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UNITED STATES - LATIN AMERICAN RELATIONS:
SHIFTS IN ECONOMIC POWER AND IMPLICATIONS FOR THE FUTURE

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ABSTRACT

United States - Latin American Relations: Shifts in Economic Power and Implications for the Future

The purpose of this paper is to analyze the evolution of economic relations between Latin America and the United States in the 1970s and to suggest the implications of this evolution. The central proposition is that a shift in relative strength took place during this period, which created the potential for achieving a new balance of economic power. Such a shift also created tension with the old pattern of inter-American security links. The process of transforming potential power into real power had relevant implications for economic, political, and security interests. However, Latin America has not been able to effectively utilize its potential leverage. Future inter-American relations will depend on Latin America's ability to achieve a redistribution of power with the United States.

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SHIFTS IN ECONOMIC POWER AND IMPLICATIONS FOR THE FUTURE

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The purpose of this paper is to analyze the evolution of economic relations between Latin America and the United States in the 1970s and to suggest the implications of this evolution. The central proposition is that a shift in relative strength took place during this period, which created the potential for achieving a new balance of economic power. Such a shift also created tension with the old pattern of inter-American security links. The process of transforming potential power into real power had relevant implications for economic, political, and security interests. However, Latin America has not been able to effectively utilize its potential leverage. Future inter-American relations will depend on Latin America's ability to achieve a redistribution of power with the United States. In order to address these issues, I will focus on three questions:

(a) How have relations between the United States and Latin America changed during the course of the 1970s?

(b) Have the changes been superficial or do they mark a deeper, more qualitative transformation that could lead to new political and policy options?

(c) What are some of the economic and security implications of these developments for the future?

The pursuit of national autonomy--defined as the capacity to increase national control over fundamental economic decisions--has been a driving force underlying Latin American actions during the last several decades. However, these actions have been conditioned by the nature of Latin America's relationship with the economy of the United States, the most dominant power in the region.

The relationship has been based on an enormous imbalance in economic power. This has contributed to a generalized self-perception of weakness and dependence, in Latin America. It is also believed that development has been restrained and goals have been thwarted by external factors.[1] The "dependencia" school of the 1960s--which explained underdevelopment as a structural-historical result of Latin American subordination to the U.S. and other developed countries--should be understood within this context.

Although the structural elements of inter-American relations persist, key changes in Latin America's international economic relations have taken place in the 1970s which deserve closer attention. These objective changes, it is argued here, have affected--indeed, enhanced--Latin America's capacity to formulate independent policies and to pursue a course of national autonomy.

Shifts in Economic Strength and Trade Relations

Numerous scholars in the field of international relations have emphasized the decline of U.S. economic power in the world economy. Such a development together with a steady growth in Latin America has, in effect, strengthened the relative economic posture of the region. This section will review the basic indicators of these changes and analyze their dynamics. Although a shift in relative strength as revealed by these indicators does not automatically affect power relationships, it does create favorable conditions for such outcomes.[2]

In 1960 Latin America's gross domestic product (GDP) represented only 13% of U.S. GDP. In 1970 this rose to 16% and in 1980 it reached 26%. In terms of population, Latin America's 207 million people in 1960 outnumbered that of the U.S. by only 1.14 times. However, in 1980 Latin America's population reached 360 million compared to 228 million in the U.S., or 1.6 times greater.[3] Population has important implications for security, immigration, and food and resource demands.

In order to accelerate development, Latin American economies promoted manufacturing industries, domestic processing of the region's natural resources and improvement of human capital through higher levels of education. For example, U.S. manufacturing production was 6.4 times larger than Latin American production in 1964, 4.5 times in 1975, and 3.9 times larger in 1977.[4] Development policies based on the continuation of import substitution, export promotion, expansion of internal markets and intraregional trade contributed to the strengthened Latin American economic base. These policies, in conjunction with the expansion of world trade, allowed Latin America to attain higher growth rates than that of the United States.

These changes were also manifested in trade patterns. U.S.-Latin American trade relations have shown a clear trend in the last decades. The U.S. share of Latin American trade has been consistently diminishing. Since 1950, when U.S.-Latin American trade relations were at their peak in terms of mutual importance, reciprocal trade has been declining as a percentage of total exchange of goods and services for both partners. In 1950 the United States absorbed close to 50% of Latin America's exports, while in 1970 the figure was 33%. In 1980 the proportion was similar to that of 1970, but this was due mainly to Venezuelan and Mexican oil sales. Excluding oil, the proportion contracted even more, from 29.7% in 1970 to 23.2% in 1980. In the other direction, the United States supplied around 50% of Latin America's imports in 1950, and only 35% in 1970. In 1980 the share declined to 30%.[5]

Latin America also lost importance for the United States. In 1950 Latin America accounted for about 28% of all U.S. exports and 35% of U.S. imports. In 1970 these numbers were 15% and 14%, respectively. Latin America became slightly more important to the United States in the 1970s, by 1980 17% of U.S. exports went to Latin America and 16% of imports came from the region.[6]

These results have been subjected to various interpretations. For some, Latin America became less important for the United States because of its relative weakness. Some authors have termed this the "marginalization" of the Latin America economy.[7] However, these trends could be interpreted as the consequence of greater diversification of trade and the strengthening and articulation of national economies in the region.

During the 1970s Latin American trade with Europe scored a similar percent reduction, whereas Latin American trade with developing countries increased. Intra-Latin American exports expanded from 17% to 22% during the decade. For total imports, intra-Latin American trade increased slightly, from 17% to 19%, during the 1970s. Imports from Asian countries boomed. The Asian share of Latin America's imports rose almost 10 times, from 1.2% to 10.2% between 1970 and 1980.[8] As a result of these developments, a "delinkage" took place which has partially reduced the degree of asymmetry in U.S.-Latin American trade relations.

However, it is worth noting that in the 1970s the speed of change slowed. It is likely that this trade "delinkage" between the United States and Latin America will not continue at the same rate as observed during the 1950s and 1960s, but rather at the slower pace witnessed in the 1970s. The options open to Latin America are more numerous today and dependency on the United States is less than in previous decades.

The sectoral composition of trade also evolved in a manner that reinforced the position of Latin America vis-a-vis the United States. The share of foodstuff and primary material exports declined steadily in the 1970s, while oil and manufactures exports increased. The first two items accounted for more than 50% of Latin America's exports to the United States in 1970 and only 25% in 1980. Oil's share went up from 28% to 51% and manufactured goods' from 20% to 23% between 1970 and 1980.[9] In general, Latin America continued to reduce its reliance on exports of primary products. Excluding oil, the 12 main primary export products of Latin America represented 38% of total exports in 1970-74 and 33% in 1975-79. In 1980 that ratio dropped to 24%.[10] This change in composition in favor of oil and manufactures provides a more secure basis for external relations. Oil from Latin America is strategically more valuable to the United States because it is a more secure source and manufactured goods allow for more diversified production and trade partners.

Aggregate data, however, do not show some of the significant differences among countries. While each Latin American nation saw its share of trade with the United States decline, these shares varied greatly: for Mexico and some Central American countries the U.S. market absorbed about two-thirds of their exports in 1977-79; for Andean countries the proportion was around one-third; and for the Southern Cone and Brazil it was less than one-fifth.[11] The main explanatory variable of this difference is geographical distance. Such differences affect the ability of Latin American countries to adopt common policies and they explain the differentiated economic and political treatment that the United States applies to each nation of the region. Additionally, these differences are a relevant factor in explaining the relative economic power of individual Latin American nations with respect to the United States.

Strength being relative, it should be measured in both directions. The importance of Latin America for the United States must also be considered. In spite of the long-term trend toward "delinkage," in 1980 Latin America stood as the third largest trade partner of the United States after the European Community and presented a viable challenge to the number two position held by Canada. During the last decade over 80% of U.S. exports to the area were manufactures; capital goods represented 44% of U.S. exports to Latin America. Latin America as a region was the second most important market for industrial products from the United States.[12]

This was also the result of structural changes in world trade. U.S. trade links became more diversified. Thus, Latin America became one of the United States' most important trade partners despite the fact that the share of U.S. trade with Latin America has been declining in the last decades.

From the U.S. perspective the importance of Latin America increased slightly during the 1970s. A large number of U.S. companies and interest groups are involved with that region and have more significant interests than before. A decline in U.S. exports to Latin America today would have a large impact on important secorts of the U.S. economy. A reduction of trade with Latin America would no longer have a negligible effect. This development also provides more leverage for Latin America.

Economic Relations and the Role of U.S. Corporations

U.S. economic presence in Latin America expanded through direct investment and transnational corporations. During the 1960s foreign affiliates appeared in a growing number of activities, mostly associated with manufactures. This initial phase of rapid expansion peaked in the mid-1970s. Thereafter, another phase began which has been characterized by a consolidation of transnational corporations' share in each domestic economy together with a change in the sectoral composition of investment.

In addition, two major changes took place during the 1970s. First, the importance of U.S. direct investment in Latin America diminished slightly. Second, Latin American governments gained a certain degree of control over subsidiaries through nationalizations and new regulations.

In the 1970s the share of worldwide foreign direct investment declined as a source of external financing for Latin America. Even if "reinvested earnings" are included, which in fact are not part of a new inflow, foreign direct investment from all developed countries as a proportion of total Latin American external financing went down from 34% in 1966-70 to 19% in 1976-80.[13] At the same time foreign investment, measured against GDP and also against domestic investment in Latin America, did not grow and instead showed a stable contribution during the 1970s.[14]

Parallel to these global trends, U.S. flows of direct investment as a percentage of total OECD flows (excluding reinvested earnings) to all developing countries declined from 45.8% in 1968-77 to 29.3% in 1974-79.[15] In Latin America the reduction of U.S. direct foreign investment was less pronounced. The U.S. share of total direct investment flows to Latin America which originated in countries belonging to the Development Assistance Committee (DAC) moved down from 55% in 1970-75 to 48% in 1976-80.[16] In terms of stock, U.S. direct investment also declined as a proportion of total OECD foreign investment in the region.[17]

The reemergence of Europe and Japan presented a wider range of options to Latin American countries. European and Japanese transnationals in the 1970s began to challenge the preeminence of U.S. corporations in a series of activities. Analysis of the 12 largest firms in each of 13 different manufactured products showed that out of 156 firms 111 were North American in 1959 whereas only 68 were North American in 1976.[18]

In order to measure Latin American countries' bargaining positions, the analysis of foreign investment must extend beyond economic aggregates and explore the changing relations between the major actors: states and corporations. States have expanded their economic power within each country and have improved their technical ability to regulate and bargain with transnational firms.[19] Additionally, the oldest transnationals operated in raw materials and primary products and used to control a large part of national exports. Most of these firms have since been nationalized. New transnationals are more diversified by product and on a country basis tend to be more flexible in their dealings with governments. As a result, the number of non-equity arrangements has been constantly growing.[20]

These changes have had several consequences. There has been a less rigid approach from both sides and a greater sense of accommodation. One indication has been a reduction in the number of disputes between Latin American governments and U.S. transnationals during the 1970s. Disputes reached a peak at the beginning of the 1970s and then began to decline. During the 1970s over 60% of these disputes in Latin America involved raw materials.[21]

Governments have gained power relative to large firms. The capacity of a corporation to impose its interests and to interface politically has greatly diminished. Also, the capacity of U.S. corporations to influence the U.S. government in order to gain its support when confronted with a conflict with Latin American governments has decreased. This is due to the complexity of the U.S. decision making process when dealing with economic problems and to the much more varied set of interdependent interests among governments.[22] Also, U.S. transnationals are more reluctant to become an instrument of U.S. foreign policy. The nexus between the U.S. government and U.S. corporations has become looser.[23] From the Latin American perspective, these new developments have widened the space for more autonomous policymaking.

The share of total U.S. investment directed towards Latin America has declined continuously. In 1950, 38% of U.S. direct investment was found in Latin America. This number went down to 24% in 1960, 15% in 1970, and close to 12% in 1980.[24] It is true that Latin America continued to be the primary area for U.S. investment among all developing nations. However, in the 1970s direct investment increasingly became a North-North process. Developed countries augmented their participation as recipients of U.S. direct investment. This phenomenon was reinforced by the fact that during the same time period the United States became the main recipient of foreign investment from other developed countries.[25] "Inward" foreign direct investment of OECD countries changed its distribution. In 1961-67 the United States absorbed only 2.6% of inward flows among developed countries. In 1974-78 this proportion rose to 26.7%.[26]

This evolution has several consequences for Latin American external relations. Direct investment among developed countries plus foreign investments in the six major developing nations (Korea, Taiwan, Singapore, Mexico, Brazil, Hong Kong) accounted for almost 90% of total world direct investment in 1980. The majority of less developed countries are marginal to the system. The establishment of procedures and rules for governing foreign investment will be in the hands of a very small group of countries. Therefore, most Latin American nations will be subjected to a global and transnational system on which they have little leverage. Thus, the reduction of direct U.S. government influence on Latin American economies through transnational corporations has been replaced by increased Latin American interdependence on and subordination to the transnational system as a whole.

Diversification of Latin American Financial Links

The most significant change in Latin American external economic relations during the 1970s occurred in the financial sphere. The volume and composition of external financing changed profoundly. In terms of volume, the total foreign net flows received by Latin America went up from $13 billion in the period 1966-70 to $100 billion in 1976-80. Changes in composition were equally striking--private finance grow from 39% to 88% of the total flow between the same periods.[27] The availability of resources and the expanded role of private banks throughout the 1970s, particularly during the second half of the decade, presented new options to most Latin American countries.

These developments of the 1970s had a cyclical component, which was triggered by the accumulation of large OPEC surpluses, but also provoked changes of a structural nature. The cycle turned around and the availability of resources was abruptly reduced in 1982 and 1983. This will probably change again toward a path which moderates the wild economic activity at the end of the 1970s and the panic at the beginning of the 1980s. Nonetheless, the relative weight of the various financial sources is likely to remain. The most important new phenomena was the rapid reduction in the share of official bilateral flows in total financing of Latin America. This share declined from 25% in 1966-70 to 3.7% in 1976-80. U.S. official bilateral financing diminished even more abruptly, down from 24% of total Latin American financing in 1966-70 to 1.8% in 1976-80.[28] U.S. official bilateral financing has become so miniscule as to be irrelevant to most Latin American countries with the exception of the smaller nations of Central America and the Caribbean. For these smaller nations, bilateral financing has been linked to U.S. security objectives.[29]

The United States decreased its share of official bilateral financing as a proportion of OECD funding. In 1970 the United States accounted for 77% of total official bilateral funds provided by OECD countries to Latin America. In 1980, however, the United States only contributed 30% of these funds.[30] This decline reduced the significance of official financing resources as an instrument of U.S. foreign policy in Latin America. U.S. political influence through official financial institutions, therefore, does not carry the same weight as in the past.

Parallel to this loss of influence, the share of funding by multilateral financial institutions in the total financing of Latin America also diminished in the 1970s.[31] As a result, the International Monetary Fund (IMF) was not called upon to play an active role in all but a few Latin American countries. IMF conditions and related economic policies could temporarily be avoided. The relations with the IMF, as well as those with private banks, changed drastically in the 1980s. These developments hold another set of projections. While the IMF is now in a stronger position to impose conditions and policies, the borrowing countries present a greater threat to the system. Their failure to comply with IMF conditionality could provoke chain reactions. The IMF is obliged to take a more flexible approach in order to avoid the global consequences of noncompliance in the event that countries fail to meet the conditions. Thus, the whole situation is more interdependent.

The impressive development of the private banking system and the banks' ability to recycle OPEC surpluses altered the external financial links of Latin America. In the 1970s Latin American governments began dealing with a system that operated more independently from government institutions of developed countries. The number of actors increased enormously and each individual actor was less able to exert significant pressure on Latin American governments, which might have obliged them to alter some of their decisions regarding national policies.[32] Latin America's perception of their own weakness in relation to transnational actors decreased.

Nonetheless, U.S. presence continued to dominate: most banks involved in lending to Latin America were of North American origin. In aggregate terms, which includes both public and private funds, the United States provided 50% of total OECD country funding in 1970 and 40% in 1980.[33] In 1980 U.S. banks' exposure in Latin America was around 40% of the exposure of all private banks in that region.[34] However, the nature of the influence derived from this presence was quite different from that which prevailed before. Banks do not act on the same criteria or display the same behavior as government agencies. Their political and ideological considerations do not enter into decision making in the same way--they tend to act relatively independent of the nature of the political regime.

The evolution of financial relations and the resultant economic strengthening of Latin America should also be assessed from the U.S. perspective. The critical element is the high involvement of U.S. banks. U.S. banks' exposures in Latin America relative to their capital increased continuously, reaching a peak at the beginning of the 1980s. In 1980 exposure of the nine largest U.S. banks in Latin America approached 170%. Four countries--Brazil, Mexico, Argentina, and Venezuela--accounted for almost two-thirds of the nine largest banks' loans. Therefore, in these four countries the nine largest banks had an exposure (over capital) of 124% in 1980.[35]

U.S. banks' vulnerability increased markedly. The stability of the world financial system became more interdependent with the Latin American economies. These are entirely new circumstances under which peripheral countries could generate a crisis of global proportions. The implications go beyond the fate of some banks and could pierce the core of the financial system. The stable working of the global economy is a major strategic objective of the United States and such developments demand the adoption of policies which integrate the interests of the larger developing countries in the hemisphere.

Relative economic power is more than absolute economic size or capacity. It also depends on the degree of interdependence and the loss or gain that a change in relations may generate for each actor.[36] From this perspective it also can be argued that Latin American countries have attained a less asymmetrical position which may allow them a wider margin to pursue national interests.

Economic Changes and Shifts in Economic Power

Economic changes do not express themselves immediately or mechanically in a shift in economic power. Likewise, economic power does not develop separately from other sources of power. Economic strengthening occurs simultaneously with other political and psychological factors, which together enhance a move towards a more autonomous position.

The ability of the actors to take advantage of such changes depends on their awareness of the problems and their unity in finding solutions. Both of these factors are lacking in Latin America. Latin

American national perceptions of the new situation are weak and dispersed. Each country, taken separately, does not realize the shift in economic power and therefore does not react accordingly. Coordinated action among Latin American nations is poor, while the U.S. government performs as a single actor in spite of some institutional fragmentation. Latin American moves are reactive and defensive, and coordination takes place on some specific issues but without continuity. Political coordination does not exist. Latin America is the only region in the world where there exists no political coordinating body, such as ASEAN, the European Community, the Arab League, or the Organization of African Unity. The OAS could serve as a partial North-South forum, but not as a Latin American organization. Such conditions retard and reduce the process of power redistribution.

A shift in the balance of economic power should be judged at the level of political or economic actors. One way to measure this is to observe changes in economic policy objectives and policy instruments in both the United States and Latin America as well as to analyze relations among governments, multilateral organizations, transnational banks and corporations.

The most relevant policy change in the 1970s has been the disappearance of what could be called a U.S. economic policy towards Latin America.[37] The Alliance for Progress was the best coherent effort to build a regional policy and reaffirm a "special relationship" with Latin America. The last attempt to revitalize that program took place in 1967 in Uruguay when President Johnson and the heads of state from Latin America met for the first time. This attempt failed as domestic problems in the United States, the expansion of Latin American economies, and the evolution of global interdependence deemphasized the idea of a "special relationship." In 1969 the Rockefeller Report proposed a Latin American policy which tried to maintain the idea of "special relationship" by means of a "partnership."[38] However, by 1975 the ideas contained in the Rockefeller Report were quite distant from what actually was being implemented.

The Linowitz Commission of 1975 took a new look at inter-American relations in an atmosphere characterized by detente with the Soviet Union and increasingly interdependent economic problems. The Commission emphasized economic problems in hemispheric relations and downplayed East-West issues. The main conclusions of their report served to inspire U.S. economic policies after 1976. The basic assumptions of such policies were that the U.S. and Latin American economies had become more interdependent, that the nature of economic problems was global, not hemispheric, and that Latin America had achieved important economic progress while the economic power of the United States had declined.[39]

Economic developments in the late 1970s and early 1980s accelerated this trend. The U.S. approach to international economic policy after 1980 became even less regionally bound. The United States entrenched to a position where no further resources were to be committed. Greater emphasis was placed on the market place as the regulator of international economic relations and the call for private sector initiative took over the function of official aid and preferential trade.[40]

Simultaneously, U.S. foreign economic policy became more conditioned by relations with Europe and Japan. Policy was more issue oriented and geared toward multilateral fora. Specific problems affecting some Third World countries were to be treated bilaterally.[41] In policy statements regarding the international economy, Latin America as a region was no longer mentioned. With the exception of Central America and the Caribbean, whose identification was not related to economic but to security considerations, Latin America was engulfed in the Third World concept rather than being distinguished as a special part of the Third World because of its belonging to the Western Hemisphere.[42]

Policy content also experienced an important modification. U.S. economic policies to Latin America moved rapidly through the following three stages: first, a decline in bilateral official financing and reduction of so-called "aid;" second, an emphasis on preferential trade; and third, a defensive trade policy in the framework of an inter-American relation based on market mechanisms and private investment.

The move from the first to the second stage extended from the late 1960s into the 1970s. The call for "trade not aid" was followed by the creation of the Comité Especial de Consulta y Negociación (CECON) in 1970 and by the General System of Preferences (GSP) in 1975.[43] The institution of CECON aimed at providing the framework for negotiations, basically dealing with trade matters, between the United States and Latin America. By 1980 CECON had run out of steam and the U.S. administration was no longer interested in creating a regional body to deal with trade negotiations. CECON is now virtually dead.[44]

The GSP has had a very limited effect. Between 1976 and 1980 U.S. imports from Latin America under the GSP represented only 1% of total U.S. imports.[45] Application of the GSP system was limited by the imposition of quotas, automatic exclusion provisions, competitive need clauses, and the concept of graduation.[46] Latin America's attempt to stabilize export commodity prices, and thus avoid the disastrous effects of price fluctuations, has been resisted by the United States because coordination among producers has been viewed as a threat of cartelization.

The third stage is characterized by an almost total reliance on market mechanisms or, as President Reagan terms it, the "magic of the market." Consequently, a "hands-off" attitude was taken regarding regional economic policies.[47] Protectionist measures have been reinforced and trade preferences reduced.[48] Official financial flows and concessional loans to Latin America contracted. Policies toward direct investment also became more defensive. The United States opposed the establishment of a code of content for transnational corporations and favored a quasi-code of conduct for governments of developing countries to be promoted by mechanisms such as bilateral investment treaties.[49] U.S. economic relations with Latin America came to be regulated by global arrangements in multilateral forums. The space for regional treatment almost vanished.[50]

Changes in foreign economic policy emanating from Latin America were less pronounced and slower. At the end of the 1960s expectations of hemispheric cooperation and preferential trade were still high. Some Latin American governmental circles also believed that one of the U.S. policy objectives was the direct promotion of Latin American economic development. The Alliance for Progress failed to meet those expectations dramatically. However, it took an unusually long time before the failure was realized, thus delaying an appropriate response and new policy orientations.

There has been a lag between changes which have occurred in economic relations and the perception in Latin America that some sort of "special relationship" still existed. The abrupt decline of official U.S. resources, the scarce significance of trade preferences and the move towards different protectionist measures are not merely a short term cycle. Rather, they are a long term tendency. This is easier to understand now than it was ten years ago when there were still some attempts to rebuild the Alliance for Progress and when the image of hemispheric cooperation and U.S. support for economic development was still active.[51]

Latin America also moved into a global approach to foreign economic policy. Concentration on a common position to deal with the United States was not an actual issue in the 1970s as it was in the 1960s. Latin America moved in the direction of global negotiations, North-South dialogue, South-South agreements, and favoring the New International Economic Order. Latin American policies also became global and based on specific issues instead of being part of the previous framework of "hemispheric cooperation."

In trade matters, Latin America has adopted common positions in defending trade preferences, attacking new tariff barriers and protectionist measures, opposing graduation and reciprocity, supporting producers' agreements for stablizing commodity prices, and requesting reduction of effective rates of protection on manufactured goods. Regarding foreign investment, Latin America has promoted a code of conduct for transnational corporations and has resisted pressures against "performance requirements." On finance, it has attempted to develop regional institutions, has manifested criticisms of stark IMF conditions, has denounced economic policies that lead to interest rates that increase the burden of debt services. These developments were also supported by the creation in 1975 of the Latin American Economic System (SELA), the first governmental coordinating body established to deal with Latin American external economic issues.

At the beginning of the 1980s it is possible to affirm that Latin America is acting more than before under the assumption that there is no direct and significant action taken by the United States that will enhance economic development in the region. Growth and expansion should thus be based on national effort and regional integration and coordination. Latin Americans have come to realize that they can not expect outside support for development; it must come from national efforts and competitiveness. This means that they must depend on their own economic power, which mandates the need to increase the current level of economic power.

The result of the previously described changes has been a shift in relative power among the major actors: the U.S. government, Latin American governments, transnational corporations and banks, and multilateral institutions. To summarize, the most important consequences are:

(a) The United States government's direct influence on each Latin American country declined.

(b) The influence of each transnational actor on each Latin American government also diminished.

(c) The subordination of Latin American economies to the transnational system increased. They found themselves linked and subjected to regulations established by a few developing nations and by the behaviors of transnational corporations and banks.

(d) The United States continued to be an undisputed dominant power but its influence on Latin America began to be exerted in a more indirect way, mainly through its impact on the global system.

These developments have improved the scope of Latin American autonomous actions by reducing the magnitude of the asymmetry that characterizes inter-American relations. Simultaneously, economic events within Latin America impinge more than before on the U.S. economy and therefore can no longer be neglected or considered irrelevant.[52]

Changes in policies and perceptions from both sides could be summarized by saying that in the 1970s the notion of a "special relationship" was buried. At the same time, basic economic changes have more deeply involved Latin America in the global system. The greater the links to the many international actors, the less dependence there is on a single one. The result has been a step, however slight, from dependence to interdependence.

Redistribution of Power: Some Economic and Political Implications

United States' economic policy toward Latin America will continue to be determined by a process characterized by: (a) its global nature which necessarily limits regional and hemispheric considerations (outside of security issues), and (b) a more defensive stance on domestic interests which are affected by external economic forces.

More specifically, the United States and other developed countries will continue to be concerned about competition of manufactures from developing countries and will tend to protect their declining industries in order to slow down sectoral displacement. An active industrial policy in developed countries which could ease the phasing out of some domestic industries may facilitate the process of structural adjustment for Latin America. However, Latin American economies will increase their efforts to export manufactures of high labor-intense goods and technologically mature goods. The United States will most likely continue reducing its trade preferences and will increasingly consider Latin America the "middle-class" among developing nations. Therefore, trade in manufactures will be an area of increasing tension.

Additionally, United States' economic interests will oppose organizations of producers of raw materials that seek price stabilization and improvement in the terms of exchange. Latin America, on the other hand, will probably continue attempts to strengthen its position in the primary products markets in order to avoid harmful price and demand fluctuations and the long-term decline of real prices.

In the financial arena, changes have already been quite rapid and United States official bilateral lending has lost its significance. The present lending level is so low that even a substantial expansion at this point will be felt only marginally. In any case, such an expansion is quite unlikely given the current domestic political and economic constraints in the United States for increasing foreign economic assistance.

United States transnational corporations will pursue a trend toward greater autonomy from the United States government. Their behavior will respond more to their own global goals, to the world economic situation, and eventually to norms being agreed upon multilaterally by home and host countries.

These transformations could help move Latin American perceptions closer to the reality of the situation. The possibilities of hemispheric cooperation, trade preferences, financial assistance, and special relationships, as mentioned above, have vanished in the 1970s and will not reappear in the 1980s. Latin American governments, policymakers, and public opinion will come to realize that they can not count on inter-American cooperation--they must stand on their own feet. This might prompt renewed efforts for strengthening industrial capacity, furthering exports, enhancing import substitution at the national and regional level, fostering integration, interregional trade, political coordination, and improving Latin America-Third World ties for common initiatives in North-South negotiations. Such dynamics will be stimulated by the external constraints manifest in the debt burden. The impact of present economic troubles is not short term: it encompasses more than a liquidity problem and has greater economic and political implications. Most likely, the current pattern of development will be increasingly questioned and the call for structural change could become more intense throughout the 1980s. In brief, de-linking and diversification in a multipolar system will tend to prevail in the future over the attempts to restore a "special relationship."

As Latin American nations follow a more autonomous and globally interdependent path the need to strengthen their bargaining capacity will be more urgent. An important trend could develop which reinforces regional strength and searches for mechanisms by which to change power relations in the international economy.[53] This should lead to U.S.-Latin American relations being regarded as an integral part of North-South negotiations. In this scenario, U.S.-Latin American economic relations will move more rapidly from the notion of cooperation to one of competition and bargaining.

Economics and Security in Inter-American Relations

What is striking about U.S.-Latin American relations is the gap between, on one hand, changes in economic strength and, on the other hand, the persistence of the old pattern of security relations developed after WWII. A "special relationship" containing economic concessions in exchange for Latin American acceptance of United States security objectives in the area is not working as it did previously. As Latin America persistently strives for economic development, the United States emphasizes its security concerns in the region.

Such a tension between Latin American development objectives and United States security objectives has been present for many decades. However, since WWII these conflicting priorities have become more defined.[54] After the 1930s the United States began expanding its economic activities and competing with the Europeans in Latin America. After WWII, this effort succeeded and North America's presence had no rival in Latin America. In terms of economic relations, the United States achieved a pattern that one author has called a "closed hemisphere in an open world."[55]

Militarily, a similar purpose was attempted and implemented after WWII with the signing of the Rio Treaty in 1947. The aim was to unite militaries from the Americas in order to achieve two objectives: (1) combat the USSR and communism and (2) promote the United States government's concept of internal stability. In conjunction with this idea, European military supplies to Latin America were to be replaced with U.S.-made supplies. The United States became the sole provider of arms, training, and contracts.[56] In this way, the hemisphere appeared to become economically and militarily a "closed hemisphere." This, in general, was the case between 1945 and 1960.

During the 1970s the "closed hemisphere" started to open. The end of a "special relationship" was an indication. The diversification, global insertion and interdependence that had already occurred in Latin America led to a more open hemisphere in the economic realm as well as in relation to the supply of arms. However, in terms of security concerns, goals, and policies, Latin America has continued to conform to U.S. criteria. This partial openness in the economic realm, nevertheless, may move to security issues in the future. Latin America will most likely tend to define more explicitly its own security concerns by linking economic development, the need for broader foreign relations, autonomy and nonintervention to the concept of security.

The prevalent United States view deems that development and growth in Latin America be the internal responsibility of each country and that they should not count on special economic support from the United States. The United States will make its economic contribution through its own growth; financial shortfalls should be filled by private investment and initiative through the market. At the same time, the United States has maintained its regional security policies.[57] Latin America is viewed in the context of the East-West confrontation, where the main objective is thwarting the emergence of any condition that could facilitate an eventual Soviet presence. This objective supposedly should be achieved by supporting "internal stability" in each Latin American country.

The dominant outcomes of U.S. foreign policy toward Latin America have been an emphasis on stability, a preference for status quo, and a concern that the path from dictatorship to democracy might create favorable conditions for USSR and Cuban involvement.[58]

This view is likely to clash with Latin American interests more so today than in the past. First, present United States security objectives in the region are connected with domestic affairs of those countries. The reduced economic capability of the United States to impose its policies on Latin American countries limits the government's ability to fulfill such objectives. At the same time, the weakening of traditional economic leverage has led the United States government to emphasize other sources of influence, mainly military and ideological, and also to rely more on internal allies.

Second, the United States dominant view that Latin American security is linked to attempts by the Soviet Union to take advantage of changes neglects important implications of economic and social evolution in the area. Latin American nations have become increasingly economically, socially, and politically complex. Therefore, their potential manipulation by foreign forces is quite slim and each of them has its own internal mechanisms of stability.

Third, Latin America's economic expansion has become tightly linked to external economic factors. Countries have developed broader national interests. This new feature contrasts with the inward-looking Latin America of the 1960s and 1970s. Colombia, Mexico, and Venezuela have created interests in the Caribbean and Central America and are providing an oil facility and technical assistance to these areas.[59] Brazil has maintained and expanded links with Angola and the Middle East for exports and with Germany for nuclear energy. Argentina has followed an independent grain policy. The Andean Group countries have played a role in enhancing democracy with a different approach than that promoted by the United States. The Contadora Group is searching for a negotiated solution in the Caribbean Basin. These are some indications of the extended international economic and political interests of Latin America.

The expansion of the perception of national self-interests and the aim toward defense of those interests is the manifestation of the quest for greater autonomy. For Latin American nations, security objectives are perceived to be closely related to economic factors.

This approach differs from U.S. security objectives in Latin America, which are more militarily and ideologically oriented.[60]

There are two major strategic economic concerns of Latin America: (1) reduction of political and economic vulnerability, and (2) improvement of economic well-being. Both concerns are linked to economic strength and development. It is understood that a sounder economic base reduces vulnerability from external forces. The capacity to resist foreign impositions is enhanced by a more diversified economy and by a more coordinated stand vis-a-vis the U.S. government, the banking system, transnational corporations, and multilateral institutions.

The notion of collective economic security has been emphasized in the last years in governmental meetings. The 1982 Malvinas/Falkland War provoked a reevaluation of economic security as a common goal for Latin American countries.[61] Commercial boycott, frozen deposits, control of transportation and reinsurance, and the enormous influence that Great Britain exerted represented a major security threat.

The attainment of a better standard of living, the ability to cope with expectations and to absorb employment also constitute major objectives for security. Well-being is not only perceived as the result of economic performance but also of structural changes. Those changes have been frequently hindered by foreign pressure.

Latin American countries most likely will continue to search for a larger space for internal and external maneuvering. This search leads to a reaffirmation of the following criteria:

(a) Non-intervention and reduction of United States influence on internal decisions as well as on multilateral organizations.

(b) Greater capacity to enhance Latin American interests by strengthening integration and coordination and by reinforcing Third World countries' position in North-South negotiations in favor of changes in the world economic order.

(c) Wider space for developing foreign relations beyond the constraints imposed by the United States as a result of their dominant East-West global perspective.[62]

A process of reaccommodation between different perspectives on how to achieve security objectives will continue to take place. Such a process should tend to follow the shifts in economic strength. This reaccommodation should yield a wider space for action for Latin American nations so they can avoid impairing their own concept of external and internal security, stability, and change. Such outcomes rely primarily on Latin America's ability to transform economic changes into economic power and bargaining capacity. This ability, however, essentially depends on decisions made at a national level. While this paper does not deal with domestic conditions necessary for action, it must be stressed that the base of greater Latin American autonomy lies primarily in an internal consensus founded on principles of democracy and social justice.

Current financial and military events of the area may divert attention from the structural phenomena of the region and toward short-term problems. The present economic and political developments may give the impression of a weakening position of Latin America. Some may perceive that the United States government has restored its past leverage given its recent role in debt renegotiations. In part, this is true. However, at the same time, deeper structural trends are at work.

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