



### Special Edition

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### The State of the Hemisphere 2002

At year end FOCAL takes stock of some of the defining challenges for the Hemisphere in 2002 through the eyes of the leading thinkers and experts on hemispheric issues who gathered in Ottawa at the third annual *FOCAL Forum of Hemispheric Experts*. The meeting built on the renewed interest in sustainable economic development in the region generated by the UN Conference on Financing for Development, held in Monterrey Mexico on March 18-22, 2002. The theme of *Post-Monterrey* was adopted as the guiding concept behind the Forum.

Over fifty participants from Canada, the United States and Latin America took part in the meeting. These individuals represented regional and international institutions, academia, non-governmental organizations, the business community, Canadian government agencies, and FOCAL's Board of Directors and staff. The Forum discussions focused on four principal themes: challenges to the consolidation of democracy; reform fatigue; the implications of the Monterrey Conference on Financing for Development; and the future of "Washington Consensus" reforms in Latin America and the Caribbean.

#### Challenges to Democratic Consolidation in Latin America

While the acceptance of democratic norms has made important gains throughout the Americas over the past two decades, the challenge of consolidating democracy remains important. Two problems for the consolidation of democracy are the weakness of political parties and the rise of anti-establishment leaders.

The weakness of party systems is not a generalized problem in Latin America. Rather it is a particular problem of certain countries such as Peru and Venezuela. In these countries there continues to be a crisis of representation in political parties. Political parties are failing to perform their principal task, which is to mediate interests by linking people with government.

One of the principal problems for party building in Latin America is that many leaders do not see the need for parties. Leaders have been able to rise to power using modern media-driven American-style techniques that use parties only as electoral vehicles. Once in power, parties have at one extreme showed themselves to be unsupportive of their leaders, and at the other, unnecessary to maintaining power. In this respect, there are few political incentives to build institutionalized parties.

Public support for political institutions such as parties is related to their performance. In a similar vein the rise of anti-establishment leaders (arising from outside the normal party or institutional channels) should be viewed as a consequence of the failure of traditional democratic elites and democratic institutions. In several countries prolonged economic and political crises left a political vacuum that was filled by anti-establishment leaders. In this respect, Hugo Chávez can only be understood in the context of the failure of Carlos Andrés Pérez, Alberto Fujimori in the context of Alan García, and President Álvaro Uribe in the context of Andrés Pastrana.

Weak institutions and political parties, and the overall failure of many governments to translate the gains made in the democratic transition into a more substantial protection of civil rights and improved socio-economic conditions, have severely undermined public support for political and economic reforms in the region. This disillusionment has in some cases resulted in support for anti-establishment leaders and has reinforced the centralization of power and anti-democratic practices. There is thus a circular and self-reinforcing relationship between the weaknesses of Latin American institutions and public opinion that turns against democracy.

It must also be recognized, however, that even where parties are weak, democratic institutions as a whole show a remarkable vitality

### The Role of Canada and the International Community

Canada and the international community should offer additional support for democratic reform and consolidation in Latin America. The Organization of American States has made a significant contribution by firmly placing democracy at the centre of the Summit of the Americas process. In addition, the countries of the hemisphere must continue to press the issue of democratic consolidation in international organizations. However, the focus of the 2002 OAS General Assembly on combating terrorism in the hemisphere illustrates the way in which the important themes of economic growth and political stability were subordinated to the particular security concerns of the United States.

Canada and the international community can also assist with technical solutions to problems of democratic governance. Assistance can be helpful in establishing electoral rules. This can include rules for campaign and party financing, ensuring transparency in party organization, and a free "watchdog" media. However, the interest of Canada and the international community needs to be sustained. Building working democratic institutions is a long-term commitment.

and resilience to abuse. There is hope therefore that party systems may evolve over time into more representative and effective institutions.

### Reform Fatigue in Latin America

Since the debt crisis, most Latin American and Caribbean countries have pursued a set of economic reforms known as the Washington Consensus reforms. The key elements of these reforms were privatization, trade liberalization, openness to foreign direct investment, and balanced budgets. By the end of the decade however, the momentum behind reform was beginning to run out of steam. The meagre benefits of economic liberalization and the stalled process of political reform have generated reform fatigue among politicians and the public alike.

There is still disagreement as to whether the economic reforms pursued during the 1990s have failed or not. Some argue that the free-market ideas behind the Washington Consensus reforms were flawed from the beginning. Others point out that the reforms were implemented poorly and without transparency. It is clear however, that the experience of reform implementation varied widely within the region. Some countries did not pursue reform until recently, while others pursued significant economic reform but became mired in intractable political reforms. Few managed to combine economic and political liberalization with high growth rates and significant poverty reduction.

A principal shortcoming of the Washington Consensus reforms was the failure to consider the political process. This included both the difficulty of building political coalitions to sustain reform implementation and the need to strengthen state institutions as a fundamental part of any reform programme. Markets alone cannot address social and economic inequality. These are tasks that require state intervention and regulation.

The attitudes of politicians and interest groups to political cooperation have sometimes undermined effective reform. In many political systems, a winner-take-all attitude, and short-term thinking can cause excessive political opportunism. These attitudes may be produced by structural features of the political system or by political culture.

Even where political support for reform has been relatively strong, reforms have often run aground on the poor capacity of institutions. The inefficiency, corruption and politicization of the judiciary in many Latin American countries, has had a profound impact on all sectors of the economy and society. Most new institutions needed to oversee the free market are weak, ineffective, or non-existent. Rather than aggressively deal with the regulatory challenges of the post-privatization economic environment, most countries have turned to the self-regulating market. In this context, the fiscal crisis of the state with its origins in the debt crisis continues to affect the ability of governments to build the institutional capacity necessary to meet the demands of a modern market economy.

In the early 1990s, policy implementation was assisted by a crisis atmosphere and hope that reforms would translate into material benefits in the near future. A decade later, with the mixed success of

economic and political reforms, public opinion and the political forces seeking to capitalize on it are likely to be much less sanguine about continuing the effort.

### Post Monterrey

Out of the UN Conference on Financing for Development, held in Monterrey Mexico on 18-22 March 2002, emerged a declaration known as the "Monterrey Consensus." The Monterrey Consensus represents a vision of development that has progressed beyond the North versus South debates of the 1970s and the ideologically driven agenda of the 1980s. It seeks to codify a partnership between the developed and developing worlds, that will be the foundation for promoting economic development in general, and the realization of the Millennium Development Goals in particular.

The most significant political innovation at Monterrey was the acceptance by the developing world of the concept of "responsibilities for resources." In the Monterrey Consensus, developing countries recognized that economic development was their own responsibility and that they must take ultimate responsibility for the design and implementation of development programmes. They also agreed that ODA (Official Development Assistance) was "complementary" to other policies and in that sense always secondary to private investment.

Towards this end, developing countries agreed to promote peace, order and good government (including the rule of law and developing institutional capacity), fight corruption, promote a good investment climate for private enterprise, balance budgets, regulate the financial sector, liberalize trade and investment, collect more taxes, make investments in economic infrastructure, expand social protection, and offer micro-credits to budding entrepreneurs. In exchange, the industrialized countries promised more ODA.

### Reform Fatigue – What Can be Done?

The greatest risk to reform in Latin America is reform fatigue. The lack of benefits to the majority of the population, in contrast to visible benefits for the elite, gives most people in Latin America little concrete stake in the pursuit of reform. Forum participants suggested a number of ways to reduce reform fatigue and build public support for economic liberalization.

- Reforms need to be linked with citizenship and democracy. The average citizen must see the reform process as improving his or her political rights and economic opportunities.
- Losers from the economic liberalization process should be compensated.
- An effective tax collection system must make elites pay their income taxes.
- Privatized companies should be properly regulated so that public monopolies don't become private ones.
- Personal security must be enhanced by the reforms.
- Job retraining should be available to the unemployed.
- Small-scale loans and technical assistance are needed to support local entrepreneurs.

### The Spirit of Monterrey: Resources for Responsibilities

If there is a "spirit" of Monterrey, it is captured in the concept of mutual responsibility and mutual obligations of ODA donors and recipients. It is a rejection of the one-size-fits-all development plans imposed from above by the international community, loan conditionality, and the ideological inflexibility that sometimes seemed to dominate aid policy in the 1980s and early 1990s. Article 56 sums up this spirit:

We stress the need for multilateral financial institutions, in providing policy advice and financial support, to work on the basis of sound, nationally owned paths of reform that take into account the needs of the poor and efforts to reduce poverty, and to pay due regard to the special needs and implementing capacities of developing countries.

The Consensus will represent real progress in development thinking if foreign aid donors abide by the spirit of Monterrey: that successful economic development is not *done to* developing countries, but *done by* them.

### The Rhetoric of Monterrey

The commitments made by the industrialized countries remain vague. National governments were encouraged to substantially increase ODA flows towards the long elusive 0.7% of GDP figure. However, foreign aid contributions from the developed world as a percentage of GDP have declined significantly over the last decade. The most important concession (from the point of view of the developing world) would have been a commitment to open northern markets to southern exports. As would be expected, with the Doha Round in its infancy, there were no concrete concessions in this regard.

In its pre-Monterrey brief, *Last Chance in Monterrey* (March 2002) Oxfam emphasized that although the liberalization of trade restrictions in OECD countries on goods produced by the developing world (such as textiles and agricultural products) was an important part of the solution to global poverty, trade liberalization alone *could not be viewed as an alternative to foreign aid*. Oxfam however, doubted that in the developed world there was sufficient political will to either provide adequate financing for development, or substantially increase market access opportunities for developing countries.

Despite the increased effectiveness of ODA identified by the World Bank, without a serious commitment to more aid *and* better trade access to developed country markets, the prospect of meeting the Millennium Development Goals seems remote.

The Monterrey Consensus linked good governance with economic development. The World Bank had found that focusing ODA on "good-policy countries" led to higher success rates in terms of developmental outcomes. Poor-policy countries thus attract a shrinking proportion of the world's shrinking aid budget. The focus on good-policy countries *is* a new form of loan conditionality, although it should be distinguished from the kind of conditionality that went with adjustment lending in the 1970s and 1980s. Now the conditions are not exclusively macro economic reforms, but include institution building, health care and education. Nonetheless, there is concern that poor policy countries and local practices will end up being neglected by the global community as new developmental trends are imposed from above.

At the very least, Monterrey suggests that the trend of decreasing flows of ODA during the 1990s may have been halted. In order for the Monterrey to realize its potential, however, the industrialized countries must assume some obligations vis-à-vis developing countries, namely the reduction of tariff barriers in agricultural markets, increasing ODA flows, and continued debt relief for the most heavily indebted poor countries. Citizens of the rich countries can make a difference by pressuring their governments to keep these promises.

### Integrating Social Concerns into Economic Policymaking

Governments and major multilateral lending institutions have started to directly consider the social effects of macro-economic reforms, rather than simply relying on the "trickle-down" effect. This incipient change is perhaps best reflected in Nancy Birdsall and Augusto de la Torre's essay, *Washington Contentious* – so-named as a challenge to the dominance of the Washington Consensus policies in Latin America.

The most important theme of the *Washington Contentious* is that market reforms in Latin

America need to be legitimated. Legitimacy is generated both by the results and the processes of reform. In this respect, reform must result in more socio-economic advancement for the average individual. Likewise, the processes of reform must include democratic and institutionally accepted means of public participation and legitimation.

Yet, there is still no consensus on the need to adopt *Contentious*-style reforms. This is reflected in the on-going debate between those who continue to see the lack of growth as the major problem, and those who believe that regardless of growth, social equity must be addressed. At a minimum, it is agreed that maintaining open economies, balanced accounts, high level of investment (both foreign and domestic), and domestic macro-economic stability is fundamental. However, disagreement exists as to where to go beyond these requirements.

It is clear that the agreement surrounding the Washington Consensus reforms is shrinking rather than growing. Meeting the high expectations generated by the reforms of the 1990s remains difficult. Failing to do so is a potential cause of disillusionment and rejection of the reforms. Although, thus far, disillusionment has not caused a radical rejection of the status quo, the mixed success of the Washington Consensus and failure to integrate social concerns into economic policymaking threatens to further ignite opposition to neoliberal reform throughout the region.

### New Trends in ODA

According to a World Bank evaluation of ODA effectiveness presented at the UN Conference on Financing for Development in Monterrey, a number of important lessons have been learned from the development experience of the last 50 years. Some of these lessons were:

- The importance of strong institutions, comprehensive development programmes which draw on civil society consultations, and good overall policies (investment climate).
- Need for "country ownership" of reforms – which results in better and more consistent application.
- The importance of aid targeted on poverty alleviation, rather than relying on the "trickle-down" effect. Targeted aid can also cause a multiplier effect that attracts other (private) capital flows when it takes place in, and contributes to, a good investment climate.

World Bank. *The Role and Effectiveness of Official Development Assistance* (2002).

### CIDA and Monterrey

The Canadian International Development Agency (CIDA) is guided by the Millennium Goals, and has pledged to examine in more detail the suitability of the Monterrey philosophy for development programming in Latin America and the Caribbean. CIDA's regional priorities are detailed in its "Closing the Gap" strategy. They include extending the benefits of growth more widely, mitigating the effects of instability on the poor, and strengthening human resources and institutional capacity. It is also giving priority to the foreign policy and development cooperation framework contained in the 2001 Quebec Summit of the Americas Plan of Action. By summer 2002, CIDA had approved seventy-three projects in the Americas with a budget of \$CAN 284 million.

### How Do We Move Forward?

The FOCAL Forum of Hemispheric Experts captured a sense of disillusionment with the social and economic progress of Latin America over the last decade. Yet, at the same time, participants recognized that there has been much to celebrate in the region, including advances in democratic consolidation, improved economic management, and significant economic growth.

How do we move forward from here? What can Canada, FOCAL and individual citizens do? In the closing remarks at the Forum, a number of suggestions were made:

- Demilitarize the globalization debate. Globalization is not intrinsically good or bad, but it needs strong states and good global, regional and subregional management.
- Regional integration is occurring and we must recognize that a nascent hemispheric identity is emerging. In this context, Canada needs to strengthen its commitment to regionalism and multilateralism.

- Hemispheric institutions, such as the Organization of American States (OAS), need to be kept on track in addressing the pressing concerns of the majority of its member states: economic growth, democracy, poverty, inequality, and social justice.
- The private sector (both local and foreign-owned) needs to continue to show its commitment to the long-term prosperity of Latin America.
- We should be humble with our recommendations. Latin America has a long democratic history that is continuing to evolve. Solutions to historical problems are not always simple, straightforward, or rapid. We must recognize the right of individual countries to pursue paths of reform that reflect national values and cultures.
- FOCAL and other civil society organizations must continue to engage the region. They play an important role in contributing to informed debate and assisting the private and public sectors in bringing new ideas to light.

It is clear that continuing the reform agenda in Latin America has become more difficult. In part, this is because the simple solutions of the past, such as replacing military regimes with democratic governments, and the economic reforms of the Washington Consensus have yielded only partially satisfactory results. In part, it is because so much has already been accomplished that the path ahead is that much more complicated.

### Lessons Learned during the 1990s

- Structural reforms are necessary but not sufficient to alleviate poverty
- Such reforms alone will not increase growth rates to the level of the best performing developing countries
- Market reforms are not always successful
- Reforms must be supported by good state institutions
- Reforms must be consistent with local conditions
- Equity and social effects must be an integral part of evaluating reforms
- Broader approach to reform must address poverty directly

Source: Inter-American Development Bank, *Latin American Economic Policies* 17 (First Quarter 2002), 6.

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The Canadian Foundation for the Americas (FOCAL) is an independent policy institute based in Ottawa that fosters informed analysis and debate and dialogue on social political and economic issues facing the Americas. We support a greater understanding of these issues in Canada and throughout the region. FOCAL was founded in 1990 and has a full time staff of 15 people. The Board of Directors provides a strategic guidance to the organization and its activities.

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