

CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

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EDITORIAL

The remarkable turning point

THE NEW DYNAMISM

The emergence of Latin America as a bristling, confident regional power is most remarkable. With growth averaging a robust 5.5 percent, this has been the best year since the 1960s. Inflation, once the scourge of the continent, is in single-digit territory. The picture looks bright with economic growth forecast at over 5 percent for the entire region for 2011, compared with 1.8 percent in the United States.

The bigger story behind the numbers is that no Latin American country is in

BY DANIEL DRACHE

Daniel Drache is associate director of the Robarts Centre for Canadian Studies at York University.

hock to the International Monetary Fund (IMF). The era of neoliberal policies that were punitive and harmful to millions is now a closed chapter. The loans are all repaid, and this has given the region, as Pablo Trucco and Diana Tussie underline in this special issue, new breathing space to experiment with innovative social initiatives and political programs.

The shift in power dynamics is still an unfolding story. The old order that kept Latin America solidly in Washington's backyard was unipolar—centred on the United States with the European Union a junior partner, and Latin America with neither voice nor influence globally. All this has changed. The present order is multipolar with Asia and Latin America no longer relegated to secondary positions. At the Cancun meetings of the WTO in 2003, the G20 marked its “coming of age,” in the apt words of Brazil's

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THE RISKS AND OPPORTUNITIES OF FUNDAMENTAL POLITICAL CHANGE

Obama, Canada, and civil society South and North

THE OBAMA CHALLENGE: PROMISE AND CONTRADICTION

Many civil society networks in the southern hemisphere, like many others around the world, positively anticipated the impact of a Barack Obama victory on US policy, including foreign and security dimensions, given some hints in his campaign promise for “A New Partnership for the Americas.” It was apparent to North Americans that Obama should respond to his base in the so-called rust belt with some sort of revision to US international trade policy, possibly even a revision of NAFTA. His

BY JOHN W. FOSTER

John Foster teaches globalization and human rights at Carleton University and the University of Regina and is an ongoing participant in the Common Frontiers coalition.

appearance, however brief, at the Summit of the Americas in Trinidad and Tobago in 2009 offered a key opportunity to initiate something new in terms of listening to leaders in change processes in the hemisphere, including civil society. Venezuelan President Hugo Chavez presented Obama with Eduardo Galeano's *Open Veins of Latin America*.

But Obama quickly swept illusions aside, particularly for those interested in a real change in US trade and investment policies. He announced that he would proceed with the US agenda of bilateral negotiations with several Latin American countries, and he appointed Ron Kirk, a

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A Remarkable Turning Point: Post-neoliberal Latin America and the Shadow of Obama

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EDITORS

Daniel Drache
Robarts Centre for Canadian Studies,
York University
 Diana Tussie
Facultad Latinoamericana de Ciencias Sociales (FLACSO), Buenos Aires

With the assistance of the Latin American Trade Network (LATN)

MANAGING EDITOR

Laura Taman

COLUMNISTS IN THIS ISSUE

Daniel Drache	Eduardo Bianchi
John W. Foster	Marcelo Saguier
Jorge Heine	Rut Diamint
Jean Daudelin	Francisco Rojas Aravena
Ed Dosman	Josette Altmann
Kathryn Hochstetler	Doris Osterlof
Pía Riggirozzi	M. Teresa Gutiérrez Haces
Sean Burges	Celso Amorim
Laura Macdonald	Federico Merke
Arne Ruckert	Pablo Trucco
Pablo Heidrich	Diana Tussie
Albert Berry	

PRODUCTION

WordsWorth Communications

CONTACT FOR INFORMATION

Canada Watch
 7th Floor, York Research Tower,
 4700 Keele St., Toronto, Ontario M3J 1P3
 Phone 416-736-5499 Fax 416-650-8069
 www.robarts.yorku.ca

For information regarding future issues, contact Laura Taman, Coordinator, Robarts Centre. Please address comments to Seth Feldman, Director, Robarts Centre.

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foreign minister Celso Amorim (see his contribution).

SOUTH–SOUTH COOPERATION: THE CRITICAL DIFFERENCE

The new global geography has catapulted Brazil smack into the centre of this social, economic, and political transformation. Peter Hakim, writing in *Foreign Affairs*, offers a partial explanation for how Washington managed to lose its traditional backyard after 9/11 through a combination of studied neglect and imperial hubris. However, the story is much less about “Sam” and more about what governments and people have accomplished domestically and locally.

What happened over the decade, to Washington’s amazement, is that the old order was overtaken by a fairer and more affluent Latin America despite the poverty, crime, and corruption. Not everything is a success story, but the efforts, through trade, the activism of new social movements, new political alliances, and developing the continent’s infrastructure, have resulted in remarkable progress in building a focused regional identity, as many of the contributors to this special issue underscore.

Much of this momentum can be traced, inevitably, to Brazil’s centre-stage role in the new economic order. On its own, Brazil accounts for 40 percent of the continent’s GDP. It has become a global agricultural producer of sugar, oranges, soybean, maize, chicken, beef, and pork. It is also a major exporter of oil, iron ore, and many other minerals that China relies on to power its industries. Brazil has more available, arable land than any other country in the world, including major agrarian producers such as India, the United States, and China. Its ability to innovate new varieties of quick-growing soybean and maize in the drier regions on marginal lands is part of its extraordinary green agricultural revolution.

So how has Brazil been able to grow more food, renegotiate oil contracts with foreign multinational corporations

Brazil, more than any other country in Latin America, has used the leverage of public–private partnerships to establish new institutions for a society on the move.

(MNCs) on favourable terms, and develop its industries such that it is slated to become the fifth-largest economy in the world by 2025?

REGULATORY REFORM AND INSTITUTION-BUILDING

The major explanation behind these momentous changes is the pivotal transformation of the Brazilian state and its reform of the regulatory culture over the better part of the decade by different administrations. The strengthening of state institutions has made Brazil into an effective partner with private actors—building infrastructure and exploiting its vast undersea oil reserves. Brazil, more than any other country in Latin America, has used the leverage of public–private partnerships to establish new institutions for a society on the move.

Of course, the picture is more nuanced as different contributors to the issue explain. Forty million have moved out of poverty under Lula da Silva’s reforms, but a third of Brazilians remain poor, and gun violence in the largest cities is off the charts. Inequality is far too high and programs are required to keep children in school longer as well as other health-care reform initiatives to increase primary health services for pre- and post-natal care. One bright spot is that reforms in public spending have contributed to a rise in living standards, and this picture is duplicated, albeit unevenly, across

Latin America.

It has taken more than half a century for the continent to emerge economically from the long shadow of the United States. China’s appetite for iron ore, gas, soybeans, and maize is a large part of the story. Latin American exports to China have grown tenfold since 2005, and Beijing has become the leading trading partner for all major countries across the continent. Latin America’s dominant economies embraced globalization and capitalism as skeptics still bearing the scars of the IMF-Washington Consensus years. Brazil, Chile, and Argentina are now expanding their policy space by launching industrial strategies and reforming domestic institutions. It is an uphill battle, but it has reduced Latin America’s traditional dependence on US interests in the region. China is the new growth metropole, the counterweight to “Yankee interests,” and it is fortunate that it is thousands of kilometres away and not next door.

PETRO-POPULISM AND RECLAIMING “OUR AMERICA”

“Latin America’s decade” is big, complex, and highly politicized. In this issue of *Canada Watch* Jorge Heine describes the extraordinary return of the left in Brazil, Uruguay, Chile, Bolivia, Argentina, Ecuador, and Venezuela. All are populist, some wear deep-red socialist colours, although there are also centrists in the mix. Petro-nationalism has brought new wealth to an emerging middle and lower middle class, and the emphasis on inclusion reflects political attention to anti-poverty policies that were largely absent in the past on such a scale.

Rafael Correa in Ecuador and Evo Morales in Bolivia have brought stability to countries where the level of development differs from the Southern Cone, where the state has been traditionally weak. The neo-populist movements that brought both leaders to power displaced traditional parties and challenged the entrenched political class. Morales and

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Correa have developed inclusive policies toward aboriginal populations who never had a voice before and faced systemic racism at the hands of the traditional elites.

Canadian foreign policy appears to be on the wrong side of the tracks concerning these progressive changes, and is looking more and more, in John Foster's words, like "mining in a banker's suit." Foreign policy has failed to address the environmental destruction caused by Canadian multinationals. The Harper government has zealously pursued more bilateral free-trade deals while remaining fundamentally hostile to Hugo Chavez. It has lost an opportunity to rethink its foreign policy interests and build new relations in the hemisphere.

THE BOLIVARIAN ALTERNATIVE: NOT TO BE DISMISSED

Perhaps the development that bears very close watching is the Bolivarian Alliance for the Peoples of Our America, or ALBA (see Josette Altmann's insightful contribution), an innovative and provocative initiative of Chavez. Altmann examines ALBA's growing influence, particularly its role as a counterweight to the neoliberal model of regional economic integration. It began in 2001 at the Third Summit of the Association of Caribbean States, with Cuba, Venezuela, Bolivia, and Nicaragua as founding members. ALBA is a bottom-up alternative for cooperative strategies bankrolled by Venezuela's petro-dollars. Its numbers have grown from the original core, and currently ALBA offers 18 countries, including Caribbean members, subsidized oil prices, long-term credit, and low interest rates.

The Alliance is based on the principle of "differentiated and special treatment" for countries with different needs and diverse stages of development through social solidarity. It is miles ahead of the WTO in putting these first principles into practice for an ambitious, regional development agenda. ALBA operates as a political and ideological alliance, both pragmatic and results-driven, providing

ALBA is a bottom-up alternative for cooperative strategies.

its member states with public health services for the very poor, enhanced access to education for marginal groups, and a regional bank that provides funding for start up projects and other kinds of assistance.

It is wrong-headed to suggest that these initiatives for cooperation are utopian, the kind of "for tomorrow" schemes advocated by the old left. There are signs that Latin America's political culture of redistribution and transformative pragmatism has substance and staying power. These new politics should not come as a total surprise. After decades of ideological wars, Lula's "can do" charisma has fired Latin America's imagination in a way not seen since the iconic Che dominated public thinking. A new model of cooperation has taken root in South America from the Andes to the Southern Cone with Chavez, Correa, Morales, and the recently deceased Néstor and Cristina Kirchner in Argentina.

VIOLENCE AND THE DRUG WARS

The troubling part of this picture is that even as Latin America tries to turn into a more equal society, controlling crime in the weaker Andean states and Mexico has defeated authorities' best efforts. Drug-related crime remains out of control, and the police and judiciary are part of the problem, although they must certainly be part of the solution as well. According to all experts, youth gangs and the drug wars, driven by the huge American consumer appetite for drugs, accounts for the rising violence. Illegal activities involve large parts of the population, and many of these threats are of a new kind with the violence linked to exclusion and weakening of social cohesion. Economic growth is critical to reducing crime rates but it is not enough.

Better policing and police management are required, and there is some evidence that governments are modernizing their policing methods and reforming the judiciary. In São Paulo, better police practices helped cut the murder rate by 70 percent and, between 2001 and 2005, more than doubled the success rate for catching murderers.

BROADENING AND DEEPENING DEMOCRACY

Stability is always relative. Latin America's politics have become more inclusive with a new generation of leaders like Brazil's Lula and Bolivia's Morales who grew up poor. But the big question is whether strong democratic institutions can evolve even further despite all the obstacles and disadvantages to consensus on economic stability. The wave of electoral victories that brought the left to power will end, and the pendulum will eventually swing back. What differs this time is that the political landscape has dramatically changed. But how deeply and for how long? Is it likely that Latin America will fall backwards into dependence and rule by autocracy?

The iconic idea that Latin Americans now inhabit their own front-yard with new models of regional cooperation for advancing the rights of its citizens is a powerful one. Latin American democracies have long followed a unique path and are currently working together in unprecedented ways. The severe international crisis of 2008 has made the US position in the region highly contestable. Hemispheric politics are making the crucial difference. So far, so good. 🍁

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Decentralizing finance: New steps for a new dance

DISORDER AND GOVERNANCE

Every economic crisis buries some practices and gives rise to new ones. What we see today is a move away from what Robert Wade called the “High Command” of global finance and the rise of less formalized institutions. The G20 may be one of these. So far, the G20 summit agenda has focused heavily on the question of the regulation of international financial markets. In addition, the G20 leaders made a commitment at their first summit in November 2008 to press on with the reform of the Bretton Woods institutions in order to give greater voice and representation to emerging and developing economies.

Two years later, the Toronto summit closed on a dull note. The G20 resolved to have all members halve their deficits by 2013 and stabilize overall debt by 2016. Brazil and Argentina, along with India and China, were strongly against cutting back spending at this early point in the global economic recovery. Brazil’s Finance Minister, Guido Mantega, warned the G20 not to balance budgets on the backs of the world’s poor. Other agendas remain mostly ignored. As these initiatives creep along, it may be that other mechanisms, particularly those at the regional level, gain momentum.

The first steps of the process were taken more than a decade ago. The sequence of economic crises that hit several corners of the world in the 1990s and 2000s provided valuable lessons on the building of regional protective mechanisms to cushion the impact of an external shock. East Asian countries have pioneered expanding financial cooperation regionally after their crisis in 1997 through the Chiang Mai Initiative. Originally a modest safety net of bilateral swaps, this agreement has evolved into the largest international reserve pooling worldwide. The potential to expand this cooperative mechanism is still promising because the country with the largest

BY PABLO TRUCCO AND DIANA TUSSIE

Pablo Trucco and Diana Tussie are members of the Department of International Relations at the Latin American School of Social Sciences. Diana Tussie also heads the Latin American Trade Network (LATN-FLACSO).

Brazil’s Finance
Minister Guido
Mantega warned the
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of the world’s poor.

amount of international reserves in the world—China—is a key member of this agreement.

MORE REGIONAL PLURALISM

On the opposite side of the globe, the Argentine economic meltdown in the wake of the 2000s became the seed of regional monetary agreements in the second half of the decade. Particularly, regional payments clearing houses are making progress toward decoupling trade operations from the US dollar. In October 2008, Argentina and Brazil agreed on a local currency payments system. In Brazil, exporters may now operate in *real*, while Argentines may operate in *pesos*. With the elimination of the need to go through a third currency, exporters can set prices in their home currency, thus being insulated from exchange risk. The system still covers a marginal proportion of trade between these countries, although it is growing rapidly from that low base. The good timing of this initiative has swept it beyond South American borders. In their April 2010 summit in Brasilia, Brazil, the BRIC countries (Brazil, Russia, India, and China) took this experience as a precedent and decided

to look into regional monetary arrangements, including a local currency trade settlement among member countries.

In a similar vein, in October 2009, the SUCRE (Unitary System for the Regional Compensation of Payments, a virtual currency used by central banks to count trade in the books) was set up among Venezuela, Cuba, and Ecuador. The rest of the member countries of ALBA (Bolivarian Alliance of the Americas)—namely, Antigua and Barbuda, Bolivia, Dominica, Nicaragua, and St. Vincent–Grenadines—are also expected to join SUCRE. SUCRE differs from local currency trade initiatives because the former creates a completely new unit of account.

Regional development banks are an additional cooperative mechanism placed between these decentralized initiatives and the “High Command.” An expansion of regional provision of development finance in Latin America has come from the Andean Development Corporation, which will soon supplement the newly inaugurated Bank of the South, with initial capital of US\$20 billion. These regional institutions present a mounting challenge to more traditional sources of funding, such as the recently re-capitalized Inter-American Development Bank and the Bretton Woods institutions. More specifically, most Latin American governments have consistently resisted engaging in International Monetary Fund credit programs in the 2000s owing to the tight conditionality on local policy planning and the expensive political burden derived from the IMF’s bad reputation in local electorates.

IMF NO LONGER THE EPICENTRE

This confluence of factors translated into a sharp drop of regional reliance on IMF funding. In 2005, Latin America made up 80 percent of the IMF’s lending portfolio,

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a share that had dropped to 1 percent by 2008. While IMF loans to Latin America stood at US\$48 billion in 2003, they dropped to less than US\$1 billion before the crisis. With the onset of the crisis, three Central American countries, Mexico, and Colombia have applied for loans. However, the crisis has not changed the long-term trend, which has been favoured by booming commodity markets. While most countries paid off their debts, Argentina is also refusing to follow precedent and go back to the IMF in order to renew negotiations with the Paris Club. Reversing the trend from borrowers to lenders, in June 2009 Brazil,

[M]ost Latin American governments have consistently resisted engaging in IMF credit programs.

Russia, and China announced that they would buy IMF bonds in order to reduce their dependence on the US dollar and diversify foreign currency reserves.

If meaningful IMF reform continues to prove politically difficult, the relevance

of these decentralized financial and monetary arrangements might grow. Not only would they permit decentralization and greater pluralism in international financial governance, they can also contribute to global stability by reducing the United States' burden to provide liquidity to the world economy. They might also throw some useful sand into the entirely free-flowing regime of finance. Paradoxically, the IMF might be forced to turn away from the former highly indebted developing world to the newly highly indebted European countries if voluntary debt markets turn thumbs down on them. 

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ENTER THE HEADWIND

The universal child allowance implemented in October 2009 has been a measure with high positive impact on public opinion. However, it will cost about ARS 8 billion in 2010, equivalent to 6 percent of the monetary base. On the one hand, the universal child benefit may be seen as major policy with distributive effects. On the other hand, it may be seen as a way of catching up with inflation, or even worse, as a policy that simply fuels further inflation. However it is identified, the government is caught in a race between rising prices and social spending. Thus, inflation and the fiscal deficit are the two most serious challenges CFK will have to face in the short term. The question is: How long can the government continue to fund increased public spending without going to the international financial markets?

INFLATION: THE BIG UNKNOWN

The other question is: How much inflation can be tolerated next year? Inflation is a particular concern for CFK's government because it has a larger impact on the poor, who make up her support base, and this could weaken her politically. Public spending is surging at a rate of about 30 percent, and analysts say the


Argentina's fragmented opposition has failed to form a united front against the government despite winning control of Congress in last year's mid-term election.

use of central bank reserves to service debt is also stoking inflation. On the other side, opposition proposals in Congress to hike pensions and cut controversial taxes on grains exports would strain the budget and could trigger a controversial presidential veto.

HER RUNNING BATTLES WITH BIG BUSINESS AND THE MASS MEDIA

The picture gets more complicated when media and business enter the scene. CFK has been at odds with the Clarín media group for two years. She stepped up her drive against the conglomerate by accusing Clarín and its competitor La Nación of plotting with the military junta to buy leading newsprint supplier Papel Prensa in 1976. The government rescinded the broadcast rights of Clarín's paid-up TV sports channel to air live Argentine first-division football. State-run television has taken over and broadcasts all matches for free. Second, the

government announced that another Clarín company, Fibertel, could no longer operate as the Internet supplier to its more than one million users because it did not have, and had never had, a licence to do so. No doubt the battle against the media groups Clarín and La Nación will only intensify in the run-up to next year's presidential elections.

In short, the road ahead looks rough and rocky, with global and domestic trends pushing in different directions. Add to this a fragmented opposition and the confrontational style of the Kirchners, and what you have is a very uncertain picture. Will she be able to bring together fortune and virtue without him? 

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