Plummet of The Americas

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By Jeffrey E. Garten
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Nov. 7, 2005 issue - As leaders of Latin America and the Caribbean gather this week for the fourth Summit of the Americas, big-bang reform is probably the last thing on their minds. Mexico's Vicente Fox is a lame duck. Argentina's Nestor Kirchner is turning to economic nationalism and Venezuela's Hugo Chavez to destructive populism. Brazil's Luiz Inacio Lula da Silva is enveloped in scandal. Political dramas in Ecuador, Bolivia and Peru are turning into farces. Too bad, because these countries are in serious trouble.

Instead of focusing on the urgent need for dramatic social and economic reform, leaders at the summit likely will be thinking about the 19 major elections taking place in the next 18 months. They will also be taking credit, no doubt, for buoyant economic conditions, even though so much of the real credit goes to forces beyond their control—low interest rates, near-record flows of capital into emerging markets and soaring demand from China for commodities such as oil, copper, meat products and soybeans.

If they were really honest with themselves, the summiteers would acknowledge that they've lost their way. Mired in theorizing about this or that model, they don't seem to have the practical capacity to focus on the hard realities. Their countries cannot compete in basic manufacturing with the developing nations of East Asia and Eastern Europe, or in high technology with the United States, the European Union, Japan, or even South Korea. This leaves them dependent on exporting food and other raw materials, and hostage to the cyclical swing of commodity prices, just as they have been for centuries.

If global interest rates tighten, as seems likely, the region's high external debt service will come under increasing pressure. If the dollar declines, under the pressure of widening U.S. deficits, Latin American currencies will rise, undermining their export competitiveness. If China's import boom continues to level off, high commodity prices will subside. Though last year Latin America's GNP grew nearly 5 percent, its fastest rate in 25 years, many experts say it needs to grow 6 to 10 percent in order for prosperity to spread as widely as it has in Asia today.

It's not enough for the region to do well by its own standards, since it is in a race with other emerging-market economies for capital, technology and talent. In the 1990s, productivity grew at a 0.7 percent rate in Latin America, compared with 2.7 percent in Asia, and trade represented 45 percent of its GDP, compared with 80 percent for Asia. In the World Economic Forum's latest ranking of the 50 most competitive countries, Asia had seven entries and Latin America had one: Chile at number 23. Statistics on national savings, infrastructure investment, income inequality, education, crime and corruption tell a similarly depressing story.

The IMF, the InterAmerican Development Bank and many governments and think tanks have given Latin American leaders reams of advice on how to improve growth and social equity. But with weak political institutions and mounting social tension, it's unlikely regional leaders can act in time. It's doubtful that most of them fully realize how fast global investment is moving to the most efficient, productive and entrepreneurial markets. This is a winner-take-all global environment, and Latin America is playing a losing game.

Even the exceptions prove the rule. Yes, many Latin American governments have stabilized their currencies and their debts. Chile is on an ascending track, and Intel and Microsoft recently announced plans to establish wireless capabilities all over Brazil. But all this pales compared with feverish progress in the Pacific, where billions of dollars are pouring into high-tech industrial parks and enterprise zones, new factories and universities.

It is possible that a robust world economy will throw out a lifeline of continued growth and trade liberalization for a while longer. But if the continent is to have a real future, it needs a Latin version of Margaret Thatcher to take a blowtorch to the barricades blocking open markets and social mobility.

What might this entail? First, there would have to be a clear rejection of the economic nationalism that has been emerging in Venezuela, Bolivia and Argentina. Second, there would have to be a ringing endorsement of the benefits of attracting far more foreign direct investment. Third, there would need to be a willingness to study what countries like Singapore, Malaysia, India and South Korea have been doing to promote growth, entrepreneurialism, technology and education, as well as a focus on the economic sectors of the future be it biotechnology, nanotechnology, clean energy, environmental technology. Yes, such changes would create economic, social and political upheaval from the Rio Grande to Cape Horn, but that will come anyway if business continues as usual. The summit would be a good place for the revolution to begin, but don't hold your breath.

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