

**Free Trade  
and  
Economic Restructuring in  
Latin America**

**A NACLA Reader**

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A NACLA Reader

**Edited by Fred Rosen and Deidre McFadyen**

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# Foreword

## Rubén Zamora

Our struggles and hopes in Latin America, with all their contradictions and complexities, have been framed by two global processes over the past fifteen years: the end of the welfare state and the fall of existing socialism. These are processes which have certainly marked the end of the twentieth century and will likely have a decisive influence on the first decades of the next. The dominant ideology in the capitalist world during the postwar period was characterized by political democracy, anticommunism, and the welfare state. In the third world, though, anticommunism tended to receive more emphasis than political democracy, and the welfare state was presented as a goal to be reached through “development.” Although the first two elements are still in force, the welfare state has crumbled under a ferocious attack by the ideologically fundamentalist notions known as neoliberalism: the return to the rule of the market, the cutback of the state and of social policies, and the liberation of entrepreneurial energies.

There is no doubt that Thatcherism and Reaganomics wrought a real “cultural revolution,” albeit a capitalist one. That’s why it evokes such support. Just as Mao launched his cultural revolution by appealing to what he saw as the fundamental revolutionary energy of the masses, bypassing such mediating agents as the party or the state, neoliberalism seeks to unleash the primordial energy of free enterprise, to liberate it from the bonds imposed by the interventionist state. Just as the cultural revolution had one sole objective, socialism, neoliberalism focuses its ideology and the underpinnings of its policies on the market, the guide and judge of economic activity. And lastly, just as Mao was not held back by the enormous costs his revolution incurred, proponents of neoliberalism are impervious to the damage that their model causes, considering such suffering to be the unavoidable cost of realizing their ideals.



This ideology, helped along by favorable breezes from the international financial institutions, fairly flew through Latin America, and took hold with great strength and coherence. While Japan, Germany, and other developed countries maintained a prudent distance, governments from Mexico to Patagonia embraced Thatcherism and Reaganomics with devotion. Neoliberalism became the economic religion that accompanied the transitions to electoral democracy that were taking place across the continent. Thus we renewed our historical tradition of keeping economics and politics out of sync. After years of inclusive economic-development policies married to exclusionary military authoritarianism, we now have political openings in bed with economic policies that are highly exclusionary.

Meanwhile, the past fifteen years have also been dominated by the crisis and death of existing socialism. From perestroika—that desperate but belated recognition—to the fall of the Berlin Wall and the breakup of the Soviet Union, the world has witnessed one of the most profound changes in history. What was believed to be irreversible—Soviet socialism born of the most powerful revolution of the twentieth century—showed itself to have feet of clay and fell to pieces in less than five years. The world became unipolar.

The failure of real socialism had a double significance for Latin America. First, it reinforced neoliberalism's claim to be the "ultimate truth," definitive proof that only the market and private enterprise can save us. Secondly, for the left it meant not only the disappearance of a possible foreign rearguard to provide political, economic, and military support, but also the loss of the "historic model." No matter how fierce the critiques of the form of socialism adopted in the socialist camp, the determinant factor was its mere existence. Simply being a reality that could be counterposed to that of U.S. capitalism made Soviet socialism a model to be emulated, or at least a frame of reference.

Thus, as the 1990s began, the continent found itself immersed in the transition to democracy, with governments that embraced neoliberalism as a religion and with the model of an alternative society in its death throes.

As has always been the case, the Latin American left represents a multicolored tapestry of positions. At one extreme are Fidel Castro and several Communist parties, who respond to neoliberal bourgeois fundamentalism with a no-less fundamentalist affirmation of existing socialism, and for whom any important change is a concession forced by adverse external conditions, not a conscious internal process of

strategic modification. At the other extreme stand the former guerrillas who have discovered modernity and, in their haste to arrive, go straight to the most conservative incarnations of social democracy, without even paying a courtesy call on democratic socialism.

Neoliberalism is a challenge to the entire left, the most important political, ideological, and economic challenge we face today. In the unipolar world of neoliberalism, popular movements are not confronted as mortal enemies, but rather are condemned to irrelevance. The expansion of neoliberalism in Latin America demands an ideological critique, especially its assertion that the kingdoms of the market and democracy are, if not synonymous, then entities so closely linked that democracy can only be put into practice by means of the market.

The left should lay bare the ideological content of neoliberal proposals, but for the critique to have real political meaning, the left must also accept political democracy in practice. Only when the left takes democracy on as its own, which would require a profound critique of its own practice, will its ideological battle with neoliberalism attain credibility and political significance.

The painful evolution of the Latin American left from Allende to the national-security regimes forced it to begin to value political democracy. People began to abandon the old dichotomies—economic democracy versus political democracy, formal (bourgeois) democracy versus real (workers) democracy—which were only smokescreens that concealed a pitiful reality: an undemocratic, authoritarian left, politically cast in the Soviet mold, which raised the banners of political liberties to attack its opponents, but was not prepared to practice them inside its own structures, not to mention if it ever achieved power. Widespread torture, disappearances, and exile, combined with a growing world climate in favor of respect for human rights, produced an important “conversion” among broad sectors of the left who today consider public freedoms to be a conquest of humanity, and who are working to broaden and deepen them.

Today’s popular struggles point to practical ways for the left to embrace democracy and to critique neoliberal ideology. In their struggle to broaden participation beyond the act of voting, people aren’t rejecting elections, but rather making use of them. Similarly, the broad, autonomous, and pluralist activity of the organizations of civil society have swept aside the old party structures and the social organizations traditionally linked to them.

In this respect, the prospects for alternative forces are highly positive, since neoliberal ideology, especially in its concrete application to third world societies, is based on a paradox: while it claims to be universal and egalitarian, with the market as the impersonal instrument for assigning resources and success, in practice, its capacity for mobilizing people is purely corporative, and the reality of capitalism conforms ever less to the rosy picture neoliberalism paints.

One of the practical political functions of ideology is to create social “dreams” that allow dominated peoples to reconcile themselves with those who dominate them, and to feel that both share the same endeavor. Neoliberal ideology inverts this, since the only ones for whom it makes “dreams” are private entrepreneurs. The neoliberal image of the perfect free market is the dream of a rich man using his freedom to succeed by his “own efforts.” For the poor, on the contrary, neoliberalism is a “destroyer of dreams” since it undercuts the basis on which people’s dreams of a better life rest—state social services—and it puts people face to face with a life of scarcity, without horizon or hope. To paraphrase Marx, neoliberalism is the opiate of the business class.

What’s more, if ideology is supposed to fill the cracks that exploitation produces in the social structure, neoliberalism makes rather poor mortar. The version of capitalism it proposes is precisely the one that is most difficult to put into practice. How can we return to the “golden age” when the free market and free competition were the indisputable actors on the economic stage, now when the level of economic concentration is higher than ever before? The greatest interference with the laws of the market come not from the state but from capital itself.

Where the task of confronting neoliberalism becomes most difficult is at the level of political economy, especially its claim to be the only rational alternative for productive economic development. In part, this is because it is backed by the international economic and financial institutions and the web of supranational agreements, treaties, and accords they have woven. It is also due, however, to the failure of the political economy of existing socialism. This critique will only be meaningful to the degree that the left is able to propose a viable and real alternative. In other words, the critique has to make practical sense and embody an alternative proposal, no mean feat in today’s world.

The failure of existing socialism actually offers several advantages: the old and simple certainties that once were mechanically counterposed—the market versus planning, private enterprise versus state

companies, and “free competition” versus fixed prices—are no longer viable. Likewise, the assumption that any criticism of the market, private enterprise, or free competition automatically validates the alternative of socialism has been overturned.

The imposition of neoliberal policies obliges us to revise many of our own concepts and policies. Faced with elections and the need to become a national majority, the movements of the left face a quandary. They have shown themselves capable of garnering the support of more than a fourth of the electorate (in Uruguay, Venezuela, Brazil, El Salvador, Nicaragua, and Chile), and they have a clear shot at winning in the future. But they also face the terrifying possibility that their stay in power will be nothing more than an updated version of the governorship of Sancho Panza on the island of Barataria, in which a new Dr. Pedro Recio will appear on the scene (in the form of GATT, the IMF, and World Bank) and, in the name of preserving financial health and stability, will oblige progressive governments to defraud the people by abandoning their promises to divide up the pie more equitably.

Faced with this prospect, it might seem tempting to take refuge in “the purity of revolutionary struggle and of socialism.” But to do that would be to condemn ourselves to continue being what the left has been for many years on this continent: a group of marginal actors. And even more seriously, it would mean renouncing the ethical responsibility of changing policies that are condemning more and more Latin Americans to misery and death without hope.

Therein lies the paradox: never before have so many political movements of the progressive left been so close to taking power, but never before has power seemed to be so strongly predetermined by external forces adverse to the interests of the majority. To resolve this paradox is one of the puzzles that neoliberalism presents to those of us who think that the end of history has not arrived and that a humane world awaits us beyond the capitalist empire of the market.

To resign ourselves passively to the dynamics of neoliberalism, perhaps hoping to soften some of its more brutal aspects, would be political suicide, not only for the left, but perhaps for all humanity. All the more now, when even some apostles of neoliberalism in the international financial institutions are waking up to the devastation they have wrought, particularly in the third world, and increasingly their alarmed voices cry out, “please, not so fast, not so far.” The desire among certain sectors of the left to humanize neoliberalism in the name of viability or

governability seems destined to accelerate the ungovernability that is a congenital condition of the model.

Frontal opposition, on the other hand, while it might have great testimonial value, seems politically inviable. The international balance of forces would drown such an effort much more easily than in decades past. And should the left assume power, such opposition would be exposed as either an expression of populist demagoguery or an act of political suicide.

I don't see any other alternative for the left in Latin America but to develop a strategy of resistance. The struggle against neoliberalism will undoubtedly be prolonged and its rhythm will be dictated more by the unfolding of new global issues, and by the level of conflict that neoliberalism itself generates, than by our impatient desire to be agents of liberation. However, if we don't transform our impatience into active hope, the only thing we will do is prolong the life of neoliberalism.

A strategy of resistance does not mean passivity or inaction. On the contrary, if our capacity to modify the macroeconomic variables has been temporarily but substantially reduced, then we ought to seek to modify variables that are not macro. In other words, we should link ourselves as closely as possible to the poor, to their basic needs and their survival strategies. We should do our part so that community efforts are not atomized by the market, so they have meaning and content as new economic agents, prefiguring an alternative.

A strategy of resistance also implies the active search for alliances with sectors of capital who feel their survival is directly threatened by the brusque and indiscriminate opening to the world market. The point is not to resurrect the protectionist model of decades past, but rather to design economic-development policies that actively promote our competitive niches, achieve a reasonable margin of autonomy, and allow us to preserve our comparative advantages as much as possible, while not falling into the fatalism of thinking that our only advantage is the hunger wages we pay our people.

In the same vein, a strategy of resistance to neoliberalism implies an active search for foreign alliances, among third world countries through regional integration, and with those sectors of the first world who maintain a more global vision of humanity's destiny and who are capable of seeing beyond the narrow limits of the market. The fact that the foreign rearguard of third world revolutions has disappeared does not mean that revolutionary change is no longer possible. The revolu-

tions of the twenty-first century will be different, and one of the differences lies in the type and breadth of alliances which must be built with forces in the first world.

Finally, a strategy of resistance implies making greater use of negotiations. We must refrain from embracing the ingenuous illusion that everything is negotiable, since powerful countries do have interests that are not negotiable. Similarly we must escape the defeatism of believing the correlation of forces makes any negotiation a futile gesture from the start. We need to negotiate because we can win certain margins and because we can gain time so that the new problems generated by neoliberal development can mature. Ecological deterioration and its consequences can no longer be resolved within national borders, not even by building a "green curtain" that would purify the North and leave all the pollution in the South. These problems are already having grave consequences and are going to come to a head in the near future. Therein lies an opportunity to push for a more profound change in North-South relations.

The new global economic order will emerge not only from the problems that neoliberal capitalism causes, but also from our efforts and capacity to create alternatives on a global scale. Utopia has not died. The suffering and misery that neoliberalism wreaks among millions of poor people on our continent is a medium, a culture where utopia grows. What counts is that we are present in that medium as active bacteria, carriers of the ancient dream that history can bring better times.

—San Salvador, December 1994  
Translated by Mark Fried



## Introduction

Fred Rosen and Deidre McFadyen

"The word of the day in Latin America," says Mario Vargas Llosa, the great novelist and free-marketeer, "is *liberal*." *Liberal*, to Vargas Llosa's evident delight, has replaced *social* as the region's most fashionable political adjective. In Latin America and the Caribbean, the word refers back to the individualism of Adam Smith and John Locke, and has an unmistakable connection with free markets. When accompanied by the prefix *neo*, it refers to the kinds of economic policies North Americans have become familiar with over the past two decades or so: privatization of public activity, deregulation of private activity, cuts in social spending, the encouragement of market solutions to social problems, and—the cornerstone of U.S. inter-American policy—free trade.

As embodied in accords like the North American Free Trade Agreement (NAFTA), free trade is the globalization of the neoliberal agenda. Beyond the relaxation of trade barriers between nations, these accords attempt to elevate international trade to the status of the motor force of social and political life. NAFTA, as currently written, allows a variety of any one country's historically negotiated rights and regulations to be overridden by the trade agreement among the United States, Mexico, and Canada. However inadequate those rights and regulations may be, their erosion by NAFTA would leave large networks of social—and environmental—protection at risk.

So completely do the free-market/free trade ideas called "neoliberal" dominate the current Latin American debate that opposing ideas are increasingly treated with the bemused condescension usually reserved for astrological charts and flat-earth manifestos: We hope the astrologers will come around, but there's nothing left to argue about. North American "opinion leaders," in particular, have closed the debate on Latin American development. We hear only of the struggles



between “modernizers” (all of whom have studied economics and speak flawless English), and the (pick an adjective) ignorant or corrupt or ideological or nationalist or special-interest old guard.

When, for example, the newly-elected centrist Brazilian president, Fernando Henrique Cardoso—an early advocate of state-sponsored development, and co-author of one of the seminal works on Latin American underdevelopment—spoke in early 1993 to an audience of bankers and investors at Manhattan’s Americas Society, he was introduced as a well-known dependency theorist who had *outgrown* his old ideas: an astrologer finally come to terms with Copernicus.

The North American Congress on Latin America (NACLA) was founded in 1966 to investigate the underlying dynamics of U.S.-Latin American relations, and to encourage a more humane and democratic U.S. inter-American policy. The bi-monthly *NACLA Report on the Americas*, in which most of these essays appeared over the past two years, is the most widely-read English-language magazine on Latin America and the Caribbean. This *NACLA Reader* is intended both as a complement and an antidote to the mainstream discussion of neoliberal structural adjustment, most of which remains on the level of macroeconomic strategies of actions and indicators of success. The book points out that in all the neoliberal “success” stories, macroeconomic growth has been accompanied by stagnant or declining real wages, an unambiguous growth in poverty, a loss of social benefits, urban and rural decay, a breakdown of community, environmental degradation, and explosive growth of the informal, marginal sector of society. These contradictions force us to extend our consideration of neoliberalism to the political, social, and cultural spheres. It is our hope that by extending the discussion of economic adjustment and trade to that fuller set of social and political relations, this book will make a valuable contribution to the debate.

The essays included here examine the effects of neoliberal structural-adjustment policies in twelve countries of the Americas, ranging geographically from Mexico and Haiti to Argentina and Chile. It also examines the U.S. role in the elaboration and proliferation of those policies, a role so crucial that, taken as a whole, these free-market policies are known in development circles as “the Washington consensus.” Part I, “The Underpinnings of Free Trade: Implementation of the Neoliberal Model,” consists of articles which attempt to decipher and