

INTERNATIONAL ECONOMIC RELATIONS/INTERNATIONAL DEVELOPMENT INSTITUTIONS

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Even though most Latin American countries gained independence much earlier than other former colonies, the region's economic development in the last century has been marked decisively by the specter of international economic dependence and by a variety of policy efforts to overcome this dependence. This chapter discusses the evolution and the politics of Latin American trade and capital flows and the relations between Latin American countries and international development institutions in recent decades. This overview suggests that despite some genuine progress in promoting domestic industrial development, many countries in the region continue their traditional reliance on primary commodity exports and foreign financial capital. The cyclical nature of commodity prices and international capital flows, which in the Latin American context is reinforced by the shifting power balance between social actors with different international policy preferences, has contributed to a series of dramatic swings in nature of the region's engagement with international markets as well as the international development institutions. As this chapter illustrates, much of Latin America's international political economy has fluctuated between periods of rapid growth fueled by commodity export booms and often excessive capital inflows and buttressed by generally harmonious relations with foreign investors and international financial institutions, and periods of painful recessions, whose depth and length were exacerbated by capital flight and were often punctuated by acrimonious relations with international creditors.

For obvious reasons, much of the discussion is devoted to identifying broad regional trends and putting them in a global perspective through a number of inter-regional comparisons to other parts of the developing world. Since such broad generalizations run the risk of doing violence to the very real intra-regional diversity of developmental levels and trajectories, this chapter will identify at least some of the more notable differences in how different Latin American countries have managed the political challenges of integrating with international markets.

Trade

The evolution of trade in Latin America is deeply rooted in its colonial past. Until the 19th century the region served primarily as a source of raw materials for the European colonial

powers, and the combination of trade openness and a heavy emphasis on agricultural and mineral exports continued after independence. While these policies produced fairly rapid growth in much of the region, trade openness primarily benefitted large agricultural producers, who had pushed out small farmers in most Latin American countries. When the Depression of the 1930s drastically reduced the demand for and profitability of Latin American primary exports, much of the region turned away from free trade and adopted what eventually became known as import-substituting industrialization (ISI).¹ While Latin American countries differed somewhat in the timing and the specifics of their ISI policies, their broad goal was to promote domestic industrial production through a set of economic measures designed to protect the region's nascent industries from their more advanced European and U.S. competitors. During the first labor-intensive version of ISI, these measures included high tariff protection and currency devaluations, which raised the prices of imports and thereby shifted domestic consumption towards local producers. While this approach produced very positive results in terms of both growth and poverty reduction (at least for unskilled urban workers), after 1945 it was gradually replaced by a second capital intensive version of ISI, which used a combination of tariffs, multiple exchange rates, overvalued currencies, state subsidies and low interest rates to encourage a shift towards more capital intensive industries. This approach, which was promoted at the time by the UN Economic Commission for Latin America and the Caribbean (ECLAC) under the leadership of Raul Prebisch, was intended to help the region overcome its economic backwardness and it produced some impressive periods of growth (especially in Brazil and Mexico). However, it eventually had a number of negative repercussions, which contributed to its downfall in the early 1980s. First, through its greater emphasis on relatively scarce capital and skilled labor, the approach failed to build on the region's relative advantage in unskilled labor, which reduced growth rates and exacerbated economic inequality. Second, for a number of domestic and international political reasons, ISI policies in Latin America failed to promote industrial exports to the same extent as their competitors in East Asia.² The modest export performance, combined with the high

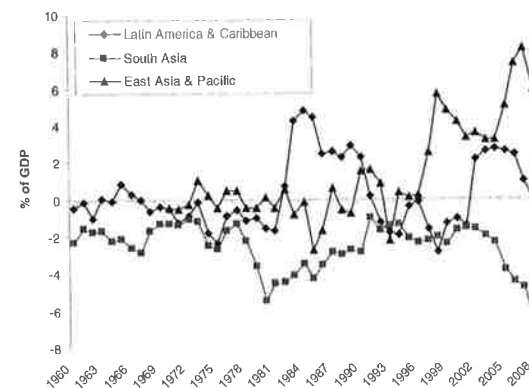


Figure 24.1 Trade Balance — Cross-Regional Trends

imports of capital goods contributed to high trade deficits (see Figure 24.1) and growing foreign debt in much of Latin America in the 1960s and 1970s.

Even though the debt crisis of the 1980s ultimately represented the death knell of ISI in Latin America, the process occurred only gradually and unevenly. Thus, while fiscal austerity measures undermined the elaborate system of subsidies to the industrial sector, the IMF was initially less concerned with reducing tariff rates. Instead, the IMF promoted currency devaluations, which combined with the high tariffs led to a reversal of the high trade deficits of the late 1970s. While Latin American countries did achieve significant trade surpluses in the mid 1980s (see Figure 24.1) and were thereby able to earn at least part of the foreign currency necessary to service their foreign debt, the improving trade balance reflected at least in part the recession-driven lower demand for imports, and thus came at a high economic cost. Moreover, since many domestic producers relied on imported capital goods, the devaluation fueled inflation, which was already high in many Latin American countries. Meanwhile, after an initial rise in 1982–84, regional exports were largely flat for the rest of the decade and—as illustrated in Figure 24.2—the late 1980 and early 1990s were the period when Latin America fell far behind East Asia in terms of international trade integration. Even though Latin American trade growth picked up slightly in the mid-1990s, progress was slower than in both East and South Asia. Moreover, the region's consistent trade deficits from 1992–2001 suggest that this trade expansion was driven by primarily by higher imports. After 2002, driven by a combination of higher commodity prices and the dramatic Argentine devaluation, the Latin American trade balance once again turned positive but its magnitude was lower than in East Asia and it had vanished by 2008.

While the trade volume and trade balance trends discussed above suggest that, especially compared to East Asia, Latin America's insertion into world trade have been less successful during both the ISI period and its neoliberal aftermath, the trends in trade composition suggest a somewhat more positive picture. Even though by 2008 Latin America still relied more heavily on primary exports than Eastern Europe, East Asia and South Asia, the temporal trends illustrated in Figure 24.3 nevertheless a fairly significant shift in trade

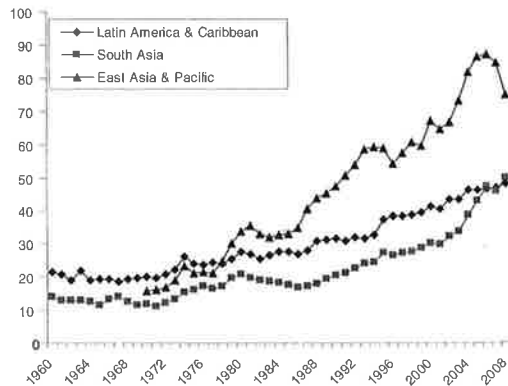


Figure 24.2 Trade Volume — Cross-Regional Trends

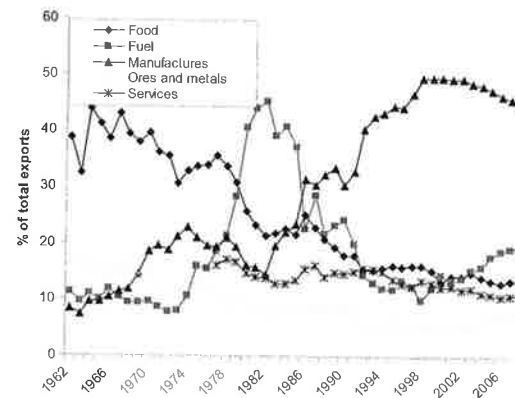


Figure 24.3 Composition of Latin American Trade

composition in the direction that ISI architects had hoped for. Thus, whereas in the early 1960s traditional agricultural exports still represented by far the largest export category, they gradually lost ground to manufactures, which by 2008 accounted for almost half of Latin American exports. Remarkably—and somewhat ironically—the rapid rise of manufacturing exports occurred as the region started to move away from ISI policies in the context of the debt crisis of the 1980s and continued through the heyday of neoliberalism in the early and mid 1990s before plateauing again since the late 1990s. Meanwhile, fuels and ores/minerals continued to represent an important component of Latin American exports, though their relative importance tracked the highly volatile world commodity prices and varied quite dramatically across different countries in the region.

Finally, while so far we have analyzed how overall regional trade patterns have responded to the policy efforts designed to reverse Latin America's traditional commodity dependence, it is worth discussing at least a few of the most important aspects of the great intra-regional diversity in Latin American trade patterns. First, the overall low trade exposure of Latin America was much more pronounced in the regions largest countries (especially Brazil and pre-2002 Argentina), which not only pursued much more aggressive ISI policies until the 1970s but were also slower in opening up their trade since the 1980s. Meanwhile, trade exposure in Mexico and a number of smaller Central American and the Caribbean countries was significantly higher and arguably reflected the strong gravitational pull of the US economy. Second, the export profiles of Latin American countries have also varied quite substantially. Thus, a few countries rely for the bulk of their export earnings on traditional primary commodities such as fuels for Bolivia, Colombia, Ecuador, and particularly Venezuela; ores and minerals in Chile and Peru and agricultural products in Argentina and Uruguay. Meanwhile manufacturing exports predominate in a number of Central American and Caribbean countries (including Mexico) and once again arguably reflect the proximity of U.S. markets, whose influence has been reinforced by the emergence of export processing zones³ and regional trade agreements (especially CAFTA and NAFTA).

International Capital Flows

The second crucial aspect of Latin America's historical economic dependence has been its heavy reliance on external borrowing, whose cyclical and volatile nature has reinforced the domestic boom-bust cycles of Latin American economic development. Since achieving independence in the early 19th century, most Latin American countries went through a series of booms, characterized by rapid commodity-driven economic growth accompanied by rapidly accumulating foreign debt and followed with remarkable regularity by economic busts, driven by falling demand for Latin American commodity exports and usually accompanied by widespread sovereign debt defaults and prolonged periods of economic stagnation and international isolation.⁴ For the purpose of the current discussion, we will primarily focus on the dynamics of the two most recent cycles during the post-World War II period.

The shift from labor-intensive to capital-intensive ISI in the post-war period required significant capital investments, and since Latin American saving rates were not sufficient to finance this expansion, Latin American governments and private sectors increasingly turned to foreign borrowing as an alternative. These trends reinforced in the 1970s by a combination of low investment returns in developed countries and an abundance of petro-dollars following the oil shock of 1974, which gave commercial banks strong incentives to lend to Latin American countries. As a result—as illustrated in Figure 24.4—Latin American debt to commercial banks almost doubled as a share of GDP between 1970–79, and when U.S. interest rates rose significantly after 1980, Latin American debtors suddenly experienced serious difficulties in servicing their ballooning foreign debt.

Following Mexico's announcement in August 1982 that it could no longer service its foreign debt, most observers (including the IMF) initially diagnosed it as a temporary liquidity crisis and predicted a relatively rapid regional economic recovery. However, in a belated effort to reduce their high exposure to Latin American debt, the Western commercial banks practically stopped all new loans to the region and thereby further exacerbated the liquidity problems of many debtor countries.⁵ Furthermore, Latin American governments were

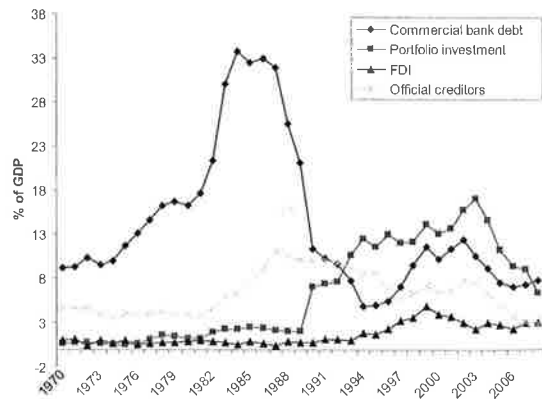


Figure 24.4 Debt Composition in Latin America (1970–2008).

burdened by the rapidly rising interest rates and by the fact that many of them ended up assuming large portions of the private sector debt as part of the initial adjustment packages promoted by the IMF. Several Latin American countries under the leadership of newly democratic Argentina tried to form a debtor cartel to obtain more favorable debt settlements but the so-called “Cartagena Consensus” ultimately failed when some of the region's largest debtors, including Brazil and Mexico, decided to engage instead in case-by-case negotiations with their foreign creditors. Predictably, this collective action failure resulted in worse debt renegotiation terms for most debtor countries; despite adopting painful austerity measures to cope with their rising debt service payments, Latin American countries were actually significantly more indebted to both private and official creditors in 1988 than they had been in 1982 at the start of the debt crisis (see Figure 24.4).

Not surprisingly, the process of external adjustment in the context of the debt crisis raised a number of complicated and contentious dilemmas about the roots of the crisis and, therefore, about the optimal policy solutions.⁶ Perhaps the central question was about the relative share of blame between debtors and creditors: on the one hand, Latin American debtor countries clearly used the easily available credit of the 1970s to live beyond their means and tacking up unsustainable fiscal and trade deficits. On the other hand, many Latin Americans argued that despite sustaining significant losses⁷ and being pressured by the IMF to extend additional involuntary loans to Latin American debtors, the commercial banks were ultimately allowed to get off too easily for their irresponsible lending behavior in the run-up to the crisis. A further complication was the issue of “odious debt,” which arose from the fact that many of the region's new democracies (such as Argentina and Bolivia) were forced to pay off the debts incurred by their former military regimes. Given that many of these loans had been used either to line the pockets of the military juntas or on unnecessary military expenditures, democratic politicians repeatedly argued that their countries should not be responsible for such debts, since Western lenders had knowingly engaged in the financially risky and morally questionable practice of lending to the military regimes. A second debate focused on whether the crisis largely reflected temporary liquidity constraints induced by exogenous changes in international financial markets or whether it was indicative of deeper structural problems with ISI in Latin America. Whereas initially even the international financial institutions endorsed the first point of view, as the crisis dragged on into the second part of the decade and successive heterodox adjustment programs achieved only short-lived economic stabilization, proponents of a deeper structural overhaul started to gain the upper hand first in the international community and gradually (and unevenly) in many Latin American countries.

Of course, while the 1980s are generally referred to as Latin America's lost decade, the trajectories of individual Latin American countries varied significantly during the 1980s. At one extreme, poor and externally vulnerable countries like Bolivia, whose foreign debt problems were exacerbated by declining terms of trade and crippling domestic political conflict, suffered staggering economic shocks, characterized by deep recessions and hyperinflationary episodes. At the other extreme, Venezuela and Colombia benefitted from high oil prizes and more manageable debt levels and therefore managed to survive the 1980s largely unscathed. In between these two extremes, much of the rest of Latin America managed to avoid the complete collapse of Bolivia in 1985 and Peru in 1989–90 but nevertheless experienced weak growth, high inflation (and in some cases hyperinflation), rising poverty and declining wages and public services as a result of their efforts to service their increasingly onerous foreign debt burdens.

Despite these efforts and a number of international initiatives designed to restart lending

to developing countries (such as the Baker Plan of 1985), there was limited progress until after 1989, when a combination of lower international interest rates and the more flexible design of the Brady plan⁸ reduced both the overall debt and the debt service burden of Latin American countries, and thereby paved the way for their return to international capital markets. However, the nature of international lending to Latin America changed dramatically after 1990. As illustrated in Figure 24.4, commercial banks continued to reduce their exposure to Latin America in the early 1990s and even though lending rates picked up again in the mid-1990s commercial bank debt never again came close to the peak levels from the previous two decades. This funding gap was filled by different financial instruments, and particularly by portfolio investment (bonds and equity), which became the single largest source of external finance for Latin America from 1993 until 2008.⁹ At the same time, driven by privatization and more investor-friendly business environments, foreign direct investment (FDI) levels quadrupled between the late 1980s and the late 1990s, before declining again in the context of the greater economic and political uncertainty of the last decade.

However, it is important to remember that the international financial boom of the post-1990 period was highly uneven across different Latin American countries. Thus, several poor Central American and Andean countries (including Bolivia, Honduras and Nicaragua) have been largely bypassed by the lending boom of the 1990s and continue to rely on bilateral and multilateral official loans for most of their financing needs. Meanwhile in the region's largest and/or wealthiest countries, particularly Argentina, Brazil, Mexico, Chile and more recently Venezuela, both governments and private companies have successfully tapped international capital markets for their financing needs, which fueled their healthy (though uneven) growth rates in the last two decades. But as the Argentine default of 2002 suggests, even some of the region's more attractive investment targets have not been able to overcome the traditional boom-bust cycles of Latin America's relationship with international financial markets.

The Politics of Trade and Financial Liberalization

With the notable exception of Chile, the process of international opening and structural reforms had its roots in the traumatic experience of the debt crisis of the 1980s. Since that period coincided with an intense involvement of the IMF and the World Bank in the region (see below), and since at least in the second part of the 1980s the two organizations increasingly advocated greater trade and financial liberalization as part of a broader neoliberal reform package to address the shortcomings of ISI, it is not surprising that many Latin Americans have interpreted these reforms as instruments of continued economic and political domination by developed countries (and particularly the United States). While Western economic interests obviously played a role in driving the globalization process, such a perspective ignores the important domestic political dimension of trade and capital account liberalization in Latin America.

First, as discussed above, the region had extensive prior experiences with free trade and capital flows, which benefitted and therefore elicited political support from the traditional commodity sectors (especially agriculture and mining) in which Latin American countries had a comparative advantage. This point was vividly reinforced by the prolonged and massive protests launched by the Argentine agricultural sector in 2008 in response to the Kirchner government's efforts to raise export taxes on agricultural products. Second—and this point goes back to one of the key arguments of dependency school theorists¹⁰—international

financial interests had important domestic political allies among part of the national bourgeoisie in many Latin American countries, and more broadly among individuals involved in the "internationalized" sectors of the economy. Third, according to one of the fundamental models in international trade, the Heckscher-Olin model, trade liberalization tends to benefit the abundant factor of production in any given country, which means that trade liberalization should have been beneficial to Latin America's abundant unskilled labor pool. However, the empirical evidence of this theoretical prediction is mixed,¹¹ arguably reflecting the important differences between formal and informal sector workers and between sectors with different degrees of international competitiveness in the absence of ISI-type protectionist policies. More broadly, these three points underscore that the politics of trade liberalization were not simply driven by external actors, but reflected the interests of a broad range of social actors who felt that their economic interests had not been properly represented by the urban ISI coalition between the industrial bourgeoisie and organized labor.

Another important distinction, which is often ignored by broad discussions about the impact of globalization on Latin American societies, is that between trade and capital account liberalization. While both types of reforms occurred around the same time and were promoted by some of the same domestic and international actors, a few important differences are worth noting. First, the neoliberal Washington Consensus of the early 1990s emphasized the importance of trade liberalization and foreign direct investment promotion but it did not call for unrestricted capital flows.¹² Second, even though globalization generally increases the economic vulnerability of developing countries to international market fluctuations, the dangers of contagion and speculative attacks are significantly higher in the context of highly mobile financial capital, particularly portfolio investment. Moreover, a number of observers have argued that the constant threat of rapid capital flight and the collective action problems inherent in the large number of portfolio investors (compared to the relatively small number of commercial banks) has significantly narrowed the scope of economic policy making choices by democratic politicians in Latin America and beyond. Third, and related, empirical evidence suggests that in Latin America greater financial liberalization was associated with significantly worse poverty and inequality outcomes, whereas trade liberalization had (albeit modest) positive effects.¹³

Beyond these differences, one of the common concerns with both trade and financial liberalization was that they would further increase the mobility of capital. Since labor has much lower cross-border mobility levels, a number of observers have argued that the easier exit options afforded by globalization strengthened the relative bargaining power of capital and therefore resulted in a race to the bottom, characterized by lower social spending.¹⁴ On the other hand, the risks associated with greater international exposure may increase the demands for higher government spending, and cross-national research confirms the positive correlation between trade and government size.¹⁵ Moreover, certain aspects of international integration may actually benefit organized labor as well, as illustrated by the ability of Mexican labor unions to obtain greater concessions from the government in the months preceding the ratification of NAFTA.¹⁶

Relations with International Development Institutions

International development institutions (IDIs) have played an important and often controversial role in mediating the relationship between Latin American countries and the global economy. While anti-globalization critics tend to portray most of these organizations as thinly disguised tools for pursuing the economic and political interests of advanced

industrial countries (and especially the United States) in the region, a closer look at the historical evidence reveals a great deal of variation across several crucial dimensions: the type of the institution, the time period and the broader international economic environment, and the particular fit (or lack thereof) between the policy prescriptions of IDIs and the political agenda of key domestic political actors.

Different Types of International Development Institutions

The overall tone of the relationship has varied significantly with the type of international development institution. At one end of the spectrum, ECLAC was one of the key architects of ISI policies, which were very popular with large segments of Latin American elites and publics. However, the crisis and eventual collapse of the ISI model in the face of the debt crisis of the 1980s undermined the appeal of structuralist economic ideas and weakened ECLAC's influence on Latin American policy making. While starting in the 1990s ECLAC has tried to articulate a neo-structuralist response to neoliberalism by proposing a "high road to globalization," with the partial exception of post-Pinochet Chile these efforts have failed to restore ECLAC to its previous influence on Latin American economic policy makers. At the same time, however, despite some criticisms that starting in the early 1990s ECLAC's retreat from the key structuralist tenets unwittingly reinforced global capitalism,¹⁷ ECLAC continued to act primarily as a partner of Latin American governments eager to find alternatives to the dominant neoliberal model advanced by other international organizations.

At the other extreme, relations with the International Monetary Fund (IMF) have often been much tenser. These tensions were particularly visible during the debt crisis of the 1980s, when the IMF was widely regarded as an inflexible debt collector, who placed the solvency of Western commercial banks above the welfare of average Latin American citizens. Moreover, starting in the late 1980s and the early 1990s the Fund's growing emphasis on structural economic reforms and international openness made it into one of the most prominent promoters of the Washington Consensus and thus a prominent target of criticisms from Latin American leftists and populists. Following the East Asian Crisis and especially the Argentine crisis of 2001, these critics were increasingly joined by mainstream economists (including from other international organizations),¹⁸ and reflected the Fund's failure to recognize and address some of the significant drawbacks of the neoliberal model it had promoted in the early and mid 1990s. However, at the same time it is important to recognize that in many cases the IMF was used by Latin American politicians as a scapegoat for unpopular policies, which were either largely inevitable for addressing prior economic imbalances (as in the case of the unsustainable fiscal deficits of the late 1970s) or were favored by domestic elites for distributional reasons.¹⁹ Meanwhile, when Latin American governments disagreed with IMF policy prescriptions they could either avoid IMF programs altogether—as many of the region's leftist governments have done in recent years—or they could drag their feet on the implementation front (as suggested by the high proportion of incompletely implemented IMF programs in the 1980s and 1990s). However, as illustrated by the catastrophic repercussions of Alan Garcia's defiant attitude towards the Fund in the late 1980s, such policy deviations could carry a very significant cost especially during periods of global economic crisis.

By comparison, the World Bank's role in Latin America's political economy has received somewhat less political scrutiny, at least in part because its presence has not been as concentrated during periods of extreme crisis as that of the IMF. Moreover, at least in a few select

cases, such as Argentina in the late 1980s, the Bank showed somewhat greater flexibility towards the political challenges facing Latin American governments trying to bridge the tension between international economic pressures and democratic politics. Of course, the Bank's activity in Latin America was not immune to criticism. Thus, a series of environmental disasters tied to World Bank programs in Brazil (and elsewhere in the region) in the early 1980s triggered growing criticisms from environmentalists and eventually persuaded large developed countries to pressure the Bank to change its lending practices to take into account environmental concerns.²⁰ Others criticized the limited effectiveness of World Bank's health and education promotion programs²¹ and even internal World Bank studies found that domestic political economy variables played a much greater role in explaining the success of Bank-supported structural adjustment programs than any of the factors under the Bank's control.²² Despite this ineffectiveness, the World Bank's structural adjustment programs were subject to similar criticisms as IMF lending programs, though the Bank arguably became less of a public enemy during both the 1980s debt crisis and the region's post-2001 leftist turn than its more assertive Bretton Woods sister institution.²³

Temporal Variation

Another important—and often underappreciated—source of variation in the relationship between Latin American governments and IDIs are the important temporal differences based on the changing nature of the international financial environment. These changes are illustrated most clearly by the evolution of the IMF's role in the region but (as mentioned earlier) other IDIs also went through important changes in their involvement with Latin American countries. Thus, the IMF played a relatively minor role in the immediate post-World War II period, and while a number of countries experimented with IMF programs during the 1960s and 1970s, the Fund's influence in the region was limited by the lending boom of the 1970s, which gave all but the region's poorest members fairly easy access to private capital with few if any economic policy strings attached. The situation changed drastically during the debt crisis of the 1980s, which marked a dramatic increase in the number of Latin American IMF programs. Though slightly less ubiquitous, the Fund's presence in Latin America continued to be significant during the boom of the 1990s (especially following the Mexican Tequila Crisis of 1994/5 and in the run-up to the Argentine default of 2001). However, a combination of rising commodity prices and an explicit—though primarily rhetorical—rejection of IMF-style economic policies has led to the virtual disappearance of IMF adjustment programs in recent years.

The fluctuations were equally dramatic with respect to the nature of IMF interventions and the domestic politics of IMF programs. Thus, whereas in the 1970s the IMF had largely acted as an international lender of last resort for the region's most vulnerable countries, the debt crisis of the 1980s catapulted the Fund into the crucial role as an intermediary between Latin American debtors and the heavily exposed Western commercial banks. While the Fund did pressure the banks to extend additional loans to Latin American debtors, program countries received few tangible benefits in return for the harsh austerity measures they had to adopt to comply with IMF program conditions. The high economic and human costs of this economic adjustment process drew widespread criticisms not only from the Left but even from some other development institutions.²⁴ As a result, the politics of IMF programs during this period were marked by significant ideological disagreements and by important tensions between IMF-style economic reforms and democratic politics. During the 1990s the nature of its interactions with Latin American countries improved significantly, even

though in the 1990s the IMF further broadened the scope of its conditionality to include important structural conditions in addition to its traditional balance-of-payments focus. The main reason for this change-of-heart was that following the resolution of the debt crisis, the IMF's seal of approval became a crucial component for allowing Latin American countries to take advantage of the financial market boom of the 1990s. This change was also reflected in the domestic politics of IMF programs, which in the 1990s were no longer at odds with democratic politics and also no longer exhibited different patterns between left and right governments.²⁵

Cross-country Variation

Even after taking into account the significant variations in the nature of IDI missions and the international economic context, there were important differences across Latin American countries in their interactions with international development institutions. These differences can be traced to significant variations in the international and domestic political context in which these relationships were imbedded.²⁶

While in theory international development institutions are supposed to treat all their members according to the same technocratic standards, in practice the interactions often bear the imprint of unequal international power relations. One source of inequality, which has been documented extensively across the world, is that developed countries use their influence over IDIs to secure preferential treatment for their allies. While such considerations may have played a role in individual Latin American countries,²⁷ their salience was arguably lower than in other regions (such as the Middle East and Eastern Europe) where U.S. geopolitical interests were more acute than in the Western Hemisphere.

A second type of preferential treatment, illustrated by the surprising IMF tolerance for Argentine and Brazilian heterodox adjustment programs in the mid-1980s, arises from the simple fact that some countries are "too big to fail" in the sense that their economic collapse could have serious regional and even global spillover effects. The threat of such contagion translated into a much greater bargaining power for the region's largest economies—Brazil, Mexico, and to a lesser extent Argentina—in their interactions with international institutions. While such preferential treatment, which was at times reinforced by direct interventions from top U.S. officials, resulted in greater responsiveness and more generous financial packages in the context of IMF programs, a few caveats should be noted. First, such preferential treatment was largely confined to situations of extreme crises, such as the debt crisis or the Mexican Tequila crisis, whereas in less dire circumstances, such as the Argentine default of 2001, countries eventually found out that they were not too big to fail. Second, preferential treatment for large countries did not apply equally across issue areas: thus, while the IMF showed greater flexibility vis-à-vis the details of domestic adjustment policies in Argentina and Brazil in the 1980s, it was actually less willing to agree to substantial debt reductions for the large debtors than for some of the smaller countries (such as Bolivia), where such reductions were significantly cheaper for Western creditors. Third, as illustrated by the World Bank's special relationship with Argentina in the late 1980s and the IMF's excessively soft response to Argentina's mounting economic woes in the late 1990s, the short-run political and economic benefits of preferential treatment may well be overshadowed by the greater costs of delayed economic adjustment.

The third type of preferential treatment is in many ways the mirror image of the "too big to fail mechanism" and arises from the fact that in order to deal with the frequent criticisms levied against their economic policy prescriptions, IDIs often need to be able to

present showcase examples of the successes of their program countries. In return for their rather strict adherence to economic orthodoxy, such countries may get preferential treatment in other areas, such as more favorable financial conditions. Perhaps the best example of such a case is Bolivia in 1985–87, where the IMF let the newly elected Paz government get away with a partial debt moratorium and facilitated generous debt renegotiation terms in return for the country's exemplary adherence to domestic fiscal and monetary discipline.²⁸ While this "showcase" strategy is one of the more promising options for small developing countries, its replicability is limited by the fact that the "propaganda" value of any given showcase country declines with the number of countries who chose to go along with IDI requirements.

The other major source of variation in the relationship between Latin American countries and international development institutions is rooted in domestic politics. While IDIs generally consider themselves as non-partisan sources of technocratic policy advice and financial support to facilitate the pursuit of the program countries' domestic developmental priorities, in practice the policies required by most IDI programs are closely intertwined with the domestic political debates in program countries. This is the case not only because most economic policies create winners and losers (and therefore trigger distributional conflicts) but because the policy prescriptions of international institutions invariably reflect the ideological preferences of their staff and their principals. Not surprisingly, then, the relations between IDIs and Latin American countries have tended to be closer and more harmonious when IDI staff and Latin American government officials had similar backgrounds and ideological preferences: for example, Chile's engagement with the IMF was particularly intense during the 1980s as the Pinochet government's broad ideological agreements with the Fund's pro-market policy prescriptions reinforced the economic incentives of the debt crisis. By contrast, in the 1990s successive center-left *Concertación* governments cultivated closer ties with ECLAC but did not enter any new IMF programs.²⁹

The conflict potential between the global agenda of IDIs and the domestic political priorities of Latin American governments becomes much clearer once we look beyond the cases where elective ideological affinities encouraged greater cooperation between the two sides. Arguably, the best lens for understanding these tensions is to look at the politics of IMF programs, because the IMF has been widely associated with a neoliberal ideological agenda and because countries confronted with severe external economic imbalances often have few alternatives to the IMF for addressing their problems. The dynamics of Latin American IMF programs are particularly telling during the debt crisis of the 1980s, when both cross-country and within-country differences in IMF relations usually reflected the shifting partisan balance in different Latin American countries. Thus, after a series of failed attempts to address its spiraling debt and inflationary crises in the context of an IMF program, the leftist Siles government in Bolivia was eventually replaced by a center-right coalition, which executed a dramatic U-turn and launched an ambitious and successful orthodox stabilization program, which eventually attracted support from the IMF and other IDIs. Around the same time, Peru moved in the opposite direction, as its freshly elected leftist-populist President, Alan Garcia, reversed the country's earlier IMF cooperation and put it on a collision course with the IMF and Western lenders. While in the Peruvian case this conflict was exacerbated by Garcia's inflammatory rhetoric, these clear partisan shifts reflect the deeper underlying political conflicts triggered by the severe distributional consequences of IMF-style adjustment programs in the 1980s.

These conflicts abated somewhat during the 1990s, when the healthy economic growth experienced by most Latin American countries led to broader improvements in living

standards (despite the persistence of high inequality), and not surprisingly this relative "harmony" was also reflected in the much weaker politicization of IMF programs, which found such unlikely political champions as the Argentine Peronist President Carlos Menem. However, in retrospect the 1990s represented more of a hiatus than a turning point in the conflictual relationship between the Latin American left and the IDIs: thus, following the Argentine default of 2001 and the rise of the Left in much of Latin America, some of the region experienced a renewed rhetorical and policy turn against both the IMF and the neoliberal policies that the Fund has been associated with. While the global economic crisis of 2008–09 has left much of Latin America unscathed and has therefore produced a much smaller "crop" of new IMF programs, we should expect the political logic of the next wave of IMF-style adjustment politics to have much more in common with the political tensions and partisan polarization of the 1980s than with the comparatively placid period of the 1990s.

Conclusion

This brief overview of Latin America's engagement with international trade and capital markets suggests that even though the economies and societies of many countries in the region have changed in profound ways in the past half century, they are still confronted with many of the same challenges that ISI promoters had hoped to overcome. Thus, despite some significant progress of shifting from food to manufactured exports since the 1960s, many countries—and particularly Venezuela, Bolivia, Ecuador, Chile and Peru—still rely on primary commodities for the bulk of their export earnings and this dependence has actually increased in the last decade (especially in Bolivia and Peru). While the potential pitfalls of this dependence have been masked in recent years by high international commodity prices, in the long run it is likely to exacerbate the region's seeming inability to break out of the boom-bust cycle of its economic development trajectory.

The cyclical nature of Latin American political economy is also apparent in the interactions of many Latin American countries with international financial markets and international development institutions. Thus, even though the nature of international capital flows to the region has changed substantially since the 1980s, Latin American reliance on foreign capital has continued to be a cornerstone of its developmental model and one that is still subject to large and often rapid fluctuations between economic booms fueled by massive and often speculative capital inflows, which are inevitably followed by dramatic economic collapses exacerbated by capital flight, debt crises and often by defaults. Just as predictably, relations with international development institutions—and particularly with the International Monetary Fund—have fluctuated between reasonably cordial cooperation (or benign neglect) during periods of financial booms to serious tensions punctuated by open conflict and recriminations during periods of financial crises.

While these cycles are rooted at least in part in the fluctuations of international trade and capital flows, they have arguably been more extreme in Latin America than in other regions. In addition to the aforementioned high reliance on volatile primary exports, Latin America's vulnerability to international fluctuations has been exacerbated by the widespread failure to enact counter-cyclical fiscal policies that could be used to reduce both the overheating tendencies of the boom periods and the depth of subsequent recessions. In turn, these fiscal imbalances and the accompanying inflationary tendencies are symptomatic of the region's unresolved political conflict between different social classes and sectors,³⁰ as well as of the weak taxation capacities of most Latin American states.

More broadly, Latin America serves as a vivid reminder of the intimate interconnectedness of domestic and international economic interests and politics. While a comprehensive analysis of the roots and mechanisms of the politics of international economic integration in peripheral countries has been at times undermined by somewhat arbitrary distinctions across different disciplines (e.g., economics vs. political science vs. sociology) or even within disciplines (e.g., between comparative politics and international political economy in political science), Latin America has long been the breeding ground for theoretical efforts to integrate the different disciplinary strands.

Such integrative efforts help counteract two types of temptations: the first, reflected in some of the early dependency school approaches but also in some of the more recent globalization literature, is to see Latin American development as simply a side-product of the imperial project of developed countries.³¹ In this respect, a vibrant literature has emphasized the importance of domestic elites in mediating external pressures and shaping the nature of economic adjustment since the debt crisis.³² However, these debates would benefit from a more direct incorporation of non-elite interests into the political calculus of international trade and financial integration, perhaps through a dialogue with survey-based studies of Latin American public opinion towards political economy issues. Such an approach might help us understand the extent to which political and economic elites can shape public opinion on international economic policy questions or whether average citizens can play a more active role in checking elite interests. The second risk is that of the potential "provincialism" of academic literatures that focus exclusively on a region (and often on a handful of countries within a given region). This does not obviously mean that Latin America cannot be productively analyzed on its own terms or that it invariably needs to be imbedded in a global sample of countries but that our understanding of the region's insertion into the world economy can benefit from more explicit comparisons to the experiences of other regions. While a number of prominent exceptions—often in the form of edited volumes—exist,³³ they still represent a very small proportion of the analyses of Latin American international political economy. Finally, given the strong cyclical nature of Latin America's interactions with international trade and capital, our understanding of the subject would be well served by more systematic cross-temporal comparisons of the politics of international booms and busts in the region. Such studies would not only help us avoid reinventing the wheel for every "new" historical episode but they may also highlight which aspects of the region's current challenges and opportunities are genuinely new and may require a reevaluation of the conventional wisdom.

Notes

- 1 For an excellent overview of this historical developments, see James Sheahan "External Trade, Industrialization, and Economic Growth," in *Patterns of Development in Latin America* (Princeton, NJ: Princeton University Press, 1987), pp. 74–98.
- 2 These reasons included the greater penetration of transnational capital and multinational corporations in Latin America at the outset of the ISI period, the stronger position of the state vis-à-vis the local bourgeoisie in East Asia, and the more favorable trade conditions extended by the United States towards East Asian countries due to geopolitical considerations tied to the Cold War. See Peter Evans, "Class, State, and Dependence in East Asia: Lessons for Latin Americans," in F. C. Deyo (ed.), *The Political Economy of the New Asian Industrialism* (Ithaca, NY: Cornell University Press, 1987).
- 3 See Andrew Schrank and Markus Kurtz (2005) "Credit Where Credit is Due: Open Economy Industrial Policy and Export Diversification in Latin America and the Caribbean," *Politics & Society*, 33(4): 671–702.

- 4 For an extensive review, see Graciela Kaminsky "Two Hundred Years of International Financial Integration: Latin America since Independence" [mimeo] (2010).
- 5 Edwards, Sebastian, *Crisis and Reform in Latin America: From Despair to Hope* (Washington DC: World Bank Press, 1995).
- 6 For more on the debt crisis, see Rosemary Thorp and Laurence Whitehead (eds.), *Latin American Debt and the Adjustment Crisis* (University of Pittsburgh Press, 1987), and Robert Kaufman and Barbara Stallings (eds.), *Debt and Democracy in Latin America*, (Boulder, CO: Westview, 1989).
- 7 These losses were sustained by either outright debt forgiveness as part of successive waves of debt renegotiations or by selling Latin American debt at high discounts in the secondary debt markets (for example, given the low chance of repayment, Bolivian debt sold for about 11 cents to the dollar in 1985).
- 8 Unlike earlier initiatives, the Brady plan contained a significant debt relief component as lenders generally either accepted a 30–50% discount on the face value of the loans or agreed to significantly below-market interest rates for the Brady bonds they received.
- 9 While it may be too soon to speculate about yet another tectonic shift in foreign lending to Latin America, the significant decline in portfolio investment after 2003 (driven in part by the drawn-out conflict between Argentina and its bondholders) suggests that the era of equity finance may be coming to an end in Latin America.
- 10 See Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979).
- 11 Thus, Weyland finds that democratization promoted greater trade openness since it marginalized many of the narrow vested interests who benefitted most under ISI but Baker shows that trade liberalization received stronger support among skilled rather than unskilled workers. See Kurt Weyland, *The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela* (Princeton, NJ: Princeton University Press, 2002); Andy Baker "Why is trade reform so popular in Latin America? A consumption based theory of trade policy preferences," *World Politics* (2003) 55: 423–465.
- 12 See John Williamson "What Washington Means by Policy Reform," in John Williamson (ed.), *Latin American Adjustment: How Much has Happened?* (Washington, D.C.: Institute for International Economics, 1990), pp. 7–38.
- 13 Nancy Birdsall and Miguel Székely, "Bootstraps, Not Band-aids: Poverty, Equity, and Social Policy," in P. P. Kuczynski and J. Williamson (eds.), *After the Washington Consensus: Restarting Growth and Reform in Latin America*, (Washington, D.C.: Institute for International Economics, 2003).
- 14 Erik Wibbels "Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World," *International Organization* (2006) 60: 433–68.
- 15 Dani Rodrik, "Why Do More Open Economies Have Larger Governments?" *Journal of Political Economy* (1998) 106(5): 997–1032.
- 16 Cook, Lorena. "Regional Integration and Transnational Politics: Popular Sector Strategies in the NAFTA Era," in Douglas Chalmers et al. (eds.), *The New Politics of Inequality in Latin America* (Oxford University Press).
- 17 See Fernando Ignacio Leiva, *Latin American Neoliberalism: The Contradictions of Post-Neoliberal Development* (Minneapolis: University of Minnesota Press, 2008).
- 18 Joseph Stiglitz. "What I Learned at the World Economic Crisis," *The New Republic* (2000, April 17): 56–60; Martin Feldstein "Argentina's Fall: Lessons from the Latest Financial Crisis," *Foreign Affairs* (2002, March/April).
- 19 For example, Vreeland argues that governments often enter IMF programs despite their negative growth effects, because such programs raise economic inequality and thereby ultimately leave economic elites better off. See James Vreeland, *The IMF and Economic Development* (Cambridge: Cambridge University Press 2003).
- 20 See Daniel L. Nielson and Michael J. Tierney, "Delegation to International Organizations: Agency Theory and World Bank Environmental Reform," *International Organization* (2003) 57: 241–276.
- 21 See David Brown and Wendy Hunter, "World Bank Directives, Domestic Interests and the Politics of Human Capital Investments in Latin America," *Comparative Political Studies* 33 (2000, February): 113–143.

- 22 David Dollar and Jakob Svensson, "What Explains the Success or Failure of Structural Adjustment Programmes?" *The Economic Journal* (2000) 110: 894–917.
- 23 In part this was due to the greater accountability triggered by the grassroots campaign against the Bank's earlier environmental failures. See Jonathan Fox, Dana Clark and Kay Treakle (eds.), *Demanding Accountability: Civil Society Claims and the World Bank Inspection Panel* (Lanham, MD: Rowman and Littlefield, 2003).
- 24 For example, in its 1990 Annual Report, the Inter-American Development Bank noted that the policy pressures of the 1980s had left little space for "adjustment with a human face."
- 25 For a more detailed comparison of the politics of IMF programs during these two periods see Grigore Pop-Eleches, *From Economic Crisis to Reform: IMF Programs in Latin America and Eastern Europe* (Princeton, NJ: Princeton University Press, 2009).
- 26 This section draws on the analysis in Pop-Eleches (2009).
- 27 For example, the generous treatment of Bolivia by both the IMF and the World Bank was arguably tied to its cooperation with the U.S. War on Drugs, while the IMF's close cooperation with the Pinochet regime in Chile was embedded in Cold War concerns about the spread of communism.
- 28 See Manuel Pastor, *Inflation, Stabilization, and Debt: Macroeconomic Experiments in Peru and Bolivia* (Boulder, CO: Westview Press, 1992).
- 29 However, it should be noted that Chile maintained good relations with the IMF after 1990.
- 30 See, for example, Albert Hirschman, "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience," in A. Hirschman (ed.), *Essays in Trespassing* (Cambridge: Cambridge University Press, 1981).
- 31 See, for example, Cardoso's critique of some of the early excesses of dependency theory F.H. Cardoso, "The Consumption of Dependency Theory in the United States," *Latin American Research Review* (1977) 12(3): 7–24
- 32 See, for example, Ben Ross Schneider, "Big Business and the Politics of Economic Reform: Confidence and Concertation in Brazil and Mexico," in Sylvia Maxfield and Ben Ross Schneider (eds.), *Business and the State in Developing Countries* (Ithaca, NY: Cornell University Press, 1997), pp. 191–215.
- 33 See, for example, Stephan Haggard and Robert R. Kaufman (eds.), *The Politics of Economic Adjustment* (Princeton, NJ: Princeton University Press, 1992).