

A Report of the  
Inter-American Dialogue

# The Americas in 1989

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## Consensus for Action

**The Aspen Institute**



# Participants in the Inter-American Dialogue

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**Peter Hakim,** Staff Director



THE HISTORY OF THE CITY OF BOSTON

From its first settlement in 1630 to the present time, the city of Boston has been a center of commerce, industry, and culture. Its location on a natural harbor made it an ideal site for a trading post, and its proximity to the Atlantic Ocean made it a major port of entry for goods and people. The city's early history is marked by the arrival of the Puritans in 1630, who sought to establish a new society based on their religious beliefs. Over the years, Boston has grown from a small village to a major metropolitan area, and its influence has spread throughout the world. The city's rich history is reflected in its many landmarks, including the Freedom Trail, the Boston Common, and the Old State House. Today, Boston remains a vibrant and dynamic city, with a strong commitment to education, innovation, and community service.

The city of Boston is a unique blend of old and new, with a rich history that continues to shape its identity. Its location on a natural harbor made it an ideal site for a trading post, and its proximity to the Atlantic Ocean made it a major port of entry for goods and people. The city's early history is marked by the arrival of the Puritans in 1630, who sought to establish a new society based on their religious beliefs. Over the years, Boston has grown from a small village to a major metropolitan area, and its influence has spread throughout the world. The city's rich history is reflected in its many landmarks, including the Freedom Trail, the Boston Common, and the Old State House. Today, Boston remains a vibrant and dynamic city, with a strong commitment to education, innovation, and community service.



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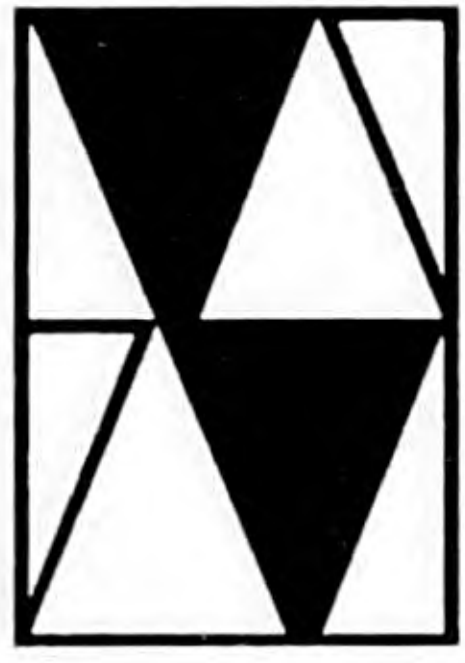
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# The Inter-American Dialogue

Since 1982, the Inter-American Dialogue has brought together concerned citizens from the United States, Canada, Latin America, and the Caribbean. At a time of deep strain in official U.S.-Latin American relations, the Dialogue plays two important roles: it offers a significant non-governmental channel of communication, and it provides sustained analysis and specific policy proposals to address key regional problems.

The chairmen of the Dialogue are Sol M. Linowitz, former U.S. Ambassador to the Organization of American States and co-negotiator of the Panama Canal Treaties, and Daniel Oduber, former president of Costa Rica. Other participants include two former presidents; more than a dozen former cabinet officers; and business, labor, academic, media, military, political and religious leaders. To assure frank discussion, all members participate as individuals, acting in their personal capacities. Persons currently exercising national government responsibility are not invited to join the Dialogue.

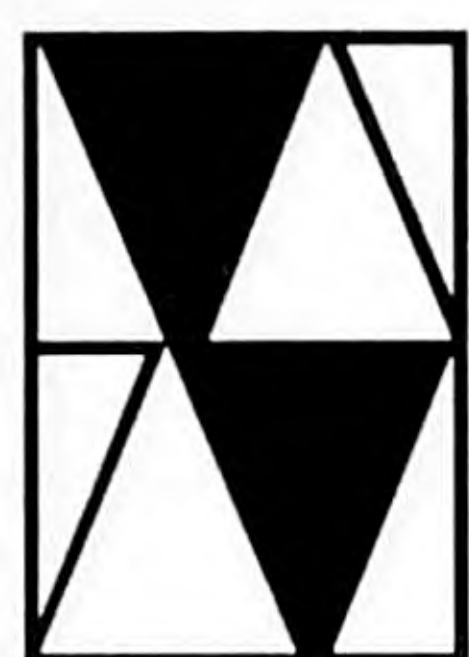
The Dialogue has met in plenary session six times and has issued four previous reports. Its executive committee meets more frequently and occasionally issues brief statements on current issues. Members and staff also participate actively in public discussion of inter-American issues throughout the Hemisphere. Independent and non-partisan, the Inter-American Dialogue operates under the auspices of The Aspen Institute, with financial support from foundations, international organizations, corporations, and individuals.

Copies of this and previous Dialogue reports can be obtained by contacting the Inter-American Dialogue, 1333 New Hampshire Ave., N.W., Suite 1070, Washington, D.C. 20036, (202) 466-6410.









# The Americas in 1989: Consensus for Action

## A Report of the Inter-American Dialogue

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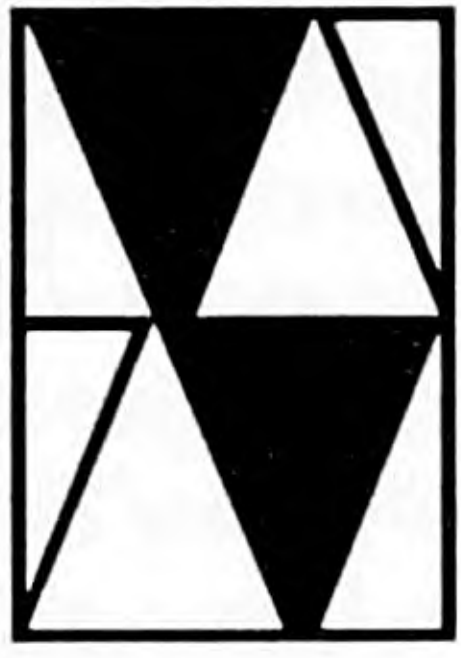


**Dialogue Co-chairman  
Sol M. Linowitz**



**Dialogue Co-chairman  
Daniel Oduber**





## Preface

As 1989 begins, agreement is emerging about what must be done to tackle the major problems facing the Western Hemisphere. The central aim of this report is to advance—and to reinforce—this gathering consensus at a time of political transition in the Hemisphere.

- The governments of the Hemisphere must move quickly—with the cooperation of Japan and Western Europe, the international financial institutions, and the commercial banks—to reduce Latin America's debt as an indispensable step toward reviving the region's economies. If Latin America's perilously deep and prolonged depression is not ended soon, the consequences will be disastrous: deprivation, despair, violence and repression; growing support for ideological panaceas; expanded drug trafficking; the swelling of refugee flows; and the crumbling of democracy.
- The new U.S. administration should move promptly to support the efforts of Central America's presidents to forge a secure peace. The nations of Latin America and Europe, as well as Japan, should join the United States and Canada in developing plans for concerted measures to foster political reconciliation in Central America, aid the victims of war, and support the region's economic reconstruction. These plans should be ready to implement as progress toward peace is registered.
- The drug trade must be vigorously fought throughout the Americas, but no quick or easy victories can be expected. The campaign against narcotics should be broad and long-term, involving education, treatment, and law enforcement as well as social and economic development. Inter-American cooperation is urgently needed to identify which approaches work best to reduce demand and supply and to avoid damaging frictions over drugs.



- Democracy in Latin America is at grave risk. Disaffection, corruption, and polarization are giving rise to the threat of renewed military intervention. The democratic governments of the Hemisphere should work together to reinforce civilian control of the armed forces—and to strengthen the free press, trade unions, professional associations, grassroots organizations, and political parties.
- The United States, Canada, and the countries of Latin America and the Caribbean should take concerted actions—both remedial and preventive—to halt environmental degradation throughout the Hemisphere. The destruction of tropical forests, soil depletion, pesticide misuse, air and water contamination, and mounting dangers from sewage and industrial wastes are destroying the productivity of natural resources, damaging the health of millions of people, and threatening the prospects for longer-term development.
- The problems facing the Americas are too serious for either demagoguery or indifference. Latin American political leaders must avoid blaming all their difficulties on external causes. By the same token, political leaders in the United States and Canada must listen to and work with Latin America. In a rapidly changing world, Latin America and North America will need each other more than ever.
- Inter-American cooperation is both necessary and achievable. Throughout the Hemisphere, ideological approaches have given way in the 1980s to a new pragmatism. The countries of the Americas are more ready to work together than they have been for a generation, but this opportunity may disappear unless it is seized at once.

In short, although our Hemisphere faces very difficult challenges, we believe their nature and dimensions are widely understood. A consensus for action can be mobilized to confront these tough issues and fashion sustainable policies if the new governments in the Americas muster the political will to do so.

It is in that spirit that we issue the Inter-American Dialogue's fifth report, our most succinct and action-oriented. The problems of the Hemisphere have been amply discussed and described before; concrete recommendations are needed now.



The members of the Dialogue subscribe to the proposals presented here as individuals, not as representatives of any government or other institution. Our report is a group statement, evolving from our discussions over the past five years. Not every signer agrees fully with every phrase in the text, but all affirm that the document reflects the consensus of the Dialogue's participants. Except as noted by individual statements, each of us subscribes to the report's overall content and tone, and supports its principal recommendations.

In preparing this document, we have drawn on the discussions at our plenary in November 1988 and on working group meetings, commissioned research, and informal discussion among our members and staff. We are grateful to the many experts who have prepared material for our deliberations, and especially to John Booth, J. Samuel Fitch, Jonathan Hartlyn, William LeoGrande, H. Jeffrey Leonard, and Gregory F. Treverton, who prepared major background papers.

The Inter-American Dialogue relies on the help of many people. We owe particular gratitude to Peter D. Bell and Rodrigo Botero, the Dialogue's co-vice chairmen; to the other members of the Executive Committee; and to the members who chaired or participated in the Dialogue's working groups and task forces.

We also express our great appreciation to the Dialogue's staff: Abraham F. Lowenthal of the University of Southern California, executive director; Peter Hakim, full-time staff director; Yasmin Santiago, executive assistant; Geoffrey Pyatt, associate; Shelley McConnell, junior associate; and Diane Ferris, Lora Lumpe, and Paula Mellom, administrative assistants. We are grateful also to Jill Schuker and Luís Pásara for their help on communications, to Alan Tonelson for editorial help, and to Marge Fitzgerald for administrative support.

We thank the President of the Inter-American Development Bank, Enrique Iglesias, for delivering the keynote address at the opening of our plenary session, and for generously hosting the reception following our meeting. We are indebted also to the many ambassadors and other government officials who contributed their thoughts; and to staff members of the World Bank, the Inter-American Development Bank, the Economic Commission on Latin America and the Caribbean, and the Organization of American States who provided advice.

We owe special thanks as well to the Carnegie Endowment for International Peace, the Overseas Development Council, the Refugee Policy Group, the Helen



Kellogg Institute at the University of Notre Dame, the International Commission on Central American Recovery and Development, the Americas Society, the Peruvian Center of International Studies (CEPEI), and the Corporation for Latin American Economic Research (CIEPLAN) for their sustained cooperation.

We very much appreciate the major financial support the Dialogue has received from the Ford, William and Flora Hewlett, John D. and Catherine T. MacArthur, and Rockefeller Foundations and the Carnegie Corporation of New York. We are also grateful for contributions by the International Development Research Centre, the World Bank, the Northshore Unitarian Universalist Veatch Program, the William Farley Foundation, the ARCA Foundation, First Boston International, IBM–Americas/Far East Corporation, Chemical Bank, Marine Midland Bank, and several individual donors.

The Dialogue takes continuing inspiration from the memory of Galo Plaza, the former president of Ecuador and Secretary-General of the Organization of American States, who served as co-chairman of the Dialogue until his death in 1987. At this year's plenary, we resolved to pay tribute to President Plaza by creating an annual internship on the Dialogue's staff for a promising young professional from Latin America. We hope the Galo Plaza Internship will help imbue future Latin American leaders with the abiding commitment to inter-American cooperation that made Galo such an outstanding hemispheric statesman.

Sol M. Linowitz  
Daniel Oduber  
Co-Chairmen  
January 17, 1989





## Chapter I

# Debt and Stagnation: A Program for Recovery

Six years after the debt crisis began, Latin America remains mired in depression. Most Latin Americans are worse off today than they were a decade ago. Unemployment and underemployment are at record levels. Wages have declined sharply—by as much as 50 percent in some places. Average income per capita has fallen back to the level of 1978 and is not recovering.

More people than ever are trapped in extreme poverty; women and young children are suffering most. Throughout Latin America, education and health services have deteriorated; crime rates have surged; malnutrition and infant mortality are rising. Unless this depression can be ended, it will feed on itself. Continuing capital flight, low investment, rampant inflation, and erratic export prices may keep Latin America's economies stagnant well into the next decade, perhaps even beyond.

The economic crisis of the 1980s may touch off a political crisis in the 1990s. Economic adversity is already eroding the foundations of democratic rule in several countries. Public institutions have been discredited and weakened. Civilian governments, mostly headed by moderate and pragmatic leaders, have lost support and with it their capacity to govern effectively. In country after country, the hope infused by new leaders has turned to frustration as austerity has become a permanent fact of life.

As governments lose credibility and authority, the appeal of extremist solutions grows stronger, and it becomes harder to institute the economic measures needed for recovery and growth. This vicious cycle, which is already taking hold in some countries, will not be easy to break. It may condemn Latin America to a long period of economic hardship and political turbulence. In some countries, civilian authorities may be forced to yield to military rule.

Latin America's trauma also affects the world's industrial countries—none more than the United States. U.S. banks have improved their financial positions since the

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early 1980s, but the debt crisis has left them weakened. The abrupt halt in Latin America's growth has cost U.S. exporters \$20 to \$30 billion in sales annually.

Debt is a contentious issue in U.S.-Latin American relations. The region's economic decline is straining those relations in other ways as well. Pressures for migration to the United States, for example, are greater today because so many Latin Americans are losing hope in their own economies. The Hemisphere's drug trade is more difficult to control because Latin America cannot provide alternatives to the jobs and income now derived from narcotics. And by putting the future of Latin American democracy in peril, economic paralysis could threaten hemispheric security—which is best protected by a community of democratic governments that respect one another's social and civic values. All Americans, North and South, have a joint and urgent stake in rebuilding Latin America's damaged economies.

## A Gathering Consensus

Throughout the Americas, a consensus has been building on what must be done to confront Latin America's economic crisis. There is broad agreement on the need to chart a new course.

In Latin America, economic analysts from a range of perspectives—within governments and oppositions—concur, among themselves and with their foreign creditors, that new development strategies must be put in place to promote growth. They recognize the inadequacies of the state-directed, inward-oriented development policies of the past. It is widely accepted that Latin America's economies must be opened to trade and investment, and fully integrated into the world economy. Most Latin American financial authorities and political leaders also acknowledge that the state role in their economies has been excessive, and they now favor increased reliance on private markets. Although disagreements persist on precisely how to move in these directions, and at what pace, major shifts in economic thinking have taken place throughout Latin America.

For their part, the creditor countries and banks increasingly recognize that the economies of Latin America cannot be restructured and primed for growth without substantially higher levels of external capital; that the region's capital requirements cannot be met by new lending alone; and that debt reduction is therefore essential. Latin American leaders have long called for debt reduc-

*In Latin America, economic analysts from a range of perspectives recognize the inadequacies of the state-directed, inward-oriented development policies of the past*



tion. Now they are being joined by commercial bankers, officials of international agencies, and financial authorities in creditor nations.

This gathering consensus provides the basis for addressing the two main obstacles to Latin America's recovery: a severe scarcity of external resources and a legacy of economic mismanagement and policy distortion.

## Latin America's External Resource Gap

Latin America's economic expansion in the 1960s and 1970s was fueled by a steady flow of external capital. During the 1980s, that flow has been dramatically reversed. Between 1972 and 1981, Latin America obtained an average of some \$10 billion more per year in new loans than it paid back in interest and principal. In the past six years, the region's debt payments have exceeded new lending by nearly \$25 billion annually. That \$35 billion a year turnabout, the equivalent of nearly \$200 billion for an economy the size of the United States, is an intolerable and unsustainable drain.

The resulting scarcity of external capital has forced every Latin American country to slash imports, which are now nearly 30 percent less than they were in 1980. Much of the foregone imports are vital for production: machinery, spare parts, raw materials, and intermediate goods.

Even more troubling, investment—the key to economic growth—has fallen to dangerously low levels. In many countries, plants, machinery, and physical infrastructure are depreciating faster than they are being replaced. Just as crucial, expenditures on education and health, which are central to future productivity, have diminished sharply under austerity budgets, as has spending for scientific and technical innovation and for environmental protection. As opportunities narrow within the region, many highly skilled professionals are emigrating. Latin America is mortgaging its economic future.

***Latin America is mortgaging its economic future***

The region cannot meet its capital needs through new borrowing alone. Commercial creditors want to reduce, not expand, their exposure in Latin America. The major U.S. banks made this clear in mid-1987 when they set aside large reserves against Latin American loans. The region's financially-troubled debtors are not attractive borrowers. They represent a very high risk, and offer returns that are not much better than those from safer investments.

Official financing—from the World Bank, the International Monetary Fund (IMF), and the Inter-American



### Latin America's Lost Decade: Some Figures

	1980	1981	1982	1983	1984	1985	1986	1987	(Est.) 1988
Real per capita GDP (% Change)	3.7	-1.9	-3.5	-4.7	1.4	1.4	1.6	0.3	-1.5
Consumer Price Level (% Change)	56	58	85	131	184	275	65	199	473
Investment (% of GDP)	23	22	21	17	17	18	18	18	18
Exports (\$ Billion)	94	100	90	92	102	98	80	91.4	104.2
Imports (\$ Billion)	97	105	85	64	65	63	64	71.6	77.5
External Debt (\$ Billion)	231	288	333	344	362	371	382	411	413
Debt as % of Exports	183	210	273	292	277	296	351	340	309
Debt Service as % of Exports	34	42	51	40.8	40.9	40.3	45.0	35.5	42.8
Net Capital Transfers <sup>1</sup> (\$ Billion)	12	10	-19	-32	-27	-33	-24	-21	-29

<sup>1</sup> New lending minus payments of interest and principal

Sources: IMF, *World Economic Outlook*, October 1988; Pedro-Pablo Kuczynski, *Latin American Debt*, 1988; ECLAC, *Preliminary Overview of the Latin American Economy*, December 1988

Development Bank (IDB)—has lagged as well. All three institutions are now collecting more on past loans than they are providing in new loans. Even with the recent \$75 billion increase in the World Bank's capital, this reverse flow could persist for the next several years.

Not only is new lending not available in sufficient amounts; it may also be imprudent for Latin American countries to increase their debt burdens. By taking on new debt, the countries add further to swollen interest bills that are already overwhelming their capacity to pay. Additional loans may be simply postponing the day of reckoning—for both creditors and debtors.

The policy implications should be clear. Because Latin America's resource gap cannot be bridged by new lending, the region's current debt obligations must be reduced. This fact has become increasingly evident to creditors as well as debtors, but difficult questions remain to be faced: Whose debt obligations should be reduced? By how much? Under what conditions? Through what mechanisms? Ultimately, the question is who should bear the costs and risks.

Any debt reduction scheme would require the commercial banks to assume significant losses. Most of them are



now financially better able to do so, having both reduced their Latin American exposure and created sizable reserves against anticipated losses. The banks, moreover, are willing to reduce their claims on Latin American borrowers. They are already engaging in debt-equity swaps and other limited reduction schemes. A number of prominent banking executives have publicly endorsed debt reduction as an alternative or complement to new lending.

In exchange for reducing either the interest charges or principal on their current holdings, commercial banks want to obtain at least partial guarantees that remaining claims will be paid. They are prepared to take the losses involved if, at the same time, their level of risk on the debt that would still be outstanding is diminished.

Such guarantees would have to be provided by some or all of the industrial countries. That, so far, has proved to be a crucial sticking point. Although Japan and some European countries have indicated a willingness to support such guarantees, the United States, facing its own budgetary constraints, has been opposed to committing public resources to accomplish debt reduction.

## Economic Mismanagement

Latin America's economic crisis is not due to unsustainable debt alone, however. The resources available to the countries of the region have not been used very effectively.

The massive external borrowing of the 1970s both allowed for a broad expansion of government activity and shielded economies from the consequences of policy mistakes. Once that shield was stripped away, the region's poorly-managed economies were ill-prepared to respond, first to the external shocks of the early 1980s and then to an increasingly competitive international economy. Latin America has not only fallen further behind the world's industrial nations; it has been overtaken by other developing regions.

Latin America cannot hope to recover without major structural reforms. Foreign exchange must be generated and saved by promoting exports, increasing the efficiency of domestic industries, encouraging the return of flight capital, and attracting new foreign investment. Internally, fiscal deficits must be reduced, inflation brought under control, the private sector expanded and strengthened, and income and wealth more equitably distributed.

Latin American governments have made significant adjustments in their external sectors. Realistic exchange

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rates are now in place in most countries, and trade deficits have been turned into surpluses—although largely by curtailing imports and real wages, not by improving productivity. More must now be done to liberalize trade policies by reducing tariffs and other import barriers.

Few governments have progressed very far in their internal reform efforts. Fiscal deficits remain all too high, causing runaway inflation in many countries, depriving the private sector of needed resources, and dampening the climate for investment. The deficits cannot be controlled as long as scarce resources are used to subsidize uncompetitive industries and finance bloated bureaucracies.

More generally, governments continue to play too large a role in Latin American economies: business and financial regulations need to be eased; markets allowed to determine most prices; and state enterprises shifted to private hands. Governments should be doing less to manage economic activities, and more to provide effective public services: education, health, social security, and infrastructural investments.

At the same time, the main obstacles to economic reform in Latin American are neither ignorance nor lack of will. Countless reform programs have been initiated, often with the advice and supervision of the IMF and the World Bank. Most have failed to achieve very much, in good measure because they lacked adequate external support.

The capital scarcity and heavy debt burdens that have forced economic adjustment on Latin America have made that adjustment all the more difficult to accomplish. It is hard to control budget deficits when interest payments consume 25 percent or more of government expenditures. A private sector starved of capital cannot be readily transformed into a new engine of growth. Without new investments, export industries can hardly take advantage of improved trade policies.

Because capital has been short, economic reforms have often produced only transient accomplishments; sometimes they have created new problems. Devaluations, for instance, have encouraged exports, but they have also sparked inflation as the cost of imported goods rose. Raising interest rates to realistic levels has stimulated domestic savings and reduced capital flight in some countries, but it has also depressed private economic activity.

Economic reform programs, moreover, always carry very high short-term costs. When state bureaucracies are trimmed, public employees lose their jobs. Reducing subsidies—or lowering import barriers—can send mar-

***Governments should be doing less to manage economic activities, and more to provide effective public services: education, health, social security, and infrastructural investments***



ginal firms into bankruptcy, pushing more people out of work. Lifting price controls on food and other basic necessities places punishing hardships on low income groups. In Latin America, these costs have been magnified because the reforms were carried out without adequate resources. Market-oriented reforms now provoke public distrust because they have come to be associated with declining incomes, unemployment, higher prices, and deteriorating public services.

It is not enough that Latin America's financial and economic authorities agree on the need to restructure and open their economies. Democratic governments cannot establish economic policy by fiat. After so many years of decline, they cannot simply preach austerity and ignore the deprivation and anger of the poorest. They must respond to demands of labor unions, business associations, and legislatures. Unpopular policies cannot be sustained for very long.

New presidents are scheduled to take power within the next 18 months in nearly a dozen Latin American countries. The region's voters are already turning to more nationalistic leaders—as underscored by this past year's presidential elections in Mexico and Venezuela, municipal elections in Brazil, and primary voting in Argentina. The policy directions followed by the new heads of state will determine the region's economic future for years to come. Many will take office with clear mandates to reverse the economic policies of their predecessors. Regardless of the advice of economic experts, some will be less willing to persist with market reforms, and more prepared to suspend or curtail debt payments unilaterally, thus increasing the risk of confrontation between Latin American debtors and their creditors.

Latin America thus faces a second vicious cycle. Without sufficient external capital, growth-oriented economic reforms cannot take hold and produce results. But the longer such reforms are delayed, the harder it will become to generate and attract new resources. This cycle can only be broken if both obstacles are tackled together. Latin America's debt obligations must be reduced and the countries of the region must improve their economic policies. These objectives are inseparable.

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## The World Economy

International economic trends, which first pushed Latin America into financial crisis six years ago, also remain a serious impediment to recovery. Every Latin



American country is highly vulnerable to developments in the world economy that are beyond its control. In the next years, the region faces three particular dangers.

First, the current expansion of the world economy, like all previous upswings, is likely to be interrupted at some point. Any marked slowdown of growth in the industrial countries would shrink Latin America's markets, exacerbating its shortage of external capital.

Second, protectionism is on the rise in the United States and elsewhere in the developed world. U.S. trade barriers have increased over the past eight years, imposing new obstacles to Latin American exports. And the pressures for greater restrictions have not abated. The limited progress made so far in the Uruguay Round of GATT negotiations offer little encouragement for a more open and vibrant world trading system. The free trade agreement between the United States and Canada, the integration of the European Economic Community, and expanding commercial relations among Asian countries all point to the possible emergence of regional trading blocs that could leave Latin America a marginal participant in international trade.

Third, international interest rates, after dropping by nearly one-half in nominal terms between 1984 and 1987, are now climbing again. For 1988, higher interest rates added more than \$3 billion to Latin America's interest bill—and the IMF projects a further rise in 1989.

The United States could help to avert these dangers by dealing quickly and decisively with its fiscal and trade problems. As long as the United States continues to borrow upwards of \$10 billion a month to finance its trade deficit, world interest rates will remain high. Unless the deficit is reduced soon, the risk is great that confidence in the dollar will erode, pushing interest rates higher and perhaps even plunging the United States into a recession that could spread around the industrial world. This would be a doubly cruel blow for Latin American debtors, who would then face both higher debt charges and shrinking markets.

Latin American countries must undertake severe adjustments in their economies by cutting budget deficits and balancing their external accounts—but so must the United States. This task is manageable for the United States; its fiscal deficit is only about three percent of GNP, compared to Latin American deficits that are four to five times higher. But not even the United States can succeed alone. The cooperation of Japan and Western Europe will be needed to ease current international trade and finan-

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cial imbalances. All industrial countries must resist protectionism and open their markets. Only then can the world economy serve as a stimulus, rather than an obstacle, to Latin America's recovery.

## **Solving the Problems**

There is no easy solution to Latin America's economic problems. They derive from long-standing, deeply-embedded rigidities and distortions in the region's economies, compounded by massive debt and an adverse external environment. The obstacles to progress are daunting, particularly when so many Latin American countries are also confronting the parallel challenge of rebuilding democratic politics.

Political realities clearly must be faced, not only in Latin America but also in the United States and other industrial countries. That is why neither economic policy reform nor debt reduction can be accomplished alone. It is vital—politically as well as economically—that they proceed in tandem.

Most Latin American governments know that tough economic measures are needed, and they are willing to accept international supervision of their programs and performance. But they will face intense domestic opposition as long as such measures and the sacrifices they entail are viewed as largely benefiting external creditors rather than producing development at home. This political resistance can only be overcome if economic reforms are coupled with significant debt reduction and new capital flows, and recognized as part of a genuinely cooperative effort between debtors and creditors to promote growth.

For their part, creditor banks and countries can more readily justify the costs of helping Latin America solve its economic problems if the region's governments take the measures necessary to put their economies in order. By doing so, the debtor nations not only demonstrate their commitment to using the new resources wisely; they also reassure their creditors that they will be able to repay their remaining obligations.

## **A Plan of Action**

Latin America must achieve growth rates in the 1990s of at least five percent per year. That is the minimum necessary to restore business confidence, improve living standards, absorb a constantly growing work force, restore social progress, and create conditions for political



stability. For most countries, however, reaching this level of growth any time soon will be very difficult. It will take concerted effort from all major actors: the Latin American countries themselves, the industrial nations, the international financial institutions, and the commercial banks.

Five critical tasks must be accomplished:

- **The countries of Latin American must revamp their development strategies, restructure their economies, and effectively integrate them into the world economy;**
- **The United States must tackle its own economic problems, and join other industrial countries to reduce international financial imbalances, open world markets, and sustain world growth;**
- **The international financial institutions must sharply step up their lending to Latin America;**
- **Debt reduction agreements must be worked out between individual Latin American countries and their commercial bank creditors; and**
- **The world's industrial countries must provide appropriate financial guarantees to support debt reduction initiatives.**

The primary responsibility falls on the Latin American countries. **As an initial step, each country should formulate a comprehensive multi-year development program**, setting out realistic targets and schedules for necessary economic reforms and indicating the external capital needed to implement the reforms and achieve satisfactory growth. It is crucial that these programs be realistic. Not only must they be technically sound; they also must be politically responsive. Getting prices right is important, but so is attacking extreme poverty and economic inequities. Restoring business confidence is critical, but so is gaining the support of workers.

The World Bank, the IMF, and the Inter-American Development Bank should, on request, help the countries prepare their development programs. The international financial institutions (IFIs) should also jointly establish procedures for reviewing the programs when they are completed, and for negotiating appropriate revisions with each country. They, too, must be sensitive to political and social questions as well as to economic criteria.

Once agreement is reached between a country and the IFIs, the resulting program would serve as the basis for subsequent financing and monitoring arrangements with

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both commercial and official creditors. It would provide mutually agreed-upon performance targets on which new lending and debt reduction would be conditioned.

**The United States, Canada, Japan, and Western European nations should help countries gain access to the resources needed to make their economic programs work.** The creditor countries should commit themselves to reducing Latin America's net capital outflow by \$20 billion per year for the next several years—mainly through debt reduction and new lending from international financial institutions. By establishing and holding to this target, the industrial countries would signal their commitment to Latin America's recovery and provide the right incentive for policy reform efforts.

**Another essential step for the industrial countries is to improve the financial performance of the IMF, the World Bank, and the Inter-American Development Bank.** Each of these institutions must provide a substantial positive flow of capital to the region.

- The IMF management has proposed a doubling of the Fund's basic resources, which member countries should approve. But even now, the IMF has the capacity to draw on large and currently underutilized reserves. It could as well create a new issue of special drawing rights and direct them mostly to debtor nations. The IMF could also benefit Latin America by stretching out repayment periods on new and current loans.
- The World Bank, with its recently approved \$75 billion capital increase, has the means to increase disbursements sharply. It should make additional resources available by lengthening the grace period for repayment of principal on both new and existing loans. The World Bank should not set arbitrary limits on the size of its policy-based loans. These should be determined by the development needs of Latin American countries carrying out agreed economic programs.
- The United States and Latin American countries must end their damaging dispute at the Inter-American Development Bank so that the Bank can play a more significant financial role. The two-and-a-half year old dispute has stalled a scheduled \$20 billion capital replenishment that would permit a near doubling of the Bank's loan commitments. The IDB should also relax, at least temporarily, its counterpart funding requirements, which have limited the disbursement of some \$10 billion in committed loans.

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If pushed by the industrial countries, the international financial institutions could together provide as much as \$8 to \$9 billion annually in additional capital to Latin America—more than 40 percent of the proposed \$20 billion target. The actual financing made available to any specific country, however, would depend on its meeting the performance objectives set out in its economic program.

**The most important step the industrial countries must take is to provide financial guarantees for debt reduction agreements negotiated between Latin American nations and commercial banks.** Many different proposals for comprehensive debt reduction have been put forth in recent years, but none has yet gained support from either the industrial countries or the private banks—and it seems unlikely that any will, at least not soon.

But the status quo is intolerable; as long as Latin America must pay out substantially more in interest than it obtains in new loans, the region will remain stuck on a treadmill of austerity, stagnation and rising debt. What can and should be set in motion now is a step-by-step, case-by-case approach to debt reduction, in which individual countries work out specific, differentiated, and mutually-agreed arrangements with their commercial creditors.

Latin America's weakest-performing economies require outright relief from a significant share of their obligations. Bolivia has already gained significant relief from an imaginative debt buy-back scheme; with new bilateral loans, Bolivia is repurchasing its commercial debt at sharply deflated market prices. At least six other Latin American countries (Costa Rica, the Dominican Republic, Ecuador, Honduras, Nicaragua, and Peru), as well as several in the English-speaking Caribbean, are in similar economic straits from which they too need substantial relief. It no longer makes sense to maintain the fiction that they will ever pay their external obligations. The costs of debt reduction for these smaller debtors would be relatively modest. They account for less than 15 percent of all Latin American debt, and most of them are now deep in arrears.

Debt reduction will be more complicated and costly for Latin America's major debtors—Brazil, Argentina, Mexico, Chile, Venezuela, and Colombia—which together owe about 85 percent of the region's debt. But they will require proportionally smaller reductions. Indeed, for most of them, partial and temporary relief should be sufficient.

Argentina is in the most difficult bind and needs the greatest relief. Its debt is equivalent to nearly 75 percent

*The status quo is intolerable; as long as Latin America must pay out substantially more in interest than it obtains in new loans, the region will remain stuck on a tread-mill of austerity, stagnation and rising debt*



of GNP, debt service absorbs more than 50 percent of exports, and the country is some six months behind in interest payments. In contrast, Colombia, the only country that has regularly paid both interest and principal, has an outstanding debt that is less than 20 percent of GNP, and uses only 25 percent of its exports for debt servicing. Chile has one of the highest debt to GNP ratios, but a vigorous export promotion program has reduced debt payments to 25 percent of exports. Chile and Mexico have gone furthest in reforming their economies, although Mexico and Venezuela are confronting a particularly difficult period because of low oil prices. In short, significantly different arrangements are needed for each country.

Commercial creditors will also require diverse options. Some will be prepared to sell or exchange their loans outright at a discount, while others will prefer to accept smaller interest payments. There will also be those banks, however, which will choose not to reduce their debt claims, or at least not significantly. They should be given the alternative of either making new loans or deferring interest payments. Together, the banks should offer a financial package of debt reduction and new capital sufficient to meet each country's financial requirements—provided, of course, that the country is pursuing the agreed-upon economic reforms.

The principal aim, however, should be to secure debt reduction, not new lending, from the commercial banks. Industrial country governments should consider changes in regulatory, accounting, and tax practices that would make debt reduction more attractive. But the crucial inducement for private banks will be protection against further losses. This will require some form of official guarantees on the interest or principal that remains after the debt-reduction operation. The stronger the guarantees, the greater will be the willingness of commercial banks to reduce their claims.

The industrial countries must support the necessary guarantees, either directly or through the international financial institutions (IFIs). The actual costs involved would depend on how much of the debt is reduced, whether full or partial guarantees are provided, and whether the guarantees are ever called. Since the banks would assume the up front losses, the initial costs to the industrial countries or IFIs would be modest; they would, however, be required to shoulder the risk of non-payment on still-outstanding claims. That risk would be small if, as proposed, the relief is granted only to those countries committed to economic reform. If the amount of reduction

***The principal aim should be to secure debt reduction, not new lending, from the commercial banks***



and new lending offered the countries is adequate to meet their growth needs, they will then be in position to repay their remaining obligations.

Ideally, all of the major creditor nations would join together to back the guarantees needed for a debt reduction program. Yet the program should not be delayed until such a broad agreement is reached. Some countries, notably the United States, face economic and political constraints that may prevent their joining fully at the outset. A significant debt reduction program, however, could be launched by Japan and the trade surplus countries of Europe. Instead of spurning Japanese and European initiatives, as it has to date, the United States should be actively encouraging these offers. Japan on its own could set debt reduction negotiations in motion with a modest contribution to the World Bank or IMF to establish a guarantee fund for commercial creditors. Such a fund would likely then attract other donors.

## Taking the Initiative

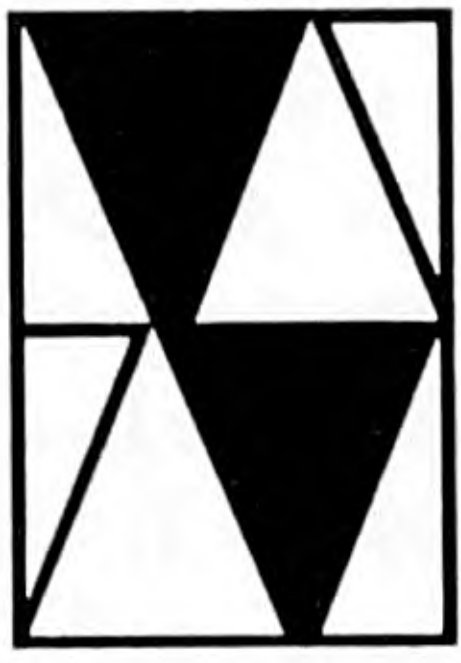
Latin America's economic crisis can be resolved—but substantial changes must be made in the policies and strategies that have been followed to date. Broad agreement exists on what needs to be done. The largest part of the burden will fall on Latin American countries. They have to restructure their economies in the face of formidable economic obstacles and immense political resistance—but they can only succeed if they have access to adequate external capital.

The United States has an indispensable part to play. It should cooperate with other industrial countries to enhance the role of the international financial institutions and significantly expand their net lending to the region. The new U.S. Administration and Congress must also support efforts to reduce Latin America's debt obligations. Washington should strongly encourage U.S. banks to negotiate debt reduction agreements with Latin American countries, and join with other creditor nations to mobilize the financial backing to make debt reduction work.

The longer decisive action to reduce Latin America's debt burden is put off, the greater the costs will ultimately be—for the United States as well as Latin America. The sooner action is taken, the easier it will be for the United States and Latin America to cooperate effectively on the other shared problems they face. There is no excuse for delay.

***The United States has an indispensable part to play. Washington should strongly encourage U.S. banks to negotiate debt reduction agreements with Latin American countries, and join with other creditor nations to mobilize the financial backing to make debt reduction work***





## Chapter II

# Central America: A Blueprint for Peace

As 1989 begins, Central America is caught between the harsh reality of war and the lingering promise of peace.

Almost two hundred thousand people have been killed in the internal conflicts of El Salvador, Guatemala, and Nicaragua; more than two million have been uprooted from their homes. Much of the region's physical infrastructure lies in ruins or disrepair. Hurricanes, drought, and earthquakes have taken a heavy toll, but the worst destruction has been wreaked by war.

Yet even as Central America's suffering continues, broad agreement has finally emerged on what must be done to end it. The proposals put forward in 1987 by President Oscar Arias of Costa Rica and adopted by the five Central American presidents when they met in Guatemala that August provide the blueprint. What is most needed now, both in Central America and in the United States, is not a new plan, but the resolve to translate the Guatemala Accords into policy and action.

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## The Promise of Esquipulas

A year ago, hopes were high that Central America was finally reversing its tragic decline. The region's presidents, recognizing that the years of violence have created a vast constituency for peace, sat down together to draft a mutually acceptable plan for ending the wars. They persisted in their negotiations until they produced the Guatemala Accords, more commonly known in Latin America as Esquipulas II (after the town where the talks began).

The presidents jointly pledged to promote democracy and foster political reconciliation; end all support for insurgent movements; facilitate the repatriation and resettlement of refugees; negotiate arms reductions and other security agreements; and together seek international aid for Central America's recovery. They strongly affirmed that peace, democracy, and development are



inseparable—that none of these objectives can be secured unless all are being advanced.

The immediate aftermath of Esquipulas was heartening. National political dialogues began in El Salvador, Guatemala, Honduras, and Nicaragua. Hundreds of political prisoners were freed. The most important steps were taken in Nicaragua, where the government lifted its state of emergency and allowed opposition media to resume activity. Most dramatically, for the first time officials of the Sandinista government and leaders of the armed resistance (the Contras) negotiated face to face; in March 1988, at the town of Sapoá, they agreed on a cease-fire.

Despite these accomplishments, the ambitious promise of Esquipulas remains largely unfulfilled.

In Guatemala, the armed forces opposed any dialogue with the guerrilla left from the start. The willingness of President Marco Vinicio Cerezo to negotiate with the insurgents contributed to an attempted coup in May 1988. That attempt failed, but no further negotiations have occurred, and Guatemala's long-smoldering insurgency shows no sign of ending.

Honduras has been caught between Sandinista Nicaragua, the Contra army (which has been based on its territory), and the U.S. government (which has supplied the Contras)—and has suffered tensions with all three as a result. Honduras' bind has increased the armed forces' involvement in politics, and distracted the nation's attention from severe social and economic problems that may fuel future turmoil.

In El Salvador, talks between the government and the insurgent left broke down almost as soon as they began. Neither side was prepared to yield on fundamental points. The government insisted that the guerrillas lay down their arms and participate in the established political process, while the guerrillas demanded fundamental social and economic reforms and a share in government power.

In Nicaragua, although the cease-fire has held, efforts to reach a political settlement among the government, the civic opposition, and the armed resistance have thus far failed. While all sides awaited the U.S. election results in 1988, the Contra movement was fractured by internal disputes, and the Sandinistas, backtracking on prior commitments, cracked down hard on the internal opposition by jailing some political leaders and reimposing censorship of the media. These developments have made compromise even more difficult.



## New Opportunities

Yet new opportunities now exist to end the Central American conflicts. In part, they reflect external changes: the advent of a new administration in the United States, substantial shifts in Soviet foreign policy and in U.S.-Soviet relations, and greater West European, Canadian, and Japanese willingness to become involved in Central America. But the biggest reasons for optimism come from internal developments in Nicaragua and El Salvador.

In Nicaragua, frustration may propel both sides toward peace. Lacking U.S. military assistance, the Contras can no longer mount effective military operations. Since such aid is unlikely to resume anytime soon, the Contras' only hope for influencing the course of Nicaraguan politics lies in an agreement that enables them to challenge the Sandinistas politically.

The Sandinista government no longer faces a military threat from the Contras, but the country's economy is in shambles. Inflation is astronomical, production has plummeted, and poverty has deepened and spread. Tens of thousands of Nicaraguans have been streaming out of the country. The one hope for economic recovery is a negotiated settlement that permits a reduction in military spending, reverses the growing exodus, fosters national reconciliation, and opens the way for international aid. Both sides have much to gain by coming to terms.

The conflict in El Salvador is more intractable. Both the government and the insurgents have shown great resilience over the past decade, and the war has intensified again in recent months. The Farabundo Marti National Liberation Movement (FMLN) has stepped up its terrorist attacks on municipal officials, while right-wing death squad activity has increased alarmingly.

But even in El Salvador, some hope now exists that the fighting can be ended, or at least more tightly contained. Neither side is close to military victory, and the stalemate is likely to continue for the foreseeable future. Both sides may come to recognize that a negotiated solution is the only real alternative to prolonged and debilitating war. In fact, elements on both the left and the right are demonstrating a new willingness to seek power through the electoral process. The decision of several parties allied with the guerrillas to participate in the 1989 presidential elections is an encouraging, if limited, sign. So was the

*In Nicaragua, frustration may propel both sides toward peace*

*In El Salvador, elements on both the left and the right are demonstrating a new willingness to seek power through the electoral process*



right-wing ARENA party's selection of a relatively moderate candidate to run for president.

In both Nicaragua and El Salvador, the military approach has proved unproductive. The root causes of Central America's wars are social, economic, political, and internal. The conflicts cannot be resolved by force of arms or outside intervention. A broad consensus has developed throughout the Hemisphere that the answers in Central America will not come from more troops, weapons, or military advisers. Rather, the conviction is growing that negotiation and compromise offer the most realistic prospect for a lasting resolution of Central America's bitter struggles.

Exhaustion and stalemate have opened a chance for diplomacy in Central America. But it will be closed once again unless the new U.S. Administration and Congress genuinely support a political settlement. Any sign that the Bush Administration is not firmly committed to the diplomatic path surely will prolong the wars.

We urge the Bush Administration immediately to offer its unambiguous support for negotiated settlements among those at war in Central America. Washington cannot impose a peace if the combatants in Central America want to keep fighting. But if the various parties to the Central American conflicts are now ready to take new steps toward peace—as we are convinced they are—the response of the United States could be decisive.

If the United States clearly supports diplomatic settlements in Central America, as it has done successfully in Afghanistan and Angola, it will find that Canada, Japan and many countries of Latin America and Western Europe are ready to be supportive. These countries can help the region tackle the daunting problems of verification, peacekeeping, refugee relief, and economic reconstruction. None of these tasks can be confronted effectively, however, until a political settlement is in sight. Movement toward peace must come first, both in Central America and in Washington.

## Building a Durable Peace

Promises on all sides to pursue peace in Central America will not be enough to end the wars. Not even a comprehensive diplomatic settlement would be sufficient. Building a durable peace will depend on providing meaningful and verifiable assurances to all parties that their core aims are being advanced.

***Exhaustion and stalemate have opened a chance for diplomacy in Central America. But it will be closed once again unless the new U.S. Administration and Congress genuinely support a political settlement***



To last, a peace in Central America must meet four intertwined challenges:

- The nations of the region and their hemispheric neighbors, including the United States, must be confident that their vital security interests are protected;
- The armed conflicts within Nicaragua, El Salvador, and Guatemala must be transformed into peaceful political competition;
- The region's economic deterioration must be reversed, with substantial international assistance, through programs that enhance equity as well as boost growth; and
- Central America's refugees and displaced persons must be repatriated and resettled in a way that contributes to the region's recovery.

Resolving these problems will be difficult; indeed, the legacy of many years will have to be overcome. But all four must be confronted to build a sustainable peace. There is no necessary sequence for reaching these goals; they must be vigorously addressed in tandem. Progress on any one front should not be held hostage to the others—nor would the accomplishment of any one aim justify slacking off in efforts to secure the rest. Security, reconciliation, development, and caring for the victims of war are tightly interconnected. Progress on some of these problems can be used as levers to help resolve the others.

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## Protecting Security

The coming to power and consolidation in Nicaragua of a revolutionary movement closely tied to Cuba and the Soviet Union has complicated security considerations in Central America.

From the start, the Sandinistas have feared that their political and economic experiment would not be tolerated. Nicaragua's neighbors have worried about Sandinista support for insurgent movements in their countries, and have been disturbed by Nicaragua's military build-up. The United States has been preoccupied by Nicaragua's ties to the Soviet Union and Cuba, and has been determined not to let Nicaragua give military advantage to these geopolitical rivals.

Fashioning a durable peace depends on addressing each of these concerns. So long as a substantial body of



opinion in the United States believes that Nicaragua's Sandinista government threatens U.S. national security, direct or indirect U.S. intervention against Nicaragua remains possible. So long as Nicaragua's rulers believe that the U.S. government seeks their overthrow, they will have reason to continue their military build-up and to seek changes in the regional political environment. So long as Nicaragua amasses military might and foments revolution, Nicaragua's neighbors will have reason to wish for an end to the Sandinista regime.

This cycle of insecurity cannot be broken until the United States moves forthrightly to protect its own legitimate interests.

As part of its evolving dialogue with the Soviet Union, the new U.S. Administration should press for a significant reduction in Soviet bloc military presence in Nicaragua and in the level of Soviet military assistance to Managua. Washington should obtain satisfactory assurances that the Soviet Union will not introduce combat forces, high performance jet aircraft or other advanced weapons systems into Nicaragua, nor use Nicaragua as a base for reconnaissance or intelligence activities. The United States should seek similar assurances from Havana; this may be easier following the successful negotiations with Cuba on southern Africa. The United States should make clear its aim to defuse the superpower conflict in Central America—for instance, by restricting the frequency and scale of U.S. military maneuvers once the Soviets and Cubans have reduced their presence.

To reinforce these U.S.-Soviet and U.S.-Cuban agreements, the countries of Central America should jointly prohibit foreign military bases in their territory, strictly limit the contingents of foreign military advisors, and curtail arms acquisitions. We urge the five countries of Central America, as called for in the Esquipulas Accords, to resume negotiations on security, arms reductions, and verification within the framework of the draft treaty proposed by the Contadora nations in June 1986. As these negotiations proceed, all parties should seek to build mutual confidence through reciprocal steps, such as closing down rebel sanctuaries and limiting military deployments in border areas.

We call upon the United States to confine any further aid to the Contras to genuinely humanitarian assistance for the purpose of reintegrating them into Nicaragua's normal life, as contemplated in the Esquipulas and Sapoá agreements. Nicaragua, too, must desist from any and all military and paramilitary assistance to the insurgents in

***The new U.S. Administration should press for a significant reduction in Soviet bloc military presence in Nicaragua***



El Salvador and elsewhere. There can be no double standard on this essential point.

It is vital to strengthen the monitoring and verification provisions of the regional security accords. The five Central American governments recently achieved an important breakthrough when they asked the United Nations' Secretary General to work with Canada, Spain, and West Germany in organizing a force to supervise and verify the cut-off of aid to all insurgent groups. Nicaragua and Costa Rica have also taken an important step by agreeing on joint border patrols to prevent incursions. The United States should support these initiatives politically and, upon request, provide relevant equipment and technical advice to help implement peacekeeping operations.

## Fostering Peaceful Political Competition

Central America's security ultimately depends on fashioning internal arrangements that allow all major groups to participate fully in political life, and thereby acquire a stake in civic peace. That is why Esquipulas focuses on fostering national reconciliation and political pluralism.

Esquipulas provides a mutually accepted framework among the five Central American governments for encouraging democratic competition. Each government pledged to halt violations of human rights; protect freedoms of assembly, association, and expression; and hold regularly scheduled free and fair elections.

It is, however, much easier to profess such commitments than to carry them out. Most of Central America today is still a long way from political pluralism and constitutional democracy. Abuses of human rights and restrictions on free political activity are all too common in El Salvador, Guatemala, Honduras, and Nicaragua. In Guatemala, El Salvador, and Honduras, military and police forces ignore or resist civilian political authorities. In these three countries, institutions are weak and vulnerable to corruption. In Nicaragua, Sandinista Party control of the armed forces raises serious questions about the regime's willingness to accept autonomous opposition, the basic prerequisite for peaceful political competition.

Central America's failure so far to achieve reconciliation, pluralism, and democracy should surprise no one. Except for Costa Rica, the nations of this region have had little successful experience with democratic politics. Their histories register few honest elections, frequent military interventions, and pervasive violations of human rights.

*Central America's security ultimately depends on fashioning internal arrangements that allow all major groups to participate fully in political life*



Even if Central America's armed conflicts can soon be halted or sharply reduced, pluralist politics will take many years to build. These societies have become intensely polarized and their deep divisions have to be healed. The rules of politics still have to be devised through broad consultation and agreed upon by the main social actors. Civic trust must be earned reciprocally among the main contenders for power.

A whole network of institutions must be built to make effective democracy possible. Independent judiciaries must be created; political parties, professional associations, interest groups, and other non-governmental organizations must be fostered and strengthened; the media must become more competent and professional, and be allowed to provide information independent of the dictates of ruling groups; and civilian control of the armed forces must be firmly established. None of this will come easily or rapidly in El Salvador, Guatemala, Honduras, or Nicaragua.

But national reconciliation, combined with steady progress toward pluralism and democracy, is essential to achieve a lasting peace in Central America. The genius of Esquipulas was its marshalling of concerted, symmetric, and reciprocal external pressures on all countries of Central America to open up competitive politics. Such pressures and incentives, if carefully applied and sustained, are much more likely than military action—or mere exhortation—to promote democracy. What is urgently needed now is a strategy for bringing international influence to bear more effectively.

We recommend three concrete steps:

**First, we urge the five presidents of Central America to request the United Nations or the Organization of American States to establish an independent international committee to evaluate compliance with the political provisions of Esquipulas.** Such a body—which might include Canada, Spain, and West Germany, for example—should be responsible for reporting on violations of human rights; monitoring freedom of assembly and expression; and observing political campaigns and elections. Unlike the short-lived verification and follow-up commission originally established after Esquipulas, the new evaluation committee should be composed of a small number of countries accepted as impartial by the five Central American governments, should have unimpeded access to all five nations, and should issue periodic public reports on progress toward achieving the Esquipulas commitments.

***What is urgently needed now is a strategy for bringing international influence to bear more effectively to open up competitive politics in Central America***



**Second, international pledges of significant economic assistance for Central America's reconstruction should be conditioned upon good faith efforts by the governments of each country to negotiate solutions to the armed conflicts as well as on their satisfactory implementation of the Esquipulas commitments regarding political pluralism and peaceful political competition.** Until progress on both these dimensions has been achieved, international economic assistance should be limited to humanitarian relief for the victims of war.

**Third, the international community should organize a consultative group to mobilize resources in support of the Esquipulas process.** Specifically, the group should coordinate economic development assistance, tying it tightly to each country's progress in implementing the Esquipulas provisions, as evaluated by the recommended independent body. Positive incentives and sanctions for non-compliance should be based on a reasonable timetable for progress toward pluralism and democracy, taking into account each country's circumstances.

## **Caring for Refugees and Displaced Persons**

Esquipulas raised hopes that the plight of Central America's refugees and displaced persons would be promptly addressed through regional cooperation and international assistance. Some positive steps were taken in the months following the agreement, but the problem remains acute. The few thousand refugees who returned to El Salvador, Nicaragua, and Guatemala have all encountered extreme hardship: shortages of jobs, housing, public services, and even food and other basic commodities. Often they have had to face hostility, distrust, and continuing insecurity as well. Further deterioration in Nicaragua and El Salvador has produced a new tide of refugees—fleeing to Costa Rica, Honduras, and further north to Mexico, the United States, and Canada. At the same time, hundreds of thousands remain displaced within the three countries.

Few of the two million Central Americans who have been forced to leave their homes have obtained assistance and protection. Approximately half have left Central America. Of those who remain on the isthmus, only a small minority have found shelter in camps operated by the United Nations High Commission for Refugees (UNHCR) or in those supplied by the United States Agency



for International Development (USAID). Most eke out a harsh living in slums and shanty towns.

It is essential, both for humanitarian reasons and to improve the prospects for peace, to meet the immediate needs of Central America's refugees and displaced persons for food, shelter, medical care, education, and personal security. International agencies—including the UNHCR and the International Committee of the Red Cross—are stretched to their limits. Besides emergency relief, re-sources are needed to resettle or repatriate refugees and displaced persons so they can participate again in the economic, social, and political life of Central America. The European Economic Community has led the way thus far in funding reintegration efforts; the United States and the rest of the international community should follow this example.

The future of the Contras must be resolved as well. Some 40,000 Nicaraguans now receive assistance in camps in Honduras, supplied by USAID. Eight to ten thousand of these have been combatants; the rest are family members or avowed supporters. The U.S. government surely has a responsibility to assist those whom it armed, trained, and encouraged to fight. These persons should not be exploited as bargaining chips in a diplomatic and political struggle between the governments of the United States and Nicaragua. Every effort should be made by the government of Nicaragua and the resistance to negotiate an agreement that would allow for the safe repatriation of former combatants and their supporters, and for their active involvement in Nicaragua's economic and political life.

Reintegrating the Contras and their families into Nicaraguan society will be difficult at best, and will require international economic assistance and monitoring of their treatment. But the situation would be much worse for all concerned if the Contras cannot return. Thousands more Nicaraguans would probably leave, convinced that there is no future in their country. With the numbers of Nicaraguan refugees swelling, the Contras would encounter increased resistance to their presence in Honduras and Costa Rica, and also to entry into the United States. The repatriation of the Contras would also spare the United States the anguish of choosing between its desire to aid the victims of authoritarian rule and its interest in preserving an opposition in Nicaragua in order to spur democratic competition.

The United States, Canada, and Mexico all face difficult decisions as migration increases from Central America. The paths from Central America to Mexico City,

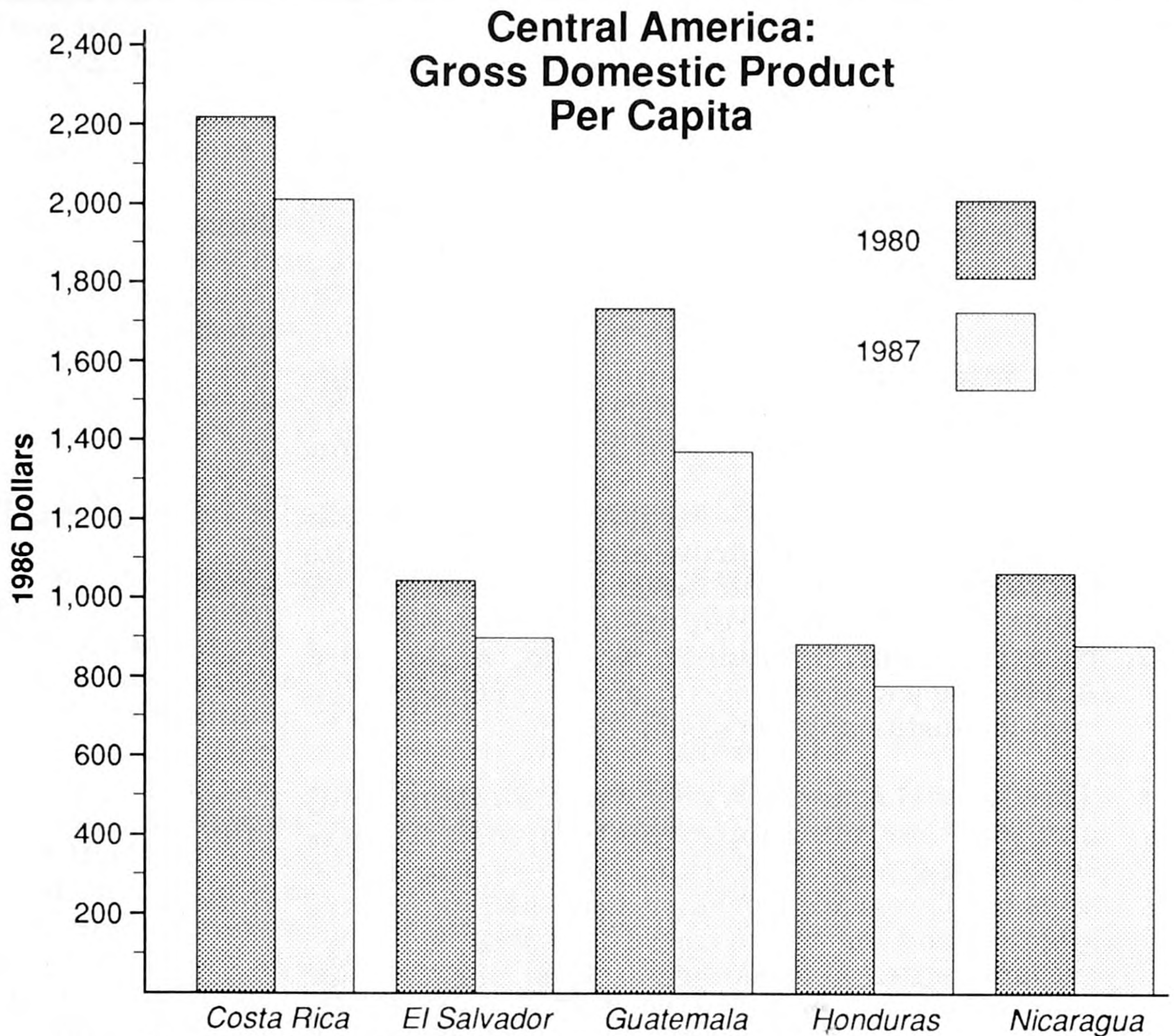
***The future of the  
Contras must be  
resolved***



Miami, Los Angeles, and Toronto are now well traveled. Networks have been established and communities of Central American exiles have emerged, facilitating the entry of new migrants. The flow of Central Americans is sure to grow, as are pressures to restrict this influx. We urge the governments of the United States, Canada, and Mexico to apply a generous standard in deciding claims for temporary asylum by Central Americans. Those who are denied asylum should not, in any case, be returned to war zones, nor should large numbers be deported to the already strapped countries of Central America.

## Promoting Equitable Development

Central America's economies have been devastated during the 1980s. Per capita income for the region as a whole has fallen more than 15 percent—even more in





Nicaragua and El Salvador, where war and destruction have been concentrated. Nicaragua's export earnings for 1988 were less than one-third their level a decade ago. Although El Salvador's deterioration has been cushioned by more than \$3.2 billion in U.S. aid, per capita income has fallen nevertheless to the level of the 1960s. Honduras and Costa Rica have been spared direct violence, but their economies have been badly hurt by the regional struggle; both are more dependent than ever on U.S. assistance.

So long as the region's wars drag on, Central America will not recover. Infrastructure is destroyed as fast as it can be rebuilt, resources are diverted to weaponry, and private investment has dried up. External assistance is merely slowing the rate of economic decline.

But even if and when the wars are halted, Central America's economic vitality will not be restored easily. It will take major infusions of foreign aid and the careful use of both domestic and external resources to repair the region's economies and achieve sustainable growth.

Several international groups—foremost among them the United Nations Development Program, the European Economic Community, and the non-governmental International Commission for Central American Recovery and Development—have been analyzing what will be required to help Central America build its future.

These studies suggest a consensus for action that we strongly endorse:

- **The international community should provide emergency assistance to Central America for food, health, sanitation, shelter, and education.**
- **The governments of Central America should develop programs to improve education and health services; to distribute land, credit, water, and other resources more equitably; and to incorporate the poor, including women, more fully.** Alleviating poverty is not only a matter of justice; it is vital for sustainable development.
- **The Central American governments, separately and together, must improve the management of their economies.** They should sharply reduce distortions in the region's monetary, fiscal and commercial systems, and undertake concerted efforts to realign exchange rates to encourage exports. Banks should offer sufficient returns on deposits to generate domestic savings and reattract flight capital. A common

*Even if and when the wars are halted, Central America's economic vitality will not be restored easily*



regional tariff at a suitably low level is needed to encourage intra-regional integration and expanded trade with extra-regional partners.

- **The international community should alleviate Central America's massive debt burden; reduce barriers to Central America's exports; and provide carefully targeted development assistance—particularly for education, infrastructure and export-oriented enterprises.**
- **International assistance should be conditioned on satisfactory progress toward peace and political reconciliation, compliance with the commitments undertaken in the peace process, and adequate economic reforms and performance.** It should be designed to encourage regional cooperation and to help rebuild the Central American Common Market. The countries of Central America and international donors should agree on multi-lateral mechanisms to channel resources to worthwhile projects—and to coordinate, condition, and disburse such assistance.
- **The international community should commit itself to sustained support for Central America's development well beyond the end of the region's wars and resolution of the related security issues.** It would be tragic if peace in Central America led to international neglect, then to stagnation, and eventually back to deprivation and violence.

## **The United States and Nicaragua**

We believe the Esquipulas framework provides a blueprint for achieving progress, peace, reconciliation, and recovery in Central America. The blueprint will be useless, however, unless the confrontation between the governments of Nicaragua and the United States is resolved.

At this juncture, the prospects for peace between the United States and Nicaragua depend on Washington's first making clear its terms for restoring normal relations with the Sandinista government. If the new U.S. Administration and Congress believe that the very existence of the Sandinista regime in Managua, because of its character and ideology, threatens U.S. security interests, then the United States may see no long-term alternative to attempting to oust the Sandinista government, and in the



meantime continuing its unremitting hostility toward Nicaragua. Such an approach, almost certainly, would condemn Central America to many more years of confrontation, destruction, and despair.

We strongly urge a different tack. We do not believe the Sandinista regime, by its mere existence, poses the kind of security threat that could justify direct or indirect military or paramilitary intervention by the United States. The emphasis of U.S. policy should not be on overthrowing the government of Nicaragua, but on assuring that its activities do not threaten the security of other countries. On this key point, there is broad agreement, both in Latin America and in the United States.

To deter any future threat to its security, the U.S. government should obtain satisfactory assurances from the Soviet Union and Cuba that they will curtail their military ties to Nicaragua. The United States should also resume direct bilateral talks with the government of Nicaragua in order to fashion mutual security arrangements. The framework for such an agreement was outlined in the negotiations conducted by the United States and Nicaragua during the summer of 1984. Nicaragua then indicated it was ready to agree not to acquire certain types of weapons, not to support guerrilla movements in neighboring countries, and to send Soviet and Cuban military personnel home in exchange for a normalization of relations with the United States and an end to U.S. efforts to overthrow the Sandinista regime.

Any security agreement carries the inherent risk of non-compliance; consequently, provisions for verification and monitoring are indispensable. Even with such provisions, there can be no iron-clad guarantee that the agreements will be respected. But if the Sandinista government were found to be violating an explicit commitment—by acquiring a prohibited category of weapon, for example—the U.S. government could then expect considerable domestic and international support for imposing appropriate sanctions against Nicaragua.

While negotiating on security issues, the U.S. government should continue trying to foster democratic political competition in Nicaragua. By alleviating its security concerns, the United States should be able to concentrate more effectively—in concert with other democratic countries—on promoting pluralism and democracy everywhere in Central America. This aim is more likely to be achieved, over time, through internal pressure and consistent multilateral inducements than through unilateral imposition or intimidation.

***The emphasis of U.S. policy should not be on overthrowing the government of Nicaragua, but on assuring that its activities do not threaten the security of other countries***



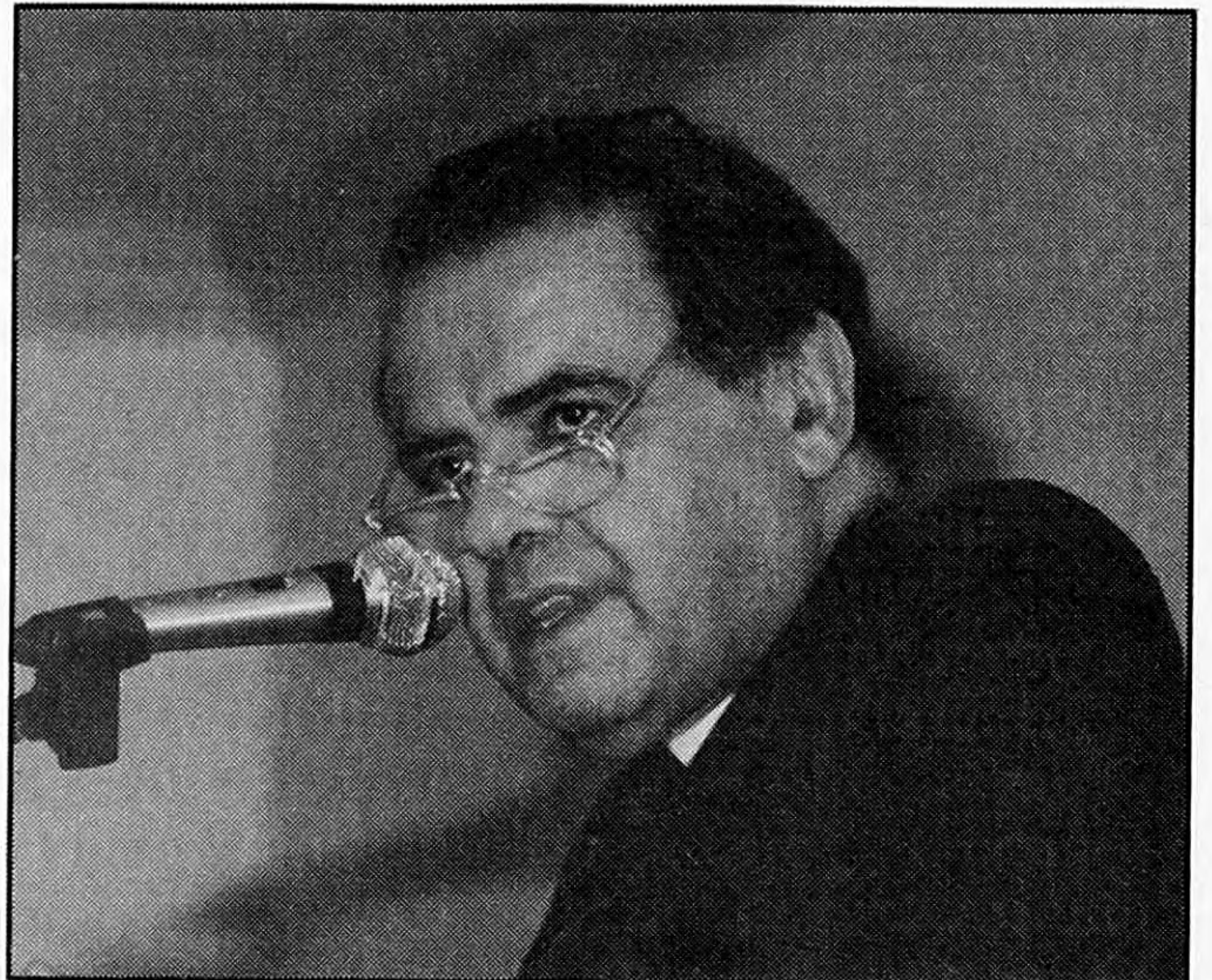
In sum, for a secure peace to be achieved in Central America, the United States and Nicaragua must reach a political settlement. For this to occur, Nicaragua must curtail its military ties with the Soviet bloc, desist from subverting its neighbors, and open up its politics. The United States, in turn, must stop trying to overthrow Nicaragua's regime and take the lead, within a multi-lateral framework, in aiding Central America's reconstruction. Only in this way can the region's recovery begin and succeed.

Central America's continuing wars and the domestic and international divisiveness they have bred have obscured a critical and hopeful development: broad consensus now exists throughout the Americas that the new U.S. Administration and the government of Nicaragua should accept the Esquipulas blueprint and apply their energies and resources to achieve peace. The time to do so has surely come.

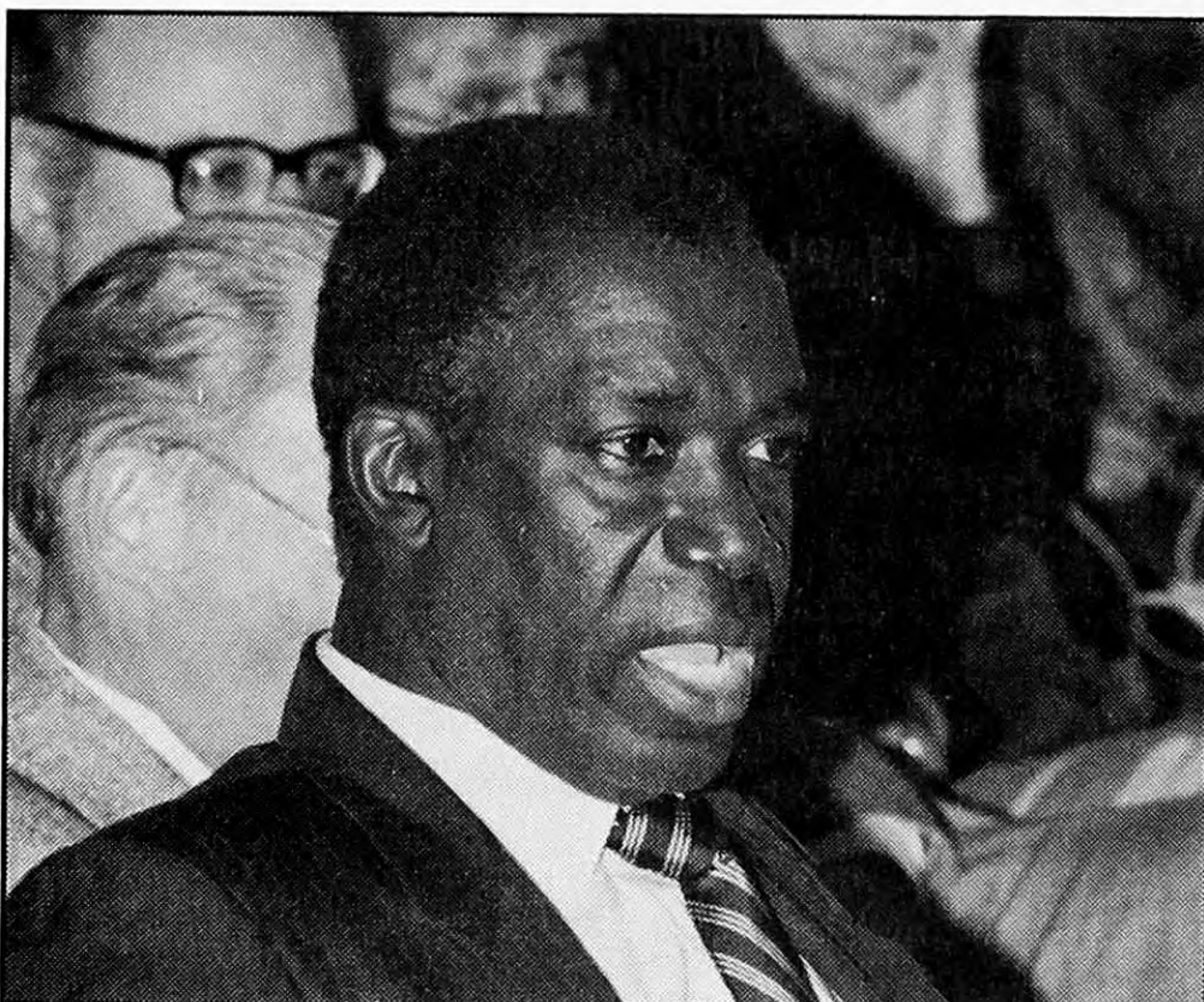




**Andrew J. Goodpaster**

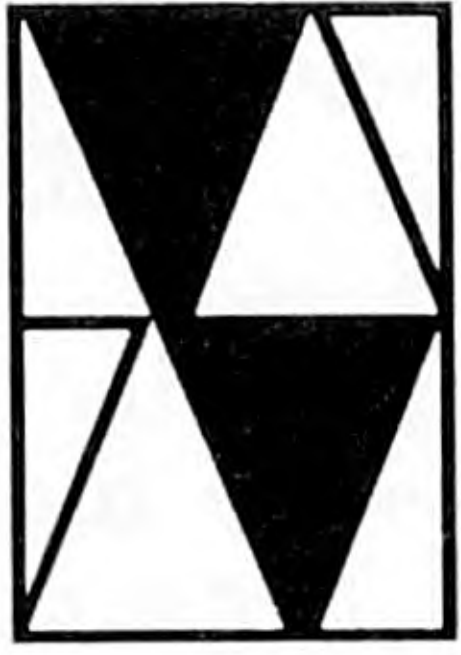


**Enrique V. Iglesias**



**José Francisco Peña Gómez**





## Chapter III

# Drugs: Getting Serious About Demand and Supply

By any measure, the countries of the Western Hemisphere are losing ground in the fight against dangerous drugs.

The use and abuse of narcotics are increasing—as are the crime, violence and corruption associated with the drug trade. Current anti-drug policies have not been effective anywhere in the Americas, and they continue to strain relations between the United States and Latin American supplier countries.

The Hemisphere can and must do better. No dramatic success is on the horizon; the “war” against drugs will not be quickly “won.” But the elements of an effective strategy are emerging. Which actions should be taken and which should be avoided are becoming clearer. There is wide agreement on those that would make the most difference: concerted efforts to reduce demand, particularly in the United States. The need for greater cooperation among all countries of the Hemisphere to confront both demand and supply is also plain.

### United States Perspectives

Drugs have become a central political issue in the United States, where polls show that a majority of citizens now regard narcotics as the single most pressing problem facing the country. Drugs are a huge business by any accounting: U.S. citizens spend as much as \$100 billion per year on illegal purchases of narcotics, or twice U.S. expenditures on imported oil.

For the United States, public enemy number one is cocaine. An estimated six million people use the drug regularly, and its street price has dropped by more than two-thirds in the past four years. “Crack,” the newest, cheapest, and most virulent form of cocaine, is devastating already troubled inner-city neighborhoods. The cocaine explosion has obscured the continuing affliction of heroin, mostly confined to U.S. ghettos but used by a half million persons.



Marijuana remains the most prevalent illicit drug in the United States, but in recent years its price has risen and use declined. Between 1980 and 1987, the percentage of high school seniors who reported using marijuana in the previous month dropped from 34 to 21. Eradication and interdiction deserve some credit for this modest success, although they have also prompted sharply increased domestic cultivation of marijuana.

The United States is finally shifting the emphasis of its anti-drug policies toward the reduction of demand. Concrete actions have been slow to take shape, however. Although the U.S. Anti-Drug Act of 1988 proposed significant new efforts to reduce demand, they have yet to be fully funded. In 1987, only \$500 million was spent on education and prevention, less than 15 percent of the total U.S. anti-drug budget.

Speaking at the United Nations last September, Nancy Reagan, the wife of the U.S. President, argued forcefully for attacking demand, declaring that "it is the United States alone which bears responsibility for its drug problem." Yet drugs retain their image as a "foreign poison" killing young people in the United States, and calls to "get tough" with drug-producing countries persist. Efforts to attack drugs at the source, however, command few U.S. resources—about five percent of the U.S. government's anti-drug budget. U.S. assistance to Peru, the world's largest producer of coca leaves, for example, totals \$6 million per year, less than one-half of one percent of what the United States spends on interdicting drugs at its border.

## **Latin American Perspectives**

The bulk of the world's cocaine originates in Latin America. Most coca leaves are grown in Peru and Bolivia, while criminal organizations in Colombia control about two-thirds of the cocaine trade. Mexico is the transit point for a third of the cocaine reaching the United States; it is also the major producer of heroin and marijuana for the U.S. market. A dozen other Latin American nations are involved in trafficking.

Latin American perspectives differ from country to country, depending mostly on how deeply cocaine traffic permeates the society. Although only about \$2 billion in cocaine profits flow back to the main South American producing countries, these profits account for about one-tenth of all export earnings for Colombia, one-quarter for Peru, and one-half or more for Bolivia. Moreover, a half



million people, mostly in Peru and Bolivia, cultivate and harvest coca leaves, while many others are employed in activities financed by drug profits. The jobs and foreign exchange from drug trafficking are clearly important to these countries that are wracked by debt and depression.

The effect on coca-producing regions is uneven. In many areas, the cocaine trade, no matter how distasteful, has undeniably produced a measure of prosperity. But much of the drug profits pays for conspicuous consumption, contributing to inflationary pressures.

Latin American countries have pursued three anti-narcotic strategies: attacking trafficking networks, eradicating coca crops, and substituting other crops for coca. None of these efforts has made much of a dent in production or profits. Indeed, U.S. government statistics show that the coca-growing area of Peru doubled between the early and late 1980s, with cocaine becoming Peru's largest export.

The cocaine trade has become an open threat to government authority in Peru and several other supplier nations. Small states are particularly vulnerable to the power of the traffickers. Bolivia was briefly ruled by generals who were heavily involved in drug trafficking. Panama still is. This vulnerability may be a special concern in the Caribbean, where most governments are democratic and militaries small.

The fight against cocaine can threaten democratic governments as seriously as the trafficking itself. Involving the national army in eradication risks both enmeshing it in corruption and diminishing civilian authority by stretching military responsibilities. For countries with guerrilla insurgencies, eradication poses an especially cruel dilemma: destroying drug crops can undercut support for anti-guerrilla operations, pitting the military against local peasants. In Peru, the Sendero Luminoso guerrillas have made deep inroads into the country's coca-producing areas.

Although governments of the Hemisphere have expressed concern about guerrillas and drug traffickers joining forces, such alliances seem to be the exception rather than the rule. Repeated assertions of such a link suggest an effort to find scapegoats to spare governments the harder task of grappling with the domestic roots of both anti-government insurgency and drug trafficking.

After all, the traffickers' main interest is profit. Unlike guerrillas, they do not seek to overturn social and economic structures. Most often, traffickers and guerrillas are adversaries, competing for control of territory and

***The fight against cocaine can threaten democratic governments as seriously as the trafficking itself***



coca-growing peasantry. In some places, guerrillas levy war taxes on growers, which drives down profits from the narcotics trade. Traffickers, in turn, hire their own armies to protect drug operations from the guerrillas. If they are left alone, traffickers and growers will often support national police and armies in combatting guerrillas.

Eradication efforts, however, have occasionally driven guerrillas and traffickers to work together. In 1984 and 1985, in Peru's Upper Huallaga Valley—where coca accounts for nine-tenths of local income—local cocaine dealers provided army commanders with intelligence on Sendero Luminoso. But since then, intense eradication programs have made the central government the enemy of both the guerrillas and the coca growers.

Even where insurgents do not pose a threat, governments may still confront unappealing choices. Government actions against traffickers invariably provoke increased drug violence and corruption. Precisely because drug criminals are so ruthless, officials are tempted to tolerate, rather than pursue, them. When judges, for example, are offered the choice of "plomo o plata"—bullets if they convict traffickers, bribes if they do not—and when a series of assassinations demonstrate that the choice is real, it is no surprise that convictions are rare. In such circumstances, government officials may conclude they have little option but tacitly to accommodate the traffickers.

Yet such accommodation can ultimately lead to greater problems. The Colombian government, for instance, by and large tolerated marijuana-growing in the 1970s; this precedent made it more difficult to deal with the more deadly cocaine trade in the 1980s. In 1984, when the government of President Belisario Betancur approved an extradition treaty with the United States, the traffickers were strong enough to strike back by killing his justice minister.

## Addressing Demand

Actions to reduce demand must be given overriding emphasis in the struggle against drugs. As long as there is demand for illicit drugs, supplies will find their way to it. Latin Americans have long beseeched the United States to curb its demand for narcotics. Now they, too, have to address the spread of drug abuse in their own societies.

Experience with anti-tobacco and marijuana campaigns provides some suggestions for reducing demand for cocaine. So do declines in the consumption of alcohol and

***Actions to reduce demand must be given overriding emphasis in the struggle against drugs. As long as there is demand for illicit drugs, supplies will find their way to it***



saturated fats, and the increasing numbers of people engaged in physical exercise. Some lessons have been learned: achieving desired changes in behavior requires that the populations at risk have sound and credible information about the dangers and benefits involved, the skills and opportunities required to use that information, and the motivation to keep working at the change despite obstacles. This prescription calls for continuing efforts to educate young people and their families about the dangers of drugs and how to obtain help if they do become involved; it also requires effective and accessible programs to treat and rehabilitate drug users. The incentives for change need constant reinforcement—for individuals, for families, and for the community at large.

But much more systematic research is needed to determine exactly what works and what does not in reducing demand. For example, although cigarette-smoking among teenagers declined sharply in the 1970s and early 1980s, the downward trend stopped in 1984. The decline in marijuana use may be partly attributable to a shift toward cocaine, a more dangerous drug, or perhaps to alcohol, the substance most abused by young people.

The full range of deterrent measures deserves urgent study. The argument about mandatory drug-testing in the United States has focused on the individual's right to privacy, but it is still unclear whether testing is an effective deterrent to drug use to begin with. How useful is it to threaten and punish users—by denying them driver's licenses or applying other sanctions? These and other basic questions need to be answered.

The problems of drug use among the poor require special attention, for drugs are thoroughly entangled with other problems of poverty. Education about the dangers of drugs will make little headway with young people who see so few opportunities for themselves that they have little to lose from drug use. Poor school systems, shattered families, limited employment prospects, and violent neighborhoods all complicate the battle against drugs. Yet there are resources to be tapped in poor communities, and some model projects have made impressive gains. It is imperative that these now be tested on a larger scale.

There is little support for legalizing cocaine or other illicit drugs in any country of the Hemisphere, but a few political leaders in both the United States and Latin America have begun advocating this approach. Some of us believe that legalization deserves serious study—that it is important to understand the costs, risks, and possible benefits of decriminalizing the use and sale of some drugs.



Most of us, however, are convinced that legalization is a counsel of despair, not to be contemplated.

## Thinking About Supply

Neither eradication in Latin America nor interdiction at the border will do much to address the U.S. cocaine problem. There are too many places where coca can be grown and too many ways to smuggle cocaine into the United States. Seizures of cocaine by the United States, for example, have grown from two tons in 1981 to 27 in 1986, while arrests of traffickers have risen from 2,000 to 6,000. Yet cocaine is more plentiful and cheaper than ever.

The crucial fact is that the bulk of cocaine profit is made inside the United States, not outside. The retail price of a kilo of cocaine in the United States is nearly 40 times its value on export from Colombia and 250 times the cost of the coca leaves used in its production.

### Cocaine Prices, 1986 (per pure kilogram equivalent)

Farmgate	US\$	1,000
Export, Colombia		7,000
Import, Miami		20,000
Wholesale (one kilogram unit)		40,000
Retail (one gram unit)		250,000

Source: Peter Reuter, Rand Corporation, paper prepared for the Inter-American Dialogue

It is vital to understand the significance of these enormous price differentials: even an extraordinarily successful eradication campaign that destroyed enough coca leaf to double or triple its price would have virtually no effect on cocaine prices in the United States. Similarly, destroying processing laboratories instead of crops—an approach used in Bolivia in 1986—is ineffective because the facilities are crude, cheap, and easily replaced. Indeed, the street price of cocaine is so high relative to production and distribution costs that traffickers can sacrifice one boat-load or plane-load in two and still reap huge profits.

To put faith in eradication or seizure to end the drug trade is to pursue a will-o'-the-wisp. Pressuring Latin American countries to eradicate crops is just not an

***To put faith in eradication or seizure to end the drug trade is to pursue a will-o'-the-wisp***



effective policy for addressing the drug problems of the United States. Moreover, such pressure, usually involving public criticism, damages the climate for bilateral cooperation on other issues. For inter-American dealings over narcotics to be dominated by debates between the U.S. Executive and Congress over whether Latin American nations should be "certified" as cooperating in anti-drug efforts is unhelpful to the United States and demeaning to Latin America.

Eradication can be a useful part of an anti-cocaine strategy for some Latin American producing nations, particularly those where coca cultivation is not well-established. Crop eradication, for example, has so far succeeded in keeping coca production from taking hold in Ecuador. But for countries such as Peru and Bolivia, where coca cultivation is extensive and firmly rooted, intense eradication efforts have produced few gains. Those efforts could be escalated by undertaking the aerial spraying of coca leaves with "Spike" or another similar herbicide. Such spraying could, however, cause widespread environmental damage and would risk alienating whole areas of the country. In Peru, it would give Sendero Luminoso the opportunity to expand its influence in coca-producing regions even further.

Those Latin American countries where eradication is unpromising should emphasize other anti-drug efforts. Mexico, for example, should probably focus less on marijuana eradication—which is expensive, creates conflicts with peasants, and corrupts the police and military—and more on disrupting the flow of heroin to the United States by attacking the principal trafficking organizations.

In some places, eradication might be made more effective by promoting the cultivation of crops in place of coca. Conventional wisdom holds that coca is vastly more profitable for farmers than any potential substitute crop, citrus or coffee, for example. Yet according to economic logic, since coca-growing is easy, competition should eventually bid down prices to the point at which coca farmers would have the incentive to switch to a substitute. Supporting this proposition is the fact that coca cultivation is generally found in newly-colonized areas, and has rarely taken hold where other profitable agriculture already exists.

Making substitute crops attractive where coca growing is already well-established would require large new investments—both in the alternative products and the infrastructure required to get the crops to market, a problem that coca producers do not face since the traffick-

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ers take care of marketing. Cost estimates run to \$2 billion per year for Peru alone.

Even such a massive program, however, would not help the United States much in dealing with its cocaine problem. Since coca leaf is such a tiny fraction of the cost of producing cocaine, traffickers could easily afford to frustrate substitution efforts by paying higher prices for the leaf—and coca would still be grown. Coca-growing might at best move to new areas. Moreover, U.S. assistance of this magnitude is unlikely in a period when budget constraints are forcing Washington to cut all foreign aid expenditures.

## An Agenda for Action

It is time for the United States and Latin American countries to devise and implement a joint strategy for confronting the drug trade. As a first requirement, the United States must avoid the inflated rhetoric and intrusive pressures that poison hemispheric relations and accomplish little in the battle against drugs. This would open the way for cooperation, modest but real, based on shared assessments of the Hemisphere's narcotics problems.

**The consensus for inter-American action starts with reducing demand in both the United States and Latin America.** This will require substantially increased emphasis on education and treatment, including funding to expand successful pilot programs and to test a wide range of demand reduction measures. **U.S. financial and technical assistance should be made available to Latin American countries for programs to reduce drug abuse as well as for supply-containment efforts.**

Other useful initiatives that should be undertaken are:

- **Intensifying police and intelligence cooperation.** The criminal organizations that control much of the drug trade are hardly affected by the arrests of lower-level operators, and even recent prosecutions of drug kingpins have not visibly disrupted narcotics flows. But a sustained and coordinated campaign against drug criminals and their organizations in both the United States and Latin America could substantially increase the risk and raise the costs of trafficking. Such a campaign would demonstrate that the nations of the Hemisphere are seriously committed to curbing the drug trade and punishing violators.

*The United States must avoid the inflated rhetoric and intrusive pressures that poison hemispheric relations and accomplish little in the battle against drugs*



- **Reforming laws on bank secrecy to impede money laundering and imposing stricter controls on the chemicals used to process cocaine.** Traffickers eventually must move illegal profits back into legal enterprises, a point of vulnerability that could be exploited more effectively. Current regulations allow money to flow all-too-easily through banking institutions and countries. Similarly, traffickers now have relatively easy access to the chemicals they need to fabricate cocaine from coca leaves. Tough restrictions should be put on both the export and import of those chemicals, virtually all of which are produced in the United States.
- **Developing cooperative mechanisms for sharing information and for monitoring what works and what does not.** The United Nations and the Organization of American States have both established agencies to gather and disseminate information on drug trafficking and anti-drug efforts—and to provide technical assistance for narcotics control. These activities are crucial for any coordinated inter-American strategy to deal with drugs, and they should be strengthened and expanded.

In all discussions of drugs, honesty is essential. Overheated rhetoric followed by little action is of no help to either half of the Hemisphere. For all the violent skirmishes in the campaign against drugs, it is hardly a war anywhere in the Hemisphere. Whatever the temptation to call for a “drug free America,” without specific and funded programs to curb both demand and supply, such calls should be seen for what they are—words substituting for action.

Every country of the Hemisphere shares the goals of curbing narcotics use and controlling drug corruption and violence. These goals can only be achieved if we all stop placing blame elsewhere. The narcotics problem begins at home for all countries. Inter-American cooperation is essential, but each nation must also concentrate on what it can do internally to confront the scourge of drugs. There are few more urgent priorities in the Hemisphere.

*Whatever the temptation to call for a “drug free America,” without specific and funded programs to curb both demand and supply, such calls should be seen for what they are—words substituting for action*





**Sol M. Linowitz  
and Bruce Babbitt**



**David Hamburg  
and Peggy Antrobus**





## Chapter IV

# The Environmental Challenge

Environmental degradation should be an urgent concern for every country of the Hemisphere.

International attention has focused recently on the relentless cutting and burning of tropical forests in the Amazon and the devastating worldwide climate changes they threaten to bring. Other environmental issues have also forced their way on the agenda of hemispheric relations, albeit less dramatically. Acid rain wafts northward from the United States to Canada, while trucks and barges laden with hazardous waste head south for Mexico and the Caribbean in search of disposal sites. Fruits and vegetables laced with chemicals banned in the United States find their way from the Caribbean Basin to North American supermarkets.

Yet even more troubling than the international effects of ecological destruction is the damage being done within each country in the Americas—to the productivity of natural resources, to the health of millions of people, and to the prospects for longer-term economic and social development.

Latin American countries face two crucial environmental challenges in the late 1980s: the destruction of their renewable natural resources and the contamination of their cities. The United States and Canada have had the luxury of addressing these twin challenges one at a time. Latin American countries must confront them simultaneously, in the midst of a severe economic depression. Latin America today faces the kind of natural resource management problems that caused the Dust Bowl of the 1930s in the United States and, at the same time, the kind of industrial pollution that jolted the United States and Canada into action in the late 1960s.

## Natural Resource Destruction

Throughout the Hemisphere, natural resources—land, forests, lakes and rivers, coastal areas, and fisheries—are being pillaged and wasted.



Tropical forests are rapidly being destroyed not only in the Amazon, but also on Brazil's Atlantic coast and throughout Central America and southern Mexico. Removing forest cover is not always environmentally destructive, but when vast areas are deforested rapidly, soil nutrients are depleted, plant and animal species are wiped out, and harmful changes in regional and global climate can occur. Large cattle operations, new settlement programs, mining operations, and urban overflow all contribute to this devastation. At the same time, the enormous economic potential of tropical hardwoods and other forest products is being squandered.

The most costly and pervasive environmental threat facing the Hemisphere is the declining productivity of land. Soil erosion is devastating upland areas in country after country. In the highlands of Central America and the Andes, and on the hills of Haiti and other Caribbean islands, population pressures have led to widespread removal of tree cover and intense annual cropping. These, in turn, have caused extensive top soil losses and, in the extreme, gullying and landslides. In the wet lowland tropics, soil fertility has been depleted by agriculture and cattle ranching. Mechanized agriculture is degrading soil in many flatland regions.

The off-farm impacts of land degradation may be even more costly than the losses from decreased agricultural production. Siltation in dams throughout Latin America has cut back production and increased the generating costs of hydroelectricity. Many navigable waterways and natural harbors require frequent dredging to clean out sediment deposits. Downstream flooding in Central America and the Andean region is a direct consequence of the defoliation of mountain slopes.

Latin Americans are also suffering from overuse of pesticides. Many farmers are ignorant of the proper use of pesticides, and consequently tend to spray too much too frequently. The result: high rates of human poisonings and increased pest resistance. Per capita pesticide poisonings in Central America, for example, are nearly 2,000 times higher than in the United States; similar figures probably hold for commercial agriculture throughout the tropics.

***Throughout the Hemisphere, natural resources—land, forests, lakes and rivers, coastal areas, and fisheries—are being pillaged and wasted***

## **Urban and Industrial Pollution**

Two decades of rapid industrial development and explosive urban growth have produced a legacy of choking air pollution and contaminated water in Latin American cities.



Municipal sewage may be the most intractable problem. For example, less than half of the sewage in São Paulo, a city of nearly 15 million people, is even collected, and of that, less than five percent is treated. The rest—millions of gallons per day—pours into three rivers flowing through the city, creating, in effect, gigantic open sewers. According to environmental experts, São Paulo will never be able to afford to treat its sewage by the conventional methods of the industrial countries. Nor will most other Latin American cities.

Air pollution is also an insidious hazard. In Mexico City, Lima, Caracas, Santiago, Rio de Janeiro, São Paulo, and Buenos Aires the air is more polluted than in any city in the United States. For millions of city dwellers, that pollution routinely causes shortness of breath, stinging eyes, sore throats, and other respiratory ailments.

The sources of air pollution differ from city to city. In Mexico City, cement plants and petroleum refining facilities produce dust and sulfur particles. Mineral processing plants put arsenic into Santiago's air. Chemical plants contaminate the air of São Paulo with toxic organic compounds. And in every city, motor vehicles generate enormous amounts of pollutants: carbon monoxide, hydrocarbons, nitrogen oxides, fine particles, and lead.

Forty million tons of hazardous industrial waste are produced in Latin America each year, about one quarter of that generated by the United States. Little information is available on how such wastes are handled, but recent incidents suggest the problems are very serious and getting worse. In Brazil's industrial town of Cubatão, known as the "Valley of Death" because of pervasive industrial pollution, toxic chemicals have been dumped in tidal marshlands and mangroves that supply seafood to local residents and markets in nearby São Paulo. In many countries, highly toxic chemical compounds such as polychlorinated biphenyls (PCBs) are stored at hydropower sites where they may contaminate water supplies.

*Two decades of rapid industrial development and explosive urban growth have produced a legacy of choking air pollution and contaminated water in Latin American cities*

## Transboundary Environmental Concerns

Some environmental hazards cross national borders and may increasingly spark bilateral conflicts.

Throughout Latin America, vital waterways and the watersheds that replenish them are shared by neighboring countries. Fully forty percent of Central America's surface water flows in rivers and streams that pass through more than one country. As a result, environmental destruction in one country produces sedimentation that



threatens navigable waters and hydroelectric facilities in another. One nation's pollution contaminates the water supply of another.

Further, because pesticide misuse is most common in export agriculture, it affects consumers throughout the Hemisphere. Massive pesticide residues have been found on fruits, vegetables, flowers, coffee beans, and beef sent from Central and South America to North America. Some of the most environmentally-damaging pesticides are now manufactured only in Latin America. But many pesticides used in the region are imported from the United States and Canada, where their use is restricted, prompting charges that harmful chemicals are being "dumped" in Latin American markets.

A particularly emotional issue concerns the increasing "export" of hazardous substances. U.S. businesses and localities, facing ever higher disposal costs in the United States, are shipping enormous quantities of waste to Mexico, Central America, and the Caribbean. The problem is particularly serious on the U.S.-Mexican border. The U.S. Environmental Protection Agency recently concluded that "current U.S. and Mexican efforts have been inadequate to prevent the indiscriminate and uncontrolled transborder movement of hazardous materials."

Relations between the United States and its two closest neighbors, Mexico and Canada, are increasingly affected by environmental issues. Washington and Ottawa are at loggerheads over the acid rain falling on Canada, largely the result of emissions from U.S. power plants and factories. The ozone produced in some U.S. cities is contributing to forest destruction and human health problems in areas of Canada. Action, not further study, is needed now to address these issues.

The rapid development of northern Mexico and the southwestern United States is also producing environmental clashes. Intensified agriculture on both sides of the border has heightened Mexico's longstanding concern about the quantity and quality of water it can obtain from the Colorado River. Competition is increasing for scarce underground water resources that span the border. Urbanization of Tijuana and other Mexican border cities has contaminated U.S. water supplies and coastal beaches. Air pollution from new copper smelters in Mexico threatens to put Arizona in violation of U.S. ambient air standards. Mexican officials, in turn, have expressed alarm about U.S. plans to burn hazardous waste in the Gulf of Mexico (now in abeyance) and to store radioactive wastes in underground facilities in New Mexico.



## What Needs to Be Done

A large number of preventive and remedial actions is required to attack the Hemisphere's environmental ills. Yet no country—not even the United States or Canada—has the financial, technical, and administrative resources to cope with all of the problems at once. It is therefore imperative that the governments of the Hemisphere, individually and collectively, set careful priorities—and take action to confront those problems that are most menacing to economic progress and human health, and that threaten irreversible damage.

**First, all governments should revise policies—taxes, subsidies, and regulations—that perversely offer economic incentives for environmentally-destructive activities while producing few, if any, economic gains.**

In Haiti, for example, export taxes on coffee led many upland farmers to replace their coffee plants with other cash crops. This ended up both reducing Haiti's export revenues and exacerbating soil erosion in hilly areas. The Brazilian government recently took a step in the right direction by announcing the end of many subsidies for cattle ranching in the Amazon. Ordinarily, agriculture and cattle raising would not be very profitable activities in most of the Amazon, but tax benefits and cheap credit had made them lucrative businesses; widespread ecological destruction and economically wasteful patterns of development were the result. Aside from those individuals and corporations that directly benefit from such subsidies, the elimination of policies that promote both economic inefficiency and environmental destruction is in everyone's interest. They are the least costly corrections for countries to make.

**A second priority for governments is to direct investments into natural resource management and pollution control measures that will bring significant economic pay-offs over time.** Latin America's economic crisis has squeezed national budgets and reduced funding for managing and protecting national environments. In many places, economic adversity has contributed directly to environmental degradation by accelerating the rate at which natural resources are being exploited. Poverty and landlessness, moreover, are pushing people into ecologically fragile frontier areas throughout Latin America and the Caribbean.

Many environmental problems represent squandered economic opportunities. In Central America, for example,

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less than ten percent of the timber that is cut is ever used for any commercial purpose. Investments in forestry management in Central America and other tropical areas would pay handsome dividends, both economically and environmentally, and also create vested interests in preserving forest lands.

International financial institutions—such as the World Bank and the Inter-American Development Bank (IDB)—and bilateral aid agencies have a prominent role to play. As major sources of new investment for the region, these institutions must make sure that their development programs are not destructive of natural environments, and they are increasingly taking measures to do that. They should also be urging countries to avoid ecologically-damaging policies and to invest more in natural resource management projects that can produce economic as well as environmental benefits. Sustainable development should be the objective of all investment projects.

*Sustainable development should be the objective of all investment projects*

**Third, it is crucial for governments to quantify the hidden costs of environmental degradation.**

Financially-strapped Latin American countries have no choice but to postpone dealing with environmental hazards that require large investments and produce limited or no economic gains. Yet even in the short-term, it makes economic sense to remove lead from gasoline, improve water quality to decrease common diseases, launch pest management programs to reduce the use of dangerous chemicals, and invest in soil conservation programs. And there are many other initiatives in which the benefits would outweigh the costs that governments have started to spend on remedial actions.

The industrial countries have devised sophisticated methods for determining the economic and public health costs of air and water pollution, soil depletion, and forest destruction. These should be made readily available to Latin American countries. Ecuadoran officials, for instance, recently used a U.S. Environmental Protection Agency study as the basis for reducing lead in Ecuador's gasoline.

**Fourth, Latin American countries should be doing more to learn from each others' experiences—as well as those of the industrial countries—in tackling environmental problems.** While Western European and North American governments are adopting similar strategies for environmental protection, Latin American approaches remain mostly ad hoc and divergent.



**A permanent multilateral forum should be organized to bring together policy officials and planners from major cities throughout the Hemisphere.** Such a forum would permit municipal authorities to share experiences in dealing with environmental problems and in reconciling the conflicting public demands they generate.

**Fifth, Latin American governments should take greater advantage of new scientific and technological advances in environmental problem-solving.** In many instances, Latin America requires different technologies from those now available in the advanced industrial countries. In the United States and Canada, billions of dollars have already been invested in sewage treatment, commercial uses for temperate timber are well developed, and agricultural production is carried out on good, mechanizable soils.

In contrast, Latin American countries need to identify alternative methods for handling municipal sewage because no Latin American country can afford centralized, capital-intensive waste treatment plants. They must devise new techniques for managing tropical forests with multiple species, which are now being cut down for only a few commercial products while others are going to waste; and they must develop agricultural methods for fragile ecological conditions (e.g., tropical forest soils and hillside lands).

Latin American countries should work together to pursue these and other environmental management priorities. To do so they will need financial and technical support from the industrial countries. Environmental research facilities should be strengthened, and training in resource management and pollution control expanded in each country.

**A final priority for the governments of Latin America is to develop long-term regulatory and investment strategies to defend their environments and develop their natural resources wisely.** Most governments continue to struggle with piecemeal responses to impending crises, rather than trying to formulate longer-term, sustained programs for environmental protection that can contribute to broader economic and social development objectives. **The United States, Canada, and multilateral agencies must cooperate in such long-term planning efforts by providing financial resources, technology, and technical expertise.**



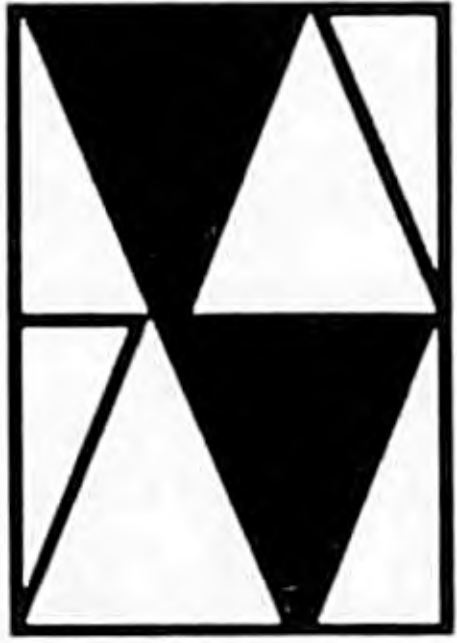
## The Costs are Rising

Environmental degradation is sapping Latin America's potential for economic growth and social advance. Tropical forests are being ravaged and their immense resources are going to waste. Soil losses threaten agricultural development throughout Latin America. The extreme overuse of pesticides in commercial farming is economically wasteful and dangerous to human health. Virtually every city in the region faces an onslaught of pollutants and congestion that jeopardizes people's health, undermines their quality of life, and imposes major economic costs on society.

Latin America's political leaders, like their counterparts in the United States and Canada, increasingly recognize that environmental degradation puts their economic future and the health of their citizens at great risk. The costs of dealing with the problems may seem daunting for the economically-depressed countries of Latin America, but the costs of neglecting them are even higher. No country of the Hemisphere, rich or poor, can afford to postpone action to protect its environment, control dangerous pollution, and develop its natural resources in ecologically and economically sound ways.

***Environmental degradation is sapping Latin America's potential for economic growth and social advance***





## Chapter V

# Democracy at Risk

Latin America's democratic renewal is in peril.

For most of the 1980s, the political news in Latin America has been gratifying—despite the region's excruciating economic distress. Ninety percent of the population of Latin America and the Caribbean now lives under civilian and constitutional governments. In South America, military rulers have gone back to the barracks in Argentina, Bolivia, Brazil, Ecuador, Peru, and Uruguay—and a transition toward democracy in Chile is advancing. Even in war-torn Central America, some progress has been made in every country toward meaningful elections and greater freedom of political expression. Authoritarian rule has become the exception in Latin America; even where it persists, the forces pressing for more open politics have been gaining strength.

But these gains are now in jeopardy. Throughout Latin America and the Caribbean, economic hardship has eroded support for incumbent governments and wounded the credibility of democratic rule. In some countries, insurgent movements have become stronger and more threatening. In others, narcotics traffickers have corrupted governmental institutions and seized control of whole regions. In few of the new democracies have civilians established effective control over the armed forces, which soon may be ready to intervene once again in some countries. The people of Latin America themselves may lose confidence in the democratic process if democratic governments cannot reverse the decline in living standards and contain the rising violence and insecurity.

Each country must ultimately achieve and protect democracy on its own. But the countries of the Hemisphere together can do a great deal to nurture and strengthen democracy. Now more than ever, inter-American cooperation is urgently needed to bolster Latin America's fragile political openings.



## The State of Democracy in Latin America and the Caribbean

Democracy is a long-espoused and widely shared aspiration throughout the Americas. Even dictators usually justify their repression as necessary to establish a democratic order. However cynical, such proclamations faithfully reflect the Hemisphere's prevailing values. Regimes that cannot credibly claim to rule with the consent of the governed ultimately lose their legitimacy.

Democracies are characterized by political freedom, broad participation, regular and free elections, constitutional guarantees, and the effective control of government by elected civilians. Though democracy is no panacea for the many problems plaguing Latin America, democratic governments accountable to their people are the best guarantors of fundamental human rights and civil liberties. Elected officials are more responsive than dictators to demands for social and economic justice. Democratic politics are crucial to long-term stability in Latin America, where wide social gaps have often led to polarization and violence.

Progress toward democracy has been uneven across Latin America and the Caribbean. Only Costa Rica, Venezuela, Jamaica and some of the smaller countries of the Commonwealth Caribbean qualify as fully consolidated democracies. At the other end of the spectrum are the different kinds of authoritarian regimes in Chile, Cuba, Haiti, Nicaragua, Panama, and Paraguay. Most Latin American countries fall somewhere between.

Costa Rica, Venezuela, Jamaica, and the other Commonwealth Caribbean democracies all hold frequent elections, protect human rights, boast vigorous political organizations, and are free of violent challenge. They have developed strong political parties and stable government institutions, and they are not threatened by guerrilla insurgencies. Costa Rica has no armed forces, and civilian authorities in Venezuela and the Commonwealth Caribbean have established firm control over the military. That these democratic countries have different colonial legacies, economic and political institutions, and cultural norms suggests that no single formula exists for achieving and sustaining democratic rule.

Uruguay is the best consolidated of South America's recently re-established democracies. Its transition from military to civilian rule has been facilitated by a long prior history of constitutional government. Tensions linger over the issue of prosecuting military officers for human

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rights violations during the authoritarian years, but a democratic state now appears firmly in place.

Colombia has had two-party constitutional democracy since 1958, and enjoys a comparatively healthy and well-managed economy. But the country is torn by insurgent movements, narcotics-related violence, shadowy death squads, and pervasive insecurity. And sentiment is growing, among civilians as well as in the military, for a crackdown that may imperil human rights and political freedom.

In Mexico, the Institutional Revolutionary Party (PRI) has dominated politics since the 1920s. Until last year's presidential poll, it won every national election by overwhelming majorities. Although the country allows ample freedom of expression, assembly, and movement—and only occasionally violates human rights—effective competition for power has not been permitted.

The economic crisis of the 1980s set the stage for an unprecedented challenge to the PRI from opposition groups in the 1988 elections. Even by the official count, the PRI barely won a majority, and it lost badly in the Federal District and most other urban areas. The PRI coalition of peasants, workers, and business leaders has weakened as public confidence has waned in the leadership's ability to combat debt, inflation, and unemployment. Prospects are greater now than ever before for an opening of Mexico's politics, but the growth of opposition and the imperatives of painful economic reform could also lead, at least for a time, to a retightening of political control.

The new democracies of Argentina, Brazil, and Ecuador are not yet solidly established. Ecuador has transferred power peacefully in two successive presidential elections, and in Brazil and Argentina presidential polls are scheduled this year. In each country, however, the military remains an active participant in politics. In Ecuador, the armed forces have played a major role in politics because of unresolved conflicts between the government and opposition. The Brazilian military continues to exercise a decisive influence on many issues. Twice in the past year, in April and again in December, Argentina's government faced military uprisings.

In all three countries, incumbent presidents lost considerable support during the 1980s, while populist movements of varying descriptions gained strength. Political competition is vigorous in each case, but the plethora of parties and the radically divergent views they represent may make democratic stability difficult to attain. Brazil must build strong political institutions to harness the



mobilized energies of a vast population deeply disappointed by the first years of the New Republic. Argentina must still grapple with the difficult legacy of the human rights violations of the 1970s, with the fundamental problem of restructuring an economy in long-term decline, and with a continuing gulf between labor and business.

Democratic politics is even shakier in Bolivia, the Dominican Republic, and Peru. In these nations, enormous economic difficulties threaten to overwhelm weak political institutions. Peru is most seriously besieged. The Sendero Luminoso guerrillas now control large swatches of territory and are spreading their violence to the cities. Peru's judiciary has been paralyzed by guerrilla terrorism as well as by drug corruption and intimidation. Unable to stop the violence or restore economic stability, the Peruvian government has lost much of its legitimacy. In both Bolivia and the Dominican Republic, venerable political figures remain dominant, but there is great uncertainty about what will follow their departure from the scene.

In Central America, elected civilian governments in Honduras, El Salvador, and Guatemala remain extremely weak. Political parties are not well established, the military regularly intervenes in politics, and the range of political competition is narrow. Civilian governments and their conduct of elections have won a measure of international approval, but the regimes lack full domestic legitimacy. Insurgencies continue in El Salvador and Guatemala, and discontent is evident in Honduras.

There are important differences among Latin America's six authoritarian regimes. Hopes for a prompt restoration of democratic rule are highest in Chile, following General Augusto Pinochet's defeat in the October 1988 plebiscite. The prospects are fortified by Chile's long experience with democracy, its mature institutions, professional armed forces, well-organized political parties, and relatively sound economy.

The chances for democracy are much poorer in neighboring Paraguay, where the aging General Alfredo Stroessner clings to power. Paraguay has little democratic history, and the country's two traditional parties are overshadowed by the armed forces. When Stroessner's rule ends, a military-dominated regime may well take its place.

In Cuba, too, prospects are scant for democratic change any time soon. Although Cuba has recently softened its repression of religious and human rights groups and released a number of long-time political prisoners, it still allows no room for opposition political activity. Fidel



Castro has ruled Cuba for thirty years; he militantly resists testing his mandate in a popular vote.

Revolutionary Nicaragua is more apt than Cuba to open its politics, but a democratic future is by no means assured. Nicaragua has an elected government, and new presidential elections are scheduled for 1990. A host of parties and interest groups are active. Yet the Sandinistas continue to use their dominant political and military position severely to limit political competition, and they still sharply curtail freedom of assembly and the press. If democracy is to take root in Nicaragua, a strong, independent, and nationally-based opposition must emerge—not an easy task under current circumstances.

In both Haiti and Panama, incipient movement toward democracy was stopped cold in 1988 by military intervention. The army brutally cancelled Haiti's 1987 presidential election. The major opposition candidates then boycotted the election that was finally held in January 1988. Lacking any solid popular mandate, the victor, Leslie Manigat, managed to hold presidential office for only four months before his ouster by the military. Since then, factionalism has fragmented the ruling army, yet another coup has occurred, and human rights violations have increased.

Panama's hopes for a democratic transition, which were damaged when the elected president was removed from office, were further set back last February when President Eric Delvalle was ousted for trying to dismiss General Manuel Noriega as Chief of the Panamanian Defense Forces. Noriega shows no signs of caving in to the U.S. sanctions designed to dislodge him from power. As long as Noriega retains unchallenged control of Panama's army, the elections scheduled for 1989 are unlikely to endow their victor with legitimacy or put Panama firmly back on a democratic path.

In sum, the state of democracy in Latin America and the Caribbean is precarious at the outset of 1989. Some U.S. officials and other observers have argued that democracy is "on the march" in Latin America, that a steady and irreversible democratic current is sweeping the continent (and much of the rest of the world). Others have questioned the significance of "formal" democracy that is limited to the political dimension—and that is not translated immediately into fundamental socio-economic reforms. Many have wondered aloud whether Latin America's democratic openings of the 1980s are not just another phase of a cycle, bound once again to give way to dictatorship.

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We see Latin America's turn toward democracy in the 1980s as real and significant—indeed, even unprecedented in some ways and in certain places. But the trend is by no means irreversible in any country. Indeed, democracy in the Americas is fragile in 1989, and under siege from several directions at once.

## Democracy Under Siege

It will not be easy to sustain and consolidate democratic politics in Latin America and the Caribbean. The challenges are severe, and none of them will be quickly overcome.

Latin America's economic crisis is the most threatening challenge—and it compounds all of the others. In country after country, democratic governments are being blamed, rightly or wrongly, for the economic stagnation gripping most of the region. In many countries, the inability of democratic leaders to meet the minimal social and economic demands of their citizens—to revive growth, control inflation, expand employment, and provide decent public services—are generating massive disenchantment. Memories are being evoked of the supposed prosperity of earlier authoritarian or populist eras.

People everywhere are tempted to seek simple solutions to complex problems, and Latin America does not lack for demagogues and extremists willing to offer them. Insurgent movements—such as Sendero Luminoso in Peru—are growing stronger in some places; opportunistic politicians who blame all troubles on foreign powers or banks are gaining ground in others. And there are those who would end internal divisions by silencing dissent. These dangers are all evident in the Americas today.

A second challenge, closely related to the first, is the aggravation of sharp social and economic inequalities in many Latin American countries. The economic crisis of the 1980s, as well as the austerity measures needed to deal with it, have worsened the distribution of income and wealth in most countries. Strapped governments have been forced to cut social services that could have cushioned some of the effects, and also to reduce investments in education and other areas that could help reduce inequality over time.

The widening gulf between the privileged few and the poor majority is undermining social stability and contributing to the structured violence of insurgent movements. Poverty and inequality are fueling the drug trade, which is the only source of jobs and income for many, and thrives

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on the exploitation of both producers and consumers. The drug trade, in turn, threatens democracy by corrupting and cowing civic institutions and by spreading crime and an ethos of lawlessness.

In several countries, these problems are provoking tensions between civilian political institutions and the armed forces, which tend to value order above all else. This conflict is heightened by continuing clashes over military autonomy and privileges, levels of military spending, the choice of anti-guerrilla tactics, and the thorny question of accountability for past violations of human rights. Underlying all these disputes is a fundamental conflict: the Latin American military's traditional conception of its political role often clashes with democratic rule.

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## The External Role

The main responsibility for building and consolidating democracy falls squarely on each nation. To endure, democracy must be firmly rooted in a nation's politics, institutions, and values, and reflect the balance of its social and economic forces. National political leaders must provide the courage, commitment, and skill to foster democratic change. Although democracy cannot be transplanted from one country to another, it can be nurtured and assisted from abroad.

The very fact that so many countries of the Americas have turned toward democracy in the 1980s provides a strong basis for expanded and more effective inter-American cooperation to fortify democratic rule where it exists and to promote it where it is absent. In fact, a democratic network is growing throughout the Hemisphere, involving not only governments, but political parties, trade unions, professional associations, the media, women's organizations, religious institutions, and human rights groups.

The opportunities for such inter-American cooperation have been greatly enhanced by the emergence in the United States of a broad bipartisan consensus that regards human rights and democratic politics as legitimate priorities of U.S. foreign policy. The strong bipartisan endorsement of U.S. backing for Chile's transition from authoritarian rule—during a period of confrontation between the Administration and Congress over many other Latin American policy issues—underscores the wide appeal of support for democracy.

Promoting democratic change from outside is not easy, however. Governments should not try to achieve "instant

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democracies” by direct action in other countries. High-profile external support for democracy can all too easily become entangled with sensitive internal issues, and may be seen as intervention. Foreign governments—especially the most powerful—can damage the fragile prospects of democracy by intruding on national sovereignty. Local political groups can lose their domestic legitimacy when they become too closely identified with international forces. External actors can most help to improve the prospects for Latin American democracy by cooperating to remove four critical obstacles:

- **The single strongest contribution that the United States and other industrial nations can make would be to provide adequate relief from the region’s crippling debt burden.**
- **Cooperation among the countries of the Hemisphere to confront the drug trade and the corruption and violence it breeds is a second important step.**
- **Achieving a secure peace in Central America would most improve the prospects for peaceful political competition and democratic pluralism in that troubled region.**
- **Programs to alleviate poverty, improve income distribution, create jobs, and curb injustice throughout Latin America and the Caribbean would all strengthen the local underpinnings of democracy.**

These are the steps most urgently needed to fortify democracy in the Americas. We recommend, in addition, five more direct measures in support of democratic rule.

**1. The democracies of the Hemisphere should work together to promote fundamental human rights.** The protection of human rights and the consolidation of democracy go hand in hand; democracy cannot be sustained where basic human rights are violated, and imprisonment without due process, torture, and political killings drain the significance and legitimacy of elections, constitutions, legislatures, and courts. Democratic governments should not provide economic or military assistance to regimes that systematically violate basic human rights. They should expand the mandate, resources, and influence of the Inter-American Commission on Human Rights, the Inter-American Court on Human Rights, and

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the Inter-American Institute of Human Rights. They should also support the network of nongovernmental organizations that monitor human rights without partisan or ideological favor. There is no more important safeguard for democracy than assuring that the rights of individual human beings are fully protected.

**2. The democracies of the Hemisphere should jointly develop initiatives tailored to the circumstances of particular countries.** Such initiatives might include expanded use of public and private diplomacy to express support for the full range of democratic processes; votes against loans in international development banks to protest violations of human rights and democratic freedoms; the channelling of publicly-accountable assistance to such democratic institutions as the media, political parties, and professional associations; technical assistance for democratic legislatures on such matters as budget and legislative oversight; and the provision of technical support, on request and on a multilateral basis, to help conduct and monitor elections.

**3. The democracies of the Hemisphere should express consistently and openly—not only through quiet diplomacy that often goes unheard—their clear preference for democratic governments over authoritarian regimes of either the right or the left.** Without choosing sides in internal political contests or exporting their own domestic political antagonisms, the democratic governments and parties of the Hemisphere should strengthen their ties with democratic movements that stand in opposition to remaining authoritarian regimes.

**4. Free and independent media are vital for democracy, and the democratic countries of the Americas should cooperate to promote and protect freedom of the press.** Monitoring press freedoms and publicizing violations can help, as can financial support for independent publishing and broadcasting activities. Citizens should have the opportunity to present their views in the print and electronic media, whether government-owned or not. Governmental efforts to monopolize media ownership or restrict television, radio, and print media through subjective licensing, censorship, or other means are utterly incompatible with democracy.

**5. The democracies of the Americas should cooperate in helping each other establish civilian control of the armed forces.** That task will be difficult as long as civilian governments are weak and imbalances persist between fragile political institutions and strong

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military establishments. Yet democratic governments must develop strategies to change the attitudes of military officers regarding their proper political role. Civilian politicians, in turn, must resist the temptation to rely on the military to help referee political conflicts or install them in office. The military must be discouraged from regarding itself as the guardian of the national values—and from intruding on civilian policy domains in the name of national security. Military education should be reformed to help strengthen civilian control of politics. Ultimately, a democratic model of civil-military relations must emerge in all countries.

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International assistance can help achieve these objectives, but it must be provided with due regard for its potential political impact. Assistance must be granted in ways that do not aggravate the current imbalances between civilian and military institutions. Training in military strategy and other defense issues, for example, should not be reserved for military officers alone; they should be opened to civilian officials responsible for national security policy.

All such programs must be designed so they actively instill democratic concepts and emphasize the importance of civilian control. Above all else, these programs—including those sponsored by the United States—should consistently reinforce the message that constitutional democracy is vital for hemispheric security.

## **A Time of Opportunity**

As 1989 begins, the dangers to continued democratic progress in Latin America are intensifying. In most of the countries of the Hemisphere, national presidential elections either were held during the past year or are scheduled for this year. The institutions, procedures and habits that make democracy possible have been gaining vitality. Unfortunately, however, so have many of the forces that threaten democratic politics. Terrorism, insurgencies, corruption, polarization, and demagoguery are all on the rise in Latin America today, and so are restlessness and concern within the armed forces in several nations.

There is no simple way to preserve the democratic gains of the 1980s. As long as political institutions are weak, corruption will be endemic. Until fundamental social and economic inequities are reduced, polarization is inevitable. Lasting changes in civil-military relations will require basic shifts in the attitudes of Latin American

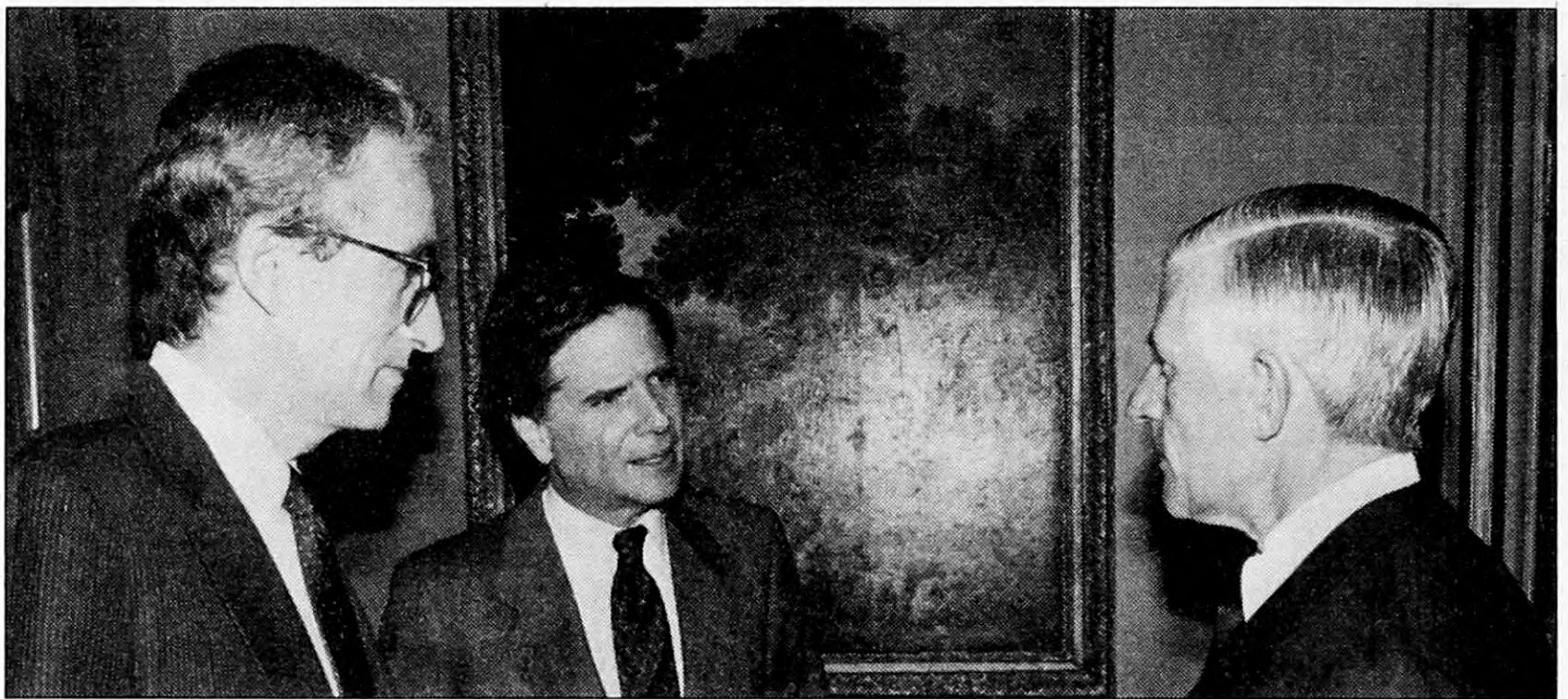


officers that may well take a generation or longer to achieve.

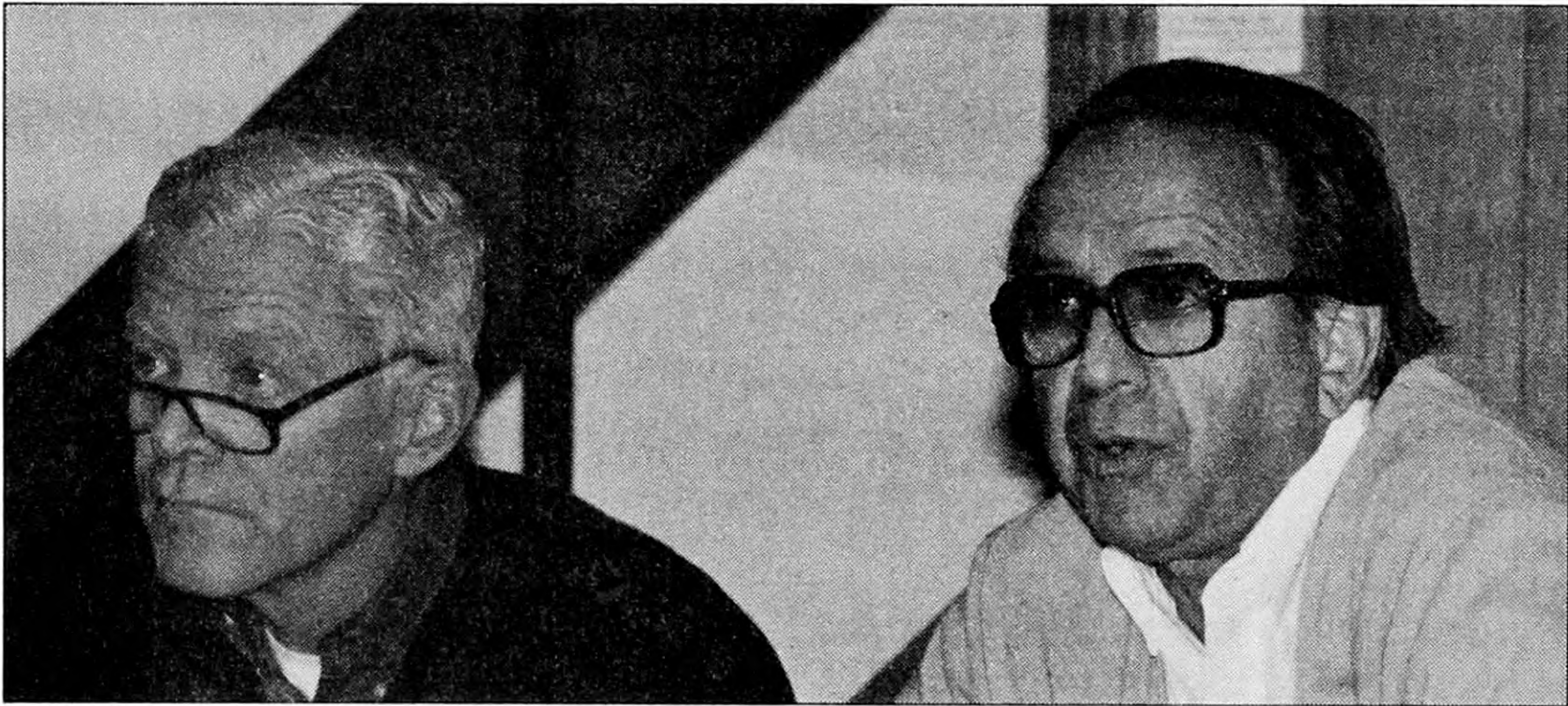
But the opportunity to strengthen democracy in the Americas has never been greater than it is today. Most of the countries of the Hemisphere—and all the larger ones—have moderate and pragmatic political leaders who are committed to democratic values and to cooperative efforts to solve shared problems. Broad consensus now exists on the most important issues facing the Americas and on how to confront them.

The foundations have been laid for sustained and effective inter-American cooperation. By working closely together on the key problems facing the Hemisphere—debt and economic stagnation, security and peace, drugs, and the environmental challenge—the democratic nations of the Americas can reinforce each other. Together, they can build a Hemisphere where democracy will take deep root and flourish.





**Peter D. Bell, Peter Tarnoff, and Don Johnston**

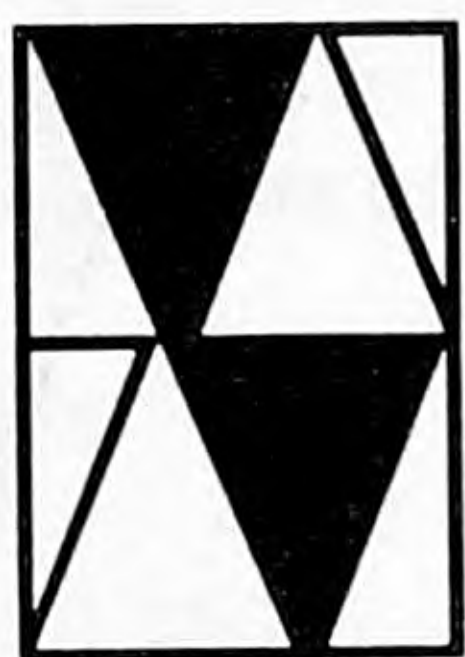


**Terence C. Canavan and Fernando Léniz**



**Theodore M. Hesburgh and Javier Silva Ruete**





## Supplemental Comments of Members of the Dialogue

### **Nicolás Ardito Barletta**

I wish to underline the central message of the excellent chapter on narcotics. Dangerous drugs should not be legalized. The United States must increase its educational and other programs to control demand, while Latin American countries must work harder to curb supply. It is imperative to fight the drug traffickers, who will stop at nothing to get what they want.

### **Fernando Henrique Cardoso and Celso Lafer**

We support the principal recommendations of this timely and well-prepared report. Although we know that a group statement does not imply that every signer fully agrees with every phrase in the text, we must express some reservations about some aspects of the chapter on "Debt and Stagnation: A Program for Recovery."

In analyzing Latin America's economic crisis, the chapter makes a good first effort to strike a balance between internal responsibilities and external causes, past and present. We agree that there has been economic mismanagement in varying degrees, from country to country, and that the role of the state has to be reappraised if modernization is to be achieved. But it should be acknowledged that part of the economic mismanagement results from the immense difficulties that Latin American countries have had in conducting economic policy in the present international context. We believe that although economic recovery requires that Latin America rely more on both private initiative and integrate itself better into the world economy, it also requires the state to exercise an appropriate role in accordance with the very different circumstances of each country. On this point, we call attention to the recent OAS study of high-level experts, "Desarrollo Integral y Democracia en America Latina y el Caribe." In our judgment, that document strikes a better balance, in both tone and content, on the relationship between the state and the economy in the present international environment.



**Jorge Dominguez**

I fully endorse the analysis and recommendations of the chapter on Central America, but I want to highlight a particularly difficult policy dilemma that is alluded to but not adequately addressed in the chapter. The Report recommends that the United States both apply a "generous standard in deciding claims for temporary asylum by Central Americans" and promote the "safe repatriation of former combatants and their supporters" to Nicaragua and "their active integration into Nicaragua's economic and political life." The fact is, however, that the more generous an asylum policy the United States adopts, the less the incentive the Nicaraguan contras will have to return home and confront the Sandinista government politically. The humanitarian inclination in this case may be at odds with the preferred foreign policy option; i.e., to promote pluralistic politics in Nicaragua. This issue requires further analysis by the Dialogue and others.

**Xabier Gorostiaga**

I believe this is our best report to date: constructive, timely, and precise. Reality has imposed itself on those with different ideologies.

In the spirit of continuing dialogue, I would add a few personal observations. First, debt and economic stagnation are the most important threats to peace, democracy, and development in Latin America. However, I do not think that solutions to the debt crisis can be achieved case-by-case. Global negotiations are needed among Latin American debtors, other Third World nations, and the industrial countries to achieve a comprehensive solution and to fashion a new international economic order.

Regarding Central America, I support the thrust of the Dialogue's recommendation that the United States restore normal relations with Nicaragua. But, the main problem now is in El Salvador. Without a U.S. green light for direct negotiations and genuine compromise among the FMLN, the army, and the government of El Salvador, violence will increase there and the regional peace process will be jeopardized.

More generally, I would emphasize the need to prevent institutionalization of "low intensity warfare" in all dimensions—not only military but economic (through embargoes and denial of credit) and political (through disinformation, media manipulation, and the creation of new demons). I would also stress that dialogue and negotiations must be based on active respect for international law and the principle of self-determination. Genuine multi-



lateralism is the other crucial principle in a post-Cold War era. Multilateralism should not be used as a tactic for buying time. A real commitment to peaceful compromise is imperative.

### **Osvaldo Hurtado Larrea**

I agree that governments in Latin America have played an excessive role in some areas of the economy, but do not concur with the recommendation in Chapter I that "state enterprises be shifted to private hands." Given the special characteristics of Latin America's development, a general and indiscriminate transfer would be inappropriate and unrealistic.

### **Enrique V. Iglesias**

I strongly endorse this report, which offers many thoughtful and constructive proposals for addressing critical inter-American issues. As president of the Inter-American Development Bank, however, I must refrain from taking any position on the recommendations of Chapter I on Latin American debt.

### **Pedro-Pablo Kuczynski**

There is clearly a strong case for some form of debt relief. But banks have little incentive to grant relief beyond the present "involuntary" loans unless they get reasonable assurance that they can somehow benefit from the recovery of debtor countries. The International Monetary Fund and the World Bank, with the active encouragement of the United States and other key creditor governments, should be working with the major debtors and banks to establish a mechanism to provide such assurance. Plenty of precedents exist in the recent economic history of industrial countries. For the debtor countries to obtain substantial relief today—which most need—they have to offer an "upside" to creditors tomorrow.

### **Fernando Léniz**

I am pleased to endorse this report, but would like to add several comments.

In my view, greater emphasis should have been given to the considerable economic benefits the United States would derive from a satisfactory resolution of the debt crisis. Also, part of the responsibility for the debt crisis must be assigned to the easy-lending practices of commercial banks in the 1970s urgently seeking to recycle petrodollars, as well as to U.S. economic policies which led to the sharp rise of interest rates in the early 1980s.



The chapter on democracy does not take sufficient account of the fact that Latin America's militaries are often called upon to intervene when civilian governments prove to be weak and incompetent. That chapter should have included two additional recommendations. First, market policies should be encouraged as a means to strengthen democratic rule. Latin American political leaders need to understand better how market systems and sound macroeconomic measures can contribute to improved living standards. Second, it would be helpful to democratic advance if the United States and the Soviet Union could reach agreement to end all outside aid to insurgent movements in the region.

### **Marcos McGrath**

Two particular points concerning Panama deserve emphasis. First, the lack of a political solution in Panama has precipitated the most serious and prolonged economic depression in the country's history, with grave social consequences, especially for the poor. Second, it should be noted that no tribunal has yet judged whether General Noriega is involved in drug trafficking.

More generally, we should reflect on how history shapes present possibilities in Central America. In the past, military "solutions" have wrecked the region economically, and bruised the people and their social structure. Central America's economic and government elites, supported by Western businesses and governments, have often opposed social change. The United States has acted unilaterally rather than cultivating a broader policy consensus with other nations in the Hemisphere. Finally, the Central American Common Market demonstrated strong economic potential in the 1960s and 1970s, a fact which bodes well for the region's potential recovery.

I also would emphasize the need to reconstruct the inter-American system. The Contadora initiative and the Group of Eight are responses to the failures of the Organization of American States, but they are not adequate to the tasks which must be faced.

### **José Francisco Peña Gómez**

I believe this is the most balanced and constructive of all our reports to date, and I warmly endorse it. Understandably the report at times has a North American emphasis or tone, but Latin American perspectives are also skillfully and accurately reflected.

I have but three specific reservations. First, although I agree with the points made about the absence of political



democracy in Cuba, I believe it would be fair to mention Cuba's achievements in the realm of economic democracy—in providing education, medical care, and social services to its citizens. Second, it must be recognized that Nicaragua's disastrous economic conditions are in large part a result of external aggression. Third, I do not believe it is fair to repeat severe allegations about General Noriega that have not been proved.

### **John R. Petty**

The debt burden is the most prominent symptom of the major problems confronting the nations of Latin America. While in many cases debt relief is called for, it cannot be considered a solution. The region's problems are systemic and thus, whatever their economic manifestation, they require national political responses.

Debt relief can only be voluntary and it should be structured more as a reward for good policy actions than offered as an inducement for good policy intentions. This is as true of Paris Club debt as it is of private debt.

The highly differentiated circumstances of each country call for a variety of approaches, and the possible provision of limited guarantees should distinguish between loans outstanding and new monies provided. No approach to Latin America's debt problems can ignore the need for future financing.

### **Augusto Ramírez Ocampo**

I want to offer several observations on this otherwise excellent report. The chapter on Central America should have specifically discussed the Special Program of Economic Cooperation for Central America which was created by the United Nations General Assembly, and of which I am responsible. This program provides the best means for coordinating international economic assistance in support of the Esquipulas accords.

Although I agree with a case-by-case approach to debt negotiations, it is indispensable that the Latin American countries agree on a common framework for negotiations, establishing at least maximum interest rates, an appropriate rate of debt service to exports, and minimum grace periods and maturities for new credits.

The chapter on environmental problems should have emphasized, as the Brundtland Commission did, that extreme poverty is the major cause of environmental degradation in developing countries, and that poverty has to be alleviated to protect natural resources.



Finally, it is important to note that Colombia has the longest tradition of democratic government in Latin America and its political parties are probably the oldest in the region, dating from 1849. In its entire 178 years of independence, constitutional rule has only been interrupted twice, for a total period of only four years. Colombia's democracy is neither as recent nor as weak as the report implies.

### **Anthony Solomon**

I concur with the analysis and recommendations of this Report, but I would add one further recommendation: Latin American countries should undertake more intensive efforts to reduce high birth rates which remain a serious obstacle to economic growth and effective environmental management.

### **Viron P. Vaky**

This report strikingly demonstrates the need for multinational cooperation to cope with problems that are increasingly multilateral in nature. Although governments in the Hemisphere acknowledge the fact of growing interdependence, they still resist the commitments and cooperative effort logically required by that interdependence.

The report treats this basic tension inadequately, even though it affects all the issues discussed. The Inter-American System—defined as an aggregate of historical experience, habits, customs, and formal and informal institutions, processes and patterns—is barely mentioned, although it is the oldest regional multilateral system in the world.

The System's current institutions—the OAS, the Rio Pact, et. al.—are in shambles, disparaged, ignored and belittled. But complaints that these institutions are ineffective beg the question. Multilateral institutions do not have an autonomous life of their own. Their effectiveness depends on the commitment and political will of participating states.

If this report's central argument is correct, then efforts are urgently needed to improve institutions for cooperative action. Tinkering with existing institutions is not enough. Hemispheric leaders together need to address a very basic question: do we need a regional organization or regional arrangements, and, if so, what kind and to do what? The Dialogue should deal with this *instrumental* issue which is so basic to all the *substantive* problems.



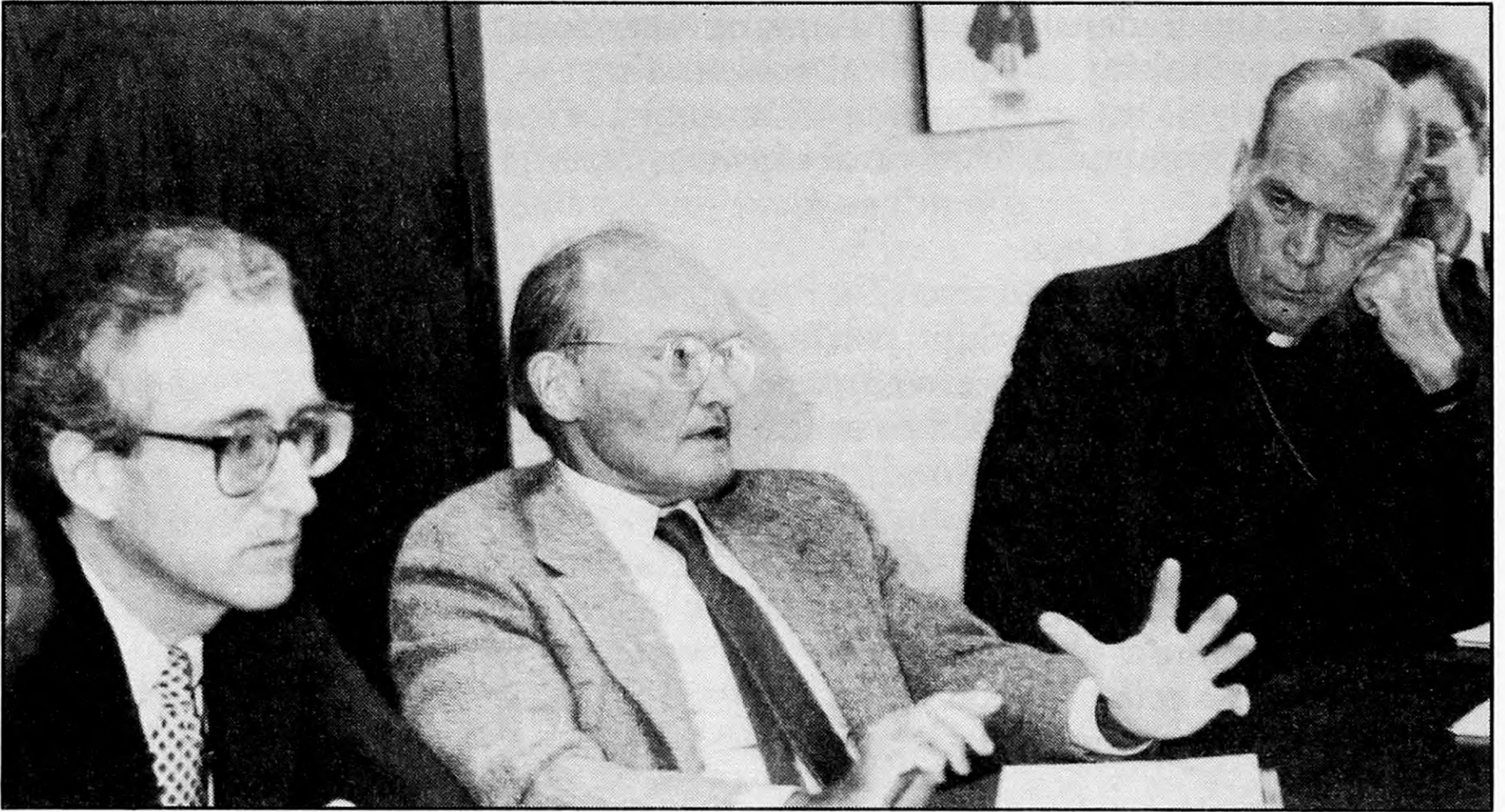
**Cyrus R. Vance**

In light of my new responsibilities as Chairman of the Board of the Federal Reserve Bank of New York, I must refrain from taking any position or expressing any opinion on the analysis and conclusions of Chapter I of this report concerning hemispheric economic issues.

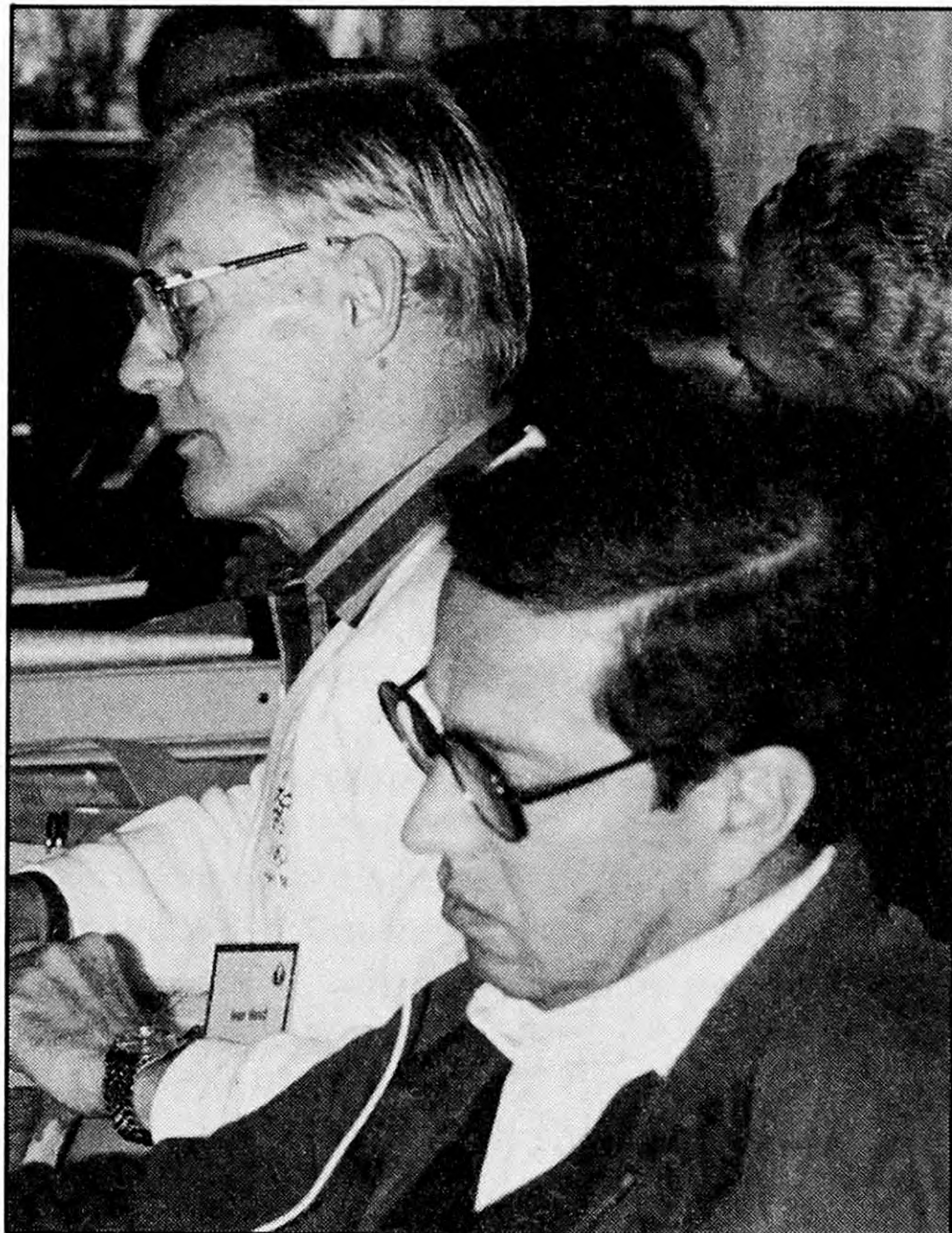
**Mario Vargas Llosa**

I am pleased to endorse this Report, and particularly to emphasize its forthright political analysis, its strong opposition to authoritarian regimes from both the left and right, and its well-deserved stress on the ecological issues, which need more attention. In my view, however, even greater emphasis should have been given to the points made on page 2 about the shifts in Latin America's economic thinking. Latin America's economies must be integrated more effectively into the world economy by reducing the role of the state and by strengthening markets and free enterprise.



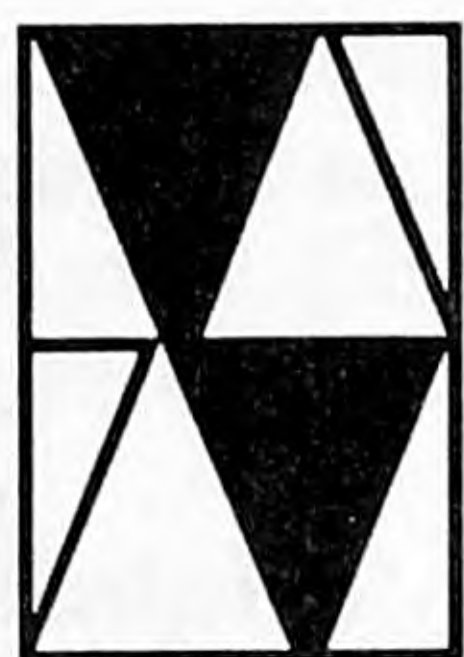


**Peter D. Bell, McGeorge Bundy, and Marcos McGrath**



**Ivan L. Head (top) and Osvaldo Hurtado Larrea**





# Participants in the Inter-American Dialogue

## From the United States and Canada:

### **Sol M. Linowitz** (Co-Chairman)

Sol M. Linowitz is senior counsel of the international law firm of Coudert Brothers. He served as President Carter's personal representative for the Middle East Peace Negotiations and as co-negotiator for the Panama Canal Treaties. In the mid-1970s, he was Chairman of the Commission on U.S.-Latin American Relations. From 1966 to 1969, he was U.S. Ambassador to the Organization of American States. Previously, he had been Chairman of Xerox Corporation.

### **Peter D. Bell** (Co-Vice Chairman)

Peter D. Bell is President of the Edna McConnell Clark Foundation. He was a senior associate of the Carnegie Endowment for International Peace from 1984 to 1986, and President of the Inter-American Foundation from 1980 to 1983. He is Chairman of the Board of the Refugee Policy Group and a member of the boards of the Institute of the Americas, the World Peace Foundation, CARE, and Americas Watch.

### **Bruce Babbitt**

Bruce Babbitt, currently with the law firm of Steptoe and Johnson in Phoenix, was a candidate for the presidential nomination of the Democratic Party in 1988. He was Governor of Arizona from 1978 to 1986, and served previously as Arizona's Attorney General. He also has been Co-Chairman of the Democratic Leadership Council and Chairman of the Democratic Governors' Association.

### **Michael D. Barnes**

Michael D. Barnes is a partner at the Washington, D.C. law firm of Arent, Fox, Kintner, Plotkin & Kahn. From 1979 to 1987, he was a Member from Maryland of the U.S. House of Representatives and served as Chairman of the



Subcommittee on Western Hemisphere Affairs of the Committee on Foreign Affairs. Mr. Barnes is on the board of the U.S. Committee for UNICEF, the Overseas Development Council, and the Center for National Policy.

**James F. Beré**

James F. Beré is Chairman and Chief Executive Officer of Borg-Warner Corporation. He is a member and former Chairman of the Advisory Council on Japan-U.S. Economic Relations, a director of the Chicago Council on Foreign Relations, and a trustee of the Committee on Economic Development. Mr. Beré is also Chairman of the Board of the Chicago Museum of Science and Industry.

**William E. Brock**

William E. Brock is President of William Brock Associates, an international trade consulting firm he initiated in late 1987. Previously, Mr. Brock served as the Secretary of Labor from May 1985 until November 1987. Senator Brock has also served as the United States' Trade Representative, and was elected to four terms as a U.S. Representative and one term as Senator from Tennessee.

**McGeorge Bundy**

McGeorge Bundy, Professor of History at New York University, was President of the Ford Foundation from 1966 to 1979. From 1961 until 1966, he was Special Assistant to the President for National Security Affairs. Previously, he was Dean of the Faculty of Arts and Sciences at Harvard University.

**Terence C. Canavan**

Terence C. Canavan is Executive Vice President of Chemical Bank and heads the Latin American Division of its World Banking Group. He served as Director of the Bank's affiliate in Caracas from 1973 to 1976, and previously represented the Bank in Mexico City and Madrid. Mr. Canavan is Chairman of the Advisory Board of the Council of the Americas and Chairman of Acción.

**Henry G. Cisneros**

Henry G. Cisneros is Mayor of San Antonio. He served on President Reagan's National Bipartisan Commission on Central America and is a member of the Council on Foreign Relations and Co-Chairman of the International Trade Task Force of the National League of Cities.



**Joan Ganz Cooney**

Joan Ganz Cooney is Chairman and CEO of Children's Television Workshop, which she co-founded in 1968. She serves on the boards of several corporations, including Xerox, Chase Manhattan, Johnson & Johnson, and Metropolitan Life.

**Ralph P. Davidson**

Ralph P. Davidson is President of the John F. Kennedy Center for the Performing Arts. Previously, he spent 35 years with Time, Inc., retiring as Chairman of the Board in 1986. He has served on the Commission on Executive Exchange and the Statue of Liberty-Ellis Island Centennial Commission. He is a trustee of Phoenix House, the nation's largest drug prevention program, and on the board of Allied-Signal, Inc. and First Interstate Bancorp.

**Jorge I. Dominguez**

Jorge I. Dominguez is Professor of Government at Harvard University and former President of the Latin American Studies Association. Dr. Dominguez is one of the foremost authorities in the United States on his native Cuba. His most recent book is *To Make a World Safe for Revolution: Cuba's Foreign Policy*. He was chief editorial adviser for the Public Broadcasting System's three documentaries on Mexico shown in November 1988.

**Marie-Josée Drouin**

Marie-Josée Drouin is Executive Director of the Hudson Institute in Canada. An economist and public policy analyst, she has directed studies on economic, social, and political issues in Canada. She is a member of several corporate boards, and the boards of the Canadian Center for Arms Control and Disarmament and of the University of Quebec Foundation.

**Dianne Feinstein**

Dianne Feinstein served as the first woman mayor of San Francisco from 1979 to 1987. She was also the first woman President of the city's legislative body, the Board of Supervisors. She has been a member of the Executive Committee of the National Conference of Mayors and of the Democratic Party's Policy Committee.

**Antonio Luis Ferré**

Antonio Luis Ferré is President of *El Nuevo Día*, one of Puerto Rico's major daily newspapers. Mr. Ferré was appointed regional President for Puerto Rico of the Na-



tional Alliance of Businessmen by President Ford. He is Vice Chairman of the Board of the Banco de Ponce, and a member of the boards of the American Newspaper Publishers' Association, and the Metropolitan Life Insurance Company.

**Maurice A. Ferré**

Maurice A. Ferré, now a business consultant, served six terms as Mayor of Miami. He was the first National Chairman of the Hispanic Council on Foreign Affairs, and a member of President Ford's Immigration Commission and President Carter's Commission on Ambassadorial Appointments.

**Richard W. Fisher**

Richard W. Fisher is Managing Partner of Fisher Capital Management of Dallas and Chairman of the Board of the Institute of the Americas. From 1977 to 1979, he served as Executive Assistant to the Secretary of the Treasury. Mr. Fisher serves on the visiting committee of Harvard University's Center for Science and Advanced International Affairs and of Johns Hopkins University's School of International Studies, and is active in Dallas civic affairs.

**Albert Fishlow**

Albert Fishlow is Chairman of the Department of Economics at the University of California at Berkeley. From 1978 to 1982, he was Director of the Concilium on International and Area Studies at Yale University. In 1975 and 1976, he served as Deputy Assistant Secretary of State for Inter-American Affairs. Dr. Fishlow is an authority on Brazil and international financial issues.

**Douglas A. Fraser**

Douglas A. Fraser is the former President of the United Auto Workers. He is currently University Professor of Labor Studies at Wayne State University in Detroit.

**Andrew J. Goodpaster**

Andrew J. Goodpaster, General, U.S. Army (Ret.) served as Superintendent of the U.S. Military Academy at West Point from 1977 to 1981 and was Supreme Commander of Allied Forces in Europe from 1969 to 1974. He is Chairman of the American Battle Monuments Commission and Chairman of the Atlantic Council of the United States. General Goodpaster has also been the President of the Institute for Defense Analyses.



**David A. Hamburg**

David A. Hamburg, M.D. has been President of the Carnegie Corporation of New York since 1983. He served as President and Chairman of the Board of the American Association for the Advancement of Science and President of the Institute of Medicine, National Academy of Sciences. He is a trustee of Stanford University, the Rockefeller University, and of the Mount Sinai Medical Center, New York.

**Ivan L. Head**

Ivan L. Head has been President of the International Development Research Centre of Canada since 1978. From 1968 to 1978, he was Special Assistant to the Prime Minister, with responsibility for foreign policy and the conduct of international relations. He was a member of the High Level Review Committee of the Inter-American Development Bank and of the Independent Commission on International Humanitarian Issues.

**Theodore M. Hesburgh**

Theodore M. Hesburgh, C.S.C., is President Emeritus of the University of Notre Dame, where he served as President from 1952 to 1987. He has been Chairman of the boards of the Rockefeller Foundation, the Overseas Development Council, the U.S. Commission on Civil Rights, and the Select Commission on Immigration. Father Hesburgh has received more honorary degrees than any other individual in the United States.

**Don Johnston**

Don Johnston is chairman of the International Executive Service Corps, and serves on the boards of Equitable Life Assurance Society, McGraw-Hill, Inc., and Johns Hopkins University. He recently retired as chairman of the J. Walter Thompson Company.

**Juanita M. Kreps**

Juanita M. Kreps is Vice President Emeritus of Duke University. From 1977 to 1979, she was U.S. Secretary of Commerce. Dr. Kreps has been a professor, a writer, and an administrator. She serves on many corporate boards, including Citicorp, R.J.R. Nabisco, AT&T, United Airlines, Armco, Chrysler, Eastman Kodak, and J.C. Penney.

**Charles McC. Mathias, Jr.**

Charles McC. Mathias, Jr. is a partner at the law firm of Jones, Day, Reavis and Pogue. From 1969 to 1987, he was United States Senator from Maryland, and earlier served



four terms as a Member of the House of Representatives. In 1985, Senator Mathias was elected President of the North Atlantic Assembly.

**Robert C. Maynard**

Robert C. Maynard is President and Editor of *The Oakland Tribune*. He is also a nationally syndicated columnist with Universal Press Syndicate and a commentator on "This Week with David Brinkley" and the "MacNeil-Lehrer NewsHour." Mr. Maynard serves on the boards of Associated Press, the Rockefeller Foundation, the Pulitzer Prize, and the Center for Foreign Journalists.

**David T. McLaughlin**

David T. McLaughlin is President and Chief Executive Officer of The Aspen Institute. He has served as Chairman and Chief Executive Officer of the Toro Company and President of Dartmouth College. He serves on the boards of Dayton Hudson Corporation, Westinghouse, the Chase Manhattan Bank and the Chase Manhattan Corporation, and is a member of the Advisory Council of the Stanford Research Institute.

**Robert S. McNamara**

Robert S. McNamara served from 1968 to 1981 as President of the World Bank. From 1961 to 1968, he was U.S. Secretary of Defense. He has also been President of the Ford Motor Company. Mr. McNamara serves on numerous boards, including Corning Glass, Strategic Planning Associates, the Brookings Institution, and The Aspen Institute.

**A. Roy Megarry**

A. Roy Megarry is Publisher of *The Globe and Mail*, Canada's largest national newspaper. Previously, Mr. Megarry served as Vice President of Torstar, a communications conglomerate, and Director of Toronto Star Newspapers Limited. Mr. Megarry is a member of the National Committee of the Aga Khan Foundation, Canada, and is a frequent speaker and writer on Third World issues.

**William G. Milliken**

William G. Milliken served as Michigan's longest serving governor from 1969 to 1983. He was elected to the State Senate in 1960 and 1962 and became Senate Majority Floor Leader in 1963. Mr. Milliken serves on the boards of the Chrysler Corporation, the Unisys Corporation, the Ford Foundation, and Consolidated Rail Corporation. He was Chairman of the Board of The Center for the Great Lakes.



**Edmund S. Muskie**

Edmund S. Muskie is a senior partner of the international law firm Chadbourne and Parke. He was Secretary of State from 1980 to 1981, Senator from Maine from 1959 to 1980, and Governor of Maine from 1954 to 1958.

**John R. Petty**

John R. Petty has served as Chairman of the High Level Review Committee of the Inter-American Development Bank. He recently retired from the Marine Midland Bank, Inc., where he had been Chairman and/or President since 1976. He was a Partner and Director of Lehman Brothers, Kuhn and Loeb from 1972 to 1976, and Assistant Secretary of the Treasury for International Affairs from 1968 to 1972.

**Ralph A. Pfeiffer, Jr.**

Ralph A. Pfeiffer, Jr. was Chairman and Chief Executive Officer of IBM World Trade Americas/Far East Corporation and Senior Vice President of IBM. He is a director of IBM World Trade Corporation, Arthur D. Little, Inc., Campbell Soup Company, The Royal Bank of Canada, the SmithKline Beckman Company, Covenant House, and the Japan Society. He is a member of the Council on Foreign Relations and the Economic Club of New York.

**Robert D. Ray**

Robert D. Ray is President and Chief Executive Officer of Blue Cross/Blue Shield of Iowa. Previously, he served as President and CEO of Life Investors, Inc. Mr. Ray was Governor of Iowa from 1969 until 1983, and has been a Republican Party leader at both national and state levels. He is Chairman of the Indo-Chinese Refugee Panel.

**Elliot L. Richardson**

Elliot L. Richardson is a senior partner of the law firm Milbank, Tweed, Hadley, and McCloy in Washington, D.C. He has served as Attorney General, Secretary of Defense, Secretary of Commerce, Secretary of Health, Education and Welfare, Deputy Secretary of State, Ambassador to the Court of Saint James's, and U.S. Representative to the Law of the Sea Conference.

**Anthony M. Solomon**

Anthony M. Solomon is Chairman of S.G. Warburg (U.S.A.), Inc. He was President and Chief Executive Officer of the Federal Reserve Bank of New York from 1980 through 1985, and served as Vice Chairman of the Federal Open.



Market Committee. Mr. Solomon was Undersecretary of the Treasury and Assistant Secretary of State for Economic Affairs. Mr. Solomon serves on the boards of the Institute of International Economics, the Syntex Corporation, and the United Kingdom Equity Fund.

**Paula Stern**

Paula Stern is president of The Stern Group, an international trade advisory firm. From 1978 to 1986, she served as a member of the U.S. International Trade Commission, for the last two years as its Chairwoman. Ms. Stern serves on several boards, including the Carnegie Council on Ethics and International Affairs, Scott Paper Company, SSMC, Inc., and Dynatech Corporation.

**Peter Tarnoff**

Peter Tarnoff has been President of the Council on Foreign Relations in New York since 1986. He was previously Executive Director of the World Affairs Council of Northern California and served as a career Foreign Service Officer from 1961-1982. From 1977 to 1981, Mr. Tarnoff was Executive Secretary of the Department of State and Special Assistant to Secretaries of State Edmund Muskie and Cyrus Vance.

**Viron P. Vaky**

Viron P. Vaky is a Senior Associate at the Carnegie Endowment for International Peace. Ambassador Vaky served as Assistant Secretary of State for Inter-American Affairs from 1978 to 1979. Prior to that he was U.S. Ambassador to Costa Rica, Colombia, and Venezuela.

**Cyrus R. Vance**

Cyrus R. Vance is Chairman of the Federal Reserve Bank of New York and presiding partner of the New York law firm Simpson Thacher & Bartlett. From 1977 to 1980, he was U.S. Secretary of State. He was previously Secretary of the Army and the Defense Department's General Counsel. He serves on several corporate boards, including the New York Times Company and General Dynamics.

**From Latin America and the Caribbean****Daniel Oduber (Co-Chairman)**

Daniel Oduber was President of Costa Rica from 1974 until 1978. He is currently President of the Governing Board of Costa Rica's National Liberation Party and Vice President of the Socialist International.



**Rodrigo Botero (Co-Vice Chairman)**

Rodrigo Botero is a visiting scholar at the Center for International Affairs, Harvard University. He served as Colombia's Minister of Finance from 1974 to 1976, and was a member of the Brandt Commission on International Development Issues. He is the founder of the Foundation for Higher Education and Development in Bogotá, and is a member of the boards of the Ford Foundation and The Aspen Institute.

**Peggy Antrobus**

Peggy Antrobus is Tutor/Coordinator of the Women and Development Unit at the University of the West Indies in Barbados. She is a founding member of Development Alternatives with Women for a New Era (DAWN), and serves on the boards of the Pathfinder Fund, the International Women's Tribune Center, the Population Council (Caribbean Project) and other regional and international agencies.

**Nicolás Ardito Barletta**

Nicolás Ardito Barletta, director of the International Center for Economic Growth, was President of Panama from 1984 to 1985. He was Vice President of the World Bank for Latin America and the Caribbean from 1978 to 1984, and Panama's Minister of Planning and Economic Policy from 1973 to 1978. Dr. Ardito Barletta also served as Director of Economic Affairs at the Organization of American States and President of the Latin American Export Bank.

**Oscar Camilión**

Oscar Camilión is serving as a United Nations mediator in Cyprus. He was Argentina's Foreign Minister in 1981 and Ambassador to Brazil from 1976 until 1981. Mr. Camilión has been a professor at the Faculty of Law of the University of Buenos Aires.

**Fernando Henrique Cardoso**

Fernando Henrique Cardoso is Senator from the State of São Paulo, Brazil. He was the founding President of the Brazilian Center for Analysis and Planning (CEBRAP), and served as President of the International Sociological Association. He is the author of major works on Latin American society and politics.

**Roberto Civita**

Roberto Civita is President of Editora Abril, Brazil's largest publishing concern. He is Publisher of *Veja*, Presi-



dent of the Brazilian Magazine Publishers Association, and a member of the Board of Overseers of the International Center for Economic Growth.

**Oliver F. Clarke**

Oliver F. Clarke is Chairman of the Board and Managing Director of *The Gleaner*, Jamaica's daily newspaper. He has been Chairman of the Caribbean Publishing and Broadcasting Association, Director of the Private Sector Organization of Jamaica, and Treasurer of the Inter-American Press Association.

**José María Dagnino Pastore**

José María Dagnino Pastore is Professor of Economics at the Catholic University of Argentina. He has served as Minister of Finance, Minister of Economy and Labor, and Secretary of the National Development Council of Argentina. He has been Vice President of the Foundation for Latin American Economic Research, Ambassador in Europe, and Chairman of the Argentine Investment Bank.

**Alejandro Foxley**

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José Francisco Peña Gómez is the former Mayor of Santo Domingo. One of the founders of the Dominican Republic's Dominican Revolutionary Party, he served for 20 years as the Party's Secretary General and has been its President since 1986. He is a Vice President of the Socialist International and President of its Committee for Latin America and the Caribbean.

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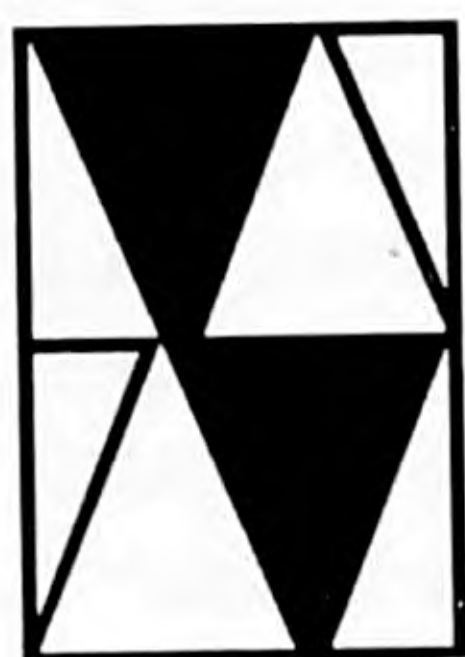


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Peter Hakim was Vice President for research and evaluation at the Inter-American Foundation from 1982 to 1984. He was a program officer for the Ford Foundation and a visiting lecturer at MIT and Columbia University. He writes regularly on U.S.-Latin American relations and co-edited *Direct to the Poor: Grassroots Development in Latin America*.





# Executive Summary

## **I. Debt and Stagnation: A Program for Recovery**

Latin America has been mired in depression for six years; most Latin Americans are worse off today than they were a decade ago. Having trapped millions in extreme poverty, the depression has begun to feed on itself. Continuing capital flight, low investment, rampant inflation, and declining funding for education and health are destroying the foundations of future productivity, and may keep Latin American economies stagnant for years to come.

The Latin American debt crisis may soon touch off a political crisis. Economic adversity has weakened democratic governments in country after country. As governments lose credibility and authority, the appeal of extremist solutions is rising and it becomes harder to institute the economic measures needed for recovery and growth. Latin America may be condemned to a long period of economic hardship and political turbulence, which may force civilian authorities to yield to military rule in some places.

Throughout the Hemisphere, a consensus has been gathering among debtors and creditors on what must be done to tackle the two biggest impediments to Latin America's recovery—a desperate shortage of external resources and a legacy of national economic mismanagement. Latin Americans now recognize that their economic policies must be revised to favor greater reliance on private markets and greater openness to trade and foreign investment; they also recognize that the state has played an excessive role in most of the region's economies. For their part, creditor countries and banks increasingly acknowledge that restructuring Latin America's economies and priming them for growth require increased external capital; that new lending alone will never provide enough capital; and that debt reduction is essential.



Latin America must grow at least five percent annually in order to restore business confidence, improve living standards, absorb an expanding work force, and create conditions for political stability. Achieving that rate of growth will not be easy. Five priority tasks must be accomplished.

The first responsibility is that of Latin America. The countries of the region cannot recover unless they revamp their development strategies, restructure their economies, and effectively integrate them in the world economy. Debtor governments must generate and save foreign exchange by promoting exports, increasing the efficiency of domestic industry, encouraging the return of flight capital, and attracting new foreign investment. Internally, fiscal deficits must be reduced, inflation controlled, the private sector expanded and strengthened, and income and wealth more equitably distributed.

Second, the United States must address its own economic problems and join other industrial countries to reduce international financial imbalances, open world markets, and sustain world growth. The international economy must become a stimulus, not an obstacle, to Latin America's recovery.

Third, the international financial institutions—the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB)—must sharply step up their lending to Latin America. If pushed by the industrial countries, these agencies could provide \$8 to \$9 billion of the \$20 billion in new capital needed annually over the next several years to reverse Latin America's economic fortunes. This lending should be conditioned on debtor governments' adherence to economic reform programs.

Fourth, debt reduction agreements must be negotiated between individual debtor countries and their commercial bank creditors. The smallest and weakest debtors require outright relief from much of their obligations. For Latin America's larger countries—Brazil, Mexico, Argentina, Venezuela, Chile, and Colombia—which together owe 85 percent of the regions debt, proportionally smaller reductions are required.

Fifth, the United States and other industrial countries should actively encourage commercial banks to reach debt reduction agreements with Latin American countries. Changes should be made in regulatory, accounting, and tax practices that would make debt reduction a more attractive option. The crucial inducement, however, will be protection against further losses. The industrial coun-



tries must provide some form of official guarantees on the interest or principal that remains after the debt reduction operation.

No comprehensive debt reduction scheme is likely to gain support from creditor countries or banks. But the economic status quo is intolerable. As long as the debtors' interest payments dwarf new borrowing, Latin American countries will remain stuck on a treadmill of austerity, stagnation, and rising debt. What can and should be set in motion now is a step-by-step, case-by-case approach in which each country works out specific, differentiated, and mutually-agreed debt reduction agreements with its commercial creditors. The longer such action is postponed, the greater the ultimate costs will be—for both the United States and Latin America.

## **II. Central America: A Blueprint for Peace**

Central America remains at war, but broad agreement has finally emerged on what must be done to achieve a durable peace. The Esquipulas accords adopted by the five Central American presidents in Guatemala in August 1987 provides the blueprint.

Implementation of the accords has lagged. But events are heightening the appeal of their central goal: encouraging essential compromises among Central Americans. The U.S. presidential transition, major shifts in U.S.-Soviet relations, and, above all, frustration and exhaustion in Central America may finally generate the will to turn the blueprint into policy and action.

In order to rebuild Nicaragua's battered economy, the Sandinistas must reach a negotiated settlement that permits military spending cuts, stems the flow of Nicaraguans out of the country, fosters national reconciliation, and opens the way for international aid. Without U.S. military aid, in turn, the Contras' only hope for influencing the course of Nicaraguan politics lies in an agreement that enables them to challenge the Sandinista government politically.

In El Salvador, war and political violence are intensifying again, but the military stalemate may convince both sides to seek a negotiated peace. An encouraging, if limited sign, is that elements on the left and right are demonstrating a new willingness to seek power through the electoral process.



A lasting peace in Central America requires that four tightly intertwined challenges be met.

First, the nations of the region and their hemispheric neighbors must be assured that their national security is protected. Washington must move forthrightly to defend its own legitimate security interests by pressing the Soviets and Cubans to curtail their military ties with Nicaragua. Washington must also specify its terms for coexistence with Nicaragua, and bilaterally negotiate mutual security arrangements. Aid to the Contras must be confined to humanitarian assistance aimed at reintegrating them into Nicaraguan life. And Managua must desist from assisting insurgencies in El Salvador and elsewhere. There can be no double standard on this essential point.

Second, Central America's armed conflicts must be transformed into peaceful competition. International pressure should be mobilized in support of Esquipulas for promoting democratic politics. Three measures would be especially helpful: creation of an independent international committee to evaluate compliance with the political provisions of Esquipulas; the tying of aid commitments to good-faith efforts by Central American governments to negotiate peace and implement their political pledges; and an international consultative group to sustain democratic change through diplomatic and aid-related incentives and sanctions.

Third, the economies of Central America must be revived. This will require major aid infusions and local economic policy reforms. Various studies by international organizations provide a consensus for action featuring emergency assistance to satisfy basic human needs; a fairer distribution of land and other resources; national policies to encourage domestic savings and exports; greater regional economic integration; a substantial measure of debt relief; and expanded access to world markets.

Fourth, Central America's two million or more refugees and displaced persons must be cared for. Substantial international assistance is needed to meet their immediate material needs, and to help in repatriation and resettlement. After arming the Contras and encouraging them to fight, the United States must take responsibility for assisting them to integrate safely and fully into Nicaraguan life. The United States, Canada, and Mexico should apply generous standards in deciding claims for temporary asylum by all Central Americans.

The Esquipulas blueprint will be useless unless the confrontation between the governments of Nicaragua and the United States can be resolved. Nicaragua must curtail



its military ties with the Soviet bloc, keep from subverting its neighbors, and open up its politics. The United States must stop trying to overthrow Nicaragua's regime and, instead, focus on assuring that Nicaragua's activities do not threaten hemispheric security. U.S. leadership, within a multilateral framework, is also needed to aid Central America's reconstruction. Only in this way can a secure peace be achieved and sustained.

### **III. Drugs: Getting Serious About Demand and Supply**

The Hemisphere is losing the fight against dangerous drugs. No quick or easy solutions are currently available. But both North and South Americans are realizing that today's strategy of eradication, interdiction, and U.S. pressure on its drug-producing neighbors should be deemphasized in favor of hemispheric cooperation and a concerted attack on demand.

Most people in the United States now view narcotics as the country's single biggest problem. U.S. citizens currently spend up to \$100 billion annually on illegal drugs, and a cocaine epidemic is devastating inner cities, where the drug is cheaper and more plentiful than ever. Narcotics trafficking is taking a heavy toll in Latin America as well. Drug abuse is spreading and cocaine-related crime and violence are an open threat to governmental authority in some supplier countries. The fight against cocaine can threaten democratic governments as seriously as the trafficking itself, by provoking drug criminals to step up violence and corruption, exposing militaries to corruption, stretching the military's responsibility and diminishing civilian authority, and occasionally driving guerrillas and traffickers to join forces.

The United States is finally shifting its attention to reducing demand, but prevention and treatment programs have been slow to take shape. There is a growing recognition that supply-side approaches like eradication and interdiction will not do much to address the U.S. cocaine problem.

As long as there is demand for illicit drugs, supplies will find their way to it. Cocaine's retail price so exceeds distribution and production costs that eradication or crop substitution programs, no matter how effective, have scarce effect on U.S. street prices. The drug business is so lucrative that traffickers can tolerate seizure of half or more of their shipments.



Heavy-handed U.S. pressure on Latin American governments and continuing public criticisms of their performances have accomplished little in the battle against drugs, while poisoning Hemispheric relations and hamstringing cooperation on other issues. Whatever the temptation to call for a "drug free America," without specific and funded programs to curb both demand and supply, such calls should be seen for what they are—words substituting for actions.

The United States and Latin America should devise and implement a joint strategy based on a shared assessment of the Hemisphere's narcotics problems. The consensus for inter-American action starts with reducing demand in both the United States and Latin America. This will require substantially increased emphasis on education and rehabilitation, including funding to expand successful pilot programs and to test a wide range of demand reduction measures. U.S. financial and technical assistance should be made available to Latin American countries for programs to reduce drug abuse as well as for supply-containment efforts. Other useful initiatives would include intensifying police and intelligence cooperation, new laws to restrict money-laundering and control the trade in chemicals used in cocaine production, and expanded information-sharing utilizing the expertise of the United Nations' and Organization of American States' drug control agencies.

Progress can be made toward curbing narcotics use and controlling drug crime. The first requirement is to stop the scapegoating that obscures a painful but unavoidable truth: the narcotics problem begins at home for all countries. Hemispheric cooperation is essential, but each nation must also concentrate on what it can do internally to confront the scourge of drugs.

## **IV. The Environmental Challenge**

Environmental degradation throughout the Hemisphere threatens the health of North and South Americans, their economic prospects, and perhaps even the future of their planet. The destruction of the Amazon's tropical forests may trigger disastrous worldwide climate changes. Air- and water-borne pollutants like acid rain are increasingly crossing national boundaries. North Americans dump their hazardous waste in Latin America and the Caribbean. Latin American countries export



pesticide-laden produce to each other and to the United States and Canada. But the greatest damage is occurring inside each country: choking pollution and resource destruction are endangering millions and undermining economic and social development.

Tropical forests are under assault not only in Brazil, but also in Central America and Mexico. Forests are being ecologically devastated, and their enormous economic potential is being squandered. Soil losses threaten agricultural development throughout Latin America. The silt from degraded land clogs waterways and impedes navigation and hydroelectric generation, while denuded mountain slopes have increased flooding. In Central America and elsewhere, overkill levels of pesticide use have led to poisoning rates nearly 2,000 times higher than those in the United States.

In Latin America's cities, most sewage is not even collected, much less treated. Air pollution in all major metropolises in the region exceeds that of any U.S. city. And hazardous industrial wastes are dumped perilously close to crop lands, fishing grounds, and reservoirs.

Environmental problems are both fueling and fueled by Latin America's economic crisis. Government policies that promote environmentally-damaging and economically-dubious activities like cattle ranching in the Amazon waste public funds and destroy the real commercial value of the forests. Soil erosion is reducing domestic food production, while silt-filled waterways raise the cost of hydroelectricity. At the same time, poverty and landlessness are pushing ever more people into ecologically-fragile areas.

With environmental dangers so numerous and financial resources so limited, the Hemisphere's governments, individually and collectively, must set careful priorities. The first task for all governments is to revise policies—taxes, subsidies, and regulations—which perversely offer economic incentives for environmentally-destructive activities. In Haiti, for example, export taxes on coffee led farmers to switch to other cash crops. The results were both accelerated soil erosion and reduced export revenues.

Investments are needed in natural resource management that will bring longer-term economic payoffs from valuable forests, farmland, and waterways. International financial institutions and industrial countries can contribute not only by factoring environmental considerations into their lending decisions, but also by financing sound resource development programs and offering their



expertise in ecological management and pollution control. Long-term regulatory and investment strategies are needed to replace the ad hoc, piecemeal actions that have characterized Latin America's response to environmental degradation to date.

The costs of protecting and cleaning up the environment are immense, especially for depression-wracked Latin American countries. But the costs of neglecting the problems are higher still. No country of the Hemisphere, rich or poor, can afford to postpone action to develop its resources in sound and sustainable ways.

## **V. Democracy at Risk**

Latin America's turn toward democracy in the 1980s has been real and significant, but it is by no means irreversible. Democratic rule today is under siege from several directions.

Democratic governments have been unable to achieve economic growth, control rampant inflation, and provide basic public services. As a result, Latin Americans have become increasingly frustrated, and the appeal of political extremists has grown stronger. The region's economic crisis and the resulting austerity measures have widened inequalities of income and wealth, thereby jeopardizing social stability. Guerrilla insurgencies are becoming stronger and more threatening in some places; in others, drug traffickers have corrupted governmental institutions and seized control of whole regions. Latin American militaries are in conflict with weak democratic governments over many issues: military autonomy, defense spending, human rights prosecutions, and the choice of anti-guerrilla tactics.

Only Costa Rica, Venezuela, Jamaica, and several small countries of the Commonwealth Caribbean qualify as fully consolidated democracies. Elsewhere, democracy is still incomplete and fragile, or authoritarian regimes rule.

In Mexico, opposition groups mounted an unprecedented challenge to the Institutional Revolutionary Party in last year's elections, opening politics in that country to a new level of competition. But Mexico's continuing need for painful economic austerity could lead to a retightening of political control. Colombia's long-standing constitutional democracy is embattled; the country is torn by guerrilla movements, drug-related violence, and death



squads. Democracy appears more firmly entrenched in Uruguay but tensions linger over the issue of prosecuting military officers for human rights violations during the authoritarian years.

The new democracies of Argentina, Brazil, and Ecuador are under greater stress. In Brazil, where people have been deeply disappointed by the first years of civilian rule, the military still wields a decisive influence over many political issues. In Ecuador, as well, the armed forces continue to play an active role in political affairs. Argentina's government has confronted two military uprisings in the past year.

Democracy's plight has become desperate in Peru, where the economy is in shambles and an elected civilian government seems powerless to control guerrilla terrorism and drug corruption. In Bolivia and the Dominican Republic, venerable political figures dominate, and it is unclear what will follow their departure.

In Central America, progress toward democracy is fitful at best. The elected civilian governments in El Salvador, Guatemala, and Honduras remain extremely weak—political parties are in their infancy, political competition is restricted, and the military intervenes in politics almost at will.

Six countries of the Hemisphere still suffer authoritarian regimes of different kinds. Hopes for a prompt restoration of democracy are highest in Chile, following General Augusto Pinochet's defeat in the October 1988 plebiscite. Prospects are much poorer in neighboring Paraguay, where aging General Alfredo Stroessner perpetuates his repressive rule. In Cuba, Fidel Castro militantly resists testing his mandate in a popular vote, and allows no room for political opposition. Nicaragua has an elected government and a host of active parties and interest groups, but the ruling Sandinista party limits political competition and curtails freedom of assembly and the press. In 1988, both Haiti and Panama saw incipient movement toward democracy derailed by military intervention.

Each Latin American country must ultimately achieve and protect democracy on its own; yet together the nations of the Hemisphere can do much to nurture and strengthen democracy. The fact that so many countries of the Americas are now ruled democratically provides a strong basis for more effective inter-American cooperation to fortify democracy. The opportunities for such cooperation have been enhanced by the emergence in the United States of a broad bipartisan consensus that regards human rights



and democratic politics as legitimate priorities of U.S. foreign policy.

We recommend four direct measures that the democracies of the Hemisphere can undertake cooperatively in support of democratic rule: inter-American actions to promote human rights and freedom of the press; publicly-accountable assistance to democratic institutions, tailored to the particular circumstances of each country; consistent and open expressions of preference for democratic governments over authoritarian regimes of either the right or left; and aid to establish democratic patterns of civil-military relations.

The most vital actions, however, will be indirect—to remove the main obstacles to democratic progress. The United States and the creditor countries of Western Europe should provide Latin America with debt relief to ease the regional economic crisis. All countries in the Hemisphere should work together to confront the drug trade and the corruption and violence it engenders; to achieve a secure peace and improve the prospects for peaceful political competition in Central America; and to develop programs which will alleviate poverty and social injustices. These actions would contribute most to building a Hemisphere where democracy can take root and flourish.



# **Executive Committee of the Inter-American Dialogue**

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