international UPDATE 10/95

LEARNING FROM THE LATINS: POLITICAL AND ECONOMIC TRANSITION IN LATIN AMERICA AND SOUTH AFRICA

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While no one country ever provides a perfect model for another, it is nonetheless valuable to contrast the experiences and expectations of South Africa with those of various Latin American countries. The diversity among these states provides an opportunity to not only compare the performance of each with South Africa, but also to assess their transition in relation to each other. While there are few simple prescriptions available, a comparative analysis is important for what it can tell us, in general terms, about the process of transition. South Africans need to understand precisely what democratic and economic reform are capable of achieving, and Latin America is a strikingly good place to observe these constraints.

For Latin America and South Africa, transition represents, politically, the movement away from authoritarianism towards the stated goal of democracy; and, economically, a movement away from underdeveloped economies towards competitive and dynamic developed economies. How have Latin America and South Africa fared in terms of these processes, and what are the lessons that South Africa can learn from Latin America's prior experiences?

The political traditions of both regions were shaped by the history of European colonization and the establishment of relatively robust and entrenched European settlements. With greater and lesser degrees of success, these settlers developed systems of co-existence with the indigenous peoples, frequently highly unequal and characterised by significant discrimination. While the political traditions of both Latin America and South Africa paradoxically include varying degrees of liberalism and constitutionalism, the transition of the 1980s and 1990s in both cases undoubtedly represents a movement away from *right-wing* authoritarianism.

As a result, at least partly, of these histories, and of their status as developing states, the countries in question are characterised by high levels of crime, social conflict, violence and political instability. These are exacerbated by rapid population growth and urbanisation.

Similarly, the economies of both Latin America and South Africa are profoundly shaped by their colonialist past. This history determined trade links and the nature of their economies in relation to the global economy. For example, it gave rise to a heavy dependence on the export of primary commodities. The racism inherent in many colonial states also often meant the poor or unequal provision of social services, and massive economic disparities between masses and the elites. In addition, in the more recent past, both regions experienced pronounced economic difficulties in the 1980s including stagflation and serious constraints on their access to international credit - albeit for very different reasons.

In spite of these similarities, there are, however, also significant differences both between South Africa and Latin America, and within Latin America itself.

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In some respects, these are differences of degree, for example,

* The *level of indebtedness* is generally lower in South Africa but it must be borne in mind that the new South African government faces a considerable backlog in the provision of social services;

* Since 1987, South Africa's *foreign reserve levels* have ranged between 4% and 6% as a percentage of annual imports whereas figures for Lain America have been much higher. Between 1985 and 1988, for example, Brazil's figures ranged from 26% -76%;

* *Levels of unemployment* are generally significantly higher in South Africa. While Brazil's unemployment figures approach our own, Argentina's unemployment is in the regions of 10% and Chile's in the region of 7%;

* The *size of population and potential markets* varies considerably. Compare South Africa's 40 million people with, on the one hand, Brazil's 140 million and, on the other hand, Bolivia's 7 million.

* While *inflation levels* in the 1980s in South Africa were considered by many to be excessively high, they did not compare with some of the levels of hyper-inflation experienced in Latin America: 3, 079% in Argentina and 1, 287% in Brazil.

Some of the differences are not only differences of degree however, but also differences of kind. The natures of the Latin American economies, for example, are considerably shaped by their extensive relations with the regional hegemon, the United States, whereas, situated as it is in Southern Africa, South Africa *is* the regional hegemon.

In addition, the impact of domestic policy on economic prospects has resulted in significant divergencies. The strategy of Import Substitution Industrialisation, enthusiastically adopted by the Latin American states in the 1960s, and the reckless nature of state spending at this time, directly contributed to the central weaknesses of these economies and the crises they faced in the 1980s. South Africa's economy, on the other hand, was profoundly shaped by the priorities of apartheid, and by international responses to apartheid, namely disinvestment and the sanctions campaign.

The 1980s: Setting the Context for Transition

In August 1982, Mexico defaulted on her debt repayments. Other Latin American states followed, throwing the entire sub-continent into a profound economic crisis. The precise causes of the debt crisis are much debated, and there is no room to go into them here. What is clear is the devastating *impact* of the crisis: Economic stagnation dramatically slowed levels of job creation and contributed to a decline in real earnings (there was a drop of 13% in real earnings in this decade in the region while the population kept growing). Inflation levels rocketed to unprecedented heights and capital fled the region at a rate of around US$12bn a year.

A dramatic rise in social unrest and public dissatisfaction followed as levels of poverty and crime increased (none of which will sound unfamiliar to South Africans). The severity of the economic crisis, and the impact of rampant inflation on the lives of ordinary Latin Americans were so devastating that they provided a real incentive for reform. In this sense it can be argued that the democratic impulse and the economic imperatives for reform were, at least at this stage, mutually reinforcing. Latin American countries attempted a mix of orthodox and heterodox approaches to inflation, with mixed results, pushing policy-makers to consider even more 'radical' or stringent sets of neo-liberal policies.

Like Latin America, during the 1980s South Africa suffered from low growth, increasing unemployment, inflation, foreign debt and depreciation of the value of the local currency. South Africa's economic woes were aggravated by the international campaign to isolate the country and the restricted access to short-term international credit impacted severely on the regime's perceptions that it could indefinitely defy the rest of the world.

Despite the truly parlous condition of these states in the 1980s however, we should not write off the entire decade as 'lost'. Some progress did occur, primarily in the sphere of political reform but also to a lesser extent in the economic sphere. Partial and fragile as these developments were, they did at least lay the basis for a certain shift in thinking, and arguably for the recovery of the 1990s.

In both Latin America and South Africa, the decision to reform was one taken from above. It remains a moot question as to whether these regimes 'jumped' or were 'pushed'. Certainly there was little evidence of any overnight conversions to democracy and fundamental human rights; rather, for a variety of reasons, it became apparent to those in power *that their regimes* were unsustainable in the long term and that if the values and institutions that they treasured were to be preserved, reform was necessary.

We should not underestimate the impact which the collapse of communism had on prospects for both economic and political transition. Many of the authoritarian regimes in Latin America were explicitly anti-communist. During the Cold War, their anti-communist status shielded them from greater international (and particularly American) pressure to democratise. South Africa likewise played up the 'red threat' posed by the African National Congress' alliance with the South African Communist Party. Events in Eastern Europe and the former Soviet Union, the chaotic and backward state of the Soviet Empire, and the apparent ideological victory of the US and free market capitalism reduced the extent to which the Left was seen as a real and viable challenge by the authoritarian right.

To speak of the 1980s then, as the 'lost decade' may be to assume that politics was 'frozen' under authoritarian rule. Nothing could be further from the truth. Rather, the nature of the regime in each case shaped the nature of resistance, and established new patterns of politics. In the face of regimes which routinely violated the most fundamental human rights, the human rights discourse became a crucial platform for the opposition. Whereas in other circumstances, the Left may have been unlikely champions of such liberal notions, under authoritarian regimes human rights became much more seriously valued. In this sense then, the political bases for transition were being laid in the struggles of the 1980s.

However, the newly emerging democracies faced significant constraints. Not least of these was the ongoing burden of foreign debt in economies that were growing very slowly with a highly unequal distribution of wealth and power. The transitions of both Latin America and South Africa were to be profoundly affected by a changing international climate.

The 1990s: Consolidating the Transition?

By the early 1990s, the international sphere was increasingly characterised by the consolidation of the post-Cold War order. The US had emerged as the undisputed world superpower and free market orthodoxy became the model for emerging democracies in Eastern Europe, Latin America and Africa. The 1990s thus far have been characterised by the twin processes of globalisation and regionalisation:

Globalisation refers to the general growth in world export volumes, the increased importance of exports to domestic economies and the liberalisation of the global market. This trend has impacted on the range of economic policies which are in practice available to developing states. It is certainly difficult to dispute evidence of a neo-liberal economic orthodoxy emerging in both Latin American and South African policy. In South Africa for example, privatisation replaced the notion of nationalisation on the policy agenda with astonishing speed (That it is on the agenda of course, does not mean that the debates concerning the precise nature of privatisation are resolved).

Regionalisation refers to the pressures towards increased regional integration. Latin America and South Africa have responded to this trend by undertaking regional initiatives of their own. Brazil, Argentina, Uruguay and Paraguay for example, have organised themselves into *Mercosur* (the 'market of the South') while Southern Africa has seen a revitalisation of debates concerning the future of the Southern African Development Community (SADC) and the Common Market of Eastern and Southern Africa.

Of particular relevance to developing economies has been the re-emergence of capital flows to the Third World, contrary to all the conventional wisdom of the 1980s. Much capital has been directly targeted at particular economies. The lion's share has gone to Asia (40,5%) - mostly to China - and of the capital that flowed to Latin America, 35% went to Mexico and 28% to Argentina.[1]. Capital inflow has been largely directed at the private sector and not at the state as it was in previous decades. Furthermore, these capital inflows have tended to be short term and highly reversible - as was dramatically demonstrated in Mexico.

The crash of the Mexican peso in December 1994 was followed by the so-called 'tequila effect' as hungover investors withdrew from one developing economy after another. However, this time around, the crisis was less severe for Latin America than that of the 1980s. The crisis affected various markets differently; the Colombian market, for example, actually rose the following January. Chile was also less badly affected. In fact, even Mexico stabilised relatively fast after the devaluation. After the initial panic, most of the regional stock markets have regained at least some of their upward momentum. In this sense the Mexican crisis of the 1990s was very different to that of the 1980s. Although concerns persist, the neo-liberal reform project remains largely in place. In fact, a number of states, undeterred, have intensified their processes of economic reform. However, the transition has not been without its share of problems.

Threats to Consolidation

Internal Disorder

Since the 1980s, Latin America has taught us that democracy is by no means a panacea for all ills and that in fact it may aggravate social conflict and render economic transition more difficult. This is well illustrated by the resurgence of racial politics in Brazil. Even within a democracy, questions of race and racism do not go away. Indeed, with its emphasis on numbers and majoritarianism, some forms of democracy may be singularly ill-equipped for this task.

The same can be said of such problems as violent crime. A new report ranks Latin America as 'the world's most dangerous continent'.[2] The state of Mexico records around 50 murders a day and in Mexico city itself, an average of 10 people a day are murdered. These figures echo with South Africans battered by routine criminal violence.

Whatever the figures, public perceptions of levels of violence are critical because these can give rise to a general sense of insecurity. An examination of the figures in South Africa, demonstrates that levels of political violence in the country have dropped substantially (except in KwaZulu-Natal). Nonetheless within local communities there is frequently a profound sense of beleaguerment as a result of violent crime.

Part of the problem may have to do with the difficulties of actually *governing* highly disordered societies. It has been suggested that, in an attempt to improve the human rights situations, old security systems in Latin America were dismantled too quickly. Today for example, one-quarter of all El Salvador's towns have no police at all. The 1992 peace accords called for the establishment of an all-new civilian police force which is not yet in place. The process has been somewhat different in South Africa. In the same way however, difficulties over the transformation of the formerly highly politicised police force, and fears over its role in the new democracy, in addition to overall budget constraints, have severely impacted on the capacity of the police to deal effectively with crime.

Consequently, in very real and tangible ways, ordinary people feel their security to be profoundly threatened. It is this sense of threat and uncertainty that can lead to widespread support for 'strong arm' tactics in support of so-called law and order, posing a potential threat to democracy (as Latin America's past recourse to military rule has shown). This tendency may be further fuelled in a context of regional conflict.

External Tension

Regional conflict may result from tensions around migration, as political and economic refugees leave their homes in search of better prospects elsewhere. Such migration contributed directly to the 1969 war between Salvador and the Honduras. Less desperate economies, such as the Brazilian, are continually on the receiving end of immigrants in search of a more promising economic future.

South Africa faces similar problems with illegal immigrants from Mozambique and Angola and any discussion of the subject is complicated by fears about guns, drugs, and jobs. Growing demands for 'something to be done' about crime and unemployment tend to focus in on the question of illegal immigrants and relations with neighbouring states, with this tension amplified by domestic politicking.

Tensions in the region over migration policy may be exacerbated by issues of regional hegemony and territorial disputes. The border war between Peru and Ecuador in early 1995 is an example of how such tensions can explode into actual conflict. Interstate war is currently unlikely in Southern Africa. The new South Africa has assiduously sought to repair relations with Namibia, Mozambique and Angola, amongst others. However, the ongoing struggle for regional hegemony with Zimbabwe in the SADC, and the bickering with Egypt which marred the All-Africa Games demonstrate that the attempt to assume the role of benign regional hegemon is not without complications.

Conflict, both internal and external, highlights the extent to which the society concerned has solved the problem of demilitarisation. As the position of General Pinochet in Chile shows, the role of the military is not automatically resolved by a transition to democracy. A number of Latin American states have grappled, not entirely successfully, with past human rights abuses. Chile established the Truth and Reconciliation Commission to investigate the claims of victims. But the ruckus over the attempt to jail one of the guilty generals profoundly disturbed the complacency of those who had believed that the army was back in barracks for good. In Brazil, President Cardoso has decided to pay compensation to the victims' families in the face of massive pressure to effectively 'bury the past'. El Salvador and Argentina are also examples where the excesses of the past have been formally investigated. South Africa is itself in the throes of setting up a similar commission, the outcome of which remains uncertain.

In much of Latin America, there has been at least a 'partial consolidation' of democracy through the electoral process; despite a number of hiccoughs, there has not been a reversion to overt military rule and economic reforms are largely on track. The same may be said of the fledgling democracy in South Africa. For all its fumbling and ineptitude, there is a degree of transparency and heightened public debate that was absent under the old apartheid regime. Liberalisation of the economy is proceeding, too slowly for some, but the tenor of economic debates *has* fundamentally changed. The press remains substantially free and critical. While the new parliament remains a shambles, there is a commitment to openness and public contributions, as was evidenced by the very large numbers of submissions that were made to the Constitutional Assembly and the apparent seriousness with which these submissions are being considered. Local government elections remain of course, crucial to the consolidation of the South African democracy and the situation in KwaZulu-Natal continues to be a very worrying one.

The Limits of Liberal Economic Reforms

Current expectations in Latin America are generally that continued economic reform will have a dramatic impact on the region's economic prospects. Such expectations also colour much of the economic debate in South Africa and should be treated with some caution: as Paul Krugman[3] argues, '(t)he point is not that freeing up markets is not a good thing; it is that investors may expect too much from it'. Of course it may not only be the investors who expect too much, but also policy-makers, business and the public at large. We need to understand what economic reform is able to deliver, and what it is not.

The experience of Latin America thus far has shown that liberal economic reforms can deliver modest to impressive growth and can substantially boost foreign investment - this may however, only be speculative and short-term investment. There is concern about the sustainability of growth while important structural deficiencies persist in those economies. Further, it appears that what the current generation of economic reforms are patently not able to deliver is any substantial improvement in levels of employment or the narrowing of socio-economic inequalities.

The Limits of Liberal Democratic Reforms

Liberal democracy is able to provide structured opportunities for the election and replacement of public officials. It is able to provide space for civil society to organise itself autonomously from the state and thus increase platforms for debate and dissension. Democracy may be a superb means to express grievances, differences and conflict; it provides however, no guarantee for the resolution of these. It may also be more difficult to actually legislate and govern in such a democracy, as the South African parliament has discovered.

Recognising the limits of liberal democracy is not in any way to argue for a return to authoritarianism. Democracy is no less real and no less important because socio-economic inequalities and/or conflict prevail; in fact, these problems may make democracy more important. In a post-Soviet world, there are not a plethora of viable or attractive alternatives. Liberal democracy, despite its limitations, embodies critical principles and values and remains the system of choice for most developing nations.

International economic and political support for the new democracies in Latin America and, to a lesser extent, in South Africa, have been diluted by Western preoccupation with the emerging states of Eastern and Central Europe. It seems that the maintenance of a firm stance by the international community against anti-democratic forces is, at least in part, dependent on the extent to which the new democratic regimes are able to forge stability and carry forward their economic reforms. The pressures in support of democracy must be viewed alongside the perhaps more substantial pressure to continue liberalising the economies. These international pressures can and do give rise to potentially competing, even contradictory priorities.

Some Preliminary Lessons?

The latest Mexican crisis highlighted serious structural weaknesses in Latin American economies - a clear warning to South Africa. The following areas emerge as crucial:

i) Persisting with Liberal Reforms to Promote Competitiveness and Growth
All indications are that the classic liberal prescriptions *are* a prerequisite to developing

competitiveness and higher rates of growth. The emphasis on fiscal balance and opening up of the economy should therefore continue, undergirded by attempts to develop an incentive framework to boost capacity development and build human capital.

ii) Boosting Domestic Savings Rates and Capital Investment:

The crash of the peso pinpointed the generally low domestic savings rates in Latin America, a tendency shared by the South African economy. (Of all the Latin American economies, only Chile has really successfully tackled the problem of dependency on foreign capital for investment by improving on its domestic savings rate.)[4] While increased foreign investment is important, it can leave the economy vulnerable to sudden shifts in capital flows.

iii) Improving Government Efficiency and Tackling Widespread Poverty:

As growth has taken off in Latin America, so has the social cost of that growth. Unemployment figures have soared and the gap between rich and poor continues to widen. It appears that economic growth, while a *necessary* condition for poverty alleviation, is not *sufficient*. Commentators are now talking about the need for a second phase of reforms to address these concerns.

Concerns about poverty go to the heart of the debate about the role of the state. Latin America has proven that the state is often better at cutting expenditure than improving its efficiency in the provision of vital social services. Necessary as it may be, the cutting of costs should not substitute for the more difficult process of restructuring organisational structures. Latin American countries raise as much in tax revenue as their Asian counterparts; the difference lies in how they spend it. South Africa must therefore develop strong institutional mechanisms that are able to channel the limited funds more efficiently and into more productive areas - to produce better results for less.

This may be easier said than done. The problem remains one of 'governability', and new democracies face many of the same problems in this regard as did authoritarian regimes. In the end, perhaps one of the most important economic lessons that Latin America teaches us, is to regard with scepticism the spectacular economic performances occasionally evident in that region. The performance of states in the region has all too often been characterised by a 'boom-bust' cycle. In the real world, there are few short cuts or quick fixes and even fewer economic miracles.

Endnotes

1. *Global Economic Prospects and the Developing Countries*. Washington D.C.: The World Bank, pp.84, 85.

2. Report by the Latin American Economic System; quoted in *Newsweek*, 3 July 1995, pp.25, 26.

3. Professor of Economics at Stanford University.

4. Chile's domestic savings rate stands at between 21% and 26% while South Africa's is closer to 18%. It is generally argued that rates of around 24% are necessary to support growth of 4% per annum. *Financial Mail*, 26 May 1995.

The next edition of Update will expand on the economic lessons to be learnt from Latin America.

STATEMENT OF PURPOSE

The South African Institute of International Affairs is an independent organisation which aims to promote a wider and more informed understanding of international issues among South Africans.

It seeks also to educate, inform and facilitate contact between people concerned with South Africa's place in an interdependent world, and to contribute to the public debate on foreign policy.