

## Has Latin America Lost Its Free-Market Shine? Leftist Shift Raises Alarms, But Mexico, Brazil Remain Draws

By **MICHAEL CASEY** in Buenos Aires and **SANTIAGO PEREZ** in Madrid  
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By Nov. 30 this year, Latin America will have held 11 critical presidential elections in 12 months. With left-leaning candidates leading most polls, some free-market advocates in the U.S. are already asking, "Who lost Latin America?"

Worries that the region is losing its luster as an emerging open-market economy also were evident at the just-ended World Economic Forum annual meeting in Davos, Switzerland, where China and India took center stage. "There's a feeling of depression, as if Latin America was being left out of the show," said former Mexican President Ernesto Zedillo, a Davos participant who now heads the Yale Center for the Study of Globalization at the U.S. university.

But Mr. Zedillo and some political analysts and economists say such concerns are overblown. While certain foreign investors might have their interests at risk in some places, they doubt the region's leftward shift will turn most of the largest countries into hostile destinations for investment. Despite the income inequality that remains Latin America's most intractable social problem -- fueling voter disaffection with unfettered capitalism -- most countries still retain largely market economies because their leaders and voters see no better answers, these observers say.

Brazil and Mexico, which Mr. Zedillo describes as "the two giants of the region," have reached economic and political stability, he says. In Brazil, other Latin American watchers add, President Luiz Inacio Lula da Silva has maintained the foundations of the market model since his union-based Workers Party government came to power in 2002.

"The Latin American left has evolved, maybe faster in some countries than others, but when it reaches power, it respects democracy and the market economy," says Enrique Iglesias, former president of Inter-American Development Bank, a multilateral lending institution, and now head of the Madrid-based Ibero-American General Secretariat, a 22-country group linking Spain and Portugal with their former colonies in Latin America.

Carol Graham, a research fellow at the Brookings Institution in Washington who has surveyed regional political opinions, says the left's newfound pragmatism reflects a broader trend within Latin American society that transcends periodic electoral shifts. "People recognize that free markets and democratic governments have their flaws but that there really aren't any realistic alternatives," Ms. Graham says.

The latest source of investor alarm comes from Peru. Polls for April elections are led by Ollanta Humala, a populist nationalist who vows to expand state control of the country's oil and mining sectors and admires Venezuela's openly anti-U.S. president, Hugo Chavez. Coming after last month's election in Bolivia of another Chavez ally -- Evo Morales -- political analysts have interpreted Mr. Humala's ascent as a sign the Venezuelan president is successfully using his government's oil revenues to expand his influence and that of his Cuban dictator friend Fidel Castro. Peruvian financial markets have fallen sharply since Mr. Humala's rise in the polls started last month.

Just south of Peru in Chile's presidential elections earlier this month, the resounding victory of Socialist Michelle Bachelet, the daughter of a former general who was murdered during the right-wing dictatorship of Augusto Pinochet, had close to zero impact in markets. The reason: The ostensibly left-leaning party to which Ms. Bachelet and incumbent President Ricardo Lagos belong has done more than its conservative predecessors to open the country to foreign investment and trade.

Jorge Castaneda, a political science professor and former foreign minister in Mexico, argues that what he describes as the populist left -- a category he says includes Messrs. Chavez and Humala -- "does not have much of a domestic agenda, so it emphasizes its left-wing character essentially abroad" by complaining about the U.S. and "cozying up to Havana." But there are exceptions, he says, noting that former hard-line leftists in Chile, Brazil and Uruguay are pursuing measures to reduce poverty and inequality, build up infrastructure and improve education and health. (Mr. Castaneda sought unsuccessfully to launch his own independent run for Mexico's presidency in that country's elections later this year.)

Others say the Latin landscape has changed so much that outdated labels like "leftist" can mislead U.S. officials into inappropriate policy responses. "They are artificial constructs that just push all these buttons, get people worked up and ignore the underlying trends," says Michael Shifter, vice president for policy at the Inter-American Dialogue institute, a Washington think tank.

What is often ignored is the far-reaching impact economic globalization and democratization have had on Latin American society, says the Brookings Institution's Ms. Graham. With the exception of Cuba, most countries in the region opened their economies in the 1980s and 1990s. What that means, as shown by the drop in Peruvian financial markets, is that highly responsive global capital markets can dish out harsh punishment when a politician threatens to turn the clock back too far, economists say.

Even the region's populists seem wary of the market's discipline. Argentina President Nestor Kirchner, who has turned to Mr. Chavez for funding and antagonized foreign investors, has nonetheless maintained a strong fiscal surplus. In Mexico, the economy is so intertwined with the U.S. that a left-wing leader would have to throw out the North American Free Trade Agreement to truly change the course of the economy, economists say. Former Mexico City Mayor Andres Manuel Lopez Obrador, the front-runner in July's presidential elections, has threatened no such thing.

Contradictions within the populists' own agendas also limit their capacity to band together as Mr. Chavez would like. In Bolivia, Mr. Morales's desire to raise the price of his country's gas exports, for example, puts him at loggerheads with energy-starved Argentina.

And although U.S. economic leverage is waning as China and other countries offer **Latin America** alternative markets for its primary products, other industrialized countries' governments can play a moderating role. One example is the center-left Socialist government in Spain, whose historical links with the region were deepened during the 1990s when Spanish companies bought up **Latin America's** privatized enterprises.

Felipe Gonzalez, Spain's prime minister from 1982 to 1996, cultivated strong personal relationships with his left-wing Latin American counterparts. Current Socialist Prime Minister Jose Luis Rodriguez Zapatero has continued this tradition. He recently hosted a cozy meeting with Mr. Morales, in which he relayed the concerns of Spanish-Argentine energy company Repsol-YPF SA over Mr. Morales's plans to nationalize Bolivian gas reserves.