

The Brookings Institution  
Dollar & Sense podcast  
How can the US support democracy and development in Latin America?  
July 19, 2019

SANTIAGO LEVY

Nonresident Senior Fellow, The Brookings Institution  
Senior Advisor, United Nations Development Program

DAVID R. DOLLAR

Senior Fellow, the Foreign Policy and Global Economy and Development programs and the John  
L. Thornton China Center  
The Brookings Institution

\* \* \* \*

**DAVID DOLLAR:** Hi, I'm David Dollar, host of the Brookings trade podcast [Dollar and Sense](#). Today, we're going to talk about Latin America and the Caribbean. The region is in the news right now because of unrest in Cuba and Haiti and some other countries. President Biden is facing an early diplomatic challenge. I'm fortunate to have as my guest Santiago Levy. He is a senior advisor to the United Nations Development Program and a nonresident senior fellow in the [Global program](#) here at Brookings. Welcome to the show, Santiago.

**SANTIAGO LEVY:** Thank you, David. Good morning. Thanks for inviting me.

**DOLLAR:** Let's start with the big picture. Looking at these different incidents of political unrest, is there much the Biden administration can do to stabilize these situations? More generally, what would you recommend to the Biden administration as an overall approach or policy toward Latin America and the Caribbean?

**LEVY:** First, to engage with the region. I think an emphasis on democracy in general. I don't think the U.S. administration, the U.S. government, should take sides—one side or the other side—of whatever political divides are occurring within the countries. I think they should just be clearly seen on respecting democratic processes and respecting democratic outcomes and saying that the U.S. is on the side of democracy. And yes, there are conflicts. There is very little the U.S. can do to prevent some of these. There are complete surprises like what happened in Haiti. A lot more conflicts will probably be coming along the way in the region—it's going through very tough times. But I think the fundamental message is the U.S. cares about this region, and democracy is a fundamental value that will guide policy with the region, and whoever wins in fair elections, we will engage with that person.

**DOLLAR:** If we can focus on Cuba for a moment, this is a case where the U.S. policy has flip-flopped in recent years. President Obama restored diplomatic relations and eased the trade embargo, and then President Trump undid that and tightened the trade embargo. I wonder how other players in the region view the U.S. policy toward Cuba and the Cuban regime and how we should be dealing with that?

**LEVY:** My sense is that most people in Latin America consider U.S. policy toward Cuba obsolete and ineffective, particularly the trade embargo. You can have different views for different reasons, but my perspective is that the single most important pretext that the current Cuban regime—and I'm no friend of the current Cuban regime—has for the dire situation in which most Cuban people have is the U.S. embargo. They can always wash their hands and say, you know, this is happening because of the U.S. This, for the last 50 years, has been the phantom, the big ghost. If the trade embargo was gone, then the failure of the Cuban system would be clearly a result of what is the policies that are being put in place in Cuba themselves, and that would be a motivation for change. You can also criticize the embargo on [the fact that] it's really unfair because you are making the population suffer for punishing the regime. But beyond ethical judgments, it's simply ineffective.

**DOLLAR:** You know, I had an opportunity in the World Bank to see a kind of natural experiment somewhat analogous to the Cuba situation because I worked on Vietnam when there was a U.S. trade embargo against Vietnam. And as you say, it becomes an excuse for all the poor economic results. But Vietnam actually pursued a pretty vigorous, market-oriented reform program, and it got spectacular results immediately despite the U.S. trade embargo. I've often thought that Vietnam example would be quite relevant for Cuba.

**LEVY:** Yes, except that if you think about the geography and what would be the natural trading partners, and the complexity of other countries in Latin America to trade with Cuba because a lot of financial transactions and a lot of trade arrangements are done through U.S. corporations, through U.S. banks. It is a substantive issue in terms of being able to engage with the island.

The best thing that could happen is a process of growth, like what happened in Vietnam, and then the political situation can evolve—and hopefully will evolve in the direction of more democracy. But I think the most urgent situation now is to improve the living standards of people that for many decades now, particularly since the fall of the Soviet Union, have really suffered and now as a result of COVID are suffering quite a bit.

**DOLLAR:** President Biden is trying to organize U.S. foreign policy around the idea that democracies need to band together to counter authoritarian powers, especially Russia and China. I wonder how this framework plays out in Latin America. Does this resonate with Latin American countries, the idea that democracies need to work together to counter Russia and China?

**LEVY:** Weakly. Latin America, in my view, is sort of not engaged in this world politic view. What they want is just to develop. China has, particularly over the last decade, played a larger role in the region, but it's mostly because Latin American governments are pragmatic. They want foreign investment, they want foreign loans, there is not enough coming from the U.S., from Canada, so China is filling the gap. Partly, it has to do with the fact that multilateral institutions like the World Bank and the IDB have not grown enough to respond to the challenge of the region. Governments are now borrowing from China and taking projects from foreign investment in China, not because they have any predilection to engage with China, but simply because they want the project to get done. Many would prefer the loans and the projects to be U.S.-led. It's just that the U.S. is not there. And if the U.S. would like Latin America to be an ally, so to speak, in this big geopolitical game, it would have to fill the vacuum that China would leave. It would have to be much more engaged with the region. As a rhetorical device only, I think it's not going to go very far.

**DOLLAR:** I mean, one of the outcomes from the recent G-7 meeting was the idea of [Build Back Better World \(B3W\)](#), this kind of vaguely defined program that President Biden has pitched to the other G-7 countries that in some ways picks up some of your ideas to try to counter China by providing more opportunities for infrastructure investment. There doesn't really seem to be

much money behind it. As I see it, a pretty important idea there is trying to attract private investment into infrastructure, which I think you have had some success in Latin America, but it can be difficult. Do you see this B3W as an effective counter to what China has been doing?

**LEVY:** I think it's a good beginning, but now I think it needs to be followed up with more substance. Now, you might do it through a combination of instruments. If you say, look, we want a lot more private investment. There are instruments out there—the International Financial Corporation of the World Bank, the private arm of the Inter-American Development Bank, the U.S. Export-Import Bank—there are instruments out there that can be used to promote a lot more foreign investment. And it actually would be welcome for two reasons, David. First, because on the whole, Chinese projects in Latin America have not been very respectful of the environment and have not also been very much concerned about climate change. So if there was a push in which we want more engagement, more investment—it might be private, it might be public or might be mixed, whatever—it will be much more geared toward climate change, those sorts of projects that we want to put in, and it also would be much more respectful of the environment.

When I was at the Inter-American Development Bank, sometimes I would see that governments in the region would engage with China if only because all the environmental safeguards were much weaker. That's the wrong reason to engage with them, but you have to provide an alternative. So the Build Back Better as an initial start, yes, now it needs careful follow up with the engineering of the mechanics by which this will be carried out in the region, and many governments in the region will welcome it.

**DOLLAR:** President Biden wants to organize a lot of the foreign policy around this idea of democracies working together, but one thing that strikes me is that a lot of countries fall into a gray area where it's really not clear if they are a well-functioning democracy or if autocracy is really on the rise. I think you have a number of cases in Latin America like Brazil and even Peru and Colombia where there's been some democratic backsliding. Are you worried about this trend? Is that a general trend in Latin America away from democracies, or do we just have lots of heterogeneity across the continent?

**LEVY:** I think this is more of a world trend rather than a Latin American trend. If one sees what's happening in Hungary, what happened in Poland, even in the past U.S. administration with this strongman person and a little bit less respect for democratic processes. This is kind of a world trend, and in some ways Latin America is not alien to this world trend. So, yes, it has some repercussions in Latin America, and there are some regimes that have some similarities to these strongman regimes. I think it's very welcome that now President Biden wants to restrengthen the root of democracy.

Democracy in general in Latin America has made great strides over the last two or three decades. It's still very imperfect, but it's a lot better than it was two or three decades ago. What it needs is to be nourished. There are some times in which the outcome might not be the

outcome that is preferred, but I think what is really important is that the outcome be respected if that is the democratic process. And there are close calls: Peru. Peru just had an election four weeks ago, it is a very close call, and the party that lost is questioning the results. I think they should just respect the processes, and when eventually the electoral tribunal rules one way or the other way, support the ruling of the electoral tribunal and support the new government.

If the U.S. is seen as on the side of democracy rather than on the side of the right or the left, it will strengthen the bond between Latin American citizens, many who really do want democracy and are willing to experiment with different regimes—which, sometimes the labeling of right and left is kind of obsolete. I welcome what President Biden is trying to do, and hopefully it'll be followed by much more engagement by the different agencies of the government.

**DOLLAR:** Santiago, you and I are both economists, so let's spend a little bit of time on economic policy. We have mostly been talking about politics, but whatever happens in the U.S. economy traditionally has had a big effect in Latin America. We've got a lot of issues now in the United States: monetary policy, fiscal policy, immigration, trade agreements, etc. So looking at Latin America-U.S. relations, what are some of the important policy issues on the economic side? What are some areas where the U.S. could probably do more with policies that would be helpful to Latin America and mutually beneficial for North America and South America?

**LEVY:** That's a really excellent question. I'm particularly concerned about the fact that even before COVID the fiscal situation of many governments in Latin America was weakening. But as a result of COVID, many countries took on a lot more debt. Perhaps that was the response because this was a completely unexpected and very large negative shock, but that debt is there.

Currently because of world interest rates, particularly because of Fed policy, that debt is sustainable. But if you begin to carry out exercises in which—your guess is as good as mine—in 2022 or whenever the interest rate policy in the United States begins to change and international financial conditions begin to tighten, then cracks are going to start to appear. To come to your question, yes, there's a lot the U.S. can do working with the IMF, working with the World Bank, and working with the IDB to be a lot more preventative than in the past. We should learn from our mistakes in the past that debt build ups are icebergs under the water. When the water goes down because interest rates go up, then they show up and it's a little bit too late. A lot could be done as of now.

Then the usual discussion of trade and all that, that's there. My guess, though, is that the situation of the region is so complex, and COVID might mark a big change, that together the U.S. with Latin American governments and multilateral institutions, we need a rethink, a deep rethink, of the development strategies. Our views of “you get the macro right, then you have trade liberalization and investments, and then you invest in education, and then you sit back and watch growth go”—that is not happening. Socially inclusive growth has not happened. We need to rethink development strategies. We need to pay a lot more attention to the social dimensions of these, not as an afterthought but perhaps at the center of the development

strategy. This changes the narrative a little bit from “just get the macro right, open your trade and invest in education,” to a much broader, more complex agenda in which you have to think carefully about social insurance. You have to think carefully about formality and informality and the problems that people have in Latin America to get good jobs. And there, there is a lot of work that can be done.

**DOLLAR:** We'll come back to the social in a few moments, because I agree with you that that's really quite critical. But since you brought up the macro and you talked about the need to be prepared, in a sense, probably there will be some debt crises in particular countries somewhere down the road. In that vein, we just had a big increase in SDRs, the Special Drawing Rights at the IMF, the IMF's basket currency which acts as a kind of reserve for the member countries. Is this important? Is this sufficient?

**LEVY:** I'm not sure if the word is sufficient, but it's important that it's welcome. It probably could be part of a package of preventive things that I was speaking about before. For instance, if you begin to substitute SDRs for debt to private holders of Latin American debt, that would have different maturities, different interest rates, to begin to elongate the time profile of your debt and to change it from debt that could quickly become more expensive, to one that has long [inaudible].

Is it enough? Probably not, but it's better than doing nothing so it is welcome and we should commend the IMF for what they are doing here. But I think there's more that could be done by looking carefully at the time profile of countries debt and working with the multinationals to begin to change. So, again, it's a step in the right direction, very welcome, and I'm glad they did it.

**DOLLAR:** What about immigration policy? This is kind of a hot button issue between the U.S. and some countries in Latin America, certainly Mexico and some of the Central American countries. What would you recommend to the United States in terms of immigration policy? Is this going to make a significant difference in U.S.-Latin American economic relations, or is it really more of a political issue?

**LEVY:** I think for the countries Honduras, El Salvador and Guatemala, and for Mexico, it is a very important political issue. For the rest of Latin America, migration to the United States is really not such a big issue. This is not a relevant issue in Argentina and Brazil and Peru and Colombia and Chile.

In Central America it is, and I think that the overall view that the Biden administration is bringing, which is we need to develop these countries because there is a substantive issue of they are very insecure and they have no subsistence means. That said, and this comes back to the remarks I made earlier, the view of how Honduras and El Salvador and Guatemala are going to develop needs to change. The idea that through USAID or through the Millennium Challenge Corporation will set up these private sector loans and will have private sector development in Guatemala and Honduras, this is a little bit of a pipe dream. The institutions in this country are

extremely weak. And the labor markets—you are looking at labor markets in which 70, 80 percent of workers are in the informal labor force. How many investment projects are you going to bring from the U.S. that are going to create thousands of jobs? At best, ten thousand jobs. Fifty thousand jobs. The needs are in the millions. You have to rethink. It's also not an issue of infrastructure, or at least not really of infrastructure. You know, they say, "Well, we will do these highways and we will connect with the Panama Canal."

The U.S. has spoken about four billion dollars or a large plan for Central America. I think this is welcome, the general view that development is the central issue that needs to be tackled over the medium term. But we have to rethink exactly what is it that will be done and learn from what has been tried before and hasn't really given results.

**DOLLAR:** Santiago, the last topic I want to take up with you is those social issues that you already mentioned. Earlier in your career as deputy minister of finance in Mexico, you were a leading figure in developing the Progres-Oportunidades program, which is conditional cash transfers aimed at relatively poor families in terms of child education, nutrition, etc. First, congratulations, you must feel a certain amount of pride in seeing some of that success. But it also strikes me that there's some similarity with what President Biden is trying to do. Quite a few differences, but some similarities in terms of these new cash payments aimed at families with children, for example, which are conditional at least in the sense that they stop at a certain level of income. Some of the other things he's doing on the social agenda; trying to help families that are caring for the elderly. So I wonder how you look at these different programs that are being proposed by the Biden administration?

And I guess aside from your assessment of these programs, I would like to kind of throw out the more general idea that there are some opportunities for the U.S. to be learning from Latin American experiences. Historically, we have had a kind of big brother-little brother relationship, and I wonder if we are moving toward more of a mutual benefit kind of relationship in looking at Latin America and the United States. Big questions, but gives you an opportunity to comment on these things.

**LEVY:** Thank you, David, and thank you for your remarks. Yes, indeed, the Progres program was something that brought a lot of satisfaction. I'm not an expert on U.S. domestic policy by any means, but the thrust of what the U.S. government is trying to do, as I understand it, I think is right. There's something that they can learn from Latin America, and I'll come back to it in a second. But the thrust of focusing support at the very early stages of life by giving additional resources to families so that ideally the needs of children between one and five can be attended, I think is a good thrust.

Now, in these programs you always want to think about the intertemporal effects over time, and you want to make sure that this will make sure that the households two to three generations from today will not be needing the support. In Latin America, the way this was thought, it was by the age structure of the household so that it was not permanent income. It

was income during some part of the life of the household in which the children were young and then it was being phased out.

I don't know the details of what is being carried out in the U.S. today. I know it's a one-year program and there's an issue whether it's going to last or not last because it's a law or it was done through this reconciliation procedure, but if eventually this were to become a law, one lesson from Latin America is to think about a gradual phase out. For instance, you need to look at the age composition of the household. How many children you have in the ages two, three, four, five. Target the aid by the number of children, and then as the children begin to turn five, six, seven, eight, you can phase out the amounts.

At that point, it's not that you don't support households anymore, but it might be better to do those investments directly in the quality of education. Not the transfer directly to the household but improving the schools in which hopefully the kids are going to be going. And there's a lot of work there because you have this problem here, this deep problem in the U.S., in which schools are funded by the county money or the local money. Perhaps thinking of some subsidies, thinking of some mechanisms to improve the quality of schooling. But that's picking up kids when they are six, seven onwards. From one to six, or from zero to six, this mechanism that they are putting on now, I think has a lot to be said.

Another lesson from Latin America—and this is academic as well—is evaluate. Get data and evaluate. Part of the reason that Progresá was eventually copied in about 40 countries or so is because there was a lot of evaluation. You could tell what was working, what was not working, and what could be adjusted. The initial ideas sound good; there's always something out there that you might not know or find out or be surprised by, and you will only know if you evaluate. So hopefully they are accompanying this with a very careful and large-scale evaluation.

**DOLLAR:** What about this issue about kind of a more equal relationship between Latin America and the United States? Let's end on that note.

**LEVY:** I think there's a lot to be gained by seeing Latin America as a group of mature countries that have evolving democracies [and] that have made great progress over the last three decades. Yes, they have a lot of deep problems, but a lot of the U.S. thinking for those deep problems is not necessarily the response. It's been three decades now since the Washington consensus. And there are some things that we know about them that worked and all to the good. You need to have macro stability; you need to have an open relation with the rest of the world. But there are many other things that Latin America can have its own solutions—and a more bilateral dialogue could work.

We mentioned just a couple of minutes ago things from Latin America that the U.S. could benefit from. I remember like 15 years ago when New York City was trying to launch some version of Progresá. So this was a kind of a south-north interaction. In multilateral agencies, there can also be a more respectful and more constructive dialogue in which we are all together for development but nobody is imposing views on anybody and countries are allowed



to have their own rules as long as they respect democracy and are with certain bounds of prudent macroeconomic management.

**DOLLAR:** I'm David Dollar and I've been talking to Santiago Levy about a wide range of issues concerning Latin America. We started with the recent unrest in Cuba and Haiti, but then use that as a platform to jump to larger issues of democracy, U.S.-Latin America relations, and ending with the social agenda, which is relevant in both North and South America. Thank you very much, Santiago.

**LEVY:** Thank you, David. Thank you.

**DOLLAR:** Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, follow us wherever you get your podcasts and stay tuned.

Dollar & Sense is part of the Brookings Podcast Network. It's made possible by support from Chris McKenna, our audio engineer Gaston Reboredo, and other Brookings colleagues. If you have questions about the show or episode suggestions, you can email us at [bcp@brookings.edu](mailto:bcp@brookings.edu) and follow us on Twitter @policypodcasts. Until next time, I'm David Dollar, and this has been Dollar & Sense.