S. seems to be disengaged from Latin America.

Nicaragua Once More

Nicaragua is different from the other trouble spots in the Americas. Above all, it is the result of a collusion between political elites which lacks significant popular support. In

fact, a vast majority of Nicaraguans support President Enrique Bolaños' efforts to improve economic growth, fighting corruption and strengthening social programs. The pact between the Frente Sandinista's leader, Daniel Ortega, and convicted former President Arnoldo Alemán and his minions is a naked *quid pro-quo*: the Sandinistas get to fill key positions in order to control pivotal public institutions, and Alemán goes free, out of jail, thanks to dubious legal grounds.

The real problem lies in the notorious weakness of Nicaraguan institutions, starting with the Supreme Court and Congress and descending into the public administration apparatus. This is derived from the absolute control that Ortega and Alemán have had over the two main political parties, enabling them to pack the Parliament and the courts with die-hard loyalists and, in the process, punish a few dissidents who dared say no.

Luckily, this picture seems to suggest a not-too-far-distant solution. The reiterated attempts of Ortega and Alemán to pursue overtly corrupt deals have encouraged a growing dissidence both in numbers and in political standing. At the same time, an important number of high profile dissenters are gaining electoral strength as independents among the many Nicaraguans who are tired of the prevalent type of politics. This dynamic has the potential to bury the domination of power Ortega and Alemán have shared for so long.

There is, nevertheless, a well known lesson in the current Nicaraguan turmoil: in democratic transitions it is essential to strengthen the nascent public institutions which will eventually allow the interplay of real checks and balances typical of more mature pluralistic systems. Democracy has never been a one shot gamble. Rather, it requires continuous nurturing in order to succeed over time.

Policy Options and Further Actions

Recently, a veteran Latin American diplomat, when learning of the devastation brought by hurricane Katrina, exclaimed: "Now our countries will be pushed further away from the Administration's radar, behind Iraq and Katrina." We should now add Rita to the list of problems overshadowing Latin America.

The truth of the matter is that Latin America has felt neglected by the U.S. since 9/11. With the exception of the old agenda on drugs and the free trade agreements, namely CAFTA-DR, the FTAA, and those under negotiation with Andean countries, the region has been taken into account only with respect to Cuba and Venezuela. We have not seen a wide-ranging policy towards the Southern neighbors. The deafening clamor coming out of Foreign Ministries and hemispheric gatherings is more engagement.

Yes, the U.S. should be more engaged in Latin America. But engagement needs content, a forward-looking succession of actions capable of yielding sustainable results in terms of democracy and economic growth coupled with social improvement. It is the only approach that can bring a modicum of stability to simmering hotspots in this crucial region.

How to achieve those overarching goals? Let me spell out some ideas from my perspective on U.S. foreign policy:

- Proactive stance. There has been an endemic proclivity to wait for a crisis to grow in lieu of a timely, preventive mode. The attention span conceded to the region has become infamously short and a significant improvement in the attention deficit is urgently needed.
- Improved diagnostics. It is crucial for policy and decision makers to understand clearly the nature of the issues at play as well as the particular nuances that tend to be overlooked in general yardsticks for the region. The one-size-fits-all approach should be replaced by a conscious fine-tuning for individual situations or actors.
- Develop a true dialogue and overcome the tendency to lecture. To improve the policy-making process and to create valid, lasting and productive partnerships, it is essential to have a frank and honest dialogue with the Latin American counterparts. A dialogue requires not only talking but also listening and paying attention to the interlocutors' positions, worries and criticisms. As part of this effort, there is a need for a more frequent, periodic and steady review of standing issues at the higher levels of diplomacy. The Secretary of State should invite the counterparts of the major countries to analyze and discuss issues of mutual concern in low-profile meetings which could be followed up by other officials such as Undersecretaries or Assistant Secretaries. This process is bound to facilitate agreements in hemispheric or regional forums with less stress and heated publicity.
- Strengthen institutions. Democracy, rule of law, respect for human rights, economic growth and international trade are based on and highly dependant on the strength of the institutional framework of a given society. The weakness of key institutions such as political parties, the Judiciary, or the Parliament, is at the root of the most serious problems faced by several Latin American countries. To build institutions is always difficult, and more so after dictatorships have damaged important parts of the social fabric. It takes resources, time, patience, and expertise, which sometimes are lacking in a particular country. Nevertheless, there is no more important task than to help nations in transition towards democracy achieve:
 - An independent and capable judicial system, which is essential to promote growth, to ensure respect for human rights and to fight corruption
 - Modern Parliaments, including capabilities for an informed and effective decision-making process
 - Consistent and responsible pro democracy political parties. The National Endowment for Democracy, the National Democratic Institute and the International Republican Institute have made outstanding contributions to this end throughout the Hemisphere and their work becomes essential in the present juncture.
 - Property rights that provide the bedrock for investment, entrepreneurship, and encourage the leveraging of assets by the poorer strata of society
 - Education and health systems

- Foster positive trends. The bright spots, and not only the hotspots, should be highlighted. There are many good things Latin American countries have been doing which deserve support and encouragement. Three examples come to mind:
 - Countering poverty head-on, with innovative, ambitious and successful programs such as Bolsa Família, in Brazil, and Oportunidades, in Mexico. Both are Conditional Cash Transfer schemes (CCTs), which provide modest monthly stipends to poor families that commit to send their children to school and have their health monitored on a regular basis. Such programs give families a lifeline and at the same time stimulate the creation of human capital through better educated and healthier young people. This way entire families become seeds for breaking the poverty cycle over time. The Brazilian program benefits some 7.5 million families and the Mexican initiative 5 million families.
 - Trade agreements which improve access of the Latin American countries to the U.S. market are commendable. However, we need to bear in mind that in Latin America many view statements made by developed economies about the virtues of free trade contradictory to their subsidies, quotas and tariffs that prevent poorer countries from exporting agricultural goods in which they have a comparative advantage. This open chapter demands greater attention by the U.S. and its European partners.
 - A helping hand for growth. Even with opportunities for trade, the poorest countries confront obstacles for which they require a helping hand. The Millennium Challenge Account (MCA) and the Millennium Challenge Corporation (MCC), created with bipartisan support, are a forceful and commendable idea. There have been, as we all know, concerns about the speed of the process but some glitches are to be expected when launching such an important initiative. A key complement could become the projected fund for social assistance promoted by Congressman Bob Menendez which has been advancing through the legislative process.
- Better use of existing institutions. Strengthening national institutions and fostering positive initiatives demands involving the Inter-American and international institutions that operate in the region. Whether in the realm of public health (Pan American Health Organization), agriculture (Inter-American Institute of Cooperation for Agriculture), political and democratic issues (Organization of American States), or financing for economic stability or development (International Monetary Fund, World Bank and the Inter-American Development Bank), multiple resources can play an important role in the fulfillment of the most pressing needs of Latin America. As an example, experts of those institutions could assist countries that have qualified for the MCA to prepare adequate proposals for sound technical projects with considerable social benefits. Of course, some of those entities carry a heavy baggage of bureaucratic vices. But their involvement can be on an *ad-hoc* basis and under strict rules of accountability.
- Reinforce public diplomacy. The Administration should be commended for its renewed effort to strengthen public diplomacy since this is an important element of diplomatic engagement. However, this is being done with the Middle East in

mind. Restricting this effort to the Middle East would be a glaring mistake at the present time when a cast of characters unfriendly to the U.S. is stepping up a campaign for the hearts and minds of the younger generations of Latin Americans. To continue to retrench in this region, which has been the tendency of the U.S. for a long time now, will only worsen the current U.S image in Latin America which is by no means positive. The task is a long term endeavor, and a good starting point would be to increase substantially the scholarships for Latin American students in the U.S. at different levels, namely, high school and university plus special visits for young leaders and new faces in Latin American politics. The number of young American visitors to Latin America also should expand under existing or new programs.

One last thought on how to cope with hotspots. With the goal of building a better region, more prosperous and with greater opportunities for all, the Latin American nations have laid down important foundations and they continue to work hard at it. Nevertheless, a helping hand from the democratic superpower is always appreciated. This does not mean necessarily financial backing. As outlined above, the to-do list for the U.S. is far more ample and would greatly contribute to reaffirm its relations with the overwhelming majority of friendly countries it has in the region. More intense cooperation in the form of true Inter-American diplomacy is the best strategy to reduce the proliferation of hotspots and limit their damaging impact.