

The Miami Herald Published Sunday, December 30, 2001

A tale of two countries and their economies  
BY JOHN O'LEARY

The way you get from Buenos Aires to Santiago these days is by taking a quick, two-hour flight across the Andes. But to tell the tale of these two cities at the moment is to describe visits to two different political planets, to depict capitals of two almost alien economic orders.

In Chile, a country of about 15 million people, the economy will grow again 2 percent to 3.5 percent this year. The local stock market is up over 10 percent. Chile exports a robust 25 percent of its GDP. Unemployment, in a global downturn, is still too high for Chile, but 10 percent or less. Inflation, between 2 and 4 percent, stays in check; the budget stays balanced.

In October, for the first time in three years, the country went to the international markets and met with no problem placing its investment-grade public debt -- now totaling only \$3 billion -- at favorable interest rates. Chile's peso floats freely against the dollar. As the calendar turns and the tenth round of bilateral negotiations resumes in Santiago on Jan. 21, Chile can look forward in 2002 to being the first South American country, and only the fifth worldwide, to enter into a free-trade agreement with the United States.

With admission to that exclusive club, Chileans will win increased international trade, greater investment flows and more and better job opportunities. It's also a good deal, I might add, for the United States.

Under its third consecutive popularly elected government since the 1988 plebiscite that restored its democracy, Chile will chart its economic future under a strong and talented president, Ricardo Lagos. He is comfortable on the world stage and leads a four-party coalition that governs with the benefit of a vigorous and confident two-party opposition alliance in the Congress.

In Argentina, a country of some 35 million people, the economy has collapsed. A four-year recession, by any fair measure, has turned into depression.

In 2002, the economy will shrink at least 3 percent. The local stock market is down 40 percent. Exports account for an anemic 8 percent or less of what Argentina produces. The jobless, now 20 percent of the Argentine workforce, are twice the number next door.

The national budget is a mess. The country is broke and cannot pay its \$132 billion in public debt. The peso is locked in the grip of an artificial and untenable link with the dollar that cripples the capacity of the Argentine worker to compete in a global economy.

Worse economic news, almost certainly, lies ahead. Early next year, if the looming double whammy of default and devaluation hits home in Argentina, the country confronts the frighteningly real prospect of a rising tide of personal and corporate bankruptcies, bank holidays or even bank failures, serious inflation and even greater unemployment and human misery.

And, as in 1989, Argentina's president has quit again rather than try to govern with 5 percent approval ratings. As the new year dawns in Buenos Aires, our friends in that star-crossed country must awake and somehow manage an economic meltdown in the midst of political chaos.

Talk about the need for differentiation in emerging markets.

What's going on here? What can we all learn from the yin-yang world of these Southern Cone neighbors?

I leave to others the lessons of what went wrong in Buenos Aires. As to what's going right in Santiago, let me borrow a phrase from an old Jack Nicholson gem and suggest, based on my recent observations there, five easy pieces that other countries might want to practice playing if they want to join Chile at the head of the developing world's economic and political parade.

\* Transparency matters, a lot. Every time I talked with seasoned U.S. business leaders visiting Santiago, he or she would tell me that doing business in Chile was easier than doing business anywhere else in South America, indeed was as easy as doing business in the United States. Why? High standards of business ethics and virtually no governmental corruption to get in the way of getting things done.

The annual global rankings of Transparency International give quantitative meaning to such a qualitative message. Last year, in that increasingly important global ranking of 91 countries, Chile again ranked first in South America in perceived freedom from corruption (and indeed, in the poll, ranked next to the United States at 17th in the world).

Bottom line: On the corporate books of countries, like businesses, the goodwill attributable to a well-earned

reputation for honesty and openness has great intangible value. Ask Enron.

\* The road to success in a global economy is a two-way street. I will never forget the first piece of trade legislation I saw signed in Chile. It was late 1998, and considerable global economic uncertainty had arisen first from Asia, then Russia and then Brazil. Talk of new protectionism was in the air around the world. But President Frei was inviting my diplomatic colleagues and me to La Moneda, Chile's White House, to witness him signing legislation that the Chilean Congress had just approved to make a unilateral cut in the country's common external tariff.

Chile's commitment was to cut its external tariff rate by 1 percent per year for each of the next five years until it had fallen to a mere 6 percent by Jan. 1, 2003. No quid pro quo required. Just a bold and independent statement to the world that Chile was serious when it said that its economic future was in global economy, and that, if this small country was to succeed in opening up larger markets to its own goods and services, it could not do so with a domestic economy based on import substitution policy.

\* Economic consistency makes for political credibility. For 20 years now, across the deep historical divide that separates the military government of the early 1980s from the country's democratic leadership restored in 1989, Chile has been clear on its commitment to economic freedom. Free markets, economic competition and private enterprise are common denominators of a political consensus in Chile that cuts across party lines.

The most remarkable thing to me about Chile's cliff hanger of a presidential election last year (a two-rounder that ended in a dramatic 51-49 runoff between two extraordinarily talented candidates, one an economist whose political roots were in the Allende government, the other a mayor who got his start on Pinochet's economic team) was that, in the end, the campaign was a fight for the political 50-yard line of centrist economics that would look familiar to most observers of U.S. politics these days. No radical political mood swing, no flat-earth economic theory in play here.

\* Strong and competitive political parties make for a pretty good democracy. At a time when viable political parties, and durable political alliances, are conspicuous by their absence in much of Latin America and a new populism (if not yet the old caudillo himself) seems available to fill the electoral void, Chilean democracy benefits from two real and

increasingly competitive political coalitions -- as well as the usual scattering of independent and third-party candidates.

For example, the results of this month's congressional elections, two years into President Lagos's six-year term, showed 48 percent of the voters supporting his coalition's candidates and 44 percent in favor of Santiago Mayor Joaquin Lavín's opposition alliance. The government now has a six-seat edge in the Chamber of Deputies; the Senate is tied.

Sound familiar? As leading opposition economist and political strategist Cristian Larroulet summed up the congressional election for one European newspaper: "If you look closely you notice that Chile increasingly looks like one of the great democracies of the world."

\* Don't forget about institution building. Today's Chile enjoys an independent Central Bank (the gifted and Chicago-trained Carlos Massad is Chile's Alan Greenspan); a highly efficient internal revenue service that makes very impressive use of new technology to collect taxes in a culture where taxes owed generally are taxes paid; an independent judiciary (the Supreme Court, after removing his legislative immunity from suit, upheld Pinochet's arrest and indictment); a free press that, depending on which papers you wanted to read, either roundly criticized or sang the praises of the courts for doing all that to the former general; a professional military that, with a new generation of leaders, has returned to its traditional mission and now knows better than to get too involved in any of the above; and an increasingly diverse and rambunctious civil society whose various constituents will not shy away from endorsing, rejecting or amending, in public or in private, each and every one of my five easy pieces.

In response to the last I say, "Good for you, good for Chile."

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