REPORT: U.S. POLICY

# Reversing Course: A New Economic Agenda for Latin America

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Rosilene da Silva and her children, who live in a small town in the Brazilian state of Pernambuco, receive aid from Bolsa Família, a government social welfare program. While such programs are important, they should not be seen as alternatives to development strategies.

By Matías Vernengo

The most important item in a progressive U.S. economic agenda for Latin America would be reversing the corporate bias of the free trade agreements (FTAs) that have been signed over the past decade and a half. Indeed, rather than "free trade" agreements, these treaties should be characterized as investment-protection arrangements. FTAs allow corporations to blackmail workers with the threat of moving production to low-cost countries and allow those corporations to extract advantages from developing countries by upholding "investor-to-state" dispute-resolution processes that favor corporations. They have also failed to create jobs and weakened workers in both regions.

Even if a swift economic recovery comes to the United States, the countries that have tied their economic destinies to FTAs would benefit from a revision of those treaties. The treaties usually include provisions allowing foreign firms to bypass domestic courts and sue in international forums like the International Center for the Settlement of Investment Disputes (ICSID), which is part of the World Bank Group and has an overwhelming record of favoring private corporations. Also, these FTAs normally require that governments treat foreign investors at least as favorably as domestic investors, an idea that is peddled as a basic principle of justice but in reality strips the power of governments to pursue national development strategies used in the past by nearly every successful economy.

Furthermore, government-procurement rules are restricted by the FTAs, and domestic authorities must agree not to require foreign investors to use a certain percentage of local inputs in production, transfer technology to local plants, or impose conditions that might be used to promote local development. Finally, investment treaties ban limitations on capital flows, which in the past have been instrumental in reducing the vulnerability to international financial crises. In other words, FTAs safeguard the property rights of corporations to the detriment of state sovereignty and workers' rights. More significantly, they preclude the use in Latin America of growth-inducing commercial and industrial policies that have been used in the past by developed countries.

It is also important to note that a relatively quick U.S. recovery from its current deep recession would benefit the entire region, particularly those countries that have signed FTAs. These include Mexico, a signatory to the North American Free Trade Agreement (NAFTA), and the Central American countries—Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, along with the Dominican Republic—that have signed on to the Central American Free Trade Agreement (CAFTA). To a lesser extent trade with the United States is also relevant for oil exporters like Ecuador and Venezuela, and a U.S. recovery would have a positive impact on their economies as well. Countries less reliant on U.S. trade, either because they depend more on domestic demand, as is the case with larger economies like Argentina, or because they have a more diversified trade structure, like Brazil, would depend somewhat less on a U.S. recovery.

Beyond this agenda, which would be warmly welcomed by the region's left-of-center governments, a progressive U.S. policy agenda toward Latin America should express support of and solidarity with the region's left-of-center governments themselves. Over the past decade or so, the free-trade-oriented Washington Consensus has been widely recognized as a failed policy agenda, and in several countries, many of the pro-corporate, market-friendly policies of the 1980s and 1990s have been reversed. Nationalizing key sectors, from oil and natural gas in Bolivia and Venezuela to the pension system in Argentina, and the expansion of social transfers, particularly programs targeted to the poor and unemployed like the Plan Jefes y Jefas de Hogar in Argentina and the Bolsa Família in Brazil, or the more encompassing *misiones bolivarianas* (Bolivarian missions) in Venezuela, have led to an improvement in economic conditions of the poorest segments of the population, even if levels of inequality remain high.

These plans have expanded social spending, even though levels remain low by the standards of developed countries. Bolsa Família is the largest, transferring small amounts of income to 11 million families, and stimulating school attendance. The Bolivarian missions go beyond cash transfers and try to improve the well-being of the poor, for example by introducing 18,000 Cuban physicians working directly in the communities. The Plan Jefes

## CISPES Campaign for REAL Democracy in El Salvador

### About the campaign:

Through a "People's Pledge," congressional lobbying, forming a national coalition, and preparing two huge delegations to El Salvador, CISPES has embarked on a campaign in support of REAL democracy in El Salvador, responding to any attempt of intervention by U.S. officials in the electoral process of 2009. This grassroots campaign will continue past the presidential election in March 2009 and on through the possible run-off and certain right-wing backlash should the leftist FMLN party win.

CISPES has worked to initiate the Coalition for Free and Fair Elections in El Salvador, which has sent an open letter to the Obama administration about U.S. intervention, repression, and possible fraud leading up to the 2009 elections. In Congress, we have focused on denouncing past and future threats made by other U.S. government representatives about the negative impact on remittances, immigration status, and the continued relationship between the governments of the U.S. and El Salvador in the event of an FMLN victory. Our congressional work will also bring to light the worsening human rights situation and the increasing political violence in El Salvador, especially the violence against leaders of the country's social movements and the FMLN.

CISPES will be *presente* in El Salvador with large grassroots delegations during the elections of January 18 and March 15, to act as international observers, denounce the dirty tricks of U.S. interventionism, and show solidarity to our social movement allies.

### For more information and to get involved:

Take the "People's Pledge" by going to www.cispes.org/pledge2009. For info about attending the March delegation, contact elizabeth@cispes.org or call (202) 521-2510.

is the only one that tries to promote the generation of employment, by training workers in various fields. While these programs are important, and should be supported by progressives, they should not be seen as alternatives to development strategies that promote good-quality employment and higher wages.

Economic development, the key to the well-being of the Global South, seldom results from external forces. For that reason, the policies suggested here would have, at best, a complementary effect on the national-development strategies pursued by progressive governments and movements in Latin America. While the neoliberal policies insisted upon by the United States and implemented by local elites over the past few decades have hindered development, progressives should try to promote economic growth along with alternatives for more equitable and just societies in the region.

If the crisis continues, the only "market solution" will be an economic contraction to reduce the demand for imports. The poor and unemployed will be the most vulnerable.

Indeed, the last few years have seen vigorous growth in much of the region, as national economies—particularly in South America—recovered from their dismal performances of the 1980s (the so-called lost decade) and the second half of the 1990s. We can attribute the improvement in economic conditions not only to the change in economic policies, but also to the commodity price boom that took place between 2002 and 2007—triggered by increased demand for raw materials from Asian countries, especially China—benefiting the subset of Latin American countries that specialize in exporting primary goods.

An additional explanatory factor is the significant increase in remittance flows. Remittances, funds sent back to migrants' home countries, have boomed as a result of the significant increase in migration from Latin America to the rest of the world, mostly to the United States and secondarily to Spain. They have benefited most Latin American economies, but their positive effect has been much greater, for the most part, in those economies that were not favorably affected by the commodity boom, mostly the Central American economies, which do export commodities, but at much lower levels.

This vigorous economic growth has been very sensitive to the slowdown of the global economy. Worsening terms of trade, a reduction of remittances, and a contraction of credit, both domestic and external, have been the major reverberating effects of the current financial quake that had its origins on Wall Street. Commodity prices have already fallen significantly, remittance flows have slowed down, and many countries in the region are already facing large deficits in their current accounts that, as a result of the credit squeeze, they will not be able to finance. If these declines continue, the only "market solution" will be an economic contraction to reduce the demand for imports. The poor and unemployed (and those employed in informal activities) will be the most vulnerable to an economic contraction in the region.

A domestic rescue plan that promotes a rapid recovery in the United States, reactivates global economic activity in a relatively short period, and promotes employment creation would help maintain the demand for Latin American exports and the flows of remittances to the region. It would also reduce the need for large rescue packages for Latin America. In any case the domestic cost of the recovery programs in the United States will leave little margin for expensive bailout plans for Latin American economies, no matter how much those rescues are needed. However, in the countries that might be more vulnerable to a U.S. slowdown, fundamentally those in Central America and the Caribbean, the level of support that would be needed in the case of a balance-of-payments problem is relatively small.

Finally, the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB), in which the United States has long enjoyed disproportionate power, should direct credit for balance-of-payments adjustment needs, for infrastructure investment, and for poverty-reduction programs to virtually all Latin American economies. But unless the conditionality of the international multilateral organizations is significantly changed, the current policies of the region's left-of-center governments that focus on eliminating their dependence on credit from these institutions is certainly the most prudent path to follow. In the recent past, and to some extent even now, the neoliberal policies promoted by the IMF have limited the ability of Latin American economies to pursue counter-cyclical fiscal and monetary policies—i.e., to engage in deficit spending to stimulate depressed economies. Only to the extent that these institutions put creating jobs and reducing poverty at the center of the agenda should Latin American countries rely on them. Meanwhile, new institutions and sources of funds, like the Bank of the South, will have to be developed.