EMERGING LATIN AMERICA

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RESUMO
Este artigo é especialmente dedicado aos estudantes de administração de todo o mundo. Após delinear os aspectos históricos, demográficos e físicos da América Latina, os autores estabelecem e usam um quadro de referência para descrever e explicar o moderno desenvolvimento econômico, social e político da região. O artigo tem seu fundamento ligado às dimensões históricas da América Latina contemporânea e se insere no contexto de uma economia global extraordinariamente dinâmica.

ABSTRACT
This paper is specially dedicated to the students of management of the world. After outlining the historical, demographic, and physical aspects of Latin America, the authors establish and use a framework to describe and explain the modern economic, social, and political development of this region. The paper is firmly grounded on the historical dimensions of contemporary Latin America. Its background is the context of an exceptionally fast-moving global economy.

PALAVRAS-CHAVE
Economias emergentes, mercados emergentes, história contemporânea da América Latina, desenvolvimento econômico da América Latina, perfil da América Latina.

KEY WORDS
Emerging economies, emerging markets, contemporary history of Latin America, economic development of Latin America, Latin America's profile.

If the 1980s and 1990s have seen Asia in the limelight of economic development, with Japan and other countries joining the club of the most industrialized countries in the world, the first decade of the millennium will be remembered as the decade when Latin American countries joined that highly selective assembly of nations.

It is inevitable that some of today's developing countries will one day – not in a distant future – overtake some of the rich countries, both in economic size and in income per capita.

It is inevitable that some of today's developing countries will one day – not in a distant future – overtake some of the rich countries, both in economic size and in income per capita. Regrettably, most international institutions are still dominated by rich countries and inadequately represent the new emerging economies. Take, for example, the Group of Seven Most Industrialized Countries (the G7): Japan, Germany, France, Italy, Britain, Canada, and the United States. This group excludes countries that will account for two-thirds of the growth in world output and trade in the next ten years. Six developing economies – China, India, Russia, Brazil, Mexico and Indonesia – are already bigger in economic size than that of Canada, the G7's seventh member. Two Latin American countries are included in the list: Mexico and Brazil. Some conservative estimates show that Brazil's economic size will likely be overtaking that of Britain, Italy, and France in the next ten years or so.

Everywhere in Latin America, the direction of policy has been the same: to chop back the over-mighty state. And, everywhere, the results have been the same: inflation is down, foreign investment is up, and dictatorships are out.

Despite bumps along the way – e.g., Mexico's currency and banking troubles of 1994-95 and Brazil's recent financial difficulties –, the gains are undeniable. Inflation fell from a regional mean of 196 percent in 1991 to just 19 percent in 1995 and even lower rates in 1996,1997 and 1998. Fiscal discipline – a very difficult task for the United States, ironically – has slashed the average budget deficit by two-thirds, from 5.5 percent of GDP in 1988 to 1.8 percent of GDP in 1995. Most impressive has been the embrace of freer trade exemplified by NAFTA and MERCOSUR, two of the most important trading agreements in the hemisphere. In December of 1994, Latin American leaders pushed the United States and Canada to agree to negotiate a Free-trade Agreement of the Americas by 2005. The opening of the region's economies has spurred exports. They grew 6 percent a year during the early 1990s, up from 1.8 percent a year during the mid-1980s (Latin, 1996).

The upward trend in Latin American economies is not likely to lose momentum in the first decade of the millennium and maybe not for decades to come. No wonder the study of the economic development of the Latin American countries – just like the Asian countries – has been attracting increasing interest both in Europe and the United States, and in the countries of the Third World generally.

It is therefore important, especially for young managers who are starting their careers now and whose professional lives will probably encompass the first two to three decades of the third millennium, to comprehend Latin America. It has not been easy, notoriously for Americans, to grasp this immense land of startling contrasts, a continent that has been throughout its history poor and rich; turbulent and stable; populous and deserted; modern and old; independent and dependent; educated and uneducated; democratic and autocratic. The present study, especially dedicated to the students of management of the world, is a small step in that direction.

In the next sections, after outlining the historical, demographic, and physical aspects of Latin America, we establish and use a framework to describe and explain the modern economic, social and political development of this region. Conclusions are drawn in the last section.

THE LAND AND THE PEOPLE

For a long time, the term "Latin America" was used to designate the countries situated south of the Rio Grande border with the United States. What is this region composed of and how diverse is it?

With the exception of Brazil, colonized by Portugal, and Haiti, colonized by France, the remaining eighteen Latin American republics (see Table 1) share much of their colonial history, and, in Spanish, a common language.

Nevertheless, the different pre-Colombian cultures contributed in widely diverse ways to the formation of the present Latin American nations. The differences between countries such as Argentina and Mexico are as great as the similarities. The differences between the countries of the Caribbean region, where there is a clear African ethnic-cultural influence, and the Andean countries, where indigenous ethnic-cultural elements predominate, are as marked as is possible for countries sharing part of their history.

The growth of a Latin American consciousness – meaning much more than a geographical denomination – is a relatively recent phenomenon, deriving from the new problems posed by the region's economic and social development over the last seventy years.

Generally speaking, traditional development, based on the expansion of exports, had transformed the countries of the region into competing economies. Exporting the same primary products and importing manufactured products from outside the region, they failed to forge any economic links with each other.

The disruptions of international trade in 1929 had profound repercussions in the region. It is the attempt to find the solution for the problems that have arisen since then that has paved the way for the emergence of the present Latin American consciousness. The shortage of manufactured goods, particularly during the Second World War, gave rise to a regional trade in manufactures, opening the way to a better understanding and the emergence of common interests. Regional trade became significant between countries exporting temperate-zone products, such as Argentina, and those exporting tropical products, such as Brazil. With the end of the war and the reopening of normal channels of trade, intra-regional trade declined significantly, but the experience had served to create contacts and crystallize possibilities that were to be explored at a later stage with initiatives like Andean Pact, LAFTA, and, more recently, MERCOSUR.

Since the second half of the 1950s, when industrialization based on import-substitution began to reveal its limitations, the obstacles to regional development created by the small size of the national markets began to be widely discussed. The discussion has greatly contributed to the growing awareness of similarities and the creation of a regional consciousness.

Lastly, mention must be made of the role played by Latin America's changing relations with the United States in shaping this regional consciousness. Control of a large part of the region's sources of raw materials by the United States companies created close dependent links with the United States for most Latin American countries. While, after the First World War, United States capital ousted European capital from control of the public services in almost all the countries of the region, after Second World War, American penetration gained considerable momentum in manufacturing. Thus, Latin America as a whole was in a position of economic domination by the United States. This served to precipitate the realization that only by seeking closer ties with each other could the Latin American countries hope to bring about any

Table 1 – Gross National Product: nominal, per head, and average annual growth rate (1985-95)

	GNP	Per head ($)		Average annual growth rate (1985-94)		
Country	Nominal (billions of $)	GNP nominal	GNP (PPP)*	Real GNP	Population	Real GNP per head
Argentina	278.40	8030	8310	3.2	1.3	1.9
Bolivia	5.91	800	2540	4.0	2.3	1.7
Brazil	579.80	3640	5400	.9	1.6	-.7
Chile	59.20	4160	9520	7.7	1.6	6.1
Colombia	70.30	1910	6130	4.6	1.8	2.8
Costa Rica	8.88	2610	5850	5.4	2.5	2.9
Cuba	14.30	1300	N/A	N/A	N/A	N/A
Dom. Republic	11.40	1460	3870	4.1	2.0	2.1
Ecuador	16.00	1390	4220	3.1	2.3	.8
El Salvador	9.06	1610	2610	4.7	1.8	2.9
Guatemala	14.30	1340	3340	3.2	2.9	.3
Haiti	1.78	250	910	-3.2	2.0	-5.2
Honduras	3.57	600	1900	3.2	3.0	.2
Mexico	304.60	3320	6400	2.2	2.1	.1
Nicaragua	1.66	380	2000	-2.7	3.1	-5.8
Panama	7.24	2750	5980	1.5	1.9	-.4
Paraguay	8.16	1690	3650	3.8	2.7	1.1
Peru	55.00	2310	3770	-.5	2.1	-1.6
Uruguay	16.50	5170	6630	3.9	.6	3.3
Venezuela	65.40	3020	7900	2.9	2.4	.5

*** PPP = Purchasing Power Parity. Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.***

significant change in the conditions of their "dialogue" with the United States. Latin America has then become a historic reality as a consequence of the ongoing process of modernization in the region and of the outgoing particular form of dependence established between the Latin American countries and the United States.

The land

The Latin American republics cover an area of almost 8 million square miles (20.5 million square kilometers), an area equivalent in size to that of the United States and Canada combined, or to that of the former Soviet Union.

Crossed by the Equator, the larger part of Latin America lies in the Southern Hemisphere: its southern tip is in latitude 55 degrees south, whereas its northernmost extremity extends only as far as the 33rd parallel. Geographically, the region can be subdivided into three sub-regions: (a) northern Mexico, in which the basic relief features of the United States are prolonged; (b) the American isthmus, which extends for more than 1,250 miles (2,000 km) narrowing southward to a width of only 44 miles (70 km) in Panama; and (c) the South American continent, whose relief is dominated by the Andean Cordillera, the great interior plains, the Guyana and Brazilian massifs, and the Patagonian plateau. The Andean barrier extends from the extreme north to the extreme south of the South American continent, sheltering extensive plateaus such as the Bolivian Altiplano – over 500 miles (800 km) wide – and reaching altitudes of more than 3,750 miles (6,000 km). The great South American plains are formed by the basins of the Amazon River, the largest in water volume in the world, the Orinoco, and the Parana Rivers.

Latin America has a wide variety of climates, from humid tropical climate in the Amazon region to tropical climate with a dry season and a hot semi-arid climate in the middle part of the continent, and mountain, subtropical and temperate climates in the Andean regions and the southern part of the continent.

Some demographic features

The Latin American population, which at present totals 486 million, represents about 8.3 percent of the world total (Table 2). Two features distinguish it from any other population groupings of comparable importance. The first is the rapid rate of increase, which is, at present, around 1.9 percent annually (the second highest in the world). The second salient feature of the Latin American population closely related to the first is its age structure, which is characterized by a large proportion of children and young adults. Persons under 30 years of age now make more than 60 percent of the Latin American total population, whereas in the United States they account for about 43 percent, and in Western Europe, for an even smaller percentage. In the next section, we establish a framework for gauging modern economic growth based on recent work in the field and for understanding why some countries are richer than others (Furtado, 1970).

THE MYSTERY OF ECONOMIC GROWTH

In recent years, researchers have moved closer to answering the most important question in economics: Why are some countries richer than others? As we know, the larger part of the world is poor, and the surest remedy for poverty is certainly economic growth.

Early economists like Adam Smith (1776), David Ricardo (1817) and others thought and wrote about the problem. It seems that government policies aimed at encouraging education, opening the economy to foreign technologies, promoting trade and keeping taxes low, and a country's ability to use its own resources are important factors that can accelerate economic development. At least, this was found to be true with respect to the fast developing Asian countries like South Korea, Taiwan, Singapore, Hong Kong, Thailand, Indonesia, China, and others. Let's review these factors more closely.

Government policy

Most empirical evidence available points to the

Table 2 – Share of various regions in world area, population, product and trade

Region	% of world area	% of world population	% of world product	% of world trade
Africa	22.3	12.5	1.7	2.5
Anglo America	16.0	5.1	27.6	18.5
Latin America	15.1	8.3	5.8	5.5
Asia	23.4	60.9	30.4	29.0
Europe	16.9	12.7	33.1	43.0
Oceania	6.3	.5	1.4	1.5
World	100.0	100.0	100.0	100.0

Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.*

primacy of government choices. Countries that have pursued broadly free-market policies – in particular, trade liberalization and the maintenance of secure property rights – have raised their growth rates. In a recent paper, Jeffrey Sachs and Andrew Warner divided a sample of 111 countries into "open" and "closed". The "open" economies showed strikingly faster growth than the "closed" ones (Sachs and Warner, 1994).

It has not been easy, notoriously for Americans, to grasp this immense land of startling contrasts.

Smaller governments also help

Robert Barro, among others, has found that higher government spending tends to be associated with slower growth (Barro, 1991).

Human capital

Education and skills have also been found to matter. Various statistical analyses have shown that countries with plenty of human capital, in terms of education and skills of their people, relative to their physical capital are likely to grow faster than those with less. Many economists argue that this was an important factor in East Asia's success: in the early 1960s the Asian Tigers had relatively well educated work forces and low levels of physical capital.

Savings and investment

This is a more difficult issue to deal with. One implication of the neoclassical theory is that higher investment should mean faster growth (at least for a while). The empirical evidence suggests that high investment is indeed associated with fast growth. But studies also show that investment is not enough by itself. In fact, the causality may well run in the opposite direction: higher growth may encourage higher savings and investment.

Inability to use existing resources

Catching up is possible. The economic opportunities for poor countries are, as the tigers have shown, phenomenal. The problem is not so much a lack of resources, but an inability to use existing resources well. Otherwise, how can one explain that countries like Japan, Singapore, Taiwan, and Hong Kong that have virtually no raw materials have become industrialized so rapidly?

Other factors of development

New growth influencing variables keep being added to the list. High inflation, for example, has been found to hinder growth; political stability also favors growth. The results of which is better, a democratic or an autocratic form of government, are mixed. There have been examples of fast development on both sides.

The emerging conclusion is that the poorest countries of the world can indeed catch up, and that their chances of doing so are maximized by policies that give greater role to competition and incentives at home and abroad. The fast developing countries of Asia not only have illuminated the way to full development for Latin American countries but have been themselves participants in that development as we will see later in this study. In the next section, we examine Latin American accomplishments on the road to progress in light of the factors of development discussed in this section.

LATIN AMERICA: ON THE ROAD TO FULL DEVELOPMENT

How productive is Latin America?

Latin America accounts for 8.3 percent of the world population, contributes 5.8 percent of the overall world product, and 5.5 percent of the world trade (Table 2). The following results can be derived from the data given in Table 2. While 1 percent of the Anglo American population contributes 5.4 percent of world product, making this region the most productive on earth, 1 percent of Latin American's population contributes 0.7 percent of world product, making it the fourth most productive region on earth. The second, third, fifth, and sixth positions go for Oceania, Europe, Asia, and Africa, respectively. Latin America, however, is the most productive region in the Third World.

How rich is Latin America?

Latin America's GNP per capita is 32 percent lower than the world average, but about 50 percent higher than that of the so-called Third World countries (Table 3). Latin America's GNP per capita of $3,320 (Table 3) conceals wide disparities between different countries. Thus, Argentina's GNP per capita of $8,030 (Table 1) is 3.6 times the average of the Eastern European countries and about 64 percent higher than the world average (Table 3). On the other hand, Haiti's per capita income of $250 or Honduras' of $600 (Table 1) are well below the African average of $650 (Table 2). Haiti's per capita income is about 3 percent of that of Argentina, representing a far greater difference than that between the Latin American average and the GNP per capita of the United States.

Besides Argentina, other countries with GNP per capita above the regional means are Uruguay and Chile.

Brazil's and Mexico's per capita incomes (Table 1) are at about the regional average (Table 3).

Table 3 – Third World Gross National Product per capita (U.S. $)

Region	GNP per capita
Africa	650
China	620
South Asia	350
Southeast Asia	1,350
Southwest Asia	2,770
Eastern Europe	2,230
Pacific Ocean Islands	6,400
Latin America	3,320
Third World Average	2,221
World Average	4,890
United States*	26,980

* United States' GNP per capita is shown here for comparison. Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.*

How fast is Latin America's economy growing?

Table 4 shows GNP average annual growth rates between 1990 and 1995 for the world and its six regions. Latin America has one of the highest growth rates in the world (3.2 percent) and it is expected to remain so for years to come. Table 1 shows average annual GNP growth rates between 1985 and 1995 for all Latin American countries.

There are wide disparities among Latin American countries with Chile's GDP growing at an average of 7.7 percent annually between 1985-95 whereas Nicaragua, Haiti, and Peru exhibited negative growth during the same time span. However, twelve out of the twenty countries grew at 3% or more annually. This compares favorably with the developed block of countries in which annual growth rates of 3% or more were the exception within the same period.

Table 4 – GNP growth rate (%) (1990-95)

World	1.9
Africa	.9
Anglo America	2.5
Latin America	3.2
Asia	2.9
Europe	.3
Oceania	3.6

Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.*

Despite some recent bumps that will affect the 1999 growth prospect, Latin America continues to be a good bet. While East Asia remains the world's most dynamic region, Latin American countries like Chile, Mexico, Brazil, Peru, Argentina, Colombia, and Venezuela grew 7.1, 7.0, 3.2, 7.4, 8.6, 3.1, and 5.1 percent in 1997 respectively (Latin, 1998). According to the published data for 1998, the figures are 4.8, 4.3, nil, 2.2, 4.8, 1.5, and 0.5 percent respectively, for the same group of countries (Latin, 1998). Although Brazil is worst hit, tough times lie ahead for Latin America. However, the much-feared meltdown has not happened. The world economy is expected to grow by only 1.3% this year. Just like Latin America, many Asian countries are expected to shrink again. Nevertheless, China and India are likely to be second and third in GDP growth, with 6.7 and 6.5 percent respectively. The surprise is the Dominican Republic, a Latin American economy, which is expected to be number one of the world list with almost 7 percent! Cuba and Bolivia, two other Latin American economies, are also well placed among the top twenty countries set to grow this year, with expected growth rates of over 5 percent (Emerging-Market, 1999a).

Is Latin America getting richer?

The answer is yes, but some Latin American countries are going faster than others. The question now involves GDP rates of growth discounted by population rates of growth. Over the decade 1987-96, the GDP per head has grown by an annual average of 3.6 percent in developing countries, more than twice as fast as the 1.6 percent growth in the rich industrialized economies. Wide disparities among regions still exist: Asian incomes per capita rose by 6 percent a year while those in Africa and Eastern Europe fell. Latin America grew at 0.5 percent.

Table 1 shows that 14 out of 20 Latin American countries had positive growth between 1985 and 1995 while 5 exhibited population rates of growth higher than GDP's rates of growth, resulting in negative growth or decline. While Chile led the countries with positive growth in GDP per head (average of 6.1 percent per year), Nicaragua had the most serious recession in the same decade with its recession income per head decreasing 5.8% per year. The Nicaraguan crisis, as is well-known over the world, was caused mainly by ideological divergence between the United States and Nicaragua's governments, with the U.S. inflicting several kinds of punishment – from economic blockade to military aggression – to the small Central American country during the Reagan and Bush years. In these regards, the "crisis" was less the result of any inability of the Nicaraguan people to develop their own country than the unwillingness of the United States to allow one more Cuba in its backyard. American desire can also go in the opposite direction by helping countries to develop. Countries like Chile and Costa Rica, whose governments were amply supported by the United States in spite of being of radically different political species (Chile's was a dictatorship at that time, while Costa Rica was, and continues to be, a democracy), are examples of fast development with average annual incomes per head during the decade of 6.1 and 2.9 percent respectively.

How big is Latin America's economy?

What are the biggest economies in Latin America? The size of the countries economies can be compared by converting their GDPs into dollars using Purchasing Power Parities (PPPs) which take into account what money actually buys in each country. In recently published calculations for 1995, China, with a GDP well over 3 trillion dollars, was the second biggest economy in the world, trailing the United States. Brazil (9) and Mexico (12) were among the top twelve economies in the world (Emerging-Market, 1997a).

If we look into each country's contribution to the total GDP of Latin American, we can say that four countries – Brazil, Mexico, Argentina, and Venezuela, i.e., 20 percent of the countries – contribute together approximately 80 percent of the total Latin American GDP (Table 1). If we add Colombia, Chile and Peru to the list (the G7 of Latin America?), the contribution of these seven countries is almost 90% of the total Latin American GDP.

Is trade free in Latin America?

As the rate liberalization of trade is progressing, trade will be free in a not too distant future, at least among Latin American countries.

Trade liberalization is a key component of economic growth. Trade is a major engine of economic progress. Exposing domestic industries to the rigors of international competition promotes efficiency and quality. A case in point, in 1992 Asia's growth rate was 7 percent, much higher than the average growth rate for the world. Seven of the twenty-five leading world exporters were Asian countries.

Thanks to liberalization policies that most Latin American countries have adopted in the 1990s, the so-called "*apertura*" or opening of their economies, trade has been increasing at rates comparable to those of Asian countries. For example, according to one top economic adviser to the White House, United States–Latin American trade is expected to reach the U.S. $200 billion mark by the year 2000. "This will be more than the combined U.S. trade both with Japan and Europe." (The Brazilians, 1996). Although the world's most open economies – measured by the rates of trade to GDP – are in Southeast Asia, six Latin American countries are among the top twenty most open economies in the world. These are by rank: Mexico (8th), Venezuela (10th), Chile (11th), Colombia (12th), Argentina and Brazil (14th). The least open economy is Japan (Emerging-Market, 1996a). and the openness rate has been accelerating in many of the smaller Latin American countries.

Of the many trading blocks in Latin America, one has had spectacular impact on trade among countries in the area: MERCOSUR, one of a web of 31 agreements to liberalize trade within the region. Argentina, Brazil, Paraguay, and Uruguay formed MERCOSUR in 1991. In 1996 MERCOSUR has begun to widen: in June, Chile signed a free-trade agreement with it, and on December 17, at the group's six-monthly presidential meeting, held in Fortaleza (Brazil), Bolivia followed suit. As with Chile, Bolivia's trade with MERCOSUR should be tariff-free within ten years.

MERCOSUR is the world's fourth largest integrated market, after NAFTA (The North American Free-Trade Agreement), the European Union, and Japan. It is a dynamic one. Intra-MERCOSUR trade has soared. From $4 billion in 1990, trade among its original four members more than quadrupled having reached $16.1 billion in 1996. Notwithstanding, there is plenty of room for more: in 1995, intra-group trade amounted to only 1.6 percent of MERCOSUR's GDP, compared with 4.5 percent for the NAFTA countries, and 14 percent for the EU.

MERCOSUR is still not yet a full free-trade area, let alone a customs union, with a common external tariff. However, its aspiration is toward free movement not just of goods but of services, capital, and labor. It offers a framework, a timetable and a snappy brand name that have become an attractive visiting card in the rest of the world. Because MERCOSUR is the creation of democratic governments, it can be seen as a long-term project for integration among the peoples they represent.

Would you invest in Latin America?

After a decade of stagnation – the 1980s or the so-called "lost decade" –, Latin America started to emerge again from a sea of political and economical troubles. Privatization and economic restructuring policies attracted massive amounts of capital. In 1992 and thereafter, capital flooded back into Latin America, inflation was under control, free-market policies were adopted, and some countries struck debt-reduction deals. Overall, Latin American economies grew by 2.6 percent in 1992, the second consecutive year of growth after a decade of stagnation. From a net outflow of capital of 13 billion dollars in 1990, the region recorded a net capital inflow of almost 26 billion dollars in 1992. In 1996 the net foreign direct investment in Latin America reached a record of

$31 billion, according to the United Nations Economic Commission for Latin America (ECLA). Thanks to an improved regulatory environment and other economic reforms, foreign firms have been investing heavily in the region. Brazil received the most net foreign direct investment (FDI) in 1996 ($8 billion) followed by Mexico ($7 billion), Peru ($3.4 billion), Argentina ($3.2 billion), and Chile ($2.7 billion). In relation to the size of its economy, Bolivia received the most FDI in 1996 (6.5 percent of GDP), followed by Peru (4.4 percent of GDP), Nicaragua (4.2 percent of GDP), Chile (2.9 percent of GDP), and Colombia (2.8 percent of GDP) (It'll, 1997).

Although ever more emerging economies in the world are receiving private investments, the lion's share of private capital still goes to relatively few countries. In 1996, the top 12 emerging economies received 73 percent of all foreign investment, with China receiving the most ($52 billion). Mexico ranked second ($28 billion), Brazil ranked fifth ($16 billion), Argentina, seventh ($12 billion), and Chile, ninth ($6 billion) (Emerging-Market, 1997b).

Net private capital flows to emerging economies plunged by 41% in 1998, to $152 billion, down from $260 billion in 1997. Net flows were less than half the record level of $327 billion in 1996. Far less capital has been heading for the five economies most affected by the Asian financial crisis: Indonesia, Malaysia, the Philippines, South Korea, and Thailand. With most of Asia in trouble, over half the net private capital flowing into emerging economies in 1998 went to Latin America, although in absolute terms the amount fell by 18 percent (Emerging-Market, 1999b).

The largest holders of official foreign-currency reserves continue to be Asian countries and Latin American countries. Despite the crisis in emerging markets, which has caused foreign investors to flee and private capital flows to dry up, almost all-emerging economies still have bigger foreign exchange reserves than they did in 1993. China has the largest hoard of foreign reserves ($145 billion), followed by Taiwan ($91.9 billion), Hong Kong ($89.6 billion), Singapore ($72.3 billion), and South Korea ($52 billion). The sixth in the list is a Latin American country, Brazil ($40.5 billion), followed by Mexico ($29.8 billion). Argentina ($22.7 billion), Chile ($14.9 billion), Venezuela ($11.9 billion), and Colombia ($8.3 billion) are also well ranked in the top 25-world list (Emerging-Market, 1999b).

As for Latin American inflation, during the 1980s and early 1990s, most of Latin American economies were plagued by hyperinflation. In 1990 the region's average inflation rate hit a peak of 438%. Since then central banks have tightened the monetary reins. The IMF predicts that in 1999 the region's inflation rate will drop into single figures for the first time since 1960. Argentina's inflation rate is only 0.5%, compared with a rate of more than 3,000% in 1989! Brazil's inflation rate was 2.5% in December of 1998, compared with a 4-digit rate similar to Argentina's in the middle of the 1990s. Chile's inflation is around 4%. Colombia, Mexico, and Venezuela have been declining their rates since 1995, but they still remain high at 17.1, 15.9, and 34.3, respectively (Emerging-Market, 1998).

In spite of all the short-term difficulties of the moment, Latin America will probably pull through. Given that most of the emerging economies are experiencing the same problems, Latin America continues to be a good bet. After all, the poor results of the last year of the millennium cannot annul Latin America's overall steady economic and political performance of the last ten years.

The Asian Pacific contribution

While Asia Pacific is destined to lead the global economy into the next century, Latin America has gained immensely from Asian investments in the region. The United States and Europe provided most of the capital and technology in the initial phase of development of Asia Pacific. They also provided the markets for Asia's exports. Now China, Japan, and the region's four economic tigers – South Korea, Taiwan, Singapore, and Hong Kong – are reinvesting in the next big growth areas of Asia and Latin America.

As Japanese investments decrease in Latin America, from $6.3 billion in 1988 to $4 billion in 1996, investment from the rest of Asia is on the rise. In 1995, six Latin American presidents have visited China, whose $6 billion trade with the region is growing by 30% a year. China has also put some $500 million into Peruvian mining while smaller Chinese companies are investing in the Latin American market.

South Korea's large conglomerate, the **Chaebol** is leading investment in Latin America. Samsung will spend $1 billion over 5 years to expand its production of TV sets and other goods in Mexico and Brazil. In 1995, South Korea's Kia opened a $500 million car-making plant in Brazil. Other Korean firms, Daewoo and Hyundai, are planning to invest $500 million a piece to set-up regional manufacturing centers in Brazil, as well as smaller sums in Colombia and Venezuela. Daewoo officials talk of expanding the Chaebol's sales of electronics in the region to $2 billion a year, which would give it a 10% market share within 5 years. In 1996, South Korea's President Kim Young brought the chairmen of the 30 biggest Chaebol to Latin America to promote investment. Pusan – South Korea's second largest city – recently opened its first overseas trade office in Miami to help small firm's boost trade with Latin America.

Latin America, which has a combined GDP of $1.6 trillion, represents a very attractive market in its own right.

Trade liberalization has left consumers hungry for durable goods. That has helped the Taiwanese company, Acer, in the computer making market to win 30% of the Mexican market. Taiwan is also sponsoring industrial projects in Brazil and Paraguay. Another attraction is the easy access Latin America provides to the giant market of the United States. In Tijuana (Mexico), a quarter of the employment generated by maquiladoras come from Asian-owned firms.

Trade between Latin American and Asian countries grew healthily in the early 1990s. Chile and Mexico have fought their way into full membership of APEC, the Asia-Pacific Club. Peru and Colombia are planning to join them in the near future. It does not come as a surprise that Chile's trade with Asia overtook its trade with the United States, which has long dominated trade with the region (Crossing, 1996).

It seems that government policies aimed at encouraging education, opening the economy to foreign technologies, promoting trade and keeping taxes low, and a country's ability to use its own resources are important factors that can accelerate economic development.

Infrastructure: the Achilles heel?

For many years, the so-called infrastructure comprising transportation, energy, sanitation, and water supply was considered the weakest link in the Latin American development chain. Henry Gomez considers logistics to be Latin America's sturdiest business barrier (Gomez, 1997). But this is changing too and it is changing fast. Last year Latin America was undergoing a collective drive toward improving its highway infrastructure. The first phase of a $3 billion 2100-km link from São Paulo, Brazil, to Buenos Aires, Argentina, included the Argentina–Uruguay Bridge across the Rio de La Plata. A highway linking Santos, Brazil, to Arica, Chile, was also being planned. A private enterprise planned to invest $717 million into the 407-km Presidente Dutra highway in Brazil, linking Rio to São Paulo. Other major projects included $90 million to refurbish 9900 km of dirt roads in Peru, $130 million for building more than 300 km of trunk road in Mexico and the first stage of a $214 million Caracas–La Guaira highway in Venezuela.

Privatization schemes continue to progress in Latin American countries such as Argentina, Brazil, Chile, Ecuador, and Mexico. In Chile, privatization was seen as an aid to lowering pollution levels in Santiago. In the Southern cone of South America, Inter-American Development Bank funding was supporting a new railway between São Paulo and Chile.

Colombia was to build a coal line linking isolated provinces to Lake Maracaibo, while Panama was considering an extension of its line outward from Panama City. Nicaragua was planning a 370-km (230-mile) train service that would connect deep seaports at Monkey Point to the Pacific Ocean.

As for freight and pipelines, privatization of energy industries was stimulating development in Argentina, Chile, Brazil, Peru, Colombia, and Venezuela. Colombia's Ocensa $240 million crude-oil line from the Cusiana and Cupiagua fields and the 1200-km (750 mile) gas line from Argentina to Chile are typical examples. In August of 1997, a 465-km-long, 61 cm-diameter pipeline linking Argentina to Chile was completed. Also, a 3020-km gas line to link Bolivia to Brazil was planned.

In the area of electric power generation, the State of São Paulo, Brazil, was transferring control of its enterprises – CESP, Eletropaulo and CPFL – to private hands, sub-divided into generating, transmitting and distributing companies, a deal worth over U.S. $10 billion. In only two years, 241 national and foreign enterprises have already confirmed investments worth U.S. $21.2 million in the state's infrastructure of transportation, energy, sanitation, and water supply. These are just a few examples of how fast Latin America's logistics systems are being modernized.

Is Latin America politically stable?

It has been since the late 1980s that Latin America's young population has somehow managed to elect strong leaders, not to command the economy but to allow the economy to be developed bottom-up by entrepreneurs. Of course there were some bumps in the road, but in Latin America there is a new generation of that kind of leader. Throughout Latin America young talented heads-of-state, ministers, and other officials are doing a wonderful job as change managers and facilitators of their countries economic and social development.

Although most of the countries of Latin America are democracies, it is not necessarily true that democracy leads to economic growth. Bolivia has had a democratic government longer than Argentina or Chile, yet Bolivia lags behind both in economic growth. Or, to bring an Asian example, China and Vietnam are still committed to Communism, yet both countries exhibit fast economic growth.

It is not privatization alone that would lead to rapid economic growth. Argentina led the world in privatizing its state-owned enterprises, yet has had serious setbacks on the road to full development. However, Singapore was much slower in privatizing its industry, but it has a telecommunications infrastructure that is the envy of the world.

It is not even freedom of press alone that leads to rapid development. While Brazil and Chile are considered free press countries, and Colombia, Mexico, Argentina and Venezuela partly free press countries, China, one of the fastest economic growths in the world, is considered a non-free press country. In fact, only 22% of the world's population live in countries with a free press (Emerging-Market, 1996b).

Latin American leaders – from Alvaro Arzu in Guatemala to Fernando Cardoso in Brazil; from Abdala Bucaram in Ecuador to Carlos Menem in Argentina; from Alberto Fujimori in Peru to Fidel Castro in Cuba, and others who are facilitating the shaping of the world economy – all share one thing in common: they know that for their countries to survive and prosper they must eliminate all barriers, real and artificial, that prevent their country's participation in the growing global economy.

Among those barriers, there are still serious social problems waiting almost an eternity to be solved. A populist reaction may be gathering pace against the bold free-market reforms of Latin America. If the momentum of economic reform is to be sustained, then its benefits must be available to all citizens. Poverty still plagues Latin America. Latin American governments can and should do more than wait for the trickle-down effect of macroeconomic policies. The next section deals with poverty and its manifestations.

THE BUMPS ON THE ROAD TO DEVELOPMENT: POVERTY, SECURITY, EDUCATION AND HEALTH CARE

The first wave of reform in Latin America was popular, as liberalization spurred economic growth. Along came an expansion of credit and a flood of cheap imports, which pleased consumers, and propelled reformers such as Argentina's Carlos Menem and Peru's Alberto Fujimori to re-election. Voters liked reforms because it was followed by economic growth. The basic economic outlook for Latin America is very favorable, but the poor cannot eat "basics". According to the World Bank, income is more concentrated in the hands of the rich in Latin America than in any other region of the world. What the poor see is that the region's traditionally wide gap between incomes is widening further. Many economists think that a rate of growth of 6% will be needed to reduce poverty as population continues to rise. Some Latin American countries have already achieved and sustained that rate. Others have not.

May polls show that citizens don't hold politicians and parties in high esteem. One poll (Latino Barometer) shows that only 28% are satisfied with the functioning of democracy in Latin America. Even middle-class people are joining the backlash of the poor. Guerrilla insurgencies are back. On December 17 of 1996, about 20 heavily armed guerrillas of the Tupac Amaru Revolutionary Movement (MRTA) invaded the Japanese embassy in Lima, Peru, and took several hundred-reception guests hostage. The guerrillas demanded the release of fellow rebels imprisoned in Peru and other countries. The ordeal ended after 126 days on April 26, 1997 with 140 Peruvian commandos executing all 14 guerrillas during the raid. One of the hostages, Bolivia's Ambassador to Peru, Jorge Gumucio, said 10 of the rebels were playing soccer in a large reception room when the troops stormed. The other four – all teenagers including two girls – tried to surrender out of fear. They were in a room on their own. However, the commandos were under orders to take no prisoners, since "taking prisoners would have complicated the operation," according to an officer after the attack (Hughes, 1997). Ironically, not a single hostage was harmed by the rebels during the 126-day siege. So much for human rights. Peru's larger Shining Path movement, although overshadowed by the MRTA in recent months, remains a more potent threat.

Mexico has both the telegenic masked Zapatists and the PRD. There is reason for hope too. On December 29, 1996, guerrilla leaders and government officials attended a ceremony in Guatemala City for the signing of an agreement to end 36 years of civil war in Guatemala. It was estimated that the war had taken 140,000 lives.

Nearly every city in Latin America is more dangerous today than it was ten years ago. The region's murder rate is already six times the world average. Half of the world's abductions take place in Colombia. Courts are inefficient and corrupt. The region spends 15% of GDP on security, which is more than welfare spending!

Latin America spends more of its GDP on social services than the Asian Tigers but lags behind in primary education and basic public health. After all, aren't poverty, security, health, and education all intertwined? Poverty is manifested not only in security but also in education and health care.

How educated are Latin Americans?

This is a good question. Although Tables 5 and 6 show a favorable picture for some of the Latin American countries, indicators, such as student/teacher ratios, expenditure on education as a percentage of GNP and so on, are being challenged today.

Table 5 – Student/teacher ratios for some Latin American countries

Country	Elementary	Secondary	College and higher
Argentina	17.9	9.6	7.8
Bolivia	24.7	17.6	25.7
Brazil	23.3	15.3	10.6
Chile	26.9	13.2	N/A
Colombia	25.4	20.3	9.4
Costa Rica	31.4	N/A	N/A
Cuba	11.9	9.8	5.3
Haiti	28.5	19.0	14.9
Mexico	28.7	17.5	11.8
Peru	27.4	19.4	14.5
Venezuela	22.7	9.2	12.6
Germany	18.2	14.0	12.1
U.S.A.	18.7	14.6	17.1

Note: Germany and the United States were added to the table for comparison. Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year*.

There is a growing consensus that education is the key to getting rich – for countries as well as for individuals. It is also acknowledged that one of the principal reasons why tiger economies like Singapore, Taiwan and South Korea have grown so quickly is that their governments were successful in raising the educational standards. Recent research results have contributed to discredit many of long held beliefs of education and educators. For example, there seem to be little or no correlation between time spent on a subject and student performance. There also appears to exist little evidence to support the argument that the main cause of underachievement is under-funding. Also the myth that children do better in small classes is also being undermined by educational research. These are all good news for many Latin American countries with their crammed classes and low educational budgets. Crammed classes and low budgets did not impede East Asian children to attain top performance in international mathematics and science tests, year after year, well above high-spending Western countries with their traditional smaller classes.

Table 6 – Education indicators for all Latin American countries

Country	Literacy over age 15 (%)	Public expenditure on education as a % of GNP	Student/teacher ratio at first level (elementary)	% of population age 25 and over with higher education
Argentina	96.2	4.5	17.9	12.0
Bolivia	83.1	6.6	24.7	9.9
Brazil	83.3	4.6	23.3	N/A
Chile	95.2	2.9	26.9	12.3
Colombia	91.3	3.5	25.4	6.8
Costa Rica	94.8	4.5	31.4	7.8
Cuba	95.7	6.6	11.9	4.2
Dom. Republic	82.1	1.9	34.7	2.3
Ecuador	90.1	3.4	31.4	12.7
El Salvador	74.1	2.2	39.7	6.3
Guatemala	55.6	1.7	31.5	6.0
Haiti	45.0	1.5	28.5	.7
Honduras	72.7	3.9	34.8	3.1
Mexico	89.6	5.3	28.7	9.2
Nicaragua	65.7	3.9	37.1	N/A
Panama	90.8	5.2	24.1	13.2
Paraguay	92.1	2.9	24.1	3.4
Peru	88.7	3.8	27.4	20.4
Uruguay	97.3	2.8	20.1	8.1
Venezuela	91.1	5.2	22.7	11.8
Italy	97.1	4.9	9.8	28.6
U.S.A.	95.5	5.3	18.7	46.5

Note: Italy and the United States were added to the table for comparison. Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.*

What can Latin America and the rest of the world learn from the classrooms of East Asia?

One of the most striking characteristics of countries like Taiwan, Singapore, and South Korea has been their emphasis on raising the educational standards of the whole population rather than an elite. Moreover, those countries invested heavily in **primary** education and have done much better economically than those that focused on university education. In those countries, it is expected that every child will achieve a basic level of attainment by the age of 12. Classes in the first three or four years are of mixed ability. Those who fall behind are given special tuition in one-to-one catch-up classes. Teachers enjoy considerable respect and prestige and are relatively well paid, compared with their counterparts in the West. Only now are the Asian Tigers moving their educational priorities towards higher education.

Many more Latin American children fail in school. These, the failures, end up on the periphery of the labor market, on the welfare rolls and terrorists armies. The social and budgetary costs of educational failure are therefore extremely high.

And how about health in Latin America?

Table 7 shows some health indicators for selected countries.

Of all Latin American countries, Cuba, Costa Rica and Chile look very good in infant mortality and life expectancy at birth, even when compared to developed countries like France and the United States. The next tier is formed by Argentina, Colombia, Mexico, and Venezuela where many programs, both public and private, have been created to lift a lot of people out of poverty, malnutrition, and diseases. Menem's government in Argentina, for example, has created programs to help child nutrition, vaccination, AIDS awareness, and flood prevention. Other programs were created to bring down infant-mortality rate. Similar social investments are being made in many other countries of Latin America like Brazil, Peru, Guatemala, Haiti, Honduras, Bolivia, and Paraguay. However, there is still a long way to go so that the next tier of Latin American countries can close the gap between them and the best in the world in health care. Certainly, health is a precondition of productivity. The more productive each individual becomes, the more productive the overall economy. Lifting people out of poverty can only improve a country's overall economic performance. That's the lesson that China learned and that Latin America is learning now.

CONCLUSION

While the main structures of Latin America's society and policy remained stable for a long period of time, extending from the colonial period into the nineteenth century, in recent decades the change process has been greatly accelerated. There have been important changes in the political culture and values, the economic structure, the social and class structure, the political groups and organizations, the range of public policy, and the international business environment.

Table 7 – Health indicators for selected Latin American countries

Country	Infant mortality rate per 1000 live births	Life expectancy of birth (years)	Number of persons per hospital bed	Number of persons per physician
Argentina	22.0	69.6-76.8	227	376
Bolivia	75.1	59.6-62.9	1005	3663
Brazil	55.3	56.7-66.8	298	680
Chile	13.1	71.8-77.8	326	875
Colombia	26.9	65.4-73.3	693	1078
Costa Rica	13.0	71.9-77.5	566	763
Cuba	9.4	72.8-77.7	134	231
Haiti	105.1	47.3-51.3	975	9846
Mexico	27.1	66.5-73.1	1196	613
Peru	58.3	65.9-70.9	860	849
Venezuela	27.7	69.1-75.3	382	576
France	4.9	73.7-81.8	86	361
U.S.A.	7.5	73.4-79.6	243	365

Note: France and the United States were added to the table for comparison. Source: Adapted from *Encyclopedia Britannica 1998 Book of the Year.*

Latin America's political culture is undergoing profound transformations. New values and ideologies have challenged the old belief systems. New communications and transportation networks are breaking down traditional isolation. It is plain that the older bases of legitimacy are being displaced by a great variety of new ideologies. The economic system has also altered irreversibly. Latin American countries are no longer sleepy, lazy, rural agricultural entities. Argentina, Brazil, Mexico, Venezuela, Chile, Colombia and Peru have taken their place among the more industrialized nations of the world. In these and other Latin American countries, manufacturing, mining, and services generate as much or more GNP as agriculture. A new labor class has risen up.

In many Latin American countries, a strong middle class has also evolved. The problem is that this class is so internally divided that it fails to offer few possibilities of stable rule. Nevertheless, Latin America has been politically stable in the last ten years.

The elite groups are now increasingly differentiated between old landed wealth and new industrial banking, commercial, and manufacturing elements. The social composition of the Church and the military officer corps has changed from upper to middle class. An urban sub-proletariat has emerged in all countries of Latin America, and in the countryside, the peasant has become better informed, organized, and mobilized (http://www.yahoo.fr).

New political parties have appeared. These have been founded after new ideologies and often are mass based. The extent of governmental policy has greatly expanded. In addition to agrarian reform, economic development, urban policy and family planning, new initiatives have been started which include housing, water supplies, education, health care, electric power, literacy and numeracy programs, irrigation, flood control, highway construction, and reforestation. New norms of honesty and efficiency exist. Governments are increasingly being judged on the basis of their ability to deliver the programs they promised before being elected. And, when presidents deliver to themselves and their friends what they promised to deliver to the people they represent – a more prosperous and better life –, they are impeached by the people. Human rights have become a major issue, although there is room for improvement there. The Lima massacre is a case in point.

The international business environment in which Latin American countries operate has also changed. Latin America is no longer isolated from the rest of the world, producing chiefly for itself. It is now permanently linked to the global market. The decline of United States dominance in Latin America is also evident. Business from Japan, the United Kingdom, Germany, Italy, France, South Korea, and China are beating out U.S. competitors for the major contracts in Latin America. However, one should not lose sight of the reality. Shades of elitism and authoritarian mentality still exist. It is exactly the conflict between these rival conceptions, the change-oriented forces on the one hand and the defenders of the *status quo* on the other, that lies at the heart of contemporary Latin American politics. The struggle is certain to continue as Latin America takes charge of its own future. ❍

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