Issues and Trends Affecting U.S. Business in Latin America and the Caribbean

An Address to the Executive Committee and Trustees of the International Center of Florida

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It is a pleasure to be here today. I am grateful to the International Center for this chance to share some thoughts with you on some of the salient political, economic and security issues and trends affecting the business climate in Latin America and the Caribbean.

The picture I am about to sketch for you will have both positive and negative elements, for I see both enduring challenges as well as emerging opportunities for U.S. firms operating or investing in the region. I'll begin by ticking off some of the factors that will continue to make doing business in Latin America difficult.

First, there will be a continuing threat to U.S. commercial interests in Latin America from terrorist groups, many of them supported and abetted by the Soviets, Cubans, Nicaraguans or Libyans. It will probably come as no surprise to many of you to learn that our statistics show more acts of violence -- bombings, kidnapping and the like -- against US business personnel and facilities in Latin America last year than in any other part of the world, the Middle East included. Colombia headed the list of dangerous places followed by Chile, Peru, and Bolivia. On the other hand, there were no such terrorist attacks in Argentina -- the highest risk country for U.S. business in the early 1970s -- or in El Salvador, and a sharp fall off in incidents in Honduras. While the threat in individual countries will vary over time, I believe that, beyond the human costs, the dollar value of protecting U.S. personnel and commercial facilities will remain high.

Second, the security problems caused by the activities of insurgent groups or by political unrest will continue to hamper U.S. business operations and discourage new initiatives. Peru, Colombia and El Salvador are examples of countries where attacks by well-armed revolutionaries on the rural infrastructure and their actual control of some territory cause major problems for U.S. companies involved in agricultural sector enterprises or engaged in the extraction of oil and mining of other mineral resources. The trend toward closer and symbiotic cooperation between insurgent groups and narcotics traffickers in South America has particularly worrisome implications for the maintenance of security in outlying areas. Periodic episodes of turmoil in countries with chronic instability problems -- Haiti is a case in point here -- will also create labor problems for U.S. businesses, and otherwise complicate their operations. Again, despite the progress that has been made in containing guerrilla activities in places like El Salvador and Guatemala and the general decrease in the sort of popular unrest that marked the region in the past, the root causes of insurgency and the sporadic leftist-backed political violence that continues to occur in the Caribbean and in South America will be difficult to eliminate.

A large part of the problem comes from outside forces: the support the Soviets and their Cuban and Nicaraguan allies provide to the insurgent and radical political groups -- as well as the terrorists -- in the region. Soviet and Cuban backing for the Sandinista regime and its efforts to promote revolution in Central America are just the most publicized part of the picture. The Nicaraguan-provided arms used in the bloody terrorist attack last year on Colombia's Palace of Justice, the Soviet bloc weapons found in the massive arms caches in Chile this summer, and the steady stream of leftists traveling to Havana all fit together into a mosaic of Soviet-inspired subversive activities. The fact that Moscow and its friends continue to make trouble of this sort while pushing simultaneously for expanded state-to-state contacts -- witness Foreign Minister Shevardnadze's recent visit to Mexico and Gorbachev's planned trip to the region next year -- makes plain the Soviet capacity for duplicity. Add to this the recent efforts of Libyan leader Qadhafi to aid and abet radical groups in the Caribbean and you get a flavor for why working to overcome these security and instability problems will remain a long term proposition for the affected governments.

Another set of difficulties for Americans doing business in Latin America flows from the sway that political nationalism continues to have over economic decision-making. At the most fundamental level, the statist approach to economic development in some countries has given bloated and inefficient government-owned enterprises a virtual monopoly of key sectors, foreclosing opportunities for U.S. business. In Mexico, for example, the control state-owned companies have over sectors such as energy, food distribution and steel production limits opportunities for U.S. or Mexican private firms to get involved in these activities. In other countries, domestic private investment will continue to be permitted, but foreign investment excluded, in sectors selected for special protection. In many countries, foreign investment will remain limited to 49 percent of company equity.

Beyond direct controls on investment, some Latin American countries are likely to continue to respond to domestic political pressure with tactics that discourage foreign business, for example:

-- Political pressure to inflate employment and raise wages.

-- Endemic overvalued exchange rates, causing foreign exchange shortages and bottlenecks and hampering the ability of companies to conduct international financial transactions on a timely basis.

-- In some countries, continuing bribery and corruption can get in the way of legitimate new investors seeking to compete within an established business community.

Aside from the problems attendant on economic nationalism, U.S. businesses will be challenged by the economic hard times that confront most of the region. These hard times both reflect and contribute to the region's continuing external debt crisis. Although the record is very uneven, Latin governments generally have done well in coping with debt and related problems. Initially, they had no choice but to adjust their economies through stabilization programs involving the reduction of chronic budget deficits, the liberalization of prices, devaluations and wage freezes.

Through such efforts debt default has been avoided but at a high cost. Almost without exception, the annual growth of the Latin American economies has stagnated. Consumer price inflation throughout the region rose from 85 percent in 1981 to 316 percent in 1985. Living standards have slipped and per capita income is still below the levels recorded in the late 1970s for nearly all countries in the region. Moreover, spending on education, healthcare, and new infrastructure has been cut back throughout the region which will impede efforts to expand productivity and support economic diversification and export promotion.

Nor have world economic conditions been propitious for Latin American recovery. Despite the salutory effects of declining world interest rates and the steady growth posted by the U.S. economy, slumping commodity prices -- notably oil -- the collapse of intraregional trade and the unwillingness of Europe and Japan to stimulate vigorous growth have held back the growth in Latin American exports. Debt servicing requirements remain high -- interest payments alone claimed 35 percent of Latin export earnings in 1985 -- causing a heavy outflow of capital to meet their foreign obligations. On top of this, billions in private Latin capital left the region last year to end up in U.S. and Western banks and real estate -- the so-called capital flight problem.

But now I want to get on with the good news. I hope, in fact, that my listing of some of the region's problems will impress you, as it has me, with the positive factors that have emerged.

I would begin the good news by asserting that the psychology of the region is changing and that the change shows signs of being dramatic. The old feelings of dependence and inferiority are receding, being overtaken by a can-do, must-do spirit.

Among the more visible indicators of a new mindset is the turn to democracy. Cycles of military repression and open politics have occurred before in the region, but the current move into competitive electoral systems has many distinctive features. The scope is unprecedented. Latin America is more democratic today than at any point in history. Only five authoritarian regimes remain -- Cuba, Nicaragua, Suriname, Chile, and Paraguay -- representing a minuscule portion of the region's population. Long-lived regimes have given way to this democratic wave -- a generation of military rule in Brazil has ended and after two generations of Duvaliers in Haiti, that impoverished nation may begin a new era. For the first time, normal, elected presidential successions have occurred in such countries as: Honduras, Ecuador, Peru, and Bolivia. Democracy may be "taking" this time.

Also notable are the quality and seriousness of the new leadership. One can hardly fail to be impressed by the boldness of President Sarney, thrust into office unexpectedly when the President-elect died before assuming it. We see growth and flexibility in Bolivia's Paz, who espoused statist policies during the Revolution but who now, in a new era, is moving toward free-market prescriptions. We can only admire the leadership of President Alfonsin, who remains highly popular despite Argentina's hard times. The region boasts leaders who retained their optimism in the worst of times, such as Guatemala's President Cerezo, who survived numerous assassination attempts when he opposed military rule, or President Duarte of El Salvador, who bears the scars of torture. These are men of courage and vision, a truly new political generation. Most are centrists, interested in and receptive to better relations with the United States.

Their views of the United States are sophisticated; many of these leaders have spent enough time living in our country or studying it to know us well. They are not viewing us through throwback stereoscopes that show a colossus of the north. They are men of vision who want to advance their nations and are willing to do business to achieve their goals.

The citizenries of these countries have shown courage and resiliency as well. The route to democracy was hard; in many places, it was brutal. I think we have reason to hope that once won, freedom will not be given up by these populations, who are also increasingly sophisticated and willing to work for their goals. We can see this in the relative discipline that labor has shown. Despite hard economic times, labor has been more willing than in the past to give scope to national leaders. And in many places, austerity plans governments have been forced to adopt have meant real tough times for the people. On other domestic fronts, we see creative new ideas arising to deal with national problems -- many new twists on economic policy, ways civilians are handling sensitive issues such as retribution for past military crimes, Alfonsin's plan to break Argentine fixation on Buenos Aires by moving the capital south. We see high energy being channeled in positive directions.

The energy of democratization is also producing a new cooperative urge among the countries. The new leaders have much in common and because of the struggle each has been through, they tend to respect each other. This provides a new basis for bilateral and multilateral effort. It shows up in various spheres: economic collaboration, including talk of a common market among Brazil, Argentina and Uruguay; nuclear and other scientific interchanges between Argentina and Brazil; some movement toward unified anti-narcotics programs; and increasing cultural exchange. The nations in the region are more and more willing to learn from each other and to pool resources against stubborn problems.