

THE RISE OF SOUTH AMERICA: WAS IT ACCEPTANCE OR REJECTION OF AMERICAN NEOLIBERALISM?

BY

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America's 'back yard'

The United States the great regional power, is no longer the dominant influence in South America. The countries of South America have grown economically stronger in recent years, democracy has spread and their economies have opened up. They have also strengthened their relations with each other and with other countries such as China and India. At the same time, the U.S. economy has become relatively weaker and its attention has been focused elsewhere - on Afghanistan and the Middle East, and on fighting 'the war against terror'. The USA has regarded South America as being in its 'own back yard' and within its sphere of influence since the Monroe Doctrine of 1853. Although the doctrine was designed to protect the newly independent countries of South America from intervention by the European colonial powers, its practical effect was to subject them to the control and influence of the USA.

During the era of the Cold War, the United States overthrew democratically elected governments in Central and South America, if they were perceived as 'communist', too left wing or hostile to U.S. interests. For example, the coup d'état in Guatemala in 1954 against a liberal, reformist government was inspired by the CIA who saw the regime as a threat to its commercial interests and infiltrated by Communists. The military takeover in Brazil in 1964 and the coup d'état in Chile in 1973 both had the backing of the USA.

From disaster to success

South America used to be regarded as an economic disaster area. The countries of the region seemed permanently trapped in debt, mired in hyperinflation and plagued by unemployment. These problems were made worse by chronic political instability. Violent and corrupt governments – often military dictatorships – retarded economic and political progress. During the 1980s - 'the lost decade' as it became known - raging inflation, low growth, rising poverty and an international debt crisis afflicted the region's national economies. The world economy was going through a new phase of globalisation as world trade and international capital flows increased. As a result, South America's established policies of import substitution and hostility to foreign investment seemed increasingly outdated.

A new economic doctrine, 'neoliberalism', was emanating from the USA and the international financial institutions that it dominated. As the 1980s drew to a close, this radical version of free-market capitalism had become fashionable and South America was to be the laboratory in which it was tested.

The 'Washington Consensus' (1989) (1) embodied neoliberal philosophy. It preached the importance of micro-economic stability and integration into the world economy. Policy prescriptions included: strict control of budget deficits, financial and trade liberalisation, reducing barriers to foreign investment, privatisation of state-owned enterprises, the deregulation of business to encourage competition and a reduced role for the state. The state was seen as overblown and inefficient, impeding market forces and stifling private initiative. Instead, the state should be small and restricted to upholding private property rights, free trade and a free market. It should leave the market to release its productive energies, to stimulate growth and to solve the wider society's social problems like poverty. According to neoliberals, state intervention in the market should be kept to a minimum because of the political bias of the vested interests that influence it and because the state lacks sufficient information to interfere effectively in markets.

The world turned towards neoliberalism approaching the end of the 1970s and its advocates remain influential today, not only in think tanks and universities, but in corporate boardrooms and banks, and in international financial institutions such as the International Monetary Fund (IMF), the World Bank and the World Trade Organisation. Surprisingly few are questioning its validity, given that unregulated capitalism brought the world economy to its knees in 2007/8. Neoliberal thinking spread around the world and was to affect profoundly the economy and politics of South America.

During the 1990s, South America saw rapid economic growth and development. Venezuela, Colombia, Argentina, Uruguay and Peru grew their economies by over 8% per annum. Brazil, the biggest economy with half the continent's land mass and population, has grown impressively but more slowly. Its economy grew by 4.2% annually from 2004-2010, more than double its annual growth from 1999-2003. (2)

In each of the past eight years, South American economic growth has outstripped that of Europe. During the economic crisis of 2008/9 South American countries recovered more rapidly from the shock compared to other countries and they continue to perform well. ECLAC, the UN's Economic Commission for Latin America, predicted in July economic growth in the region of 3.1% in 2013 (3), while the euro zone will grow by - 0.4%, according to the IMF.(4) How could such a transformation occur? Was it the influence of neoliberalism or would it have happened anyway?

The neoliberal experiment in Chile

The ideas of neoliberalism were developed by a Chicago University economics academic, Milton Friedman, and his economist former students – the 'Chicago Boys' as they became known. The new doctrine was then tested on the people of Chile, thanks to the pervasive influence of the US and Chile's dictator and Commander-in-Chief, General Augusto Pinochet. In 1973, the democratically elected government of Salvador Allende, who was too left wing for American tastes, was overthrown in a military coup led by Pinochet and supported by the CIA. In 1975 Pinochet faced an economic crisis and was looking for solutions. Friedman and his team, supported by the US government, virtually took charge of Chile's economic policy.

The neoliberal experiment in Chile, described as 'shock therapy', lasted from 1974 to 1989 during which there were two depressions. In the first in 1974/5, GDP fell by 12% and in the second in 1982/3 GDP fell by 15%. Average GDP growth during the period

was 2.6%. In the days' of state interventionism and protectionism between 1951 and 1971 growth averaged 4% a year. Any growth that there was did little for the poor. Pinochet's dictatorship banned most trade union activity and restricted collective bargaining. Contrary to free market doctrine that 'the rising tide lifts all boats together', poverty and inequality increased dramatically. By 1989 40% of the Chilean population – 5.2 million out of a population of 13 million – was poor. In contrast, the richest 10% had acquired 46.8% of national income, compared to 36.5% at the beginning of the Pinochet era. The next 30% saw their share reduce from 23% to 18%. The income share of the poorest fifth of the population dropped from 5% to 4%. (5)

The manufacturing sector of the Chilean economy suffered 'de-industrialization' as a result of trade liberalisation and fighting inflation. Pinochet's government began privatisation of state-owned enterprises. Trade restrictions on imports were lifted and so were the limits on foreign investment, both helping to integrate the economy into a globalised market.

Although it had implemented neoliberal policies with a programme of privatising state industries, the regime still believed in state involvement in reordering Chile's export priorities. It had long been understood that the Chilean economy could not rely solely on exporting its natural resources like copper and nitrates which accounted for about 50% of its exports. It had also to increase its non-traditional exports such as resource-based manufactured goods like wood pulp, paper products and wine. But this was not to be achieved by market forces alone. It required the active intervention of the state. State involvement had long been part of Chilean economic tradition and the agencies necessary to achieve this had survived the neoliberal upheaval. New product development, risk capital, technical training, marketing and quality control all had the help of the state.

The democratic centre-left governments of the 1990s continued the policies of the military regime but in a more pragmatic way. Attempts were made to reduce the harmful social effects of Pinochet's economic shock therapy. Taxes, social spending and the statutory minimum wage were increased. Between 1987 and 1998, per capita income grew by 88%. Free trade policies were continued. For example, Chile signed an association agreement with the EU in 2002, a trade agreement with the USA and with China, the first Latin American country to do so. In 2010, it joined the OECD. More than two decades have passed since the Pinochet era and the Chilean economy has grown by more than 5% a year. The poverty rate has fallen from 40.8% in 1990 to 9.9% in 2011. However, the U.N. Development Program data from 2010 shows that Chile is still among the 15 most unequal countries in the world, although state subsidies reduce the gross gap in income.(6)

Although Chile's economy has opened up to the world, the country remains traumatised by its past. Bloody and repressive, Pinochet's regime left more than 3,000 dead and missing and only its wealthy supporters benefited from the neoliberal experiment. Although the Gross Domestic Product (GDP) in Chile expanded 4.10% in the second quarter of 2013 over the same quarter of the previous year, the statistics reflect only part of the situation. Since 2011, Chile has seen considerable social unrest. Chilean students have staged continuous protests against the high cost and privatisation of education. This has become the largest social movement since the end of the dictatorship. Strikes have broken out in the mining sector, a serious development because Chile is the largest copper producer in the world. There has also been industrial unrest in other sectors of the economy and indigenous peoples have been protesting in defence of their rights. All of

this has served to undermine the centre-right government of President Sebastian Piñera, the first formed by the Chilean right since the end of the Pinochet dictatorship in 1990. Opinion polls show that former president Michelle Bachelet of the Socialist Party (PS), the candidate for the centre-left New Majority coalition, winning the vote by a wide margin over Evelyn Matthei, candidate of the right-wing ruling party.

On 11th September, dozens of protesters were arrested after clashes with police on the 40th anniversary of General Pinochet's 1973 military coup. Police used water cannon and fired tear gas as protesters threw stones and erected barricades. In the capital Santiago a bus was set on fire. 8,000 extra police were called in to maintain order.

Around the world, Chilean exiles have been remembering the events of 1973. For example, in France, which welcomed thousands of Chileans who had fled the Pinochet coup, they have been sharing their memories with FRANCE 24.(7)

Brazil's neoliberal experiment

Brazil's economic importance has long been apparent. It is the fifth largest country in the world in land area and has a population of nearly 200 million. Its economy is the sixth largest in the world and it is a country rich in natural resources including bauxite, gold, iron ore, manganese, petroleum, hydro power and, thanks to the huge Amazon rainforest, timber. It is largely self-sufficient in energy and is about to become a major exporter of oil. It is also a world leader in alternative, renewable-energy technology and three quarters of the Amazon rainforest lies within Brazil's borders.

Brazil's economic history has been marked by a series of booms and busts – in gold, sugar, coffee and rubber, for example. After years of stagnation, rapid industrial expansion and modernisation occurred between 1968 and 1973. Thereafter, import substitution of goods and growth in exports of manufactured goods were accompanied by growing debt. The 1980s, the 'lost decade' as it has been called, was a time of stagnation, inflation and crisis caused by the rapid rise in the cost of imported oil and high world interest rates. Assorted stabilisation plans and attempts at fiscal reform were of limited success and by the end of the 1980s, there was enormous public debt, rising inflation and a stagnant economy.

Brazil suffered considerable political as well as economic instability throughout this post-war period. There were democratically elected governments from 1945 to 1964 but popular discontent caused by slow economic growth, rising inflation and strong nationalist sentiment led to a military coup in 1964. The military held on to power until 1985. Only a veneer of democracy was maintained. The regime exercised its power brutally and repressively. During this period, Brazilian society became increasingly urbanised with 70% of its population living in cities. The economy had become more industrialized, with more manufactured goods than primary goods exported.

Following the end of military rule various unsuccessful attempts were made to control rampant inflation and to stabilise the economy. During the 1990s Brazil's economic policies increasingly conformed to the neoliberal agenda. Under the administration of President Fernando Collor de Mello tariff barriers were removed, opening domestic firms to foreign competition. A process of privatisation was begun – first with steel and petrochemicals and later with public utilities and transport infrastructure. Foreign investment restrictions were liberalised which triggered a huge inflow of foreign capital.

In 1994, Fernando Henrique Cardoso, the finance minister, put forward the financial programme known as the 'Plano Real' or 'real plan'. The currency- the cruzeiro – was replaced by a new currency the 'real' ('real' in Portuguese means both 'royal' and 'real'). Its exchange rate was to be partially linked to the US dollar. The plan also proposed cuts in government spending. The plan was successful in that economic growth was not impaired. Cardoso's resulting popularity impelled him to run successfully for president and during his first term from 1995 to 1999, there was a dramatic lowering of inflation.

However, economic growth in the 1990s was disappointing. In fact, average yearly economic growth at 1.82% was worse than that of the 'lost decade' of the 1980s where growth was 3.03%.⁽⁸⁾ The industrial sector of the economy was particularly badly hit because of competition from foreign imports. This in turn caused firms to shed labour. The neoliberal regime did not resolve the long-standing problem in Brazil of unequal distribution of income. Such inequality brought social instability. For example, in Rio de Janeiro and São Paulo between 1981 and 1995 there was a dramatic rise in the rate of male homicides. ⁽⁹⁾

It was not only foreign import competition that contributed to loss of jobs. Newly privatised industries dismissed workers considered to be superfluous and many sectors introduced more advanced technological equipment to save labour costs. This was only partly compensated by employment opportunities in the service sector of the economy. The decline in employment raised productivity levels. This, together with falling inflation, meant that real wages grew among those still in work. For the unemployed and the poor there was no good news. But there was hope when a new President was elected in 2002.

Luiz Inacio da Silva, known as 'Lula' was elected President at his fourth attempt in 2002. His life is an extraordinary tale of 'rags to riches' or 'metal worker to President' in his case. In 1980, Lula founded the Partido dos Trabalhadores or Workers' Party - together with other union members, intellectuals, politicians and representatives of social movements, such as rural and religious leaders. In 1986 he was elected to the parliamentary assembly after the end of military rule. Upon his election he promised social change and the eradication of hunger. This was enough to scare potential investors in Brazil. The Brazilian currency weakened. However, after his election he successfully managed to balance the needs of his people with the needs of the international financial markets. He took a conservative fiscal path and warned that social reforms would take years. The real recovered dramatically. International investors had hitherto viewed leftist governments as exponents of costly social reform programmes which stoke inflation and increase public debt. Their concerns that Lula would be another version of South American leaders like Cuba's Fidel Castro and Venezuela's Hugo Chavez were misplaced and he proved more compliant than expected.

Lula gave priority to alleviating poverty by spending large sums on social programmes designed to reverse Brazil's traditional economic inequalities. He raised the minimum wage from 200 to 240 reals a month and instituted a family grant programme. Also his "Zero Hunger" initiative was designed to give each Brazilian three meals a day. It has been estimated that 30 million people were taken out of poverty by these measures. According to the Brazilian Institute of Applied Economic Research (IPEA), some 22.6% of Brazilians were living below the poverty line in 2008, compared to 34% in 2002.⁽¹⁰⁾

Shortly before the end of Lula Da Silva's second term, a study published by the Getulio Vargas Foundation, a Rio-based policy group, found that some 29 million Brazilians had entered what is termed the middle class between 2003 and 2009, with average monthly incomes between 1,126 reals and 4,854 reals (\$658-\$2839; £417-£1797).⁽¹¹⁾

In effect, Lula had walked a political tightrope between meeting the expectations of the majority of the population that had voted for him and the need to keep foreign investors and institutions happy. In doing so, he rejected the more populist path of other Latin American leaders such as Hugo Chavez of Venezuela, and pursued his own version of a modified neoliberalism

Dilma Rousseff, Lula's successor, is the middle class daughter of a Bulgarian immigrant. She became involved in left-wing politics and joined the underground resistance to the military dictatorship that seized power in 1964. In 2010, she was elected President. She was the country's first woman president and was Lula's preferred successor. She declared that she represented continuity with the Lula government. Formerly a career civil servant until she was elected, she had never before run for public office. Ms Rousseff had joined President Lula da Silva's government in 2003 as energy minister and in 2005, Lula made her his chief of staff, a post she held until March 2010, when she launched her campaign for the presidency as the Workers Party (PT) candidate.

Ms Rousseff's personality and inexperience of political campaigning mean that she does not excel at interacting with voters (or kissing their babies). In an attempt to revive growth, her government has reduced borrowing costs, cut taxes for industry and consumers, pushed banks to lower lending rates and taken measures to boost exports by weakening the real. Meanwhile unemployment remains low at under 5%.

Her achievements are many. In her first two years, she dismissed seven of her ministers for alleged corruption and ethical transgressions. In 2011, she launched a big plan named "Brazil without poverty" to lift 16.2 million Brazilians out of extreme poverty by widening access to education, health, sanitation and electricity, in addition to direct cash transfers to the very poor, known as the Bolsa Familia. She also backed the progressive Freedom of Information Act which guarantees access to information at all levels of government. Economic growth has been disappointing, at less than 1% last year, despite record low interest rates and unemployment levels. The government has also had to revise down its GDP growth forecasts throughout 2013 and for 2014. Some important barriers to growth remain. The World Bank's 'Doing Business' report for 2013 ranks Brazil as 121st out of 185 countries when it comes to starting a business and 156th in its complex procedure for paying taxes.⁽¹²⁾

Millions of citizens poured into the streets last summer to demand better schools, healthcare, buses, transportation, and urban infrastructure. Although they pay relatively high taxes, many Brazilians feel they receive little benefit. They contrast this with the extravagant spending on the forthcoming World Cup in 2014. The government is projecting that \$13.3 billion will be spent on stadiums, airport renovations and other projects for the World Cup and 2016 Olympics, with an estimated \$3.5 billion on venues.

Rousseff is ahead in the opinion polls but if she wants to maintain her lead until October 2014, she will have to proclaim her successes and address her government's failings. Much of Brazil's economic success in recent years is due to its increased trade with China.

China overtook the USA as Brazil's most important economic partner in 2009. Most of Brazil's exports have been of commodities -mainly iron ore, soya beans and crude oil – to meet the voracious demands of China's expanding and industrialising economy. But Brazil has a big deficit in manufactures with China. This is at least partly due to Brazil's strong currency, high interest rates, high taxes, poor infrastructure and a poorly educated workforce.

Now America and Europe are still in economic recession, the balance of power has shifted towards the relatively more successful BRICS (Brazil, Russia, India, China and South Africa). Brazil for the USA has now become an important and emerging power that it can work with on issues of global financial stability, climate change, reform of multilateral institutions like the UN, G20, WTO, IMF etc. as well as regional security, stability and development.

Brazil used to regard itself as separate and distinct from Spanish-speaking South America but its attitude to its neighbours began to change under the Cardoso administration in the 1990s. Closer relations were developed with Argentina. There was greater cooperation with its neighbours such as the development of the Itaipu Dam with Paraguay and a gas pipes project with Bolivia. The trend continued with the 1991 signing of the political and economic Mercosur agreement by Brazil, Argentina, Paraguay, Uruguay and Venezuela to promote free trade and free movement of goods, people and currency. Bolivia and Ecuador are associate members who will join shortly. The Mercosul -Mercado Comum do Sul - or Mercado Comun del Sur in Spanish - is the Common Market of South America. Brazil's membership has increased its interest in supporting democracy in the region and in helping resolving conflict between its different states.

Argentina's breakdown and recovery

Neoliberal policies were taken up by Argentina in the 1990s when the world economy was flourishing. Their appeal soon began to fade. After Brazil, Argentina is the largest economy in South America with a population of more than 40 million. It is rich in natural resources, it has a highly educated population, a diverse industrial sector and its agricultural commodities are a mainstay of its exports. Nonetheless, Argentina has suffered from recurring economic crises caused by high inflation, huge external debt, and capital flight. In 2001, the country suffered the worst economic crisis in its history after more than a decade of neoliberal reforms.

Argentina has also had a turbulent political and economic history. A reminder of this was the death in prison on May 17th this year of 87 year old Jorge Rafael Videla, the head of the military junta that took over from 1976 to 1983. During this period opponents of the regime were treated brutally. During the 'dirty war' (as it became known) at least 30,000 people were tortured and killed. The economy was also in turmoil throughout the 1980s with chronic inflation, a fiscal deficit and external debt.

Throughout the 1990s Carlos Menem's democratically elected government assiduously followed the neoliberal reform agenda, following demands by the International Monetary Fund (IMF) for 'structural adjustment'. The financial sector was deregulated and this created an opportunity for massive corruption and tax evasion. Privatisation of state-owned enterprises, such as the post office and public utilities, meant that they were now owned by foreign multinational companies, speculators and asset strippers. There were low taxes for the rich and low government spending on infrastructure and services for the

rest of the population. The Chicago Boys must have been delighted.

In 2001 Argentina was in severe depression. GDP had shrunk, unemployment was widespread and there were strikes and rioting in the streets. To combat inflation, the Argentine government had pegged the value of the peso to the US dollar. This strengthened currency led to cheap imports with which local businesses could not compete. This, combined with the government's privatisation policies, had led to the huge rise in unemployment. At the same time the government embarked on a debt-financed spending spree. The ensuing bank run meant that Argentina faced the most serious economic, social, and political crisis in its turbulent history.

With no funds to repay interest payments on its debt, Argentina turned to the IMF. In return for loans, the IMF recommended that the peso should continue to be pegged to the dollar. This proved disastrous. Argentines began losing confidence in the peso and converted all their pesos into dollars. The Central Bank then had to use much of the IMF loan to inject dollars into the financial system. This was followed by a run on the banks. The government then attempted to limit bank withdrawals to 250-300 pesos a week. There followed massive protests against the government which declared a state of emergency. However, violent riots led to the government's downfall. In the midst of the turmoil, the government declared in December 2001 that it was defaulting on its debts. By general consent this was the biggest sovereign debt default of modern times. Thus by January 2002 the new government had decided that Argentina would go its own way.

The neoliberal experiment was over. The peso link to the dollar was abandoned, allowing the peso to devalue. Direct government investment in industry, infrastructure, house building and welfare followed. Despite its debt default, disaster did not result. One year later Argentina was borrowing considerable amounts from the World Bank and Inter-American Development Bank. Between 2002 and 2006 foreign direct investment rose 26% per year, much of it from Brazil.(13)

From 2003 to 2007 growth averaged 9% a year.(14) This enabled the government to fund new social programmes to reduce poverty. Fortunately Argentina had devalued its currency when the world economy was booming and commodity prices were high. There was growing demand from China and the other expanding economies of East Asia for Argentine exports like soya and oil seed. The cheaper peso not only brought a huge increase in exports but also a rapid rise in tourism.

From 2003 to 2011, GDP grew at an average annual rate of 7.6%. The Argentine economy recovered rapidly after the international economic crisis of 2008/9. During 2010, the economy grew 9.2% compared to 2009, experiencing an 8.9% growth during 2011. However, there has been a slowdown. According to official data, the economy grew just 1.9% in 2012.(15) The peso has been losing value against the U.S. dollar in the black market. Attempts have been made by the government to curb use of U.S. dollars and the government is depleting its foreign reserves in order to sustain the peso in the official market.

Meanwhile, Cristina Fernandez de Kirchner, who became President in 2007, is currently mired in political controversy and scandal. Its journalists have criticised concentration of power in her own hands and the corruption scandals that have afflicted the governments of both Fernandez de Kirchner and her late husband, Nestor Kirchner, who was president

from 2003 to 2007. Increasing inflation and the threat of a deepening recession are also undermining Kirchner's influence. Her second term of office expires in 2015 and the current political climate suggests that she may have to step down, despite her desire to have the constitution amended to allow her a third term.

Argentina's economic future is closely linked to the fortunes of its neighbour Brazil, its biggest trading partner, and the largest economy in South America.

Colombia's way forward

Colombia has adopted a more pragmatic approach to neoliberalism. Traditionally pro-USA it receives more American aid than any other Latin American country. Perhaps more than most countries, it walks a fine line between neoliberalism and the basic demands of its people to be lifted out of poverty. The government has adopted an interventionist policy where it sees advantage in doing so. For example, it used the proceeds of the economic growth brought by high commodity prices between 2002 and 2007 to reduce poverty and unemployment. More recently, however, there have been strikes and street violence in Bogotá in protest at a major free trade agreement with the USA which opens up the countryside to international competition and undercuts the country's subsistence farmers.

Colombia is South America's third largest economy and may overtake Argentina in 2014 to become the second biggest economy after Brazil. Its economic growth has averaged over 4% in the last five years. This may seem surprising when media coverage is usually devoted to drug wars and guerrilla violence. Although Colombia is the oldest democracy in Latin America, the state is fragile. It has never been in full control of large parts of the country. Hence the existence of the right-wing paramilitaries - the AUC and the communist-guerrillas the FARC and the ELN.

The FARC is the longest surviving terrorist group in Latin America, having been at war with the Colombian state for over fifty years. With the government unable to protect all its citizens or their land, the paramilitaries grew out of the self-defence groups that took its place.

The nature of the political elite in Colombia has been shaped by the violence and criminality. The notorious drug lord and cocaine trafficker, Pablo Escobar, was elected to congress in the 1980s while dozens of politicians have had links with paramilitaries. There were allegations powerful drug lords had financed Ernesto Samper's successful presidential election campaign in 1994. There is speculation as to whether the current President Juan Manuel Santos may seek a second term in 2014. Santos is a centre-right politician but has taken a different course from his conservative predecessor Alvaro Uribe. He has been more concerned with social issues, and is more conciliatory in trying to end the country's conflict. In fact, the government and Farc rebels recently reached agreement on land reform, after more than six months of peace talks. The deal calls for the economic and social development of rural areas and for the provision of land to poor farmers. (17)

Colombia's political system tends to the right while the divided left plays a largely marginal role in the state's affairs. The Conservatives and the centre-left Liberals dominated the political scene but in recent years, new parties have arrived on the scene. Colombia is no longer perceived as a failing state because, despite its many problems, its economic performance has been impressive. Real GDP has grown more than 4% per year

for the past three years, continuing almost a decade of strong economic performance. Its economic reforms have proceeded more cautiously than in Argentina.

There are a number of reasons for Colombia's economic success. It has abundant natural resources - such as petroleum, natural gas, coal, iron ore, nickel, gold, copper - and a well-educated workforce. It has benefited greatly from the rise in world commodity prices. The government has been more successful in recent years in fighting the guerillas and drug cartels. This has given greater security to citizens and has attracted foreign investors. It has also been opening up the economy. Foreign investors are impressed by the government's continuing commitment to reform – such as tackling corruption, increasing investment in education, reducing unemployment from around 10% and building new infrastructure. It has also embarked on a new poverty reduction programme.

The current Santos administration is committed to balancing the budget by 2014. The inflow of foreign capital has particularly benefited Colombia's oil and mining industries which are central to Colombia's economic growth. While commending Colombia's huge economic progress in recent years, international organisations like the OECD(18) and the International Monetary Fund(19) has warned of the challenges ahead – high unemployment, inequality and the vulnerability of oil and mining to the volatility of world commodity prices. Major infrastructure improvements are also necessary to sustain Colombia's economic growth. The continuing problems of drug trafficking and insurgent guerrilla groups remain.

Relations between Colombia and Venezuela have always been difficult. Colombia's conservative administration has traditionally been pro-USA and accommodates American military bases on its territory. Venezuela's leftist government under the late Hugo Chavez – and now under his former vice-president, Nicolas Maduro - was opposed to US economic and military hegemony in the region and regarded the American military presence in Colombia as a threat. However the two countries also have common interests and under the Santos government, trade between them has increased enormously during the past two years.

Venezuela's rejection of the neoliberal agenda

Although Venezuela has massive oil deposits – as well as huge quantities of coal, iron ore, bauxite and gold - most of its 29 million citizens derived little benefit from it over the years. There was little progress on structural reform during the 1980s until Carlos Andres Perez took office in 1989. Belatedly a neoliberal austerity agenda was adopted: privatisation of state owned industries, spending cuts and reduction in government subsidies. This precipitated violent social unrest. More of the same policies, of the kind the IMF approved, followed under the Rafael Caldera administration from 1993 to 1998. All this did was to accelerate the country's decline without addressing the underlying structural reforms and lack of international competitiveness.

In 1998 Venezuelans elected the populist left-winger Hugo Chavez. The former army officer declared that he would start a "Bolivarian revolution", named after South America's independence hero Simon Bolivar. Reacting against US-imposed neoliberalism, Chavez referred to his political programme as "21st Century Socialism." It involved nationalising strategic sectors of the economy like the important oil industry, telecommunications and power. He expropriated more than 1,000 businesses, sundry farmlands and urban properties, often without compensation. He justified this because the

owners were corrupt or because it would help the poor. In his desire to build socialism, he used oil revenues and external borrowing to finance food subsidies, housing, health, education and other welfare programme to alleviate poverty. However, heavy government spending caused rampant inflation which averaged 22% during Chavez's tenure.

Although the spectacular rise in the price of oil was central to the economy, the oil industry itself suffered a lack of investment and upkeep. This caused a fall in oil production from 3.2 to 2.5 million barrels a day. Because the economy has failed to diversify, it is still over-dependent on oil revenues. Oil now accounts for 95% of exports compared with about 80% in 1999.(20)

Chavez's political skill was to enlist and maintain the support of most ordinary Venezuelans who credited him with the benefits they received without blaming him for all the mismanagement and corruption. His foreign policy was to oppose and annoy the USA and to promote a multi-polar world and greater Latin American integration.

What challenges lie ahead for Venezuela post-Chavez? A key challenge will be to improve the government's social policies which have been central to the Bolivarian Revolution's popularity over the last decade. There have been great social gains in providing universal healthcare, expanding educational opportunities and welfare provision. Household poverty has been greatly reduced, illiteracy has almost been eliminated and, although much poverty remains, redistribution of income has made Venezuela the most equal country in Latin America.

Peru's Fujishock tactics

Peru is the fastest growing economy in Latin America. It has a population of more than 30 million and is rich in oil, copper, silver, lead, zinc and gold. Thanks to its production of coca leaf, drug trafficking has also been an important part of the economy. Its populist president Alberto Fujimori adopted a policy of strict neoliberalism in 1992 – 'Fujishock' as it was called. When he was elected that year the country was in crisis. The economy was in meltdown with annual inflation at 7000%. The Sendero Luminoso (Shining Path) guerrilla movement was committing acts of terror in both urban and rural areas and the government appeared powerless to deal with it.

The US had made it clear that unless Peru ended hyperinflation, Peru could not re-enter the international financial community, and could not therefore receive international aid. Fujimori did what was asked of him – and more. He relaxed price controls in the private sector, cut state subsidies and the number of state employees. He abolished exchange controls and lifted many restrictions on imports, investment and capital flow. Structural reforms followed: most state companies were privatised, the state withdrew from the financial sector and an independent central bank was established.

The effect of these measures was dramatic: petrol prices rose by 3000%, electricity prices rose fivefold and water prices eightfold. To cushion the impact Fujimori established \$400 million poverty relief fund and quadrupled the minimum wage but 'Fujishock' had a devastating impact on the poor and also the middle class. However, despite their social effects, the measures established a degree of economic stability and recovery which many had greatly desired.

By the mid-1990s a second wave of neoliberal reforms was in process. Marketisation and

competition were applied to pensions, health and education policies, as has happened elsewhere. By 2001, according to opinion polls, Peruvians had become hostile to neoliberal policies. Privatisations and foreign investment had led to price increases, mass layoffs and corruption with few perceptible benefits to the population as a whole.

Alan Garcia, president for the second time, continued along the same neoliberal track but did little to alleviate poverty or corruption. Ollanta Humala, a career army officer, won the June 2011 presidential election after promising to respect democracy and spread the benefits of a decade-long economic boom to the poor. He campaigned for a dramatic transformation in the manner of Venezuelan President Hugo Chavez's "socialist revolution". More recently he has re-invented himself as a family man and has softened his radical image. He has promised Peru's poor a greater share of the country's mineral wealth. Although he favours a free market, he says he wants to put Peruvians first. Since taking office, Humala has tried to strike a balance between protecting the \$50 billion pipeline in mining investments for the next decade and passing reforms to discourage pollution and give communities more say in projects that affect them. His approval rating has shown him to be the most popular Peruvian president in years, in large part because of his emphasis on social programmes for the poor.

Economic growth has been in the 6-9% range for the last three years.(21) This can be attributed to a huge rise in foreign investment, especially in the extractive sector, which accounts for more than 75% of Peru's total exports.(22) Like other countries with mineral resources, the economy is subject to fluctuations in world prices. Inequality persists and continues to pose a challenge for the new Humala government, which has a policy of social inclusion and a more equitable distribution of income.

Growth in the smaller economies: Ecuador, Bolivia, Paraguay and Uruguay

Ecuador's agricultural economy has been transformed in recent decades by industrialisation and the discovery of oil. This led to progress in housing, health and education but the benefits have been distributed unequally. Neoliberal austerity measures generated widespread unrest, particularly among the indigenous poor. These social upheavals along with the growing corruption of the ruling elite led to a period of profound instability. From 1997 to 2007, Ecuador had seven different presidents, three of whom were directly removed by popular insurrections. Rafael Correa, an outsider with no political party backing, won the presidential elections in 2006 after promising a social revolution to benefit the poor. Once elected, he joined Latin America's club of left-leaning leaders, including Venezuelan President Hugo Chavez and Bolivian President Evo Morales. They share a common criticism of the USA and its neoliberal agenda, and have led a South American nationalisation drive.

Evo Morales, a socialist, was elected President of Bolivia. This landlocked country of 10 million is the highest and most isolated country in South America. It is rich in natural resources such as soya beans, natural gas, zinc, gold, silver, lead and tin but it remains one of South America's poorest countries. The economy growth figure for 2012 is expected to be 5%. (23) As in Ecuador, political and economic life have been dominated by the wealthy urban elite of Spanish ancestry. Describing himself as the candidate "of the most disdained and discriminated against", Morales was the first member of the indigenous majority to be elected president of Bolivia. He was re-elected with a convincing majority over his conservative opponents in December 2009. Disdaining neoliberal policies, he made poverty reduction, the redistribution of wealth, land reform favouring poorer

peasants and public control over Bolivia's oil and gas resources his main priorities. He has nationalised much of the energy sector and has continued to maintain his anti-USA stance. In May he announced that he will expel the US Agency for International Development (USAID). Mr Morales accused the agency of seeking to "conspire against" the Bolivian people and his government.

Paraguay, one of Bolivia's neighbours, is also landlocked. It is bordered by Argentina, Brazil and Bolivia. The country has had a tumultuous political past – most notably the repressive regime of Alfredo Stroessner. The son of a German immigrant brewer, he led a military coup in 1954. The brutal and repressive regime endured until 1989. Paraguay's fragile economy was badly affected by Argentina's collapse. It received an IMF loan subject to the usual austere neoliberal conditions.

Fernando Lugo, a former Roman Catholic bishop was elected president in 2008, ending six decades of one-party rule. Mr Lugo had initially been expected to focus on reducing inequality but in 2012 was ousted by parliamentary impeachment. Paraguay's new president is a very wealthy tobacco magnate, Horacio Cartes. He was elected after promoting conservative, business-friendly policies during his campaign.

Paraguay's powerful neighbours, Argentina and Brazil have expressed their disapproval of what they call a legislative coup – as have the left-leaning governments of Bolivia and Venezuela. Lugo's 2008 election did not mean a socialist government but it reflected the growing popular mood against US-imposed neo-liberalism and for greater national sovereignty and regional integration, a step too far for the Paraguayan elite. Paraguay's economy is mainly agricultural but the manufacturing and pharmaceutical sectors are expanding. The main driving force for its recent high growth figures has been the export of soya beans. (24)

Uruguay is another small country of 3,300,000 whose economy is deeply affected by the economic state of its larger neighbours. In 2002 it was affected by the economic problems of Brazil and Argentina, its main export markets. It is also vulnerable to fluctuating commodity prices, as its main exports are meat, rice, leather products and dairy products. Its economic growth in 2011 was 5.7% (25) It has been more affluent than other countries in South America. It was the first country in Latin America to establish a welfare state, maintained by taxes on industry. It also has socially liberal laws and advanced education. Like its neighbours it has its fair share of political turmoil – the Tupamaros leftist guerrilla insurrection in the 1960s and 1970s and military rule which ended in 1985.

The current president, Jose Mujica, was a former leftist guerrilla and was elected in 2010. Recently divisions have opened up within government on current economic policy. Mujica supports a high level of government interventionism in the country's economy, while his vice-president Danilo Astori supports more traditional centre-right economic policies. This seems to reflect Uruguay's recent economic policy mix of neoliberal fiscal prudence and active interventionism on social issues.

A future for neoliberalism?

For many it was the policies of neoliberalism that caused the world financial crisis in 2008. Unregulated free markets had brought the global economy to its knees. But there were many in Latin America who were aware of the dangers in the 1980s, because it was here that Milton Friedman and the Chicago Boys set up their laboratory. It was not only

Pinochet in Chile but Fujimori in Peru and Menem in Argentina who enthusiastically embraced the new orthodoxy. But all the free market philosophy brought after the debt crisis of the early 1980s was low growth and burgeoning inequality. Hyper-inflation was checked, but at huge social cost. Economic development virtually halted, the concentration of wealth grew, public deficits spiralled and national debt grew. Meanwhile for the working population trade union activity was restricted and employment protection laws were gradually being dismantled. This confirms the argument made by its critics that the underlying neoliberalism agenda is make the rich even richer and the poor poorer. According to the American writer and anthropologist, David Harvey, this is manifested by the neoliberal treatment of labour and the environment as commodities. “In the event of a conflict”, he says “the typical neoliberal state will tend to side with a good business climate as opposed to either the collective rights (and quality of life) of labour or the capacity of the environment to regenerate itself”. He adds that the neoliberal state also favours “the integrity of the financial system and the solvency of financial institutions over the well-being of the population or environmental quality”.(26)

The popular disenchantment with this approach brought Hugo Chavez to power in Venezuela in 1998 and a variety of radical and moderate left candidates in Argentina, Brazil, Bolivia, Ecuador and Uruguay. The politics of these so-called ‘pink tide’ governments have ranged from radical anti-imperialism to moderate reformism. But, whatever their ideology, they were responding to the growing popular mood against US-imposed neoliberalism and for greater national sovereignty and regional integration. Policies that only benefited US corporate interests were called into question. No government with democratic credentials can long survive if free market shock therapy impoverishes the majority while wealthy elites get richer. Governments have had to intervene to ensuring social justice, contrary to the ‘minimal state’ doctrine of the neo-liberals.

Not all free market policy has been jettisoned by pragmatic reforming governments. They have continued their commitment to low inflation, balanced budgets, liberalised trade and foreign investment – perhaps acknowledging the onward march of globalisation. However, they see no contradiction between these policies and the use of state intervention to redress the excesses and injustices which capitalism inflicts. They have taken initiatives to reduce unemployment, poverty and social exclusion. Perhaps most important of all, land reform has returned to the agenda.

In the 21st century, as South America’s economic importance grows, its influence on the world stage grows with it. The recent election of a Brazilian to head the World Trade Organization is just the latest example of Latin America’s growing voice and role in the global arena. The continent has moved a long way from the colonialist-imperialist domination of either Europe or the United States. Increasingly, it is a region full of nations forging their own identities and establishing new strategic alliances across the globe. In this changing scene the USA is only one potential strategic partner among many. Latin America is now more actively shaping its future than it was ever allowed to in its past.

Peter Crisell