

A stylized map of Latin America is shown in white against a blue background. The map covers the entire page, with a darker blue horizontal band across the middle. The Hudson Institute logo is in the top right, and the Hudson Institute name is in the bottom left.

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How to Strengthen Democracy in Latin America

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WHITE PAPER
Spring 2008



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*Adapted from a speech given to Global Associates of the University
Continuing Education Association, February 7, 2008*

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ISBN: 978-1-55813-160-6

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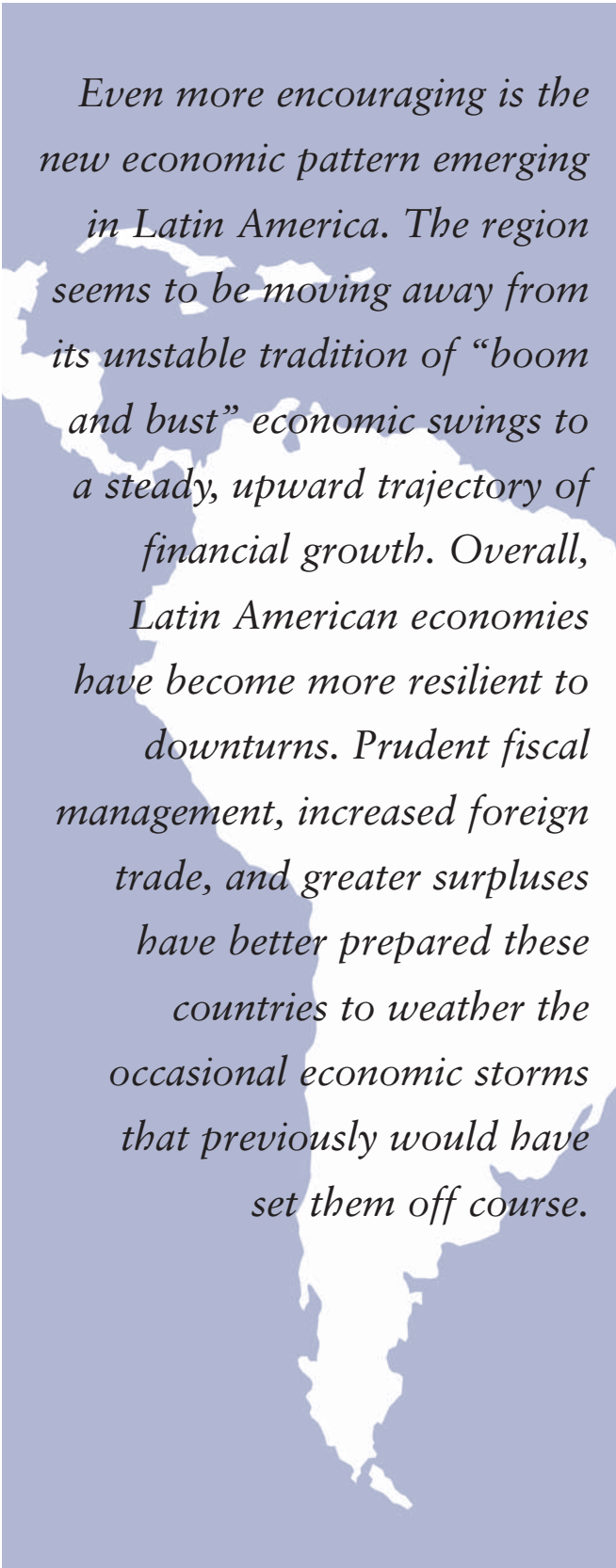
Latin America has been described as the “continent of the future.” That’s a polite way of saying “check back in a few decades.” But, as we know, Latin America is no longer the “continent of the future”—it is the continent of the present.

Before we get to the present, however, and before we turn to some of the innovative solutions our Latin American neighbors have implemented to address their education needs and lay the infrastructure for their future, it’s important to explore how Latin America arrived at its current situation.

The Latin America of yesterday—an era marked by the disastrous “import substitution” theory of Argen-

tine economist Raul Prebisch—is still fresh in many minds. Prebisch argued that trade hurt developing countries. He urged Latin American nations to seal their borders, subsidize domestic industries, and replace imports with local goods.

It’s no surprise that the substitution of local goods went on longer than predicted and the subsidies grew larger and larger. Ultimately, Señor Prebisch acknowledged the flaws in his model, but not before astronomical debt and runaway inflation provoked economic crises and political instability. Suddenly there was a terrible mess to clean up. Inefficient and uncompetitive industries bled public finances, and annual inflation



Even more encouraging is the new economic pattern emerging in Latin America. The region seems to be moving away from its unstable tradition of “boom and bust” economic swings to a steady, upward trajectory of financial growth. Overall, Latin American economies have become more resilient to downturns. Prudent fiscal management, increased foreign trade, and greater surpluses have better prepared these countries to weather the occasional economic storms that previously would have set them off course.

reached double—and in some places triple—digits.

But good ideas eventually swept out the bad ones, and we saw free markets—and free elections—take hold throughout Latin America. Just think about how much has changed. Twenty-five years ago, one would have been hard pressed to find more than a few Latin American countries engaged in democratic politics and pursuing responsible fiscal policies, free trade agreements, and human rights activism. Today the vast majority of Latin American countries are democracies. And only one of them has not freely elected its leader.

Sensible economic policies, new education proposals, a growing middle class, and political moderation have generated rapid growth and prosperity in the region. And the opportunities have spread as education in Latin America slowly advances.

President Kennedy said it best: “Our progress as a nation can be no swifter than our progress in education. The human mind is our fundamental resource.”

This is the most important lesson for Latin America today. While the region as a whole appears to be on an upward trajectory politically and economically, its Achilles’ heel is education. There is an academic tradition in parts of the region—in my native country of Costa Rica, for instance, 96 percent of the population is literate—but parts of Latin America continue to trail behind other developing regions such as Asia and Eastern Europe.

Many countries in Latin America are not as prepared for a new knowledge-based economy as they could be. The notion that raw materials, rather than brains, are the source of wealth remains the prevailing perspective in too much of the hemisphere. Today a country’s richest resource is its people. Many countries in Latin America have risen to the challenge of the new economy, but others still await the educational reform—at all levels, from primary school through the university—that will get them there.

The cultivation of the human mind is the great task of the present and the foundation for the future of Latin America. The people of the region must make education their number one priority if they want to remain competitive in the global marketplace, and an

opportunity exists for the United States to offer a helping hand. Because ultimately, an out-of-date educational system has the potential to undercut too many of the other recent political and economic advances Latin America has made.

Globalization and the Economic Landscape

One can not understand Latin America today without considering the cultural, economic, and political effects of globalization. As one Washington insider said recently, we are living in a world without walls, and we must consider how this affects Latin America.

Lawrence Summers recently gave a speech on Latin America in which he called the changes the world is experiencing today as dramatic as those experienced during the Renaissance and the Industrial Revolution. The combination of technological advances, globalization, and the growth of developing nations—which has thrown billions of people together into one economy—has challenged many traditional economic theories.

Some experts see this new globalization as a “paradigm full of promise” that comes with new opportunities for every country—although it also comes with risks and challenges. Perhaps most pivotal to a global economy is free and open trade. Thus the future of Latin America rests on the successful integration of its economies with those of the United States and the rest of the world.

Economic growth in Asia has already led to greater demand for Latin American commodities, such as Costa Rican computer chips, Brazilian steel, Chilean copper, and Argentine beef. Even more important, places like China and India have become prominent foreign investors in Latin America. In fact, India’s leading steel producer, Jindal Steel and Power, has signed a \$2 billion deal with Bolivia to develop one of

the world’s largest iron ore deposits and steel-making facilities.

This new demand for Latin American resources, coupled with higher global liquidity and investors’ search for higher returns, has resulted in an economic revitalization for the region. The fact is, Latin America has a lot to celebrate:

According to the Economic Commission for Latin America and the Caribbean (ECLAC), between 2003 and 2007 the region experienced its best economic performance in a quarter of a century. Together with those of the Caribbean, Latin American economies grew by an average of 5.6 percent in 2007, marking the fifth consecutive year of economic growth. Average inflation in the region can be measured with a single digit. Fiscal deficits have now dropped almost 50 percent in relation to GDP from where they stood two decades ago. Tariffs on trade have come down from 40 to 10 percent, and the reduction of non-tariff trade barriers is even greater. In 2007, unemployment fell by 8 percent.

Even more encouraging is the new economic pattern emerging in Latin America. The region seems to be moving away from its unstable tradition of “boom and bust” economic swings to a steady, upward trajectory of financial growth. Overall, Latin American economies have become more resilient to downturns. Prudent fiscal management, increased foreign trade, and greater surpluses have better prepared these countries to weather the occasional economic storms that previously would have set them off course.

The result of this economic growth is the rise of a strong and ever-growing middle class. *The Economist* recently reported on Latin America’s expanding middle class, claiming that between 2002 and 2006 some fifteen million households ceased to be poor. If this trend continues through 2010, a small majority in the region will have joined the middle class.

A growing middle class is likely to initiate profound changes in the region as a whole. The middle class functions as the engine fueling a new mass market. And, perhaps even more important, a large middle

class with a vested interest in political and economic stability will help temper political radicalism. Certainly, the elections of Lula da Silva in Brazil, Felipe Calderón in Mexico, and the Concertación in Chile suggest this is the case and provide us with good reasons to remain hopeful.

But there are good reasons to remain cautious as well. Some observers point out, for instance, that Latin America's economy is growing almost exclusively because of external factors—specifically a booming world economy and high commodity prices.

Moreover, although the region's economy has grown 5.5 percent for the past five years, Latin America's economic expansion does not look as strong when compared to that of other developing regions. According to figures released by the UN, in 2007 China grew by 11.4 percent—and has been growing by about 10 percent annually for the past three decades. India's economy grew by 8.5 percent—a rate it has maintained for a decade. The former Soviet Bloc countries grew by more than 8 percent, and even war-torn Africa grew by 5.8 percent.

Poverty has declined from nearly 40 percent of the region's population in 2005 to 35 percent in 2007, according to ECLAC. While this decline is encouraging, it's minuscule compared with Asia's experience, where poverty has plunged from 50 percent of the population in 1970 to 19 percent today.

And the Inter-American Development Bank tells us that poverty in Latin America is now more concentrated in certain groups—especially the rural and indigenous populations. In fact, a quarter of Latin America's poorest people are indigenous, and that proportion of the population rises to 60 percent in the Andean and Meso-American countries. It should not come as a surprise, then, that political turmoil has affected several Latin nations with large indigenous populations.

While the growing middle class has reduced income inequality—since the late 1990s, the IMF reports, there has been a drop in inequality in eleven out of fourteen Latin American countries for which data are available—it remains an acute problem.

Many countries in Latin America have initiated reforms that have made them more desirable to domestic and foreign investors—but progress is not uniform. Every year, the World Bank publishes a report on the ease of conducting business in 178 different countries. Chile, Puerto Rico, and Mexico are included in the top five for ease of doing business; Peru ranked fifty-eighth and Puerto Rico ranked twenty-eighth. Yet some parts of the region remain decidedly cooler to business innovation. As you might expect, Venezuela sits at the bottom of the thirty-one Latin American countries ranked.

The long-term success of these economies is dependent, in large part, on entrepreneurship—and the willingness of people to take risks. Yet punitive restrictions on everything from licensing to registering property discourage free enterprise. Burdensome regulations will guarantee that only the privileged few will succeed in the economy at the expense of the broader population.

So the question is: Is this recent economic boom as good as it gets for Latin America?

The consensus among international institutions, reporters, researchers, and regional leaders is that the region can do better. No doubt Latin America has come a long way and many parts of the hemisphere have a strong future. But not all countries are equally successful, and trouble spots remain. The fact is, all this progress is just a foundation—not a house.

To build a long-term economic future, to reverse poverty rates, to compete successfully in the global marketplace, to prepare for the future, Latin America must take more steps toward strengthening its human infrastructure.

Education

Several Latin American countries have launched initiatives geared toward breaking the vicious cycle that traps so many people in the region, in which children are sent to work instead of school

and condemned to a future of poverty and hardship.

In particular, several countries have established conditional cash transfer (CCT) programs in which aid is provided on the condition that families use it for their children's education and health care. Brazil established the first of these programs, Bolsa Escola, and in 2005, President Lula Da Silva expanded the program to become Bolsa Familia.

According to the World Bank, which provides assistance for the program, Bolsa Familia reaches eleven million families and more than forty-six million people—a significant portion of the country's impoverished population. And it is credited with being the most effective social program the country oversees.

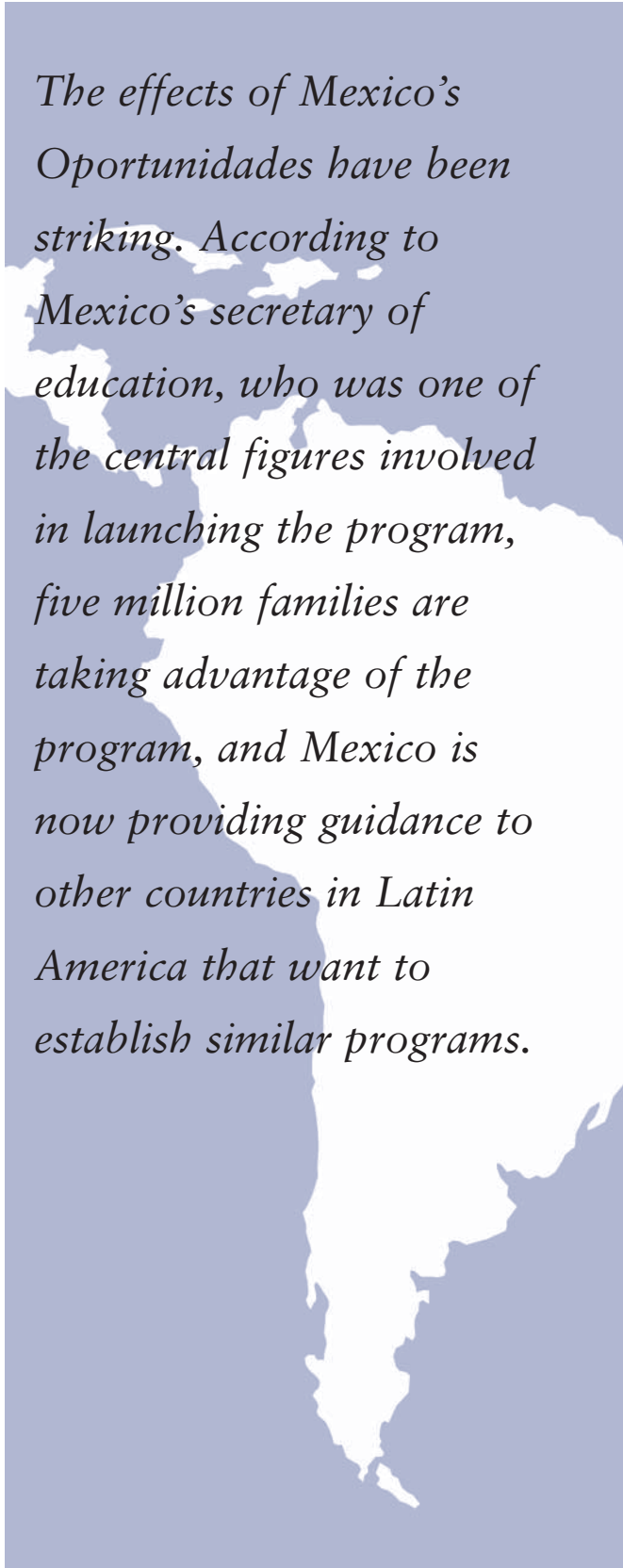
This CCT model has been adopted in Mexico, where former President Vicente Fox established the Oportunidades, a program that distributes modest payments to the mother of the household for investment in a child's education, health, and nutrition. The World Bank reports that CCTs have emerged in twenty countries around the world, including Chile, Argentina, and El Salvador.

The effects of Mexico's Oportunidades have been striking. According to Mexico's secretary of education, who was one of the central figures involved in launching the program, five million families are taking advantage of the program, and Mexico is now providing guidance to other countries in Latin America that want to establish similar programs. In fact, Oportunidades has even caught the attention of more developed nations. Recently, New York City's Mayor Bloomberg launched Opportunity NYC, a CCT program modeled largely after Mexico's plan.

Despite these efforts to improve education, however, many parts of Latin America continue to face serious challenges in their education systems.

Some countries struggle with outdated education programs, which put them at a relative disadvantage with Asia and Eastern Europe, where the curricula are more finely developed.

In China, for instance, public school children begin English-language classes in the third grade for four



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hours a week. In Mexico, public school students first begin learning English in the seventh grade and study it for only two hours a week. (Of course, this problem does not affect all of Latin America. In Costa Rica, children begin to learn basic communicative English in kindergarten.)

Some experts have expressed concern about a similar lack of attention to math and science education. According to the latest Program for International Student Assessment—a standardized test that measures the proficiency of fifteen-year-olds in reading, math, and science—the scores coming out of Latin America were among the lowest in the world.

Then there are Latin America's university systems. In 2007, the *Times of London* released a ranking of the world's two hundred best universities, in which academic success is measured both qualitatively and quantitatively by more than five thousand experts. Unfortunately, only three Latin American universities are recognized—at the bottom of the list: the University of Sao Paulo, Brazil (178th), the University of Campinas, Brazil (179th), and Mexico's National Autonomous University (195th).

Another concerning trend at the university level is the declining number of Latin Americans in American universities. Students from India, China, South Korea, and other Asian countries make up significant parts of the population at U.S. universities, but the same does not hold true for Latin American students.

The numbers speak for themselves: India has eighty-four thousand students in U.S. colleges. China and South Korea are right behind them with sixty-eight thousand and sixty-two thousand, respectively. In comparison, Mexico has only fourteen thousand students in colleges here in the United States, Brazil only seven thousand, and Venezuela a meager forty-five hundred.

These numbers are from the Institute of International Education's 2007 Open Doors report, which also reveals a disappointing disparity in graduate student profiles here in the U.S. According to the report, Asian students far outnumber Latin American stu-

dents in U.S. graduate programs. So ultimately, there are fewer Latin American students returning to the region with PhDs.

And while Asian universities rapidly produce engineers and scientists, Latin American universities tend to focus more on the social sciences, such as psychology, sociology, and political science. Diversity of expertise should be welcomed, but these disciplines alone are not sufficient for competing in the global economy; experts anticipate that over the next twenty to twenty-five years, information technology will be the biggest growth industry in the world.

A glance at the technology industry says it all. *Fortune* magazine predicts that there will be 2.25 billion PCs in the world by 2015—up from 755 million today. Most of that growth will occur in developing nations. China is expected to leap from ownership of approximately 55 million PCs today to 500 million by 2015. South Korea is witnessing similar growth. It has the highest broadband adoption rate in the world, at more than 70 percent.

Unfortunately, many parts of Latin America trail in information technology preparedness. According to a recent report about Latin America's IT readiness, there will be a shortage of 126,000 technology engineers by 2010. This is concerning not only because it will hinder the region's competitiveness, but also because information technology unlocks innovations that bring new efficiencies and opportunities to people, in fields from health care to banking.

The example of Ethiopia is an instructive one for Latin America. A small country that lacks many of the political and economic advances of countries in Latin America, it has nonetheless focused its resources on information technology preparedness. Its government has dedicated hundreds of millions of dollars to laying down broadband networks because it wants Ethiopians to have telephone and Internet access. Ethiopian prime minister Meles Zenawi explained it this way: "We are too poor not to invest in information and communications technologies."

Some countries in Latin America have really caught

on. According to the World Economic Forum's "2006-2007 Readiness Index," Chile received Latin America's highest score for IT readiness, ranking thirty-first out of 122 countries surveyed, with Brazil (fifty-third), Costa Rica (fifty-sixth), Uruguay (sixty-first), El Salvador (sixty-third), Argentina (sixty-fourth), Colombia (sixty-fifth), and Panama (sixty-sixth) falling somewhere in the middle of the pack.

In particular, Chile scored well on the government's use of IT, availability of online services, and the intensity of local competition. And the same report recognized that Chile's investment in IT, both public and private, was a key component in its economic growth and social development. It is this commitment to IT that the WEF claims has enabled Chile to become "the success story it is today."

Despite these small advances, however, there is still a lot of room for the region as a whole to catch up with the rest of the developing world.

So, the question is: What is at the heart of Latin America's education problems? Why are parts of the region lagging in comparison to Asian competitors, for example?

In the past, political uncertainty generated poverty, economic instability, and a loss of human resources. Today, however, Latin America is experiencing just the opposite. In fact, the tremendous economic boom I've been speaking about—and the rise of a solid middle class—will hopefully generate long-term stability in the region and create an environment ripe for cultivating human capital.

What's more likely the culprit of this education problem is that parts of Latin America have not digested the nature of the new knowledge-based economy as well as other developing regions have. These countries have not grasped the new conception of wealth as a product of education, creativity, and hard work rather than of natural resources.

The key to Latin America's future—whether it catches up with its competition—is its ability to change the accepted wisdom throughout the hemisphere about wealth and education.

Obstructions to Progress: Chavismo

Venezuela's president Hugo Chavez stands as a major barrier to Latin America's success. The phenomenon he has wrought—"Chavismo"—is perhaps the most serious threat to the region's stability and future.

Chavez came to power by exploiting the desperation of the Venezuelan people, and he has fashioned himself as the head of a radical populist franchise based on authoritarian rule. Likewise, he has expanded his influence in the region by taking advantage of feelings of frustration and hopelessness in neighboring countries.

Although some countries in Latin America—ones with sound democratic traditions, functioning institutions, strong economic growth, and moderate social policies—were able to weather the tide of pessimism brought on by the economic slowdown of the 1980s and 90s, others did not. Bolivia, Ecuador, and Nicaragua—the most fragile of the region's democracies—have provided fertile ground for Chavez in his quest to expand his regional influence. And by inserting himself into neighboring countries' elections, initiating border fights, and announcing a plan to establish a joint military force among his Latin American allies, Chavez has launched a serious effort to undermine the region's political and economic advances.

One of the most alarming aspects of this regime is Chavez's close ties with Iranian president Mahmoud Ahmadinejad, whom he has joined in denying the Holocaust and in harassing Jewish communities.

Tehran and Caracas are both interested—for their own reasons—in weakening the United States, and Chavez is well positioned to be Iran's enabler in the region. Since there is no compelling economic motivation for Iran to be involved in Latin America's affairs, we must conclude that Iran's interest in the region derives from its desire to expand its influence in terri-

tory close to the United States. It's no secret that the Iranian regime is looking for allies. And through Chavez, Iran has gained access to a small network of radical Latin American regimes. Just like Ahmadinejad in the Middle East, Chavez has invested tremendous resources in procuring weapons and building influence in the region.

Venezuela has opened its doors not only to Iran, but also to Hezbollah and Hamas. Even without adding Iran to the mix, Latin America already has reason to be concerned about the activities of radical Islamists in the difficult-to-police Triborder Area of Argentina, Brazil, and Paraguay.

It is becoming increasingly clear, however, that the people of Latin America are seeking political freedom and economic strength, and they have taken it upon themselves to reject radicalism and to embrace democracy, freedom, and free markets.

Serious cracks are appearing in Chavez's internal coalition, which threaten to undermine his power in the region. In the lead-up to December's referendum, which would have given Chavez dictatorial powers, key Chavez supporters—from the army and the student population, as well as from the poor and underprivileged sectors of society—turned against him.

We must keep a spotlight on this dangerous regime and push for an honest expansion of democracy in Venezuela. If left alone, Chavez will become a serious threat to the security of the region and to the promise of Latin America's future.

U.S. Policy Prescriptions

The relationship of the United States with Latin America is critical to helping the region achieve its long-term political and economic goals. Relations between the United States and many parts of Latin America have had a troubled history, in which unpredictable U.S. foreign policy over the years has resulted in disappointment and, at times, exasperation.

In recent years the U.S. has played a vital role in helping Latin America get back on its feet. And, by taking a slightly more engaged position, the United States can help sustain the positive momentum in the region.

Financial support is not always the answer. There are a number of ways the U.S. can provide support and strengthen its relationship with Latin America.

PROMOTE POSITIVE TRENDS:

It's important to highlight the bright spots in Latin America. There are many good things the region has been doing, which deserve acknowledgement and attention. The Conditional Cash Transfer programs in Brazil, Mexico, and elsewhere in the region, for example, have provided millions of families with a lifeline, while stimulating human capital through investment in education and health care.

IMPROVE TRADE RELATIONS:

Trade agreements, which improve access to U.S. markets, are commendable. Many in Latin America, however, view the push for free trade by developed economies as a threat to their subsidies, quotas, and tariffs. This is an area that deserves greater attention from both the U.S. and our European partners.

ASSIST GROWTH:

Even with greater trade opportunities, the poorest countries in the region still need a helping hand. The recently announced biofuels programs (in conjunction with Brazil) and the financial support to small businesses are steps in the right direction. Likewise, the Millennium Challenge Account (MCA), a bilateral development fund created by the Bush administration with bipartisan support to promote economic growth abroad, will likely help the region. Some have voiced concerns about the speed with which the program is being implemented, but some glitches are inevitable

during the launch of such an important initiative.

USE EXISTING INSTITUTIONS MORE EFFECTIVELY:

Strengthening national institutions and fostering positive initiatives requires the involvement of 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 and development (International Monetary Fund, World Bank, and the Inter-American Development Bank), multiple institutions can play an important role in the fulfillment of the most pressing needs of Latin America.

For example, these organizations could assist countries that have qualified for the MCA to prepare pro-

posals for technical projects that would bring considerable social benefits. Of course, some of these international entities carry the heavy baggage of bureaucratic vices. But their involvement can—and should—be on an ad-hoc basis and under strict rules of accountability.

FOSTER STUDENT AND YOUTH EXCHANGES WITH LATIN AMERICA:

These exchanges are a long-term endeavor, but a good starting point would be to increase substantially the number of scholarships offered to Latin American students for study in the United States—namely at the high school and university levels. There should also be an increase in the number of special visits for young Latin American leaders and new faces in Latin American politics, and, ideally, a corresponding increase in young American visitors to Latin America.



We are witnessing a struggle in Latin America between two competing perspectives. The old outlook understands wealth and prosperity as something static—so that if one country or class has more, then some other country or class must have less. This viewpoint has spawned populism in countries like Venezuela.

The new outlook understands wealth as dynamic. Places like Chile, Costa Rica, and El Salvador have forged ahead with this perspective and have proven that everyone can have more when education, creativity, and hard work are rewarded.

But this point of view requires governments to discipline themselves, to establish limits on their actions, and to provide the necessary infrastructure and economic environment for investment to flourish. And it requires the neighboring democratic superpower to reach out and offer assistance.

Despite the challenges that lie ahead in the region, we have witnessed a significant transformation of the political and economic landscape as a whole. Latin America has turned a corner. With continued support, the hemisphere is on track for a future of peace, stability, and prosperity. ■



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Daremblum obtained a Law degree from the University of Costa Rica, and two Master of Arts and a Ph.D. from the Fletcher School at Tufts University. He worked at the International Monetary Fund from 1965-1969, and was a Professor of International Politics and Economics at the University of Costa Rica and the Autonomous University of Central America.

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