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# South American integration\*

*Celso Amorim\*\**

I would like to begin with some thoughts and facts related to South American integration in the broader context of Latin American and Caribbean integration. Of course, I do not pretend – nor would I be the most appropriate person to do it – to present a history of all the integration efforts, from Bolivar’s and other *libertadores* utopias early in our independent life to the first specific attempts with Alalc in the sixties and with Aladi. I will concentrate on more recent efforts, which have already been written about, of which I had personal experience and about which I can add something you may not find in books – or at least a particular view of someone that had the luck or was led by chance or by a coincidence to participate, at various moments, in this integration process in more recent years. I am referring specifically to the Mercosur process, from its outset to the present.

I am not going to spend too much time on each of those moments but would like to make a brief reference to each process in which we have been involved. First of all, Mercosur. How did Mercosur start? You have certainly heard about this from other people. You have met Ambassador

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Samuel Pinheiro Guimarães, who was very active in this process, even before Mercosur's creation, as far as the approximation between Brazil and Argentina was concerned.

This was a crucial step. Argentines and Brazilians are well aware of this, and so are other Mercosur members, but this may not be as clear in other countries. As a matter of fact, the great impetus toward Brazilian-Argentine approximation was of a political nature. Since they came out from under military, authoritarian governments, both countries felt the need to establish a community of interests and that such a community could not be restricted to political contacts. They also felt that it was important that it should also encompass economic interests which, of course, were something fundamental. This is why so much emphasis was placed on trade since the beginning of the Brazilian-Argentine approximation.

I am referring to the year 1985, when President Alfonsín, whose recent death we deeply feel since he was a great democrat in our region, and President Sarney, who not by coincidence represented us at the tributes to the deceased President, launched a dialogue that covered various issues. Economic issues were not the only ones; nuclear energy, for instance, was another major issue. Up to that time, it was said that Brazil and Argentina were competing, since both wanted to have the atomic bomb, and that an atomic bomb could be launched at Buenos Aires and that Argentina could launch an atomic bomb on Rio de Janeiro, São Paulo or Brasilia. Be as it may, there was this idea of a great rivalry, of fierce competition. This effort also had ramifications in other areas, such as science, technology, and culture. There were many important initiatives. Shortly before the inauguration of the Tancredo Neves Bridge by Presidents Alfonsín and Sarney, an Encounter on Biotechnology was held in Foz do Iguaçu, Brazil, and in Iguazú, Argentina. At that time I was working in the area of science and technology and had some participation in that process as well. The point is that there was a great effort toward economic approximation, which was very important, particularly as far as the political dynamics it generated was concerned. A look at 1985-1990 figures shows that both countries were engaged in a great effort, although trade results were modest. I must add that toward the end of this process in 1988 and 1989, Uruguay began to have some participation in it, when President Sanguinetti was invited to some encounters between Brazil and Argentina.

Since 1990, curiously and even paradoxically, when both Brazil and Argentina have had governments more inclined toward neoliberal policies, and both markets opened widely to the world, something very interesting happened on the level of regional integration. I think that this must be noted to help you grasp the role of State bureaucracies. We often think that events unfold only on one sphere – either on the bureaucratic or the political one. It goes without saying that a political thrust is essential; without political impetus nothing is accomplished, but State bureaucracies often play a role also. As far as the Brazilian-Argentine integration is concerned, and later that of Mercosur as a whole, now with Uruguay and Paraguay as members – at a critical moment when all four countries were opening themselves to the world, it was the bureaucracies that perceived that despite the risks involved, such opening brought a great opportunity for integration, provided we knew how to take advantage of the moment, marked as it already was by this opening toward third countries, for speedier opening to each other. In the early 1990's, this process was reflected in Economic Complementation Agreement No. 14, a Brazilian-Argentine trade agreement, which more clearly called, subject to schedules and timetables, for the elimination of tariffs between both countries within an ambitious five-year timeframe. We have seen that many things did not take place according to plan. But this voluntarism, which was perhaps characteristic of the politicians of the time, together with the vision of the State bureaucracies, indicated that the hour had come to further the objective of greater approximation between Brazil and Argentina. The combination of these factors enabled a dynamic, irreversible process, which was eventually joined by Uruguay and soon after by Paraguay. Let me tell you a little about how this happened. Some political coordination with Uruguay already existed. Paraguay was experiencing a transition toward a democratic government, and it joined us after this democratic government's consolidation. An interesting factor ensured that this negotiation, initially between Brazil and Argentina, then extended to Paraguay and Uruguay, resulted, at least in terms of discussions, in something more ambitious than a free trade agreement. Economic Complementation Agreement No. 14 is essentially a free trade agreement. When Paraguay and Uruguay joined in – and this coincided with the launching of the Initiative for the Americas by President Bush, Senior, there was a perception that a common stance should be taken not only by Brazil and Argentina, but also with Paraguay and Uruguay, which were already



involved in the negotiations aimed at free trade among ourselves. Why was this fact important? Because it was the need for jointly negotiating with the United States that impelled us to move from the idea of mere trade liberalization to the idea of a common trade policy. This led further to the idea of a common external tariff, another Mercosur characteristic. Despite its imperfections, the common external tariff implies a customs union, a level of integration that goes far beyond simply a free trade area. This factor is very important.

I could mention several episodes, but this would take too long. There is one, however, that I consider important, since it reflected on subsequent processes. At first, since Paraguay had just come out from under a nondemocratic government, the first idea of coordinating positions vis-à-vis the United States involved only four countries: Brazil, Argentina, Uruguay, and Chile. As Director of Economic Affairs at the time, I was closely involved with this issue. We held the first meeting at the Itamaraty Palace in Brasilia – in a room named after Rui Barbosa, a Brazilian multilateralist politician and diplomat – and it came to light that it was not possible to take on a common stance with Chile since it had a trade policy established on different bases. It had already adopted a policy under which tariffs were consistently lower than those adopted by the other countries that would make up Mercosur. Although the meeting proved valuable for the exchange of impressions and conversations, it became clear that at that time it was not possible to assume coordinated positions. It was more or less at this time that Paraguay took steps towards participating in our negotiation process. These things coincided in time: Uruguay's, followed by Paraguay's incorporation into the Brazilian-Argentine process of trade liberalization among the countries and the need to present a united front for negotiating with the United States. This led to a process that eventually resulted in an agreement known as "4 + 1 Agreement," or "Rose Garden Agreement", named after the White House Rose Garden, where the agreement between Mercosur and the United States was signed.

A peculiarity of these negotiations that led to the agreement is the fact that it was the first instance of actual coordination, which greatly surprised the United States. When we speak of "coordination," we do not mean a mere rhetorical figure, but something real. At first, the United States were very reluctant to discuss with the four countries together. They thought they should discuss with each country separately, or with the Americas as a whole.

Finally, they gave in. Then, they thought that it would be a meeting of five countries and we had to explain to them that it was not a meeting of five countries, but of “4 + 1.” By the way, let me tell you about a little diplomatic episode. You, who have studied diplomatic history, know how important the shape of a table can be at times. This became evident during the conversations at the end of the Vietnam War and during the FTAA conversations. In our case, the United States thought that the table should be pentagonal; but we had a two-sided table: on one side sat Mercosur, and on the other side sat the United States. This resulted from a really intense coordination effort. Since there were various issues at stake (services, intellectual property, goods, and antidumping, among others), we planned the meeting in such a way that each country was in charge of presenting one issue. It was clearly established that we were not negotiating as individual countries with the United States. In the past the entire integration process in the region was conceived in a ‘hub-and-spoke’ mold, meaning the center and the rim of a wheel. That is, one country can integrate with another only by passing through the great power. Thus, integration between Uruguay and Guyana, or between Brazil and Argentina for instance, could happen only through the United States. That was not the case at that table, since we were acting as a single bloc. This is a little episode which is of interest to the history of negotiations. But the important thing is that the fact that we established this common front imposed on us the task of quickly defining the purpose of having a common external tariff among the four countries and of being a customs union.

In 1991 the Asunción Treaty was signed and three years later the customs union process *per se* was concluded. The tariff abatement process started with the Asunción Treaty, but the application of the common external tariff began only in 1994. It should be noted that by then the countries were pursuing coordination, including in their policies toward the WTO. Paraguay’s case was somewhat different, since it was negotiating at the same time its adhesion to Mercosur and to the WTO, which had slightly different requirements. Since this latter process was already under way, it had to be respected, as had the fact that in regard to other tariff matters Argentina, Brazil, and Uruguay had made concessions, which were already on WTO lists and which we could not change without offsets in other areas, which would be rather complicated. The important thing is that Uruguay, Argentina, and Brazil were already seeking to coordinate their positions regarding the consolidation of the tariffs

agreed at the Uruguay Round. As you may verify, a large portion of the three countries' tariffs applies ceiling binding at 35 percent. We have ensured some exceptions regarding agricultural products, to a few of which a 55-percent tariff is applied. Actually, this was the tariff ceiling, which allowed us to go on discussing our common external tariff.

This process of discussion of the common external tariff, given the political impetus and the recognition of the ineludible need for a customs union that would allow us to act together toward the world and to deepen integration, was basically concluded in 1994 with the Ouro Preto Protocol. Actually, the Ouro Preto Protocol belongs to Mercosur's institutional framework, but on that occasion the bases for the common external tariff and for the automotive regime were also agreed. Despite new developments and later changes, the bases were laid then.

Let me mention one episode or two that I consider important in this connection. There was much skepticism about Mercosur in Brazil and certainly in Argentina, Uruguay, and Paraguay. People often said: "Why should we waste time with developing countries? Brazil should be negotiating separately with the United States and with the European Union. There is nothing wrong in having a trade agreement with Argentina, Uruguay, or Paraguay. This is no hindrance, but why this effort to establish a customs union and adopt a common external tariff?" There was this perception, this skepticism. I participated in the negotiation of the Asunción Treaty, after which I served as Ambassador to Geneva. When I came back, I became Secretary-General and, later, Minister of External Relations. I came back with the idea of expanding horizons, of working on something for all of South America. But I wanted to test the idea with Brazilian entrepreneurs and work on the idea of a South American free trade area. This idea had been broached for the first time by President Itamar Franco at a meeting of the Rio Group in Chile in 1993. I will later explain why a free trade area instead of a customs union. I wanted to test this idea and since there was an Entrepreneurial Council at the Ministry of External Relations, established by the future President Fernando Henrique Cardoso, I had a meeting with entrepreneurs, which included prominent industrialists and bankers – such as Olavo Setúbal, a major figure in the financial sector – among others. I told them that I thought that it was important to have a project geared not only to Mercosur – which at

that time was often confused with the Southern Cone Agreement – but to the whole South America. Mercosur is a Southern Common Market, which leaves the door open to other countries. Even the Brazilian media and some analysts who deal with this issue speak of it as a “Southern Cone Market,” which indeed it never was. Brazil is not the Southern Cone, wish it as we may. At that meeting, several ideas were flown. I recall that Ambassador Jeronimo Moscardo, who was the Ambassador to Aladi before becoming Minister of Culture, suggested that we should have a project for the North, a perfectly viable, proper idea, but one could not simply split Brazil in two and have one part as member of a Merconorte and one as a Mercosur member. We thus had to have a project that was compatible with the existence of Mercosur and at the same time capable of encompassing South America as a whole. The idea of a South American free trade area was born in this context and I decided to test it with the entrepreneurs. The same business class, which has shown so much skepticism two or three years before the signing of the Asunción Treaty was now saying: “But we should be careful not to harm Mercosur!” By then, Mercosur had already become a major source of revenue for Brazilian, Argentine, Uruguayan, and Paraguayan entrepreneurs. Thus, something viewed with much skepticism earlier was now seen as something to be preserved.

I made a point of highlighting the birth of Mercosur and its feature regarding a common external tariff and to a customs union because I am convinced that Mercosur is the dynamic core for South American integration – with due respect for the Andean Community, which was a pioneer in Latin America. The Andean Pact was an act of courage from a political and an investment point of view, but from a practical point of view I think that the dynamic core for South American integration is Mercosur, thanks to its greater density, which is linked to the fact that it is not only a free trade area but also a customs union, not to mention other characteristics it has acquired in the social and political areas. It even has a Parliament. However, the customs union is the actual cement that holds Mercosur together.

When people asked me about this difference, I used to say that the difference is shown by history. Free trade areas come and go, while customs unions stay. This is a historical fact. The European Union is based on a customs union that grew, took on additional common policies, and today several of its member countries have a common currency. Early on, when the European

Common Market was established, some of the countries did not want to be part of a customs union, since membership in a customs union entails both advantages and limitations. One cannot negotiate freely with others without listening to one's partners. At that time, a European Free Trade Association-EFTA was established. I am not sure if many people that are here today remember the EFTA. It still exists, but it is now reduced to four member countries. I am not saying this depreciatively. Each country has its own project, but EFTA's membership today is reduced to Switzerland, Iceland, Norway, and Liechtenstein. EFTA's relevance in the world as a bloc is very small, while the relevance of the European Union is much greater. The establishment of an integration nucleus was thus of great importance.

Under President Itamar Franco's Administration there were already thoughts of a South American free trade area, since a customs union of such a scope was not feasible, not least because some countries were beginning to negotiate free trade agreements or had lower tariffs, as was Chile's case, or were thinking of negotiating free trade agreements with the United States or with other countries from other regions. Since a customs union encompassing all of South America was not possible, we could have at least a free trade area. This did not mean full integration but was already some sort of integration. The idea elicited mixed reactions at the time, for different reasons. I remember that some countries showed little enthusiasm for it. Colombia, for instance, was already thinking about an agreement with the United States, a legitimate and proper pursuit. In sum, there was not much enthusiasm and other countries did not see the purpose for seeking integration on a larger scale at that time either. South American trade exchange was too weak. Before Economic Complementation Agreement No. 14 and the Asunción Treaty, for instance, Brazilian exports to future Mercosur members accounted for only about 4 percent of our total exports, while to South America as a whole it added up to only 7 percent at the most. As a result, there were many doubts.

I am going to take a chronological leap here because then came Fernando Henrique Cardoso's Administration and several international crises that had marked consequences in our region, including in the exchange area, which slowed down the integration process somewhat. I should mention that President Fernando Henrique Cardoso took a major step by convening the First Summit of South American Countries, which led to the initiative known

as Integration of Regional Infrastructure in South America-Iirsa. The original idea had not been completely abandoned. It had only failed to achieve the expected dynamics due to other factors.

Another factor that helped deflate the idea of a South American free trade area at that time, which remained an embryonic project, was FTAA's launching by President Bill Clinton late in 1994, with great political force. One way or another all ended up by adhering to the FTAA, although views differed on what we were supposed to do. I believe some countries were reluctant to fully embrace a type of integration whose benefits for us would be arguable, particularly for countries without an industrial base. We at least managed to establish a ten-year target instead of the proposed five-year horizon. This horizon was pushed further and further until it disappeared. We also managed to introduce some issues of interest to us, such as agriculture and antidumping, which at least would provide us with a bargaining instrument. The fact is that FTAA's launching had an overwhelming effect that monopolized attention.

Acknowledging the importance of the convening of the First Summit of South American Countries and of Iirsa, early in President Lula's Government, given the freedom the President allowed his advisors to voice criticism and make comments, I said:

- President, our priority regarding integration is Mercosur, is it not?
- Yes, it is.
- President, I am going to disappoint you, because it is not. In our Ministries there are 10 or 12 people working on Mercosur as compared with 40 or 50 working on the FTAA. So, our priority is the FTAA, not Mercosur.

The force of a U.S. proposal is huge, as we know, and it ended up by engulfing everything. Our initial posture was more defensive. There was a series of barriers that gradually fell down, but the FTAA was an overwhelming process. What has been negotiated or can be negotiated at the WTO is quite different from what could be negotiated under the FTAA. It had been accepted that tariff negotiations, involving basically industrial products, would be carried out on the basis of the applied, not the consolidated tariff. Those who are not specialists might be interested in knowing the difference: consolidated tariff is the tariff a country is bound to set because it has declared to the WTO

that it would do so, thereby assuming a legal obligation. The applied tariff is freely applied by the country and may vary to some extent. In the case of Mercosur, the applied tariff is the Common External Tariff. To give an idea of the difference, suffice it to know that the consolidated tariff might be 35 percent, or an average of 26-27 percent, as compared to the applied tariff of 11 percent. Thus, instead of negotiating on the basis of a 35-percent tariff, we did so on the basis of an 11-percent tariff, which was much more difficult and complicated and dragged us into a liberalization process vis-à-vis the largest economy in the world. All the while, we faced difficulties in having issues of our interest, such as agriculture and antidumping, adequately addressed in such a context. Be as it may, the FTAA was an overwhelming process that encompassed everything else. This contributed to Mercosur's slackening pace and aborted other initiatives, such as Alcsa – South American Free Trade Area.

Early on in his Administration, President Lula decided to pursue two courses: to strengthen Mercosur and to resume the idea of some project on the integration of South America as a whole. As far as Mercosur is concerned, during one of the first meetings, held in Uruguay, we began to accept the asymmetry concept. The solutions adopted then may not have functioned perfectly, but they were basically what Uruguay and Paraguay demanded then. Efforts were made to strengthen Mercosur in more than one way. We recognized the asymmetries and we eventually created a financial instrument for assisting countries – the Mercosur Structural Convergence Fund – Focem, to which Brazil contributed about 70 percent, Argentina about 20 percent, and the smaller countries contributed smaller amounts. Most of Focem funds go to Uruguay and Paraguay. This is due to the acknowledgement that it is necessary to offset the asymmetries through larger investments in these countries. Social issues and the movement of persons have received much attention since then, as have political issues, with the installation of the Mercosur Parliament. Recent years have seen major progress, although some countries rightly claim that we have not advanced enough in certain aspects. During this period, we made some progress in the area of services as well as other significant advances.

But while we were furthering Mercosur we were also returning to the idea of an integration process encompassing South America as a whole. We already had Iirsa, which had to be adapted to new priorities, including infrastructure-

building in the different countries. For the first time infrastructure works will effectively link the Atlantic to the Pacific at different points: halfway northward, starting from Peru or eventually from Ecuador; and further south, passing through Bolivia, Argentina, and Chile. At last, for the first time South America will have connections between both oceans, which is something that North America achieved in the nineteenth century. It took us almost a century and a half to accomplish what North America had accomplished a long time ago and which was one of the foundations of the development of its internal market. Likewise, we should think of a South American internal market. In its entirety, South America is a huge market, with a population of 400 million and a GDP of close to three trillion dollars. We had to have a project for this whole region. Except for Guyana and Suriname, our populations speak kindred languages and can understand each other reasonably well. We had to take up that project again. Since we had the infrastructure in place, we should go back to the idea of a free trade agreement. Perhaps with a little more pragmatism this time, instead of proposing a more comprehensive scheme, which always elicits some criticism and arouses fears, we proposed Mercosur agreements with other countries. We already had an agreement with Chile because, although it could not participate in Mercosur due to its lower tariffs, Chile was very interested in trade integration with the other countries of the region. We already had an agreement with both Chile and Bolivia, but needed to enter into an agreement with the Andean Pact as a whole. This effort took up much of our diplomatic activity and of the President's time. He received visits from all South American presidents in the first year of his government and visited all South American countries within two years, including Guyana and Suriname, of course.

I had served as Minister of External Relations under Itamar Franco's Government, although for only one year and a half and I never visited Peru, Ecuador, Guyana, or Suriname during that time. Under President Lula's Government, I have been six times to Peru, three or four times to Ecuador, and many times to Colombia – a significant change in dynamics.

To a certain extent, Colombia meant an inflection point that allowed us to arrive at an agreement. There was some lingering resistance. Not of an ideological nature, I must say; after all, what we were proposing was a free trade agreement that imposed no limitations on anyone. Although anyone



was free to negotiate with other areas, some qualms persisted. I remember a conversation with Minister Jorge Botero, who was Colombia's Foreign Trade Minister at the time. Our dialogue was dense, interesting, and far-reaching. It helped me to grasp a better understanding of his concerns. At one point I said to him:

- I cannot understand something and I need you to explain it to me. Why are Colombian entrepreneurs afraid of competition from Brazilian industry but not from U.S. industry? This I cannot understand.

Indeed, that was not easy to understand. We went further into our conversation, fine-tuning the negotiation process, and including clauses that recognized asymmetries, which varied from country to country.

Let us take Colombia as an example. The Brazilian liberalization process vis-à-vis Colombia is faster than Colombia's vis-à-vis Brazil. The number of exceptions granted Colombia is higher than Brazil's or Argentina's. We finally acknowledged this kind of asymmetries, but we met with resistance here in Brazil as well, since this is not a simple issue. We started negotiating with Peru separately. As a matter of fact, the first major step was taken toward Peru. Recognition is due to President Toledo, who showed great interest. However, it was the last country to sign an agreement, since there were problems in the agricultural area.

We were finally able to sign the free trade agreements. After agreeing on the general terms, i.e., on a framework for these free trade agreements, we incorporated them into Aladi. A meeting was held with Aladi, since all of this has to be done under the aegis of Aladi to be legally valid before the WTO. The most interesting thing at that Aladi meeting was what I heard from the Foreign Minister of Colombia, a country that had showed some skepticism ten years earlier. I had been very cautious in my speech so as not to give the impression that we were too eager to make advances in areas considered sensitive. Then the Colombian Foreign Minister said:

- With these agreements we are signing we are in practice creating a South American free trade area.

The case of Guyana and Suriname, was always special, of course, not only because they are Caricom members, but also because they have more fragile economies, which will be granted different treatment under this

integration process. As far as the other countries are concerned, we were indeed establishing a South American free trade area.

As these two pillars of South American integration had been set – although the integration achieved was not as far-reaching as Mercosur’s, it was nevertheless integration, with a free trade area and physical structure integration – but a political dimension was lacking. The order is not chronological, since things happen simultaneously, but this political dimension was still lacking. At the signing of the Mercosur-Peru Framework Agreement, President Toledo announced that the agreement would probably be extended to the Andean Community and that we would thus be creating a Community of South American Nations – CASA, as this South American union effort was known until two years ago, when it was proposed that it should be known as Union of South American Nations – Unasur.

That meeting launched the process but some time elapsed before a meeting held in Peru formally established CASA. However, it was still a political process. CASA did not yet have legal status, which was achieved only with Unasur. After two more years of discussions, the Unasur Treaty was signed last year, encompassing several areas: infrastructure; energy, which has gained in importance in recent years; defense, which materialized only later with the establishment of the Defense Council; and the recently established Health Council. Several other areas are being gradually encompassed.

In my view, Unasur is a fully alive, significant process that permits the region to achieve coordination and to present itself to the world as a single entity. I often say that something that catches one’s attention is the fact that these countries had never signed an agreement as a legal instrument – at least not one of a broader scope. I do not know whether there is one in some specific area, such as tourism, but I do not think so. Unasur’s constituting treaty was thus a major step.

We are dealing with many issues, of course. One should not wish to place the technical over the political element, since the latter continues to exist. Politics solves many problems, but creates other ones. Some issues are still pending, but the fact is that Unasur is a reality, even though it has not been fully consolidated yet from a juridical perspective, since few countries have ratified its constituting treaty. I believe Bolivia was the first country to do so and

Brazil has not done it yet. In any case, even before its juridical consolidation Unasur is a reality already.

Let me briefly mention two examples. One was the meeting held in Santiago, Chile, at the time of a major crisis in Bolivia, when Unasur functioned as a pacification and dispute settlement forum in the region. At question was an internal conflict that, upon Bolivia's request, was taken up to Unasur. At that meeting, ways were found to permit a referendum and elections to be held later.

More recently, though in reference to a much less dramatic situation, the Second Summit of South American and Arab Countries took place. On the occasion, all presidents spoke. President Lula spoke, since Brazil was the host country, but who spoke on behalf of South America was the Chilean President, who is currently presiding Unasur. Thus, although its status as a legal entity is not yet fully consolidated, since ratification by all members is required for it to be in full force, Unasur is already a political reality accepted by other interlocutors. In my view, this is highly significant.

I would thus make a distinction. Mercosur is a more advanced, deeper integration process. As far as South America is concerned, we have the integration process possible, given the fact that the countries have different trade policies. Not that trade policies within Mercosur are identical; but, with some exceptions, our tariff structure is reasonably homogeneous. There is an effort to eliminate double tariffs, and many aspects of incentive policies are discussed at Mercosur. This does not apply to Unasur, but we have a free trade agreement, infrastructure, and a political structure that permits close cooperation in some areas, such as defense, energy, health, education, culture, etc. Guyana and Suriname are full participants in this respect. I suppose this is one of the few forums in the world where Dutch is an official language, which was used not only at meetings, but also in the documents we signed, as a tribute to Suriname. As far as Guyana is concerned, English is the better known language, while Portuguese and Spanish are also spoken.

Finally, I would like to comment on the dynamics between South America and Latin America and the Caribbean. I think this is important since all of us maintain close relations with some countries, such as Mexico, Cuba, as well as Central American countries. Guyana and Suriname are members of Caricom. How are we to reconcile these processes? Let me go back a little

to political aspiration and diplomatic activity. Our constitutionally mandated political aspiration is integration with Latin America and the Caribbean. It is understood today that Latin America means Latin America and the Caribbean. For brevity's sake, we may say only Latin America, but it must be clear that this concept includes the Caribbean, which is usually made explicit. I have passed over a very important fact. In the course of negotiations with the Andean Community, Venezuela decided to become a full member of Mercosur. In my view, this will strengthen Mercosur even more and dismiss once and for all the idea that Mercosur is a Southern Cone agreement. Mercosur becomes something that extends from the Caribbean to Tierra del Fuego. This process is still under way and I hope that the Brazilian Senate will soon vote in favor of Venezuela's adhesion. We must abide by democracy's forms and rituals. I believe Paraguay is also nearing final approval and earnestly hope that we will soon have Venezuela as a full member. It was believed that Mercosur could advance further in some aspects. It is easier to speak of production chains and to begin discussing value chains in Mercosur than in South America as a whole, because Mercosur countries are members of a customs union, which makes it easier to address these issues. It is one thing for a Brazilian entrepreneur to know that he is competing with a product partially made in Argentina in the knowledge that all inputs have been subjected to a common external tariff. It is something else if a Brazilian or Argentine entrepreneur has to deal with a product from Paraguay or Uruguay or with a Brazilian product entering these countries, since there are products that have not been subjected to the common external tariff, as may be the case of products entering other South American countries.

There is thus a practical difference as to where progress could be made under a customs union. We were engaged in this process. Although we were aware that the longer-term objective was the integration of Latin American and the Caribbean as a whole, the integration possible and operational was that of South America. Why was this so? Because most, if not all Central American countries and Mexico were involved in a very fast opening process vis-à-vis the United States and some were also negotiating with the European Union. This is why we could not have comprehensive integration process, neither was this in their interest since their attention was focused on other issues. To give you an idea, we have already had four Ministerial Meetings between Mercosur and SICA, the Central American Integration System.

So far, though, we have not been able to start negotiations. This is due in part to the same fears that existed in South America and in part to the fact that those countries' attention was turned to the United States and more recently to the European Union. We understand these circumstances but could not delay our integration process in order to adapt it to other realities. So we had to make our friends in Mexico, Cuba, and other countries in Central America and the Caribbean to understand that South America was indeed fundamental. This did not mean that we wanted to discard the broader vision of Latin American and Caribbean integration. So, after many conversations held both here and in other countries as well as close consultation with all countries of the region, Brazil decided to convene a major, unprecedented Summit of Latin American and Caribbean Countries. There had never been a meeting of Ministers, let alone of Presidents from all of South America and the Caribbean, unless under some external power's sponsorship. Latin America and the Caribbean could meet with the United States, but without Cuba; with Cuba, but without the other Caribbean countries; there could be an Ibero-American meeting or a meeting of all Latin America with the European Union but there was never a meeting of only Latin American and the Caribbean countries alone. This was a kind of chalk circle, since we set this limitation ourselves. It was as if we lacked the courage to acknowledge that we could discuss our problems without causing damage to other relations.

We will continue to hold conversations with the European Union and with the Ibero-American Summit. We will keep up the Summit of the Americas process, which I hope will some day be fully inclusive. I have always pointed that today's anomaly is Cuba's absence, no matter what one might think of the Cuban government and its practices. It is an anomaly because all the countries in the hemisphere, including Canada, maintain relations with Cuba, except for the United States. We have thus taken the initiative of convening a major Latin American and Caribbean Summit – CALC, one of whose objectives was to identify common integration issues. Attendance was astonishing for a meeting of this kind, which is not easy. On that occasion, four summits were held in sequence: Mercosur, Unasur, the Rio Group, and CALC. Promptly, offers came from Mexico and Venezuela to host CALC II and III. There is thus this dynamics. What I have often sought to say to our friends in Mexico, Central America, and even to Cuba, who wondered why we placed so much emphasis on South America, was that South America is crucial for Latin

American and Caribbean integration, since it was necessary to establish an alternative magnetic pole capable of being also an economic, cultural, and entrepreneurial attraction pole. This is what we have done.

We are now facing some major challenges. I do not want to use the expression “concentric circles” because these circles are not concentric, either geographically or thematically. Rather, there are three levels of integration: (1) Mercosur, a customs union, a Parliament, and some common policies on many issues; (2) South America, with a high degree of integration. From the standpoint of external, international policy, I believe South America has as much, if not greater weight, as Mercosur, as the great issues faced by the region in general transcend Mercosur boundaries; and (3) in a less strict sense, there is South America and the Caribbean as a whole, which acknowledges the different levels of development.

These processes do not exist in a vacuum. The Mercosur and Unasur integration process has yielded spectacular results. In the last six years, trade of South American countries as a whole grew 600 percent; Brazil’s exports to other South American countries accounted for 20 percent of our total exports in 2008. Exports may drop this year because of the international financial crisis, but those 20 percent were equivalent to 60 percent more than our exports to the United States. These results are really spectacular. Suddenly, though, circumstances changed on the international scene owing to the crisis. Consequences are very difficult to predict. There has been the recent G-20 meeting, in which Brazil, Argentina, Mexico, and other Latin American countries participated, and some important decisions were made. The most significant fact may have been the acknowledgement of the developing countries’ importance. We know that many are not satisfied with the G-20’s degree of inclusiveness, but this acknowledgement meant some progress. Considering that other efforts are under way at the United Nations, I believe that it will be possible to carry out discussions at broader, more democratic forums, but the greatest advance has been the acknowledgement of the importance of the developing countries and some specific measures pertaining to financing, increased international liquidity, control of banks, financial controls, including hedge funds control.

The cliché that every crisis entails risks and opportunities is certainly true. Every crisis brings challenges. Latin America’s great challenge in this

context is to further integration. I think that it is worth, with due caution, to draw a parallel between now and the 1930's and 1940's. During the Great Depression and later because of World War II, which also interrupted trade, many of our countries launched their industrialization processes or developed whatever little they had started before. Of course, we are not going to do the same thing now, since times have changed and we cannot work the same way. Some industries today are irreversibly globalized and there is no thinking of an import substitution scheme as sixty or seventy years ago. But it is possible to think creatively of a South American internal market as a key lever to our development. Irrespectively of country size, this holds for Brazil just as it does for Guyana, Uruguay, and Ecuador. In sum, all of us stand to gain a great deal. The growth of trade in recent years has clearly shown its great potential in the region. Trade among the countries of the region has increased extraordinarily. Brazil has recorded trade surpluses with all the other countries, exception for Bolivia, from which we buy much gas, but they have declined, in absolute terms in some cases, in relative terms in other cases. In other words, our exports are growing less than our imports; but because volumes are great, their absolute value continues to grow. This is the case of our trade with Peru and Argentina. In some instances though, particularly as far as Chile is concerned, the Brazilian surplus has declined. I think Chile is one of such cases. This is something positive because it shows that the other South American countries are exploiting the potential of the internal market of other countries, including that of Brazil, which is very large. Thus, I would like to retain this idea about the crisis. It is not a matter of regarding the crisis as an opportunity because a crisis is a crisis. Some people go hungry, others don't. But those that do not go hungry are anguished by the fear of losing their jobs, struggle with difficulties, have to review their investment plans – in sum, a crisis affects all. We will not pretend otherwise. But one challenge we must meet is the furthering of integration in a time of crisis and exploit to the fullest, on behalf of our industrial and agricultural producers, the potential of South America's internal market, without closing ourselves to the rest of the world.

Other challenges will come. There is a new Administration in the United States, which displays positive features, of course; but this also confronts us with a challenge. To a certain extent, we had good relations with President Bush, in economic and in political terms. Early on, the Bush Government insisted heavily on the FTAA, but when it felt that it could not go ahead, it gave up,

without resorting to pressure. The countries wishing to make agreements with the United States have done so, as was the case of Colombia and Peru, among others. Those that did not want to do it were not subjected to pressures, or at least not to unbearable pressure, as far as I could follow. President Bush carried on a dialogue with us. Now we are facing a new situation. There is a new President, who has against him the United States's internal crisis and its international effects, but who also has in his favor the fact that he represents a major social and cultural change for his country.

I wonder if you are aware that about eighty years ago Brazil had a writer known in Argentina for his children's books – which President Kirchner read as a child. His name was Monteiro Lobato. During the war he sought exile in Argentina and this facilitated the translation of his works into Spanish. But Monteiro Lobato wrote for adults as well and one of his books was titled *The Black President*. It told the story of a black president elected in the United States. At that time, that sounded unbelievable, utterly impossible. The curious thing is that he won the election because white men and women were divided, and he thus ended up winning the majority. Today's occurrence is not the same but has similarities.

Barack Obama is a President that bears proposals and is open to dialogue, as he has demonstrated in relation to the Middle East, Iran, and nuclear disarmament. This must be the first time a U.S. President says that we must start from the vision of a world without nuclear weapons. Of course, this is still at a discourse stage, but this is a necessary stage for changing policies. In many years, this is the first time I hear a discourse that speaks not only of nonproliferation, but also of disarmament. This is very important. This is an opportunity diplomats should not miss, each one in his own way.

I am sure that President Obama is going to innovate in relation to Latin America and the Caribbean, although I do not know exactly how. Brazil has publicly said that the great test for assessing change is Cuba. We do not ignore the internal difficulties he must face in regard to this issue, but this will be a test of change. Regardless of the many issues before the Summit of the Americas, such as energy, governability, and sustainable development, it is inevitable that attention will be focused on what the United States will say about Cuba. But the new President has the capacity for innovation. This is good, but we must make positive use of this circumstance, without backsliding from the



progress we have achieved in connection with South American integration and, as far as possible, with Latin American and Caribbean integration, since this places us in a better negotiation position vis-à-vis the United States in respect of any future proposals. This is another major challenge. I do not think the United States will propose another FTAA or any such scheme any time soon. They were speaking, for instance, of a great energy program. I myself had the occasion to say to the U.S. Secretary of State: "I think that the United States should refrain for a while from this idea of an overall program for Latin America and the Caribbean." This era is past. This no longer exists. One may assume stances and, after differences are acknowledged, one should see in which field one could cooperate with different countries. One country may wish to cooperate in the area of renewable energy while another may want to cooperate toward a better use of traditional energy sources. Brazil certainly wants to cooperate in respect of biofuels, even by entering into trilateral cooperation arrangements with smaller countries. In brief, each country will choose its own course. But it is important that one can no longer think of a Washington-made program to be slightly modified for application in the entire region. This will not occur again.

There will be other programs, which is something positive. None of this should discourage us in relation to South American integration and to the integration of Latin America and the Caribbean. This is why it is important to conclude the procedures for Unasul's entry into force and to appoint its Executive Secretary. Mercosur must continue to make the necessary progress, such as eliminating the levying of double common external tariffs in order to become a genuine customs union, with adequate compensation for the poorer countries, as was done in Europe. President Lula has announced that Brazil is willing to double its contribution to Focem and to compensate any country of the region for losses of customs revenue it may sustain. We should not lose the integration impetus or sight of the fact that we live in a world that will continue to be globalized after the crisis. We should not entertain the illusion that each country will build a totally closed economy. No country will. Current technology will not permit this. We must thus develop and find appropriate niches, and brave competition with the rest of the world, starting from the basis of our large market, which is gradually becoming a single market, not only from the point of view of trade norms, but also that of physical connections. I believe then that the motto is the following: let us insist on integration in

the face of risks related to the economic and financial crisis, as well of any new proposals, which may be eventually accepted, but which should not lead us astray from the main objective. **DEP**

Translation: João Coelho

# Argentina: economy and international policy

## Historical processes

*Mario Rapoport* \*

### I. Introduction

**F**rom the late 19th century till the beginning of the 21st century, Argentina went through clearly defined economic phases: agricultural exports; industrialization based on import substitution; and opening of the economy, foreign indebtedness, and the peak of the financial activity that culminated in the worst crisis in Argentine history. Then came the beginning of a fourth phase in which we now find ourselves – reindustrialization, coming out of indebtedness, and economic development. In respect of foreign policy, it is also possible to distinguish different phases related to those just mentioned. Far from the views that point to the “erratic” or “oscillating” character of Argentina’s foreign policy, predominant tendencies can be noticed in each phase, which are explained by the conditioning determined by the different economic and social structures. This essay purports to examine the relationship between the economic phases and foreign policy, taking into account the peculiar characteristics of the different governments and political regimes.

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## II. Argentina as agricultural exporter, economic liberalism, and privileged ties to Great Britain

As an agricultural exporter, Argentina was supported by a socioeconomic structure in which the ownership of land – a good in abundance – was concentrated in a small and powerful nucleus of landholders. Although it had helped set up the agricultural exporting apparatus, foreign capital had in general its return guaranteed by the State or was speculatively invested, which led to increasing foreign indebtedness and balance of payments problems. All of this was ruled by a dominating ideology: economic liberalism. The Argentine Constitution, in the words of Juan Bautista Alberdi, one of its keenest expositors, tended to seek “economic liberty” more “than political liberty”.

As a food and raw materials exporter and importer of capital goods and manufactured products, the country thus became, to a significant degree, part of the international division of labor based on free exchange, the axis of which was Great Britain, the major economic power of the time. During the agricultural exporting period, the various economic cycles conformed to the relations among investment, production, and exports, on the one hand, and on the other to the favorable or adverse movement of capital flows, which were influenced by the Bank of England through the raising or lowering of interest rates. A remarkable economic expansion occurred, accompanied by dependence on foreign markets and on capital movements – when these stopped, as in 1885, 1890, and 1913, markets drastically contracted, and crises burst, as in 1930.

As regards the internal political system, around 1880 national unity was accomplished under oligarchic governments, which maintained constitutional forms, but excluded opposition sectors from the exercise of power and elected their own successors. At the same time, they opened the doors to new immigrants, but did not facilitate their conversion into citizens or access to land ownership.

The objective of the foreign policy of the “conservative order” (1880-1916) was to extend guarantees to foreign investors and ensure external financing of the State, as well as expanding European markets, in which Argentina placed its agricultural exports. This Atlantic policy, liberal and “open to the world” – particularly to Europe – turned its back on South

America and disdained alliances with the region's countries. Argentina deepened its diplomatic relations with the Old Continent in general and with England in particular, while seeking to obstruct the United States's attempts at consolidating its continental hegemony.

This "conservative consensus" found expression in different ideological currents: the predominating current, of a liberal, "commercialist" matrix, which sought to reduce conflicts to a minimum, and the territorial nationalism's "real politik," which propounded policies based on force vis-à-vis neighboring nations and fueled an armamentist spiral. In turn, the foreign policy implemented by each group displayed the alignment of the various segments of the elite with the interests of Great Britain or other European countries. This makeup of the leading sectors was reflected, for instance, in the opposition to the United States's attempt at establishing a customs union and a common currency at the first Pan-American conference, in 1889. Roque Sáenz Peña, the Argentine representative, countered the United States's "America for the Americans" motto with "America for Humanity." In addition, awareness of the problem of external indebtedness found expression in the 1902 Drago Doctrine, which condemned the military intervention of European countries in Venezuela to force the country to honor its financial commitments.

After the end of the oligarchic regime, radicalism came to power (1916-1930), thanks to a new electoral law that organized citizen rights and established a more democratic system introduced by the 1912 Sáenz Peña Law, which called for compulsory secrete ballot for all male citizens. In general, there was continuity of the productive structure and the economic model based on agricultural exports, but some changes were introduced: a fiscal policy was implemented, which stressed direct taxation of land and capital; public spending increased, particularly in respect of public service; and some income redistribution occurred in favor of salaries, pensions, and the administration, while many laws proposed died in the National Congress because the Senate was in the hands of the conservative opposition. The concept of "reparation" served as justification for these changes based on a policy that took care not to affect the nuclei of interests that supported the agricultural exporting apparatus. But owing to this policy, spending increased at a faster pace than available resources, causing fiscal imbalance, which was aggravated in recession periods.

Radical foreign policy displayed greater autonomy than did that of the oligarchic regime. In World War I, after Irigoyen became President, it moved from the “passive” neutrality adopted by conservative Victorino de la Plaza – which served British interests that intended to maintain bilateral trade with Argentina – to an “active” neutrality that questioned the reasons for the war among the powers and resisted, from 1917 on, Washington’s offensive into the American continent to convince the countries of the region to give up neutrality. On the contrary, the radical government sponsored a congress of the region’s neutral countries and soon after withdrew the Argentine delegation from the Society of Nations, insisting on the universal principle that all nations should have equal rights. These facts show that the government’s foreign policy had a more independent character, while maintaining its participation in the international scene, which had been established in the preceding phase, as well as the privileged relationship with Great Britain.

Irigoyen was succeeded by Marcelo T. de Alvear, head of a radical government with a more conservative orientation, under whom there was a return of some prosperity and who maintained extremely firm ties to Europe. But Irigoyen’s return to power in 1928 was not favorably received by the traditional elites, which began to prepare a coup d’état with civilian and military participation. The coup took place in September 1930, returning to power the old conservative oligarchy.

From an economic standpoint, the twenties saw an increase in trade and investment from the United States. That was the beginning of an Anglo-American-Argentine triangle of trade and financial relations, in which England continued to be the main market for Argentine products, while capital flows and more sophisticated manufactures came from the United States. Nevertheless, the latter increased its barriers to the entry of Argentine agricultural and livestock products it considered competitive with its own economy, giving rise to sharp disagreements with the predominant economic elites in our country.

### **III. Industrialization based on imports substitution, new forms of dependence, and attempts at autonomy**

Industrialization based on imports substitution may be broken down into three differentiated periods: “spontaneous” industrialization (1930-1945); the Peronist industrializing project (1946-1955); and the “developmentist”

industrialization (1955-1976). The characteristics of each of these periods created conditions for Argentina's foreign policy and participation in the international scene.

The effects of the crisis that erupted in 1929 affected the bases that supported the agricultural exporting economy. The countries that traditionally bought Argentina's production began to protect and foster their own production of primary goods (England, for instance, signed the 1932 Ottawa Treaty on imperial preferences). Under the circumstances, Argentina saw the volume and price of its exports shrink, while the attending scarcity of foreign exchange reduced its purchasing capacity on the international market. This scarcity of foreign exchange forced the need to manufacture at home many previously imported products, which encouraged the so-called "industrialization based on import substitution" (ISI). It also reinforced the State's presence in the economy through the establishment of various Regulatory Boards (Grain, Meat, etc.), the implementation of exchange controls, and the creation of the Central Bank.

This notwithstanding, the objective of favoring the landowning elite still prevailed. The best example of this was the 1933 Roca-Runciman Treaty, under which England maintained Argentina's meat export quota against a series of counterpart concessions, such as exemption from the novel exchange controls, lower customs duties, and preferential treatment of British investments. This covenant illustrates the kind of predominant interests, as expressed on the trade front by Argentine Rural Society's motto: "Buying from those that buy from us." As regards foreign policy, the "consensus" inside the coalition in power maintained the hegemonic subordination to Great Britain. This meant that Argentina had to join the Society of Nations and to oppose the United States's Pan-American strategy at the Pan-American conferences in the 1930s.

The outbreak of World War II did not cause any conflict within the ruling group. Neutrality was subordinated to British interests, which needed to ensure the supply of Argentine foodstuffs, which were purchased without immediate payment with pounds blocked in London as gold guarantee. This would soon entail adverse consequences for the country. But in December 1941, after the United States entered the war, the American offensive to force a break of relations with the Axis powers was partly checked by the conservative neutralism of President Castillo and his foreign minister Ruiz Guiñazú at the

1942 Rio de Janeiro Conference. The need to choose between maintaining neutrality and joining the allies brought out the rivalry between England and the United States about influencing Argentina's economy and policy, which had been evident in the triangular relations for two decades. In general, the British were opposed, to the extent possible, to the U.S. policy toward Argentina.

In the three years of military regime, beginning with the coup d'état of June 1943, when the events of the war started to turn in favor of the allies, the axis of foreign policy gradually changed into an expression of the bilateral conflict between Buenos Aires and Washington. The coup managers were a group of colonels, one of whom was the charismatic colonel Perón, who centered his work on winning the labor unions and began to propose and implement social reforms and to maintain contact with political forces and their leaders. His stature was further reinforced as of January 1944, when the government finally gave up the neutrality policy and General Farrell became President, with Perón as vice-President.

Under these circumstances, it became clear that the main objective pursued by Cordell Hull, the U.S. Secretary of State, was not Argentina's break with the Axis but simply the defeat of the military regime and the ouster of Perón in particular. This objective was shared by the majority of the political opposition, which accused colonel Perón of being pro-Nazism but was above all opposed to his ascendant leadership and his social reforms. The conflict with the United States thus became a key element of domestic policy.

In late 1944, though, changes occurred in the U.S. State Department, which brought to the fore new officials willing to change a policy deemed erroneous by some sectors of interest to the United States in the country. This led to secret talks with Perón and other members of the Argentine government at the beginning of the following year. These talks resulted in an agreement under which Argentina undertook to honor the commitments to be made at the Chapultepec Conference in Mexico in February 1945; to rejoin the concert of Latin American nations; and to declare war against the Axis, thereby becoming eligible for admission into the United Nations. In turn, Washington would quit its coercion policy, particularly the economic and diplomatic sanctions it had imposed against Argentina, something that did actually begin to be done.

This amicable interlude between the two countries was interrupted by a new turn in U.S. diplomacy owing to the death of Roosevelt, who was inclined



to a more “flexible” stance, and to the return of some sectors connected with the “hard line” toward Argentina. This went into effect in May 1945 with the arrival in Buenos Aires of Ambassador Spruille Braden, who set himself the objective of waging a crusade to defeat “Colonel Perón’s dictatorial and fascist” regime. Bent on eliminating Perón before the approaching elections could seal his victory, Braden began to engage in intrigue aimed at deposing him: he negotiated with Army officers opposed to Perón and practically assumed the leadership of the political sectors opposed to the military regime, organized into the so-called Democratic Union, and made speeches against the government before which he was accredited as ambassador.

Perón was forced to resign until the popular mobilization of October 17, 1945 reversed the situation, as the workers feared losing the conquests made in those years and delivering the government in the hands of the discredited traditional political elite and the sectors that accepted the U.S. interference in the internal affairs. Early in 1946, one of the main mottos of Perón’s electoral campaign was precisely “Braden or Perón”, which stirred nationalist feelings, thereby facilitating the new political leader’s victory.

The decade of Perón’s rule marked a new phase in the industrialization process and a change in Argentina’s foreign policy. Perón’s economic policy aimed at intensifying industrialization based on import substitution, expanding the domestic market through income redistribution (at one point, the salaried accounted for 50 percent of national revenues); passing social legislation; and increasing State intervention. The means for stimulating industry included the establishment of institutions such as the Industrial Credit Bank (1944) and the Argentine Institute for Promoting Exchange, which channeled resources from the agricultural sector to industry, and the nationalization of the Central Bank (1946). The government set up a sectoral transfer channel consistent with the makeup of its political support. In addition, the main public services were nationalized and the foreign debt was paid.

This economic plan entered into a crisis in 1949, when trade terms began to be unfavorable to foreign trade and Argentina’s exports declined noticeably. Still more important, available foreign exchange dropped after the war (owing in part to the problems stemming from the pound’s inconvertibility at a time when the major supplier was the United States). This made it difficult for industrialists to import capital goods and raw materials and brought into relief

the weak foundation of Perón's industrialization and the onset of the economic cycles typical of industrial development in peripheral countries.

The 1949-1952 crisis, aggravated by successive droughts, showed that the time had come for austerity, the backbone of the 1952 Economic Plan, whose objectives included curbing inflation and solving the balance of payments problem. A loan was obtained from Eximbank, foreign capital was sought after (including through oil concessions to U.S. enterprises), and emphasis was placed on labor productivity.

The industrialist, redistributive, and greater autonomy policy pursued by Peronism was made possible by a particular international scenario. The role of Europe, and of Great Britain in particular, was affected by nationalizations and the reduction of trade, while in Argentina the oligarchic groups that had been favored for decades as partners and intermediaries of different European powers weakened. In the context of a bipolar world and of the possible breaking out of a new world war, which did not materialize but gave occasion for several combat episodes (such as the Korea war), Argentina, assuming a "third position", tried to offset the United States's increasing weight by pushing Latin America onto the main stage, while attempting to preserve its ties to Europe and approaching the Socialist bloc and establishing diplomatic relations with it.

However, confrontation with the United States and nationalist assertion were left aside at times in favor of more "pragmatic" negotiation. This happened basically as of Perón's second time as President, when an approximation with the United States took place, although attempts were also made to revive ABC through agreements with Chile and Brazil (frustrated efforts in the latter's case), and the first trade agreement of a Latin American country with the Soviet Union was signed.

Be as it may, in September 1955, in the context of a growing contest with the Catholic Church and the opposition, which chastised him because of an omnipresent State, the increasing restriction of civil liberties, and his resort to other political forces, Perón saw himself ousted by a civilian-military coup d'état, despite the fact that he still enjoyed wide popular support. This ushered in a phase of political instability, which would eventually lead to the 1976 military dictatorship.

Instability was due in part to the economic pendulum movement that remained unsolved for the last 20 years. After Perón's fall, there followed,

between 1955 and 1976, alternating periods of industrial progress and stagnation, owing to “stabilization” policies that favored the agricultural exporting sectors, through stop-and-go cycles. At peak time, in view of increased industrial production linked to domestic consumption, imports were pushed up by higher demand fueled by higher real salary and income levels. But the trade balance deficit and the drop in foreign exchange led to a devaluation that in turn raised the price of exportable agricultural products and of imported inputs. All of this translated into an external sector crisis, inflation, and restrictive monetary policies. In addition, intersectoral tension manifested itself in successive coups d’état.

During the brief rule of the self-denominated “Liberation Revolution”, an attempt was made to “deperonize” Argentine society and the majority party up to that time was proscribed. In respect of the economy, liberalization measures were adopted to incorporate the country into the international market. The government joined the IMF and the international financial organizations, which had been rejected by Peronism, and State intervention in the national economy was significantly reduced. In brief, the “Liberation Revolution” meant a return to economic orthodoxy.

Between 1955 and 1966, foreign policy and participation in the international scene were intertwined with political to-and-fro and coups d’état. The 1955 coup brought Argentina closer to the lineaments of the foreign policy implemented by the United States toward the entire hemisphere during the Cold War.

However, beginning in 1958, the Frondizi government, supported in the elections by the proscribed Peronist movement, redirected foreign policy in accordance with its developmentist project. A new economic policy was adopted, aimed at giving impetus to “basic industries” (energy, steel, chemicals, paper, machinery and equipment, automobiles), which required self-sufficiency in oil and the application of technology to agriculture. To achieve these objectives, the government decided to resort to foreign capital and to this end enacted the Foreign Capital and the Industrial Promotion Laws, and celebrated polemical oil contracts with U.S. companies. The developmentist project, inspired on the ideas of Rogelio Frigerio, did in fact agree with the major transnational corporations’ expansion and investment plans in Latin America. This made possible a marked growth of the industrial sector, and by

1962 Argentina became self-sufficient in oil. But the political cost for Frondizi was very high (he lost the backing of the Peronist unions with his stabilization policies, alienated the support of political sectors, and had to confront the military). He ended up by being ousted, even though he had accepted the Peronists' participation in partial elections.

His foreign policy, grounded on the concept of “the inevitability of peaceful coexistence,” was the object of much controversy. He improved relations with the United States but also sought to diversify international relations, particularly with Western Europe and the Soviet Union. He furthered approximation with Brazil, by celebrating the Uruguiana Treaty with President Quadros, criticized the Alliance for Progress, and maintained an “understanding” attitude toward Cuba, refusing to go along with the United States's effort to expel that country from the OAS, and receiving a secret visit by Che Guevara in Buenos Aires, a fact that was rapidly disseminated, causing a great stir among the military.

This ambivalent policy, which had to face various military conspirations, eventually led to the government's fall through another coup d'état. There followed the short-lived government of Guido, a politician that served as a front for the coup perpetrators and whose team of liberal economists unsuccessfully attempted a return to orthodox economic measures amidst a severe crisis in the external sector, while the foreign policy once again accepted the United States's leadership.

Guido was succeeded by the radical Arturo Illia, elected owing to Peronism's proscription, who adopted a moderate nationalist policy whose objective was to get rid of foreign capital (he cancelled the oil contracts celebrated by Frondizi), to foster the domestic market (salaries were raised, imports were taxed, and public service tariffs were lowered), and to redistribute income.

Illia benefited from favorable economic conditions – strong exports and a positive trade balance – which allowed the government to reduce the foreign debt and to instill dynamism into the economy. Illia also attempted to diversify the country's participation in the world economy and to open new markets, including the Chinese market. This, however, was of no avail, as the radical government was politically weak and ended up by being overthrown by a military coup in 1966, led by general Onganía and self-denominated “Argentine Revolution”.

Keeping up with some of the Alliance for Progress rhetoric, the U.S. State Department did not immediately back the new dictatorship, although pro-Americans predominated in the coup forces. From a political point of view, the military undertook to discipline Argentine society, adhering to the National Security Doctrine promoted by the United States throughout Latin America, whose main objective was “fighting the ideological enemy inside.”

As regards the economy, there was strong tension in the government between two factions: one that was more corporative and developmentist and one that was liberal, the latter eventually gaining the upper hand with the nomination of Adalberto Krieger Vasena as Minister of the Economy in December 1966. Krieger Vasena had connections with the banking system and the multinational companies and carried forward industrial modernization with new foreign investments. Without overcoming some of its main problems, the Argentine economy grew and the industrial sector began to export its products. But political instability, instigated this time by the radicalization of the popular sectors and by workers’ and students’ uprisings, such as the one known as “cordobazo,” led to the President’s resignation in 1970 and his replacement by general Lanusse, who lasted until the end of the military regime in 1973, when Peronism returned to power. However, in the last years of the military regime, foreign policy experienced a turnabout, as it abandoned the idea of “ideological boundaries” that had characterized Onganía’s administration, established relations with the People’s Republic of China and with Cuba, and signed a trade agreement with the Soviet Union. Factors that fueled these changes included the interests of agricultural exporters, which faced restriction on world markets.

During the third Peronist administration, between May 1973 and March 1976, with the brief and more radical Cámpora government and soon after with Perón’s return to power, new attempts were made to implement an economic policy geared to full employment and income redistribution under the so-called Social Pact, conducted by Minister of the Economy José Ber Gelbard. But after some initial success, a critical situation arose: to an extremely negative external context – the oil crisis, the decline in the terms of trade, European protectionism – was added a serious internal political conflict that was characterized by the activity of a guerilla movement of the left and paramilitary forces of the right backed by José López Rega, another minister, with a stream of armed actions, kidnappings, and assassinations, and

noncompliance with the terms of the agreement with entrepreneurs and the unions. All this led to the collapse of the Social Pact, to which Perón's death in July 1974 contributed. A year later, under Isabel Perón's weak government, the economic portfolio was assumed by Celestino Rodrigo, who drastically devalued the dollar, causing a hyperinflationary shock known as "Rodrigazo". But the unions' resistance caused the minister's fall and salaries recovered part of their value. The following months saw a further debilitation of the government and an "announced" coup was hatched.

As regards foreign policy, early in this Peronist period, particularly under Cámpora and Perón, despite internal disputes, attempts were made to diversify economic and diplomatic relations, particularly with the Eastern bloc. Major sales were made to Cuba, which gave rise to significant credit, and efforts were made to help it in face of the U.S. blockade. Relations were also intensified with the Soviet Union, to which a major mission was sent, headed by Gelbard. After the death of the popular leader, though, these policies were abandoned during his widow Isabel's government. With the rising influence of López Rega and the Peronist right, dissention inside the party in power became more intense.

From an economic standpoint and a long-term perspective, the balance of this industrialization period of more than 40 years was nevertheless quite positive. Between 1949 and 1974, Argentina's GDP rose by 127 percent, the industrial GDP rose by 232 per cent, while per capita GDP rose by 42 per cent. In addition, the level of foreign indebtedness was low, unemployment did not exceed 6 per cent on the average, and the share of wage earners in National Income was close to 40 per cent. With interruptions, foreign policy maintained, to a greater or lesser degree, relatively autonomous positions, except during the periods of the "Liberation Revolution", Guido, and Onganía.

#### **IV. The external indebtedness phase and the zenith of the rentier-financial activity. Military dictatorship and return to democracy. "Peripheral realism". The 2001-2002 economic and political crisis**

The March 1976 military coup caused a substantial change in Argentina's economic structure. The import substitution process was concluded and a

new model was introduced, based on rentier-financial accumulation and on a “reprimarization” of the economy. The main instance of application of this model, which affected and still affects the Latin American countries’ development, was external indebtedness, which was facilitated by the extensive availability of international liquidity and the transnational character assumed by banking institutions. The worldwide economic crisis that broke out in the seventies, first with the fall of the dollar, which was unpegged from the gold standard, and then with the rise in oil prices, led to the existence of central countries with huge masses of available exchange in the pursuit of higher returns were willing to place these resources elsewhere at low interest rates, for speculative purposes. The indebtedness thus incurred helped the military dictatorships of the continent’s South, such as those of Pinochet and Videla, to finance the first experiments of neoliberal economic policies in the world. Thus, in 1980 Latin America’s foreign debt exceeded 200 billion dollars, with Argentina ranking third as the most heavily indebted country after Brazil and Mexico.

The military government’s policies between 1976 and 1983 resulted in a series of drastic changes in Argentine society. The scheme had sociopolitical and economic determinants. On the one hand, there was the intention of moving the “political pendulum” in favor of the agrarian elites and large local economic groups and of the intermediaries of external capital, thereby clipping the national industry and the domestic market, the locus of the strength of the labor movement and of the entrepreneurial advocates of economic nationalism, and the main support of the “populist alliances” that had helped – according to the new scheme’s ideological mentors – the radicalization of vast segments of the population. On the other hand, Minister Martínez de Hoz sought to readapt the economy to the mold of a kind of international labor division, which he presented as a return to the sources: Argentina “open to the world” as in the agricultural exporting era of the 1880 generation.

The liberalization of financial flows and interest rates affected the returns of different segments of the economy, harming productive activities and fueling speculation. It also favored the flight of capital: between 1976 and 1983, 28 billion dollars left the country. In sum, the military government was responsible for a profound change in the financial system’s operating rules, the unrestricted opening to the international market and an accelerated de-industrialization process. External indebtedness was due to various reasons:

financial speculation, self-loan, military spending, and corruption. Indebtedness was largely private and benefited at the end of the military regime from foreign exchange insurance, which made it into public debt. With the return of democracy, a claim was brought to court, denouncing the illegitimacy of a large share of the debt in that period, and a federal judge decided in favor of the claimants, although the defendants could not be prosecuted.

As regards international relations, under the military government a new type of triangular relations took place: with the United States in the financial and technological area and with the Soviet Union in the trade area. In the latter case, relations came into relief after the Soviet invasion of Afghanistan and the Videla government's refusal to join the grain embargo called for by Washington against the USSR, which, as Argentina's major client, accounted for 30 percent of total exports. This led some to label the dictatorship's foreign policy as "heterodox" in respect of other Latin American military regimes, such as Chile's. In reality, though, the apparent contradiction of a government that called itself "Western and Christian" and at the same time intensified its relations with the main "enemy" power, is explained by the duality of the predominant economic interests, financially and ideologically linked to the United States but influenced by the agricultural exporting sector, which needed to expand its markets in the East in view of the protectionism of the United States and the European Community. The trade links to Moscow were extended to political and strategic issues as well.

With respect to the Malvinas war, it did not prove only an example of the military's incompetence from a professional point of view. With it, they intended to make use of a just assertion of Argentine rights over the islands, a remora of imperial colonialism, for the purpose of winning popularity in the face of the regime's certain collapse. But, although the British were militarily underestimated, the United States position was not understood nor the expected support of the Soviets was obtained. Only the Latin American countries showed solidarity for the Argentine cause.

The Malvinas defeat signaled the beginning of the dictatorship's end, which culminated in the return to a constitutional regime by way of Presidential elections won by Raúl Alfonsín, the Radical Civic Union's candidate.

Yet, the inherited "legacy" limited the action of the new government, which knew not how to respond to the challenge of confirming democracy



and overcoming the economic crisis. In the political area, after bringing the top military brass to court, which condemned them, the government had to face armed uprisings and easily gave in to military pressure and enacted amnesty laws, since revoked. In the economic area, despite some of its initial efforts to steer a different course, the government was unable to solve the problems stemming from external indebtedness, economic stagnation, and inflation. A new currency was issued – the austral – which failed in the attempt to instill greater confidence in the economic agents and instead triggered an acute hyperinflationary process that overthrew the government. Alfonsín left the government in 1989 with a foreign debt of over 60 billion dollars and the economy in a critical state.

Some of the main lineaments of foreign policy, still in the context of the world's bipolarity, were the pursuit of support for the new democratic regime from the European governments, particularly from those of a social democratic orientation; continuation of the Argentine-Soviet trade and diplomatic relations; and an approximation to the Latin American countries. Efforts were also undertaken to establish a so-called “mature relationship” with the United States, whose Administration seemed to favor the return of the hemisphere countries to democratic systems of government.

This “heterodox” strategy (in terms of an already traditional line with leading Argentine classes), which initially found expression in attempts at a political negotiation of the foreign debt with the Western banking system, particularly the United States's, soon reached its own limits: support from European governments was not enough to preclude the pressure of external creditors and the international financial organizations.

Meanwhile, the international scenario was changing at the same time political changes were taking place in Argentina. In the early nineties, with the euphoria over the fall of the Berlin Wall and of the Soviet bloc, the financial globalization process fueled by new technologies, and the expansion of speculative markets, a further superabundance of capital occurred in the North. This, in turn, coincided with the liberalizing policies advanced by the Washington Consensus and with Carlos Menem's rise to power in Argentina. There occurred then a confluence of the political leader of a popular party such as Peronism, historically based on a concern for social justice, and sectors of the neoliberal right. These sectors never formed a party or constituted

a political force capable of asserting themselves through elections without resorting to fraudulent maneuvers. Again and again they made use of the military or exerted pressure on civilian governments to achieve their ends. Now, though, with their ideas and interests they won over the *justicialist* leadership of the nineties, giving rise to the so-called *menemism*.

The government of Menem, who had come to power with a populist discourse – promising huge salary increases, the “*salario*”, and “productive revolution” – soon showed that its economic policy would be aligned with the tenets of the Washington Consensus and follow the advice of the IMF and other international financial organizations.

The key to the new economic program implemented under the pretext of getting rid of inflation for good, consisted of a system that combined the peso’s free convertibility with an overvalued exchange rate (one dollar = one peso), which functioned as the gold standard of the 19<sup>th</sup> century. Under such a system, with the unrestricted opening of the markets, the only way of controlling the external and the fiscal deficits was through a continuous capital flow or, failing that, the application of recessive adjustment policies to bring down labor costs and ensure competitiveness. The economy grew only through external public and private indebtedness, the counterpart of which was the interest payments and debt amortizations, as well as capital flight. To this was added the sale of public enterprises, allegedly in the red, to foreign and domestic capital, but this failed to alleviate the economic situation, aggravated by a persistent trade deficit. At the end of Menem’s term in office, the foreign debt exceeded 140 billion dollars, while capital flight amounted to 120 billion dollars.

Social consequences were no less severe: unemployment reached 29 percent of the active population and 50 percent of the population fell below the poverty line. Already affected by the 1995 Mexican crisis, in 1998 the Argentine economy began to give signs of an inevitable crisis, which broke out three years later.

Menem’s foreign policy, inspired in the “peripheral realism” theory, turned around “automatic” alignment with Washington. This alignment materialized in the sending of ships to the Gulf War, the dismantling of the *Cóndor II* missile and of airspace and defense industrial projects, Argentina’s withdrawal from the group of nonaligned countries, the vote against Cuba in the UN

Commission on Human Rights, and Argentina's inclusion as an "extra-NATO" ally. All this made the Argentine government into an example to be followed by other developing countries in the post-Cold War era. For the United States this was important, as Argentina was a nation that had systematically hampered its Latin American policy since the late 19<sup>th</sup> century.

What did the "peripheral realism" doctrine propose? It started from the assumption that close links to the hegemonic power would lead to the economic development and the political stability of a peripheral country, that "globalization" would tend to erase the differences between the most and the less developed countries and to blur national boundaries and spaces, and that alignment would "maximize" the benefits from no-confrontation and from distance in the diplomatic terrain, thereby implying Argentina's economic and strategic irrelevance within the concert of nations.

The political alternative that presented itself with the radical Alliance and Frepaso [Front for a Country in Solidarity – a center-left alliance] failed by not proceeding to a revision of the "model" and by shunning a thorough questioning of a convertibility regime that, though harmful to the productive sector owing to the overvaluation of the local currency, had the support of the privatized enterprises, the foreign banks, and the transnational corporations, which were thus able to remit abroad fat profits in dollars. The IMF attempted to maintain the system through a financial shield (which created further indebtedness and facilitated capital flight), and recommended new adjustments, but the crisis proved impossible to prevent: the reserves' level was insufficient to stop the run on deposits in dollars and forced bancarization through the so-called "corralito", which froze savers' holdings in foreign exchange, although the large companies protected themselves ahead of time by withdrawing their capitals from the country. To the economic crisis was added the social and political crisis in December 2001: the unemployed acted together, organizing themselves into the "piqueteros" [picketers] movements; desperate segments of the population ransacked supermarkets; protests were staged by the middle sectors affected by the bank "corralito" that deprived them of their savings; general discontent placed the political parties and institutions under suspicion of corruption (as expressed by the war cry of "Out with the whole bunch!"); and the government displayed its incapacity to address the situation. These events eventually led to De la Rúa's resignation.

The economic results of this phase that started with the military dictatorship are eloquent. In twenty five years (1974-1999), Argentina's GDP grew 55 percent, while industrial GDP grew only 10 percent and per capita GDP remained stagnated. In addition, the foreign debt jumped from eight billion dollars in 1975 to 170 billion dollars in 2002, while the gap between the population's 10 percent with higher income and the 10 percent with lower income grew 40 times. If one adds that between 2000 and 2002, at the height of the crisis, GDP fell another 16 percent, it is possible to have an idea, shown further by the above-mentioned social indicators, of the negative legacy of that period.

## V. Argentina and regional integration

The most significant progress in foreign policy since the early eighties has been the approximation with Brazil, which allowed the establishment of Mercosur's foundations. The launching and consolidation of this integration process coincided with the return to democracy when the international scenario became favorable to this initiative. The two world superpowers were distancing themselves from Latin America, which allowed the region a greater degree of autonomy. This was well understood by the leadership of Argentina and Brazil, which brought strong political will to the process. Thus, in November 1985, President Sarney met with President Alfonsín at the inauguration of the Tancredo Neves international bridge spanning the Iguazu River. On that occasion, the decision was made to set up a high-level joint commission to study cooperation and integration between the two nations. The outcome was the signing, in July 1986, of an Argentine-Brazilian Integration Act, aimed at joining the two territories into a common economic space. Removal of trade barriers and harmonization of policies would be the object of specific agreements. Under the agreement, the Economic Integration and Cooperation Program (PICE) consisted of twelve protocols related to different economic sectors, including those of capital goods, energy, wheat, biotechnology, financial affairs, trade expansion, and binational enterprises.

The next step, in April 1988, was the approval of a new PICE phase, with the incorporation of two important sectoral protocols: on automotive and food industries. In November of the same year, an Argentina-Brazil Integration, Cooperation, and Development Treaty was signed, calling for the elimination of trade barriers, the harmonization of different pieces of

legislation, customs and trade measures, and coordination of macroeconomic policies. The integration process thus began to become a reality.

The agreements were countersigned on July 6, 1990 by Presidents Menem and Collor de Mello in the Buenos Aires Act. The intention was expressed to shorten PICE's ten-year deadline for the establishment of a common space to four years. In addition to the dismantling of trade barriers and more than compliance with the sectoral protocols that stressed inter-industrial integration, the main objective became the integration process. This process of agreements and negotiations – now including Paraguay and Uruguay – culminated on March 26, 1991, when the Presidents of Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción, which set January 1, 1995 as the date for the final establishment of Mercosur, and agreed on a set of measures for the transition period. The instruments used to establish the common market were essentially the following: a trade liberalization program, the idea of macroeconomic policies coordination, a common external tariff, and the adoption of sectoral agreements.

Nevertheless, the new strategy turned out to be drastically different from the one envisaged in the eighties and the scheme of the nineties was based mainly on linear and automatic liberalization of trade. The market thus assumed the conduction of the process and political decisions practically vanished from bilateral negotiations. Argentina's loss of weight in the Brazilian strategy also became perceptible. In this context, relations with Brazil were supported only by geographical proximity and private interests – particularly of a handful of multinational corporations – connected with the expansion of bilateral trade. Political initiative became diluted and reduced to the formal, rhetoric reiteration of the integration objective.

The main lineaments of the “open regionalism” concept that guided the model of the nineties pointed particularly to integration's offensive character; the objective was not to protect an economy in frank process of diversification, but rather to use the regional market to potentiate comparative advantages, converting it into a platform for incorporation into the world economy. This is why Mercosur privileged the reduction of internal barriers over the establishment of restrictions to extrazone imports. Furthermore, this dismantling of tariffs complemented a unilateral tariff reduction vis-à-vis the rest of the world.

This notwithstanding, as a result of the process's own dynamics, between 1985 and 1997 interregional trade's annual growth rate ranged from 15 percent to 27 percent, fivefold the extrazone trade growth rate. As a result, each member's share of foreign trade with other Mercosur nations grew on the average from 5 percent to 20 percent. This was complemented by various private projects, including associations, joint ventures, and intraregional direct investment linking the different countries' productive sectors. Changed behavior on the part of governments was also a significant factor, which led to more frequent consultations and to ongoing coordination at all levels of the respective national administrations.

The progress achieved elicited the interest of potential new partners and Bolivia and Chile joined Mercosur as associate members. Finally, at its seventh meeting, the Common Market Council signed the Ouro Preto Protocol, under which Mercosur would proceed with the customs union as of January 1, 1995, when the common external tariff (AEC) was unified for 85 percent of customs duties, at an average ranging from 14 percent to 20 percent. As to the other 15 percent of customs duties, each country set different tariffs, which range from 0 to 35 percent.

Several, though, were the obstacles that hindered the consolidation of this common market: Brazil's and Argentina's external vulnerability (both nations are heavily indebted and constantly affected by volatile, speculative capital); lack of common macroeconomic policies; trade disputes (about different items, such as automotives, textiles, rice, etc.); and failure to emphasize the institutionalization of the integration process or productive sectoral agreements, rather than "commercialism" and "open regionalism". Salient events along Mercosur's tortuous path include the devaluation of the Brazilian currency in January 1999 – which affected the terms of trade between the two economies in view of the convertibility still in force in Argentina; the "re-launching" of Mercosur in 2000, as an attempt to offset the brake applied to the integration process by the Brazilian currency's devaluation and the Argentine recession; the crisis that convulsed Argentina in December 2001; and the election of Lula, Kirchner, and other governments with a political and ideological profile different from that of their predecessors, who had brought about significant changes in the regional scenario. This reflected in Venezuela's application for membership in Mercosur, Bolivia's increasing participation in common

activities, and the ever closer proximity of Chile, Ecuador, and other South American countries, which amplifies the possibilities for the integration process and potentiate the region's development and its negotiating power vis-à-vis other blocs and foreign powers.

## VI. After the crisis. Kirchner's government

The 2001 crisis led many Argentines to wonder whether it would be possible to gather objective and subjective conditions in respect of economic and social structures and of political leadership for making the requisite changes to achieve the country's economic and political recovery.

On the economic plane, the outstanding events were the fall into default and a drastic devaluation of the peso, and on the political plane, a spell of successive, short-lived governments that culminated in Eduardo Duhalde's interim mandate. Finally, new elections were called and in May 2003 Nestor Kirchner was elected, after having obtained only 22 percent of the votes at the first balloting (there were no runoff elections because Menem withdrew as candidate). The new government immediately adopted some important initiatives in the political and juridical domain, including in the area of human rights. Acting on this momentum, a renewed Supreme Court of Justice revoked the "pardon laws" that had benefited the military and the pardon Menem had granted the last dictatorship's top brass. From the outset, a more autonomous stand was adopted in international relations, including the rejection of the Free Trade Area of the Americas project proposed by the United States and the recognition of Mercosur as a strategic project for Argentina's foreign policy.

It remained to be seen whether it would be possible to overcome the crisis and return to a productive scheme and to a path of sustained growth. The answer was positive. From 2003 to 2007 GDP experienced remarkable growth, of nearly 9 percent a year, fueled by the boom in the industrial and exports sector, while unemployment dropped noticeably, as did poverty levels. The country got out of default, with the change of the debt, accepted by over 70 percent of debtors, and outstanding commitments toward the IMF were settled in full (about 10 billion dollars), although the remaining indebtedness, on longer terms and at lower interest, is still considerable: 125 billion dollars.

Moreover, favorable foreign trade balances, owing to the higher prices of exportable goods, such as soybeans; improved competitiveness owing to the devaluation of the peso; and greater international demand, which entailed a remarkable increase in international reserves. The adoption of withholdings also helped contain domestic prices of essential products and increase tax revenues, already improved by the economy's reactivation. For now, the fiscal surplus stemming from all these circumstances ensures payment of the debt.

A new industrialization process has begun, based on the domestic market and helped by available productive capacity, although the internal debt's major issue is still pending: a drastic reduction of poverty and, above all, better income distribution. To this end, salaries and pensions have been raised, the social security system has been improved, with emphasis on State participation, and coordination between entrepreneurs and unions has been sought. Although the large fiscal surplus should be essentially maintained for anti-cyclical purposes, it should be also put to greater use for public works, job creation, and the strengthening of small and medium enterprises. Rather than excess of demand, the problem is the existence of oligopolistic factors, which is nevertheless dangerous for a population used to getting by in contexts of this kind.

In foreign policy, Argentina has adopted a different direction from the one prevailing in the nineties. The axis around which it turns is the recognition of the equality of nations and a new focus on Latin America, which assigns priority to Mercosur's deepening, expansion, and institutionalization and to advancing toward South American integration. In this connection, it is essential that Brazil and Argentina work together at the more sensitive strategic negotiations and coordinate their macroeconomic and international policies, as the two countries are this integration's main nucleus.

Relations with the United States have turned around the debt negotiations, but Iraq's invasion has been criticized, and international institutions have been recognized as the necessary sphere for the resolution of any sort of conflict. Despite bondholders' pressure, good relations have been maintained with European Union countries, although Argentine rights over the Malvinas Islands have been reiterated. Economic and political ties to Asian countries, such as China and South Korea, have been intensified, and an active international agenda has been filled, including participation in numerous hemispheric and world Presidential summits. With respect of WTO rounds of trade



negotiations, Argentina has acted in tune with Brazil and other developing countries, criticizing the double standard practiced by the great powers, which want unrestricted opening for their capital and services and maintain a strict protectionism of their agricultural products and some industrial goods.

Argentina has also contributed to the establishment of the Community of South American Nations, which has great symbolic value: for the first time since the 19<sup>th</sup> century the ideas of Bolívar and San Martí come to the fore again. Nevertheless, conflicts have arisen because each country of the region formulates national policies – on economic development, wider income distribution, better use of own resources, etc. – which often come into contradiction with regional integration projects, as has been the case of fuel between Brazil and Bolivia and of the pulp plants between Argentina and Uruguay. These conflicting national development projects should be jointly resolved through common institutions, in an effort to redress existing imbalances and asymmetries.

The main conclusion to be drawn from this article is that only an understanding of the full extent and complexity (economic, political, social and ideological) of the different phases of Argentina's history and its position on the world scene makes it possible to take stock of past hits and misses and to lay the foundation for a model of growth with equality, capable of putting the country definitively on the path of material and cultural progress – all of this within the framework of full harmony and common action with the region's sister countries.

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# The transformation of the Bolivian State

*Luis Tapia\**

## 1. Introduction

**B**olivia is undergoing political changes that entail a partial transformation of the State. These changes have been fueled by a series of successive crises of increasing intensity, particularly since 2000, which have significantly reshaped the support for different party alternatives. These, in turn, have entailed significant changes in the social blocs that hold different positions. I see this as the cause of the State's relative autonomy situation.

I shall start by holding the various political changes responsible for this relative autonomy of the state. Before briefly reviewing some factors leading to this relative autonomy in Bolivian history, we should first describe an opposite condition that might arise, on the basis of an idea put forth by René Zabaleta.

The problem of the state's current operational capacity is the fact that members of the dominant class, i.e., the main land and mining entrepreneurs, manufacturers, or financial capital are themselves discharging the main tasks

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and occupying the leading positions in the government and in the State. As they are deputies, senators, ministers, and presidents, it becomes clear that the content of government policies and legislation procedures favor directly and often explicitly the interests of the capital sectors from which they come.

I shall briefly describe two examples of situations affecting the State's operational capacity in the country's political history, so as to have a basis for comparison and for pointing out some forms of relative autonomy, for the purpose of establishing the difference of having a government led by the Movement for Socialism-MAS.

First, the State's typical operational capacity, associated by nationalist critics with a super-mining State that during the first half of the twentieth century, with brief interruptions, corresponded to the country's three great mining entrepreneurs, which were connected to the transnational capital networks. One of the characteristics of this operational picture was the transition from a period when the major entrepreneurs were also presidents in the late nineteenth and the early twentieth century to a time when legislative politics and politics in general were marked by economic constraints and politicians issuing from the three major mining capital nuclei. At this time, though, those entrepreneurs no longer ran for president of the country. They were replaced by what political criticism of the time called the *rosca*, a group of functionaries who, although not members of the dominant class, worked within the government to serve directly the oligarchy's interests. This operational condition of the state helped define the dichotomy between nation and anti-nation or between nation and colony, as conceived by the nationalist thinkers of the mid-twentieth century. The national revolution, whose milestone was the state's institutional breakdown in 1952, was planned precisely against this operational predicament of the state owing to the dominance of the country's mining sector.

The 1952 revolution was the first great moment of the state's relative autonomy. Then, nationalist parties formed by members of the middle class, workers, and laborers intended to develop a state capitalism by replacing the mining monopoly with a state enterprise for exploiting the country's natural resources and thus extend capitalism through the entire country. They planned to develop capitalism under the direction not of entrepreneurs but of political leaders and workers. Some of them envisaged industrialization and aspired to

be the left wing, promoting the transition to socialism. Be as it may, their goal was to make Bolivia into a capitalist state and ultimately to create a national bourgeoisie.

The second operational crisis of the Bolivian state in the twentieth century occurred precisely when this bourgeoisie planned by the leaders, former 1952 revolutionaries, had matured under U.S. influence and consistently with the party's internal concepts. The Revolutionary Nationalist Movement-MNR promoted public investment in the eastern Santa Cruz province where the new Bolivian bourgeoisie thrived. This bourgeoisie carried political weight in the seventies, but as a class-minded sector it had not yet have achieved political maturity and needed the army to impose its interests on the state, and this in turn required a dictatorial regime.

The eighties witnessed the maturing of the new as well as of the old bourgeoisie that had rallied again in other parts of the country, intent on developing their capacity to form their own parties and once again gain political power and assume the direction of the state, particularly as the left was unable to counter the deterioration accumulated for so long.

For twenty years, beginning in the eighties and after the mid-eighties in particular, the salient fact was that the major entrepreneurs took over the historical parties, especially the MNR, while others founded their own parties, thereby putting the state in a new operational predicament. Segments of the bourgeoisie assumed the chief positions in the government and in the state, from the presidency to the senate to the chamber of deputies to cabinet posts. Thus, they assumed a key, monopolist, and defining control of the reforms to be promoted. This new operational condition of the state fully coincided with neoliberalism's introduction into the country. Some parties, such as the Revolutionary Left Party-MIR in particular, with no roots in entrepreneurial nuclei, ended up by identifying with them and appropriating themselves of public goods, soon becoming latifundia owners and proprietors. They thus became part of the dominant class, riding on their position in the party political bureaucracy or connected to the new phase that began with neoliberalism's implementation.

The state's transformation in the two last decades entailed a change in the relations between the state and the economy and closely attuned civil society to the government, which permitted the dogmatic application of the neoliberal

model, precisely in a period when the State was used as an instrument, i.e., when a segment of civil society that was dominant on the basis of property held a monopolist control of the state, a monopoly shared with other factions of the same dominant class. Another fact of the neoliberal period was that during it all governments were based on a coalition of factions of the dominant class and entrepreneurial parties, a distinctive feature of that time. It was a scenario whose salient feature was party intermediation, with the Legislative firmly controlled by the entrepreneurial parties.

From a historical perspective it can be noted that one of the objectives of the national revolution, namely, the breeding of a new bourgeoisie, was achieved and this led to the dismantling of another part of the state's key 1952 structures, particularly the state control of natural resources and the major transformation industries. These were the hub of productive activities and the source of surpluses for the Bolivian state. Of course, this was not a solely internal development, as it was linked to worldwide processes of capitalist and structural transformation. But the transformation that took place from the eighties through the beginning of this century was itself a result of the previous transformation of the state before 1952, when the nationalist state produced a new bourgeoisie that immediately proceeded to dismantle the nationalist state through governments supported by a coalition of many parties, but all belonging to the same class. This kind of economic monopoly that took over the political monopoly in the eighties and nineties produced an exclusive political, wealth-concentrating model, which disorganized the state's means of self-financing. This dismantling of the state apparatus triggered the various waves of rebellion and political mobilization against privatizations or in favor of the country's decolonization and the re-nationalization of natural resources.

## 2. The development of relative autonomy

The concept of relative state autonomy was formulated, advocated, and applied particularly by the Marxist theoreticians of the sixties and seventies, inspired on the writings of Marx and Engels. Poulantzas was perhaps the main advocate of this political concept. Before reviewing the moments of the State's relative autonomy in the country's history, we should first take a look at the

central element of this concept. The general idea of relative autonomy is that it occurs in situations that may be of medium or long duration in some cases or of short duration in others, when the state distances itself to a greater or less extent from the more immediate structural and economic determinants, as members of the dominant class occupy the main public positions in the direction of the state. In a condition of relative autonomy, the state ceases to react to the wide-ranging reproduction of the capitalist structures that conduct the production processes. The constrained manner the state apparatus responds to this economic structuring of a classist nature is what is called relative autonomy.

Some historic processes dislodge the members of the dominant class from the direction of the state, replace them with a political bureaucracy, and install as heads of state individuals from other social classes or who reach those positions by organizing themselves into parties that embody a more general kind of rationality in respect of capitalism's extensive reproduction than those political forces and individuals that represent one segment of capital.

The idea of relative autonomy does not presuppose that the state does not respond to the reproduction of capitalism's class structures but rather it does in a much more effective and rational manner, as it is being directed by a bureaucracy that does not seek the interests of the state or at least some of them, but only better conditions for further expansion of capitalism throughout the economy and in its interaction with other political and economic spaces.

Relative autonomy situations of different duration may occur in three main ways:

### **a) Bonapartism**

It was Marx that made an extensive analysis of one of the main ways a state's relative autonomy is developed, taking as reference the Louis Bonaparte period of French history in the mid-nineteenth century. At the core of the political theory that became known as Bonapartism is the emergence of a leader that presents himself as mediator between the society's two classist poles, or between the old dominant bloc and the working population in particular. One condition for the emergence of Bonapartism is the classes' underdevelopment or lack of capacity for self-representation or for organizing themselves socially and politically. They may thus entrust the management of the conflict and

the direction of the state to a leader who usually promises to defend popular interests but work rather on behalf of the interests of the dominant class temporarily divested from the monopoly of the state's political power. It is this Marxist analysis that has provided a basis for the formulation of ideas about the state's relative autonomy according to the development conditions of both capitalism and the state's administration and direction.

### **b) Constitution of a rational political bureaucracy or general capitalism**

In the late nineteenth century Marx and Engels also wrote about a condition they tended to refer to as general capitalist, i.e., a democracy that would embody the rationality of an extensive reproduction of capitalism better than the individual members of the dominant class would. That is, the capitalist state developed in such a way as to produce a bureaucracy whose purpose was the extensive reproduction of capitalism and the replacement of members of the dominant class, who, owing to the constraints of their specific position in the economic structures reduce the degree of rationality of general capitalism's expansion. A general capitalist is not a particular member or a group of members of the dominant class or of the bourgeoisie, but a kind of bureaucracy that can be recruited among children and members of the dominant but they do not necessarily have title to property or are members of entrepreneurs' families. Historically, Germany, England, and France can be seen as countries where this type of relative autonomy of the state developed.

### **c) The presence of workers and socialist parties in government**

Another important way a state's relative autonomy develops, which many theoreticians fail to distinguish, is that often workers' political organizations involving labor unions that finance parties, run for elections and manage to have representatives in parliament, and eventually assume the direction of their states' Executive, so that some capitalist states are governed by workers' parties or by parties with strong ties to workers' organizations. This has been the course followed particularly by social democratic, labor, workers' or socialist parties under different names, which participated in the electoral contest and managed to govern a considerable part of Europe in the twentieth century. These are the places where a type of rationality in capitalism's extensive



reproduction has combined greater inclusion of workers, wealth redistribution and reduction of inequalities, and a high degree of human development, but without replacing capitalist social structures.

In my view, this is the best example of a state's relative autonomy, as it results from a long process of accumulation and has ensured long periods of stability, economic growth, and wealth distribution and consequently long periods of relative state autonomy. Or, inversely, these wealth redistribution processes maintained for periods sufficiently long to generate large structures for the production of public services and wealth redistribution were made possible by this relative autonomy of the state. This means that capitalism is not predominantly ruled by the bourgeoisie but by a coalition, particularly of workers and the middle class, or by social and political coalitions in which the predominant component is not the dominant class. In this case, state autonomy is not the result of the development of a rational bureaucracy but of a strong political recomposition that allows workers' party forces to govern capitalism. This would be the main case of relative autonomy, which has historically also had features of a prior situation, i.e., of socialist and workers' parties with developed formal bureaucratic rationality.

In light of the preceding, let us briefly review some of the modalities of relative autonomy and the situations that have generated it in Bolivia's recent history and then concentrate on the current situation.

Bolivia has experienced some episodes of Bonapartism, especially that of the Torres government in the early seventies. Torres was a military who staged a coup d'état and sought alliances with sectors of the Bolivian left and with workers, but these alliances did not lead to a cohesive government bloc. His was thus a nationalist left government that had to coexist for a while with the popular assembly, i.e., with a kind of parliament of labor unions and left parties that tended to prefigure a political project of various currents and was the embryo of a dual power. The significant fact in respect of this Bonapartism was the advance of re-nationalization of some mining enterprises that were beginning to fall again under private control during the previous military dictatorship. If we look back at previous periods and even at 1952, we can see that the Busch and the Villaruel governments may be described as Bonapartist regimes, characterized mainly by measures aimed at the nationalization of the oil sector, as was the case particularly of one of

those governments in the thirties. In the country's history, Bonapartism has been closely linked to the nationalization or recovery of the control of natural resources. It obviously emerged at moments of serious crises triggered by the disintegration of the dominant bloc or by the rise of workers' organizations that did not yet have the capacity to replace the state. Thus, their main political achievement other than leadership was the nationalization strategy. For some, the 1952 revolution also had a Bonapartist component, if not during the whole process, at least in some of its phases, in the sense that it was led by a party headed by the middle class, part of which consisted of functionaries of the old regime, which also consisted of workers of the mining and the manufacturing sectors and had, as the most important transformation of the state, the nationalization of the mining sector in particular. Thus, all historical experiences that attempted to endow the state with a degree of autonomy in relation to the dominant class, needed a financial base; in the country's history this has always implied the nationalization of the natural resources, from the nationalization of the oil sector beginning in the twentieth century through the current MAS government. In semi-colonial, peripheral countries, the state's relative autonomy has to do with the processes of nationalization of the natural resources and of productive transformation and industrialization, processes that have had little progress in the country's history.

It might be said the MNR government in the fifties had a Bonapartist trait, precisely because it was neither a party of entrepreneurs or of members of the dominant class nor a predominantly workers' party, although it had a broad working class base. It was a party organized and directed above all by the middle classes, whose project was the development of capitalism in the country. However, despite this intermediate position in the social structure, it resembled, without being totally identical with, the experience that resulted in situations of relative autonomy of a social democratic kind, in which the emergence of workers' political forces and party organizations leads to a change of actors and in the content of governments in capitalist states.

As a coalition of middle class segments and different categories of mine workers, the MNR was not then a mediating force but a political organization that expressed the rise of social forces that organized and reorganized themselves in civil society for decades, producing the most significant transformation of the state in the country's history.

In general, Bonapartisms do not lead to transformations in social structures but manage to partially change government policies without affecting the broader structures of the economy and the state. In the case of the 1952 revolution and of the MNR leadership of this process, a major transformation occurred in the state and in the property ownership structure. Thus, one would not think of it as a Bonapartist experience but as a kind of political and social revolution that transformed the state and, by doing so, created a sort of relative autonomy. This meant that the middle classes and the workers were responsible for organizing the expansion of capitalism and the country's development; this in turn, created a probably not very rational bureaucracy in the Weberian sense.

It might be said, in more general terms, that the process of construction of the nation-states in Latin America in the twentieth century, not necessarily in its first stages, occurred through the creation of conditions for the state's relative autonomy. This was the case in Mexico, Brazil, and Bolivia, and in all these cases there was at least the nationalization of natural resources. It can be also noticed that the more or less prolonged episodes of the state's relative autonomy resulting from the construction of these nation-states were interrupted by geopolitical strategies fueled in the region particularly by the United States. These interruptions were not due to internal class struggles but by the great weight wielded by the United States. That is, the rupture of these episodes of relative state autonomy was externally planned and coupled with the internal recomposition of the economic and political oligarchies.

In Bolivia we are now living in a situation of relative state autonomy that is the result of protracted processes of political accumulation produced by diversity, which in turn results from the mobilization, organization, and emergence of political subjects that I will briefly describe in terms of the reoccurrence of propitious conditions for the phenomenon. But first we should establish the following connection: the current relative state autonomy situation, whose main characteristic is the fact that a workers' party, particularly a peasants' party as MAS has arrived to power and is undertaking reforms based on this change. As regards the kind of relative state autonomy we are now experiencing, it is closer to the one in which the organization of workers, unions, and parties and the electoral contest allow them not only to have a strong representation in the Legislative but also to head the state and the

Executive. This resembles the European social democratic, labor or socialist experience, as well as the Brazilian experience, as workers organize themselves into the Workers Party and manage to win national elections. The difference in relation to the recent Brazilian and the older European experience, is that in Bolivia it is a case of a party of peasant origin, whose discourse and project has a national reach. The original social nucleus and identity that has generated a social and political force is peasant. Here lies the main difference as well as the major novelty in relation to previous processes. It is a case of relative autonomy resulting from the rise of a peasant party to the Executive of the Bolivian state.

Now, this is not a process of historical accumulation that can be explained entirely by MAS's electoral ascension; it's a much more complex process with various dimensions and that is the source of various tensions in respect of the relative autonomy related to the state reform after the electoral victory. The state's relative autonomy results from a state crisis or from the general rationality capacity in expanded reproduction processes. In Bolivia's case, it was the result of a state crisis. A brief description of some of the crisis's dimensions is in order, and I will focus on two: one is democratization and the other has to do with the emergence of social and community movements in the last decades.

### **Democratization**

Much has been said about democratization in Latin America in general and in Bolivia in particular in connection with the transition to democracy and the establishment of states under the rule of law, based on a party system for electing and renewing authorities. At a given moment, discussions turned to the consolidation of democracy, particularly as regards the system of parties, which has undergone significant changes, associated with the replacement of parties, the crisis undergone by historical forces, and the emergence of new forces. In Bolivia, an oligopoly prevailed for two decades, leading to governments headed by a coalition of entrepreneurs' parties that shared the same economic and political project, usually conceived outside the country and presented by various governments and international institutions. But I want to talk about another kind of democratization that puts into question this other kind of liberal democracy or liberal institutionalization

of politics. One could also, perhaps even more appropriately, designate as democratization other processes whereby different population segments exercise their political right to organize themselves, make decisions, and question the political monopoly of the parties' system or even be part of it at given development stages. But first it should be recalled that the so-called transition to democracy whose specific aim was to restore political rights and political freedoms for the organization was achieved through the mobilization of unions and different types of workers' groups under the Bolivian Central Workers' Union coordination. In a few years, politics concentrated again on the party system and particularly on entrepreneurs' parties, without taking into consideration all the forms of organization of political life outside the party system and the institutions of mediation between the state and civil society. On the one hand, there has been a recomposition of civil society as a result of the neoliberal reform of relations between state and the economy and between the state and civil society. The neoliberal project intended to undertake civil society's recomposition in such a manner as to do away with the central workers' and labor unions' central role in politics in civil society. The weakening and dismantling of this nucleus occurred in parallel with the increasing organization of peasant labor unions and of the original peoples in areas where they had been politically invisible, particularly in the Amazon, the Chaco, and in the country's eastern plains.

The eighties and nineties saw the emergence of different assemblies and centrals of indigenous peoples that have melded the entire spectrum of social diversity, from the Amazonian North to the Chaco South, into multiethnic organizations.

Bolivia's state crisis derives from the fact that democratization follows two courses or two channels in constant tension and contradiction. On the one hand, the institution of a party system and elections whose role was to represent civil society after the dismantling of its coordinating nuclei. The neoliberal project in the country implicitly set about to disorganize the mining workers' nucleus that had the capacity for coordinating public spaces under a popular national perspective. This happened in the eighties, and in the nineties it led, owing to clashes with increasingly weaker workers' organizations, to successive defeats, which resulted in an apparent stability and consolidation of the monopoly within the party system.

In an invisible or not very visible manner, people began to exercise their political right to having an organization and proceeded to restore association and deliberation nuclei, above all to discuss the destination of public goods, particularly of natural resources. As a matter of fact, it was the debate about privatization of water resources and the institutions that managed them that spurred the first major uprising and state crisis in the beginning of the twenty-first century. People exercised their right to organize themselves and to engage in politics, not through parties, although the constitution provides for this channel, in order to question the main decisions made by the state and by the party system, which supposedly embodied the institutionalization of democracy in the country. This means that there is a more substantive way to democratization that implies the development of the capacity for self-organization, self-representation, and for questioning the privatization policies that were leading to increasing inequality. In parallel, the political right to organization through large-scale projects of self-organization of the peoples in the lowlands allowed them in the eighties and nineties to achieve their own unification and multiethnic representation, which assumed eight major forms of indigenous peoples' assemblies or centrals, all of which belonged to the Confederation of Indigenous Peoples-Cidob at one point. In this case, democratization meant the devising of forms of unification and representation of these communities that had been invisible and heretofore excluded from political life.

On the other hand, although somewhat farther back in time and associated with Katarism (movement associated to Tupac Katari, indigenous leader), there occurred a more dynamic process of development of peasant unionism both in the highlands and in the lowlands, which gave origin to two parties: the MAS and the Indigenous Pachakuti Movement-MIP. There is a link between the development of peasant unions and the emergence of peasant parties; this is the axis of democratization or of the exercise of the right to self-organization to compete for the political power monopoly, that has spurred the main changes in the party system and thereby the more general composition of the government's leadership.

Another factor to be considered is the process pertaining to community forms as the organizing matrix of the major mobilizations in the country in recent decades. This occurs both in the Amazon and the Chaco lowlands and in the highlands; it is a process of restoration of the original authorities in

the chains of political unification of the Aymara and Quechua peoples. This community axis of political activation intertwines with the aforementioned two, both with the peasant unionism and principally with the creation of the indigenous peoples' assemblies and multiethnic centrals.

These forms of exercising political rights that do not go through the organization of political parties and electoral politics, led to the cycle of crisis of the Bolivian state and ultimately to a situation of relative autonomy, particularly because this accumulation of historical events has raised new subjects, who have replaced the neoliberal political bureaucracy and the members of the dominant bloc that had held the reins of the Legislative and of the Executive.

This democratization happened first outside the parties; the process of self-organization of communities, peoples, and cultures and of peasant unions and other workers' groups is the main condition conducive to the democratization made possible by the state's relative autonomy thus created. The fact that previously invisible people in politics now come to the fore with their own unified organizations, at both the regional and the national level, in multiethnic coordination with other indigenous communities' and peasant workers' organizations, forms part of the democratization processes. These involve the redistribution of power and the dismantling of its monopoly through the coordination of organization capabilities and the organizing of those that occupy subaltern positions in the country's economic and political structures. These processes of self-organization and of development of the capacity for self-representation are a substantial component of democratization. They pave the way for democratization at the state level, particularly as regards the executive and legislative power. As a matter of fact, the MAS was the party soon to become the mediator and catalyst of this political and historical legacy in respect of state institutions. MAS originated as part of the process of organization of the *cocaleros*; and its growth in terms of the elections was due to the take-off of other social and political movements. This leads us to speak of the interpenetration of political spaces and processes in connection with the historical production of mediation between this legacy and democratization that occurs outside the state and that would soon occur within the state itself. All of this has to do with the dynamics of the electoral processes and the change in the parties system. The issue can be summarized as follows:

The country's division into municipalities and the beginning of municipal elections expanded the space for citizen's manifestation or the institutional spaces for the exercise of political rights based on a liberal political culture. At first, these spaces continued to be dominated by the neoliberal coalition parties, which imposed their candidates, including outside candidates, on the municipalities, where they were elected mayors and councilmen. But this reform opened up a political space that was politicized, changing the conditions for the participation of political subjects. Subsequently, owing to the political development of the party system and civil society, civil society organizations, neighborhood associations, unions, guilds, and other kinds of associations negotiated with the parties the inclusion of their representatives on the parties' slates. This coincided with the parties need for candidates with some degree of representativeness, owing to their own alienation from civil society's political life, save in election time. This was a moment of political exchange dominated by the parties, as they were the ones that enjoyed a legal status in the state. One result of this political exchange is that representatives of the communities, unions, guilds, and neighborhood associations will become councilmen, then deputies, and successively underwent an apprenticeship process in the state's liberal institutions – during the neoliberal phase. This exchange occurred at a time when the neoliberal model and its policies and party system had not yet been put into question, owing to the lack of capacity for doing so.

Circumstances changed with the emergence of anti-privatization movements, especially the water war, and with their political projection, which in turn changed their historical weight and permitted civil society's political organization capacity to push farther the horizons of political exchange and action.

At first, there was a tendency to vote for candidates of the same class and the same community, thereby maintaining a continuity line. An exchange with MAS was established, i.e., the incorporation of those communities' candidates into MAS, no longer under clientele conditions but as a political composition, to form a social bloc underlying this recomposition of political subjects. The possibility of relative autonomy did not occur in this second phase, when civil society organizations negotiated the inclusion of their candidates in the parties, as their assumption of elective public positions did not reduce or replace the predominance of the dominant class in the direction of the state. They did not substantially change the instruments of state action. It was only after the



emergence of the anti-privatization and pro-nationalization movements that new interconnections among parties, peasant unions, and other civil society organizations were established, which allowed a coordination of forces that led to a replacement of leaders in the Executive and the Legislative.

In my view, it was the combination of social movements, peasant unions, the organization of indigenous peoples, and electoral parties that created the conditions conducive to the state's relative autonomy. This was preceded by a not very long period of apprenticeship, competition, and participation in liberal institutions, which paved the way for the arrival of these new peasant left forces at the country's Executive.

### 3. Characteristics of the state's relative autonomy

The first characteristic of the state's relative autonomy in Bolivia today has to do with the election of a President of peasant and community origin, whose political history includes his activity as leader of the coca producers' union for a long period, which extends to this day, with the composition of the new Cabinet, which includes several leaders of different workers' associations. The new Cabinet has a representative of the mine workers' cooperative, a domestic employees' leader, and a leader of the Alto de La Paz neighborhood associations. These leaders belong to the class of workers that had been discriminated against throughout the country's political history. They are now heading the Bolivian state, forming part of the Executive as representatives of workers' organizations and not of the dominant class, although there is one member of the entrepreneurial sector from Santa Cruz, who nevertheless is not part of the predominant nucleus. The Cabinet consists of militant professionals of the left from the middle classes, and this pattern is repeated in the lower echelons in the ministries, which include union leaders and professionals from the middle class as well as of Aymara and Quechua origin. This is one of the characteristics of the state's relative autonomy today, owing to a replacement of ruling subjects and to the strong participation of peasant workers and representative of other popular segments in the Presidency and in the Cabinet. This means that the bourgeoisie has been replaced as the dominant subject.

The other key component is the government's content, i.e., how far it is removed from reproducing the interests of the dominant class. This main factor that made possible the government's relative autonomy was the

nationalization of hydrocarbons. The purpose of the nationalization was to increase revenues to allow the state greater autonomy in making decisions about economic policy and public investment. This also meant autonomy in relation to external structural constraints and to interests imposed by the dominant class. It permitted the government to address interests other than those of the dominant class and to ensure a sufficient level of state revenues to satisfy the needs of other social groups. Higher revenues can be derived from higher taxation of the private sector's productivity or, as is the case now, through the recovery of greater control of the ownership of and income from the exploitation of natural resources, particularly of hydrocarbons.

The financing of the state's relative autonomy has been made possible by the nationalization of natural resources. But the recovery of greater control of the ownership of and the current income derived from nationalization may not be sufficient to maintain the relative autonomy of the state and thus the nationalization of other natural resources will be necessary, as well as increased royalties or the overall control of the exploitation of natural resources. This calls for a review of the connection between the state's relative autonomy and the degree of transnationalization of economic structures.

### **Degree of transnationalization of economic structures**

As relative autonomy requires that those that rule the state distance themselves from the interests of the dominant class, the peripheral countries that live in utter subordination to the world system must also distance themselves from the transnational dominant class or from transnational capitalist interests, as well as from the sway of other states that have penetrated deeply into them. The creation of conditions conducive to relative state autonomy in countries such as Bolivia depends on the degree of transnational control of the economic structures and on the influence of other states on the national territory. Thus, the main factor of this relative autonomy vis-à-vis transnational interests is nationalization, which is the main economic and political condition for distancing from transnational interests. As can be observed, this is being done through negotiations with such transnational interests.

There are some internal decisions about the degree of recovery of property ownership, income, and marketing involving negotiation and interaction with transnational interests aimed at defining new conditions of

interaction and relationship with transnational capital, and with state control over natural resources. This will also permit the state's autonomy vis-à-vis the internal dominant class, as this class has been to a large extent supported, organized, and directed by such transnational interests. What is at stake now is the critical political mass stemming from the various processes pointed out and MAS's capacity to carry out reforms and negotiations, while these transnational constraints are limiting the reforms.

Nationalization requires the reestablishment of what Zabaleta has called the primordial form, i.e., the form of relations between state and civil society, and particularly of relations between the state and the economy. This form also applies to the state's ownership of natural resources, which are the base of production, particularly as regards economic processes related to their exploitation. Throughout Bolivian history, these resources have been the backbone of the national economy. Nationalization implies also a restoring of the primordial form in respect of the country's relations with other states and transnational powers. What is most important is the change in the degree of control of the surpluses derived from the exploitation of natural resources, which allows more or less autonomous decision-making in the public domain.

#### 4. Agrarian reform and relative autonomy

Another contributing factor of relative autonomy is the reform of the land ownership regime.

Relative autonomy is essentially the product of the organization of political forces and the creation of a political critical mass predominantly in the agrarian sector. It was the political actors from the agrarian sector that triggered the crisis of the Bolivian state and spearheaded these political changes and made possible the state's relative autonomy. One of the traits of the state's instruments of action was the fact that a significant number of senators and deputies were latifundia owners, who represented entrepreneurial agrarian interests. One of the changes leading to relative autonomy was the dislodging of these latifundia owners from the Executive, although some of them are still senators and deputies. To ensure the state's relative autonomy in Bolivia, the removal of latifundia owners from positions in the Executive is

not enough; an agrarian reform is also necessary. This is possibly the central issue of conflict, discussion, and proposals for reforms in the constituent assembly processes.

Agrarian reform is possible in a situation of relative state autonomy or through revolution, as the crisis of the state and the state's relative autonomy have been caused principally by agrarian subject in their different forms of union, community, and party organizations. Agrarian reform is and will continue to be the central issue in this relative autonomy situation. It will probably be the key issue of conflict and debate, as well as of the proposal of reforms by the Constituent Assembly.

One of the main forms and extensions of the operational use of the state was the fact that the major eastern latifundia owners and cattle raisers in the Amazon and the Chaco were senators and deputies that represented their provinces in the Bolivian Parliament. When the country was reorganized into municipalities, they were also the candidates that ran for mayors and councilmen, or the candidates to these public positions were their employees. Under such property ownership conditions in these developing territories, relative autonomy requires an agrarian reform, or land redistribution. This is why the second element in MAS's program has to do with this issue, which is of key importance for social organizations that are supporting the process.

## 5. The Constituent Assembly as a facet of the state's relative autonomy

The Constituent Assembly may be seen as part of the state's relative autonomy; this depends on how it was arrived at and on its composition. This has to do with its institutional capacity to establish a constitutional order that does not attach priority to the interests of the dominant class. The correlation of electoral forces ensures that at the Constituent Assembly in Bolivia there is no predominance of the dominant class, as represented by the bourgeoisie from the financial, industrial, or latifundia sectors. Today, its majority represents the workers and other popular sectors that do not have an economic monopoly, although MAS has absorbed candidates from various affluent sectors in different regions of the country, including some of the main economic agents at the local level. There is no numerical predominance of members of

the dominant class or of representatives of their interests. An institutional restriction has been established under the convocation law approved by both the MAS and by members of the right. The latter have come closer to the MAS program, which has already reduced the participation of workers and the diversity of peoples and cultures, by limiting the number of individuals who should have the right to lead and to draft the new constitutional order.

These two things may permit the Constituent Assembly to arrive at a design that might not change the economic and political structures to the extent that they would affect the classist structure in the country but that might rather consolidate a relative autonomy that would retain the existing property regime, though somewhat modified. The structural conditions of reproduction of the dominant class would thus be maintained, and the relative autonomy would be institutionalized or expanded, so that capitalism and the interests of the current dominant class would be managed by peasant and workers' organizations, something that is already happening. This may be one result of the Constituent Assembly model established by the MAS and the opposition on the right as well as by the limits currently under discussion, which require that the dominant class must have two thirds of the votes to veto reforms the Constituent Assembly may call for under the country's new constitutional framework.

Lastly, I wish to call attention to two trends or political facts that seem to indicate that one short – and medium-term result of the Constituent Assembly may be the continuity of the relative autonomy that will in turn imply the continuity of the dominant class and the dominant capitalist structures, which will nevertheless be governed by workers' parties, and particularly by a party of peasant roots that may be already expanding as a result of its electoral growth.

The first thing has to do with the limits called for under the MAS proposal that was publicized during the Constituent Assembly campaign. In respect of the political and economic regimen there is no proposal for moving from one situation of relative autonomy in which the government replicates the dominant class and its social structures to a situation in which the classist structure is modified. One example of this would be the modification of the land ownership monopoly, its elimination, or its transformation into various forms of a more genuine community, collectivist, or associative nature; the same thing would apply to the other economic structures and processes in the country.

The emphasis falls on nationalization and thus on increased fiscal revenues and on the degree of control over the natural resources-based economy to ensure public investment and independence from transnational powers and from the internal dominant class. This may lead to a new political bureaucracy of peasant and popular origin to run capitalism in Bolivia and to the subordination of other social structures to the country's capitalism.

Another thing that reinforces this trend is the fact that one of the components of MAS's political strategy is the achievement of the party's hegemony within public institutions and the Executive and the Legislative, as well as within civil society. As this hegemony does not call for a monopolist control of the management of civil society institutions or of the Legislative, mediation, and representation spaces and of the Executive, it is not associated with a political project in the sense of the creation of classes and subaltern groups.

It is clear that the objective is to build the party's hegemony. The continuity of a new political bureaucracy through nationalization and a partial agrarian reform could consolidate this new situation of relative state autonomy and make it last, if things work out.

It happens, though, that some social and political movements want not only the state's relative autonomy, which is a transitional circumstance, but a complete overturn of things. MAS will proceed onward, moving among these founding forces that go beyond the state and civil society, and the structural constraints stemming from the interests of the internal dominant class and of the transnational powers that have penetrated the country and continue to enjoy legal status under the current nationalization model.

This summary's purpose was to describe the country's current political circumstances under a relative autonomy of the state. **DEP**

Translation: João Coelho

# The construction of the Brazilian industrial model

*Amado Luiz Cervo\**

**U**pon arriving in Brazil in 1808, Dom João adopted two economic measures that revealed him as a statesman endowed with prospective vision: he opened the ports to foreign trade, thereby putting an end to the colonial regime; and authorized and encouraged the establishment of factories, thereby taking the first step toward economic progress. The legal order created by those two measures defined the direction of two tendencies that would vie for the command of the economic process over the following two hundred years: free market, seen by a current of economic and political thinking as a priority strategy; and the country's industrial calling, also seen as a priority strategy by another current.

All along, these two tendencies have moved inwardly and outwardly: on the one hand, they involve political life and society's progress and in the course of history one tendency gains preponderance over the other; on the other hand, they involve the model of integration into the world economy, of which the nation's fate also depends.

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## Dom João: opening of the ports and establishment of industries

The Royal Decree of January 28, 1808 that opened the ports to friendly nations served not only the interests of Great Britain, which demanded the Brazilian market as a recompense for its support to the transfer of the Portuguese Court to Brazil. Both Dom João and his adviser José da Silva Lisboa, Viscount of Cairu, entertained the dream of building a modern, instead of just an agrarian Brazil, which should also be endowed with industry. Both saw their own liberalism as an instrument of progress useful to a balanced development of the two capitalist sectors then in expansion: industry and agriculture. Accordingly, they followed that Royal Decree with a decree of April 1, 1808 liberalizing the establishment of manufactures and encouraging their expansion, and with the Permit of April 28, 1809, which provided for specific incentives for the establishment of factories in the country. These measures displeased British Foreign Secretary George Canning and the British merchants and industrialists, who demanded exclusive rights over the Brazilian market for their manufactures instead of having to compete with Brazil's friendly nations, particularly with the United States.

England's pressure for the opening of the markets of the nations that were becoming independent was felt throughout the Americas in the early nineteenth century. The second United States independence war should be seen as a resistance movement against this English open doors policy, while the signing of free trade agreements by most Latin American countries at the time should be seen as subservience to England's diplomatic designs and the interests of its economy.

The incentives provided by Dom João's government yielded results in several parts of the Brazilian territory. Factories multiplied and gave origin to some industrial hubs, such as the one in Barbacena, Minas Gerais. But unable to resist British pressure, Dom João reluctantly signed a free trade agreement with England and granted it, in the form of a 15-percent ad valorem duty, preferential treatment to manufactures from that industrial nation, practically under an "exclusivity regime" unabashedly demanded by the British government.

The reining in of the expansion of Brazilian industry in 1810 hurt the initial impetus and halted the tendency toward realization of the country's vocational calling that was inherent to the strategic vision behind the 1808 ports



opening policy. The English policy of having the periphery's ports open to central capitalism would ensure its own predominance over the independence process in the 1820s, not without giving rise to political polemics about industrialization at Brazilian government institutions. The industrialist thinking born with the court's transfer would now and then vehemently react to being relegated to a secondary position in politics, the locus of representations and initiatives that shaped up the idea of a nation to be built.

## Independence: liberal treaties and de-industrialization

As is well-known, the 1810 English treaty was renewed in 1827, after being adapted to the advance of industrial capitalism. It inspired scores of treaties signed by Brazil with the capitalist powers between 1825 and 1828. Brazilian parliamentarians at that time referred to those treaties as “the treaties system;” recent historians call them “unequal treaties.”

Although it was not incumbent upon deputies and senators to deliberate about the treaties whereby Dom Pedro's diplomacy bartered the national market for the recognition of Independence, those treaties found repercussions in Parliament, inaugurated in 1826, and fueled intense controversy about industrialization.

The debate had been preceded by a work written by Nicolau Pereira de Campos Vergueiro in 1821 and published the following year in Lisbon, titled *História da fábrica de Ipanema* [History of the Ipanema factory].

The book told the story of the iron works located in São Paulo, which had been founded under Dom João's industrial policy, and pointed to its success as an example of the viability of the country's industrialization, in whose favor the author offers sound arguments: (a) Brazil has surplus of agricultural riches that should be channeled to industrial activities to ensure economic equilibrium; (b) industrialization should start with iron, the requisite underpinning for the establishment of other industries; (c) the initial impetus should come from the State through incentive measures, as “capitalists” are moved by the prospect of profits, inexistent at that stage, while the State is moved by national interest; and (d) the State's success as industrial inducer through political wisdom depends on rationality, which requires beginning with basic industry, followed by encouragement of other sectors, the establishment of technical schools,

the promotion of the expansion and the proper remuneration of the work force, in sum: by endowing the country with infrastructure so as to lower product prices.

Vergueiro's proposition consisted in assigning to the State the role of the main engine to propel the nation's vocational calling. This political philosophy was shared by Deputy Raimundo José da Cunha Matos, who in the early days of Parliament in 1826 had submitted to the Chamber a bill providing for obligatory government procurements from national factories. Vergueiro backed him but the bill was killed by the interests of the agricultural sector, which accounted for nearly the entire political and national production representation. It was in the interest of this hegemonic segment to promote the importation of manufactures it consumed, so as to facilitate the exportation of the agricultural goods it produced.

Consistently with his vision and untiringly active as a political agent, Cunha Matos was one of the founders in 1827 of the National Industry Auxiliary Society, whose publication *O Auxiliador da Indústria Nacional* [The National Industry's Helper] was launched in 1833 and was published throughout the nineteenth century. Both the Society and its magazine were devoted to the promotion of knowledge, the debate about ideas, education, and the technical qualification of producers.

Vergueiro and Cunha Matos associated industrialization with foreign trade policy, the strengthening of national power, and genetic incentives by the State. This three-pillared economic strategy was adopted by the nations that became industrial powers in the nineteenth century. In Brazil, though, the advocates of free trade and agricultural exclusivism, even realizing that this perpetuated the structural economic imbalance and society's infancy, in addition to hindering the building of a powerful nation, refused the support ideas and projects aimed at furthering the country's industrial calling as Vergueiro, Cunha Matos, and other public figures desired.

The rational debate kindled at the time of Independence continued about the two tendencies that, in association with foreign policy, would determine the nation's destiny: to remain primary and agricultural or to evolve into maturity and become an industrial power. The former tendency remained hegemonic in the political sphere, as it served the interests of the hegemonic group in the social sphere; but the debate's rationality definitively instilled into the Brazilian

economic thinking the realization of the importance of both sectors, thereby theoretically ending the confrontation.

## **Resumption of the industrialist thinking and its effects in the mid-nineteenth century**

The hegemony of liberal thinking ruled political action at the time of Brazilian Independence. The objective then was to prevent and suppress the three measures demanded from the State by industrialist thinking: protection of national activities, initial incentives, and attendant reinforcement of national power. For two centuries, the then undiluted nation-founding liberal thinking would remain unchanged since its original formulation, thus expressed in 1827 by Bernardo Pereira de Vasconcellos: “industry... needs no direction other than private interest, always more intelligent, active and vigilant than the authorities... our usefulness does not lie in producing goods and articles regarding which foreigners have an advantage over us.”

When the unequal treaties expired in the 1840s, the controversy of the Independence era flared up again with even greater intensity in the political debate and public opinion. The foreign trade policy defined by the treaties and subserviently accepted by the State acquired national status. The power holders then had to rethink the national construction tendencies – a perpetually primary economy or simultaneously a modern industrial economy.

The industrialist thinking then erupted, insisting on a foreign trade policy appropriate to the development of industry, but not only for the purpose of providing fiscal revenues to the Treasury. Leading figures of the Independence, such as Vergueiro (Cunha de Matos was dead by then), brought their discourse out of the drawer, and former hardcore liberals, such as Vasconcellos, changed their thinking. The country’s industrial calling then prevailed in politics and influenced public opinion to the point of giving rise to the first generation of Brazilian entrepreneurs and to a new upsurge of industrialization.

The prevalent economic and political thinking at that time operated on the basis of the concept of “industrial revolution” that reflected the awareness of the structural changes needed. The time had come, it was said, to come aboard capitalism’s historical movement and reach maturity through the proliferation of factories, after the example of the advanced nations of

Europe and of the United States. Accordingly, in 1844 Parliament conceived the project for a modern country, consistently with industrial calling expectations, and set tariff levels appropriate to the promotion of manufactures.

In view of this political and social environment and of the measures adopted by the State, historians refer to a first industrialization upsurge – actually the second – of which the emblematic figure was the Baron of Mauá, Brazil's major capitalist entrepreneur in the nineteenth century. Historians proceed with a description of the transitory character of both the hegemony of the industrialist thinking and of industrialization itself, as both were incapable of enduring to the point of changing history. They conclude that the project of the 1840s generation did not prosper owing to English pressure, the instability of customs tariffs, the scarcity of labor for the industries, and above all to the interest of the big landowners, who were satisfied with the exportation of primary products and the possibility of importing manufactures and lead an ostensive, luxurious life at Court, in the cities, and on their estates.

## One century of primary economy

The failure of the industrialization attempt in the mid-nineteenth century should be relativized. True, the economic structures did not change; but the mental structures of the Brazilian State did change as a leading thinking. From then on, industry and agriculture were considered as vital rather than conflicting sectors, as complementary and indispensable to progress, as well as appropriate to serve the interests of society as a whole. A national issue had thus been resolved.

The agrarian tendency retained its intense force until 1930, as it kept all the command instances in subordination: political representation and action, as well as a foreign policy translated into agroexportation diplomacy. It pervaded the change of regimes in 1889, from monarchy to republic, actually being reinforced by this transition. The republic reflected the replacement of the same by the same in the political sphere, of the old imperial aristocracy by the new wealthy coffee barons. It replaced the old leadership that envisaged with some objectivity the national interest with a new social group unscrupulously determined to act in their own interest, which it confused with the national interest.

## Industrialization and the liberalization of the productive process: 1930-1989

The country's industrial calling—the mental ferment of the 1930 Revolution—had lain dormant in the collective consciousness since Independence. The Vargas era brought it to the surface and made industrialization into hegemonic thinking in political representation, government actions, and interaction with society, as well as into the model of participation in the world economy.

The developmentist paradigm spread then throughout Latin America in the experience of countries large and small, but its most coherent, continuous, and rational formulation took shape in the government and society of Brazil, where owing precisely to this continuity it yielded its best fruits.

Without any ruptures in its formulation as a long-term strategy, albeit with varying performance under different governments, the industrialization process gave the lie to the Brazilian economic thinking that conceived it as *an import substitution model*. It never occurred to the leaders, especially to those that achieved the best performance and the greatest results, such as Getúlio Vargas, Juscelino Kubitschek, and Ernesto Geisel, to substitute for imports.

Nourished by conceptually appropriate historical roots, Brazil's industrial calling materialized since the 1930s as a good in itself and as a supreme value of political action, to which the model of integration into the world economy would be subordinated. Import substitution was a consequence, not an objective or a model.

Development was pursued by stages: establishment of transformation industry first, then base industry, and finally the generation of third-generation undertakings and technologies. Although these stages should not be seen as strictly separate periods, as they often overlapped in simultaneous projects, they did characterize development in the long run.

To the external sector fell a secondary position in this markedly inward industrialization process. To scatter factories around the country, transformation industry resorted to outside entrepreneurship and technology, thereby opening up the productive sector. But base industry and further development would be brought by national enterprises over time. They enjoyed State protection, as they were geared to the internal market, without concern

for the productivity required from undertakings that operate under conditions of systemic international competitiveness.

Analysts of the Brazilian industrialization experience point to its successes: the country's modernization, increased employment in urban areas, expansion of labor income, and particularly the continuity of public policies. But they also point out distortions in the process: monetary instability, exaggerated protectionism, accommodation to low-productivity industries, and unresolved social inequalities. This was a proper diagnostics that required from the State both an initial shock and the inclusion of a social concern in its representation and action strategy. The first requirement raised a new group to power in the 1990s; the second was met in the twenty-first century.

The Argentine experience during the Brazilian development period between 1930 and 1989 offers the best parameters for comparison with the Brazilian experience. On the Brazilian side, a resolved case of irreversible transition to an industrial nation, without nevertheless abstaining from direct, ongoing support to agriculture as a secondary but essential sector to national interest. On the Argentine side, the unresolved issue of an industrial or agricultural calling subjected the nation to cycles and counter cycles of conflicting sectors, while instability was reflected in political representation owing to the confrontation between the Radical Civic Union's traditional liberals and the Peronists deprived of a definite historical perspective. In addition, the two military regimes followed opposite directions: while Brazil's regime opted for continuity and reinforced the industrial economic and labor organization, Argentina's opted to end it.

In Brazil, industrial leaders did not enter into conflict with the agrarian sector. On the contrary, since 1930, agriculture, the long-standing source of national wealth, has remained part of the different governments' action strategy. Three examples may validate this assertion.

Among other measures, Vargas convened the 1931 International Coffee Conference in São Paulo, which brought together producers and consumers and established the International Coffee Bureau, with headquarters in Geneva, for the purpose of controlling coffee prices on the international market. As a desperate solution, Vargas promoted the burning of sizable stocks at a time of a world consumption crisis, so as to prevent prices from further deterioration. The State acted then on the interests of agriculture.

Considered as the foremost figure in Brazilian development owing to his success, Juscelino Kubitschek (1956-1961) established his government's strategy based on a Targets Plan encompassing five priority areas: energy, transport, agriculture, industry, and education. These sectors were seen as the propelling engines without whose simultaneous thrust sustainable development would not happen. As such, all five sectors would receive the same attention. Among the economic problems Ernesto Geisel (1974-1979) had to face were the effects of the oil price crisis that put industrialization in jeopardy. For this reason, the II National Development Plan was geared to two industrialization pillars then seen as too fragile to ensure the continuity of the development process: the energy sector and base industry. As regards the former, agriculture was called to join industry, especially the automobile industry, through the National Alcohol Program (Proálcool), the starting point for the current ethanol industry.

These examples attest to the natural association between agriculture and industry in the Brazilian development process. The 1972 establishment of the Brazilian Agricultural and Livestock Research Enterprise (Embrapa) to generate a national agricultural and livestock technology further reinforced the idea that the economy's two basic sectors, in the view of both government and society, are complementary to each other and ensure the process's necessary structural equilibrium. The combination of these policies and their maintenance over time under different governments and independently from parties and political regimes, has preserved the country's industrial calling, the ultimate good, and promoted agriculture to the point of raising agribusiness to the highest level of global systemic productivity and making the country into the world's major food exporting country.

## The opening of the markets in the 1990s

A historical instability hiatus occurred in Brazil in the 1990s. Under the sign of neoliberalism, the opening of the consumer market and the privatizations occurred as a shock treatment that placed at risk the continuity of the national industrial project. De-nationalization, the sale of the assets of Brazilian enterprises, the penetration of foreign enterprises into strategic sectors, particularly into the communications sector, the foreign trade and

external account deficits, economic stagnation, and de-industrialization were some of the effects of the first opening phase.

However, the country had advanced sufficiently in class organization and in the maturing of the productive system to react to and tame the opening surge desired without limitations and restrictions by the leaders of the Fernando Henrique Cardoso era, as was the case with the leaders of the Carlos Saúl Menem in Argentina.

Entrepreneurial and labor organizations put pressure on their political representatives. The pace of opening was adapted to the industrial plants' capacity and a veritable technological revolution took place, raising the level of systemic productivity. Although displaying political flexibility toward "asymmetric globalization," the Cardoso leaders were replaced in the beginning of the twenty-first century by another group in power, consisting of a labor and entrepreneurial center-left coalition. The country's industrial calling was thus saved and lifted to another level.

## Reciprocity-based multilateralism and economic internationalization in the twenty-first century

For both government leaders and the leaders of organized civil society, two features characterize globalization in the twenty-first century: the globalization of consumer markets and economic internationalization. Thus, governments act through diplomatic channels to ensure a reciprocity-based multilateralism in the international order, while organized social segments seek to promote the outward expansion of national undertakings.

Brazilian diplomacy's political philosophy came to light at the 2003 WTO Conference in Cancun, when it supported the establishment of the G-20, a group of emerging countries interested in the establishment of norms and regimes that would entail benefits for all nations, not only for the advanced ones, which heretofore had imposed their interests through the logistics of central capitalism. As Brazilian Foreign Minister Celso Amorim wrote, "we established the G-20 in Cancun when the United States and the European Union attempted to impose an unfair agreement that left agricultural subsidies virtually untouched while demanding disproportionate concessions."



The new social philosophy of the Brazilian economy's internationalization found expression in the unsophisticated words of Worker-President Luiz Inácio Lula da Silva as he addressed entrepreneurs at the 2005 Global Economic Forum in Davos: "Something I have continuously insisted with Brazilian entrepreneurs is that they should not be afraid of becoming multinational enterprises, of investing in other countries, as this would be very good for Brazil."

However, reciprocity-based multilateralism has not advanced owing to the impossibility of an understanding between the rich and the emerging countries at the WTO, the United Nations and its Security Council, and in matters pertaining to the environment, health, food, and human rights. Brazilian diplomacy did not anticipate that its uncompromising demand for reciprocity would help block the establishment of norms and regimes to govern the global order, just as the old capitalism center did not anticipate that in Cancun history's multilateralism page would be turned, putting an end to the consensus that the center had formulated to be obeyed by the periphery.

As a compensation, the internationalization of the Brazilian economy proceeds apace as recommended by the President. In 2007, with 108 billion dollars of direct investments abroad, Brazil ranked second among the emerging countries, according to the Brazilian Society for Transnational Enterprises and Economic Globalization Studies.

Although diversified throughout the world, investments by Brazilian enterprises have had South America as a preferred destination, and particularly Argentina since the Néstor Kirchner government overcame the crisis situation and recovered the country's industrial calling.

## South American economy: a Brazilian project

This brief overview of Brazilian economic history should be sufficient to understand the nature and the continuity of the Brazilian economic project for South America in the last two decades.

It is a developmentist project, based on industrialization and regionally negotiated with all the governments, which began with market unification under the South American Free Trade Association – Alcsa, during the Itamar Franco Administration, continued with the Initiative for the Regional Infrastructure Integration in South America – Iirsa, under the Cardoso Administration, and

culminated with the institutional, productive, energetic, and entrepreneurial integration under the Union of South American Nations, during the Lula Administration. The Brazilian project rejects the hemispheric trade integration (FTAA), bilateral free trade agreements, and even the Mercosur-European Union agreement on the establishment of a free trade area. In the Brazilian view, all these possibilities deeply affect the internal order and the country's participation in the international economy in a way that compromises its industrial calling, a prime asset of political representation and national interest.

The Brazilian view of the unity of South America as a global economic power pole dovetails with the Argentine view, although Brazil's major Mercosur partner does not display the requisite continuity determination for this unity's construction. In addition, the Brazilian view clashes with the Chilean model, with its neoliberal roots and primary exporter character, open to free trade agreements. It also differs from Venezuela's and Bolivia's introspective projects. In brief, South America in the twenty-first century displays a diversity range that is difficult to coordinate in the political area and even more so in the economic area as regards trade, financial, and entrepreneurial flows.

## Suggestions for further reading

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# Economy and society in Chile

## A history summary

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**F**our criteria have been adopted for this essay: (1) concision imposed by space limitations; (2) review of the main theses propounded by historiography; (3) emphasis on the relation between the country's past history and the present; and (4) interaction of economic, social, and political factors, consistently with the unity of a historical presentation.

The argument presented here is that Chile, from an economic standpoint, is a textbook case that illustrates the stages of outward and inward growth as well as of market-led growth, according to the stages into which economic historians have divided the region's development. The two first stages have been analyzed by Eclac. This essay, however, does not separate the economic variable from the historical process as a whole.

The most recent period, from Eduardo Frei Montalva to the *Concertación* governments, for better or for worse still strongly pervades political debate, which shall be presented here in a summary form, so as to avoid personal judgments.

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## Our cultural heritage

Spain's possessions in the Americas inherited a triple marginality condition: (1) Spain's position in Europe at the time of the conquest of the Americas; (2) the position of its overseas empire with its sixteenth-century policies as compared with those policies' role in the Holy Roman Empire and in the European wars; and (3) the consequent position of the American colonies in relation to the metropolis.<sup>1</sup> "For Spain, the government of the Hapsburg possessions implied a subordination of the national interests to the interests of the empire as a whole."<sup>2</sup> To protect his subjects from their enemies, whether they were Flemish, French, or Turks, Charles V felt himself authorized to mobilize all of the Empire's available military and financial resources at the expense of his own colonies. In addition, with the Protestant Reformation, Spain headed the Catholic Counter-Reformation on the entire continent and on its behalf fiercely engaged itself in one century of religious wars. By the end of the fifteenth century, Spain had left behind eight centuries of war against the Muslims but remained divided into various Christian kingdoms.

From an economic viewpoint, Spain at that time lagged considerably behind the rest of Europe. Its weakness stemmed from the fact that its lands were not particularly fertile and continued to be exploited by medieval systems: the leading class had a markedly proud spirit, as addicted to hierarchy as it was adverse to work; eight hundred years of war against the Muslims, accompanied by religious intolerance that kindled the Reformation in its domain and prevented the establishment of a climate of peace that could have allowed its own uneventful development; and subsequently the wealth ensured by the conquest of America hindered the survival of the existing manufacturing establishments.<sup>3</sup> Of the 100,000 looms that operated in Andalusia in the beginning of the sixteenth century, only ten percent remained active by the end of the century, while the defeat of the last Muslim kingdoms – especially of Granada – and the expelling of the Jews a century later left the peninsula bereft of the most cultivated and hard-working elements of a society into which they were functionally integrated. All of this created in the Spanish peninsula a hierarchic, proud, renter culture that was intolerant and adverse

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1 Tomassini, Luciano. "América en la frontera del imperio español." In: Various Authors. *Nueva mirada a la historia*. Editorial Ver, 1996.

2 Stanley, J. and Stein, B. H. *La herencia colonial de América Latina*. Siglo XXI, 1970. p. 7.

3 Garraty, J. A. and Gay, P. (eds). *The Columbia history of the world*. Dorset, 1981. p. 548.

to discipline and work. This culture instilled into Spaniards what Unamuno would refer to in the late nineteenth century as “a tragic sense of life,” which depreciated practical aspects and concentrated all values into personal dignity, as was so well described in a passage of *El Alcalde de Zalamea* [“The Mayor of Zalamea”] according to which ‘to the king one must give one’s possessions and one’s life; but honor is a possession of the soul, and the soul is only God’s.’ Meanwhile, Europe was entering the culture of modernity, owing to the dissemination of the spirit of humanism and renaissance, embraced first in the cities of northern Italy, and into a world that began to turn around art, commerce, banking, bourgeoisie, and cities. Leslie Bethell mentioned that in 1492 Spain and Portugal were Europe’s economic dependents and that despite the emergence of their overseas empires in the sixteenth century they continued to be dependents. This anomalous condition of being both colony and empire at the same time determined the history of the Iberian countries and their possessions abroad, and conditioned their colonies’ society, economy, and politics, as well as the course of Latin American history to our days.<sup>4</sup>

The ambiguous mix of motivations that led a great contingent of the Iberian peninsula natives to undertake the conquest and colonization of America, including evangelistic ideal, spirit of adventure, and the illusion of profit found expression especially in the new colonies’ economy. How powerful, albeit hybrid, were their motives was demonstrated by the audacity of the conquistadors, for whom the conquest of America was a stroll through a very difficult geography, as they fought with immensely superior forces. It should not be forgotten that owing to Spain’s still feudal political structure in 1492, the conquest was an undertaking of the Kingdom of Castile, from which Aragon and the other kingdoms were excluded, and that it was Castile’s authority and institutions that were first extended to the new territories.

Soon the Ibero-American economy became organized around mining, particularly silver mining, which was exhaustively exploited on Mexico’s plateau or in Upper Peru. The hinterland played an auxiliary role as supplier of food, carts, beasts of burden, and other labor and transport implements. This imposed on the colonial economy and society a radial structure owing to the need to connect the rural area with the major mining centers of Potosí, Huencavalica, Oaxaca, Puebla, Guanajuato, and other centrally located

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4 Bethell, L. (ed.). *Historia de América Latina*. Crítica, 1990. vol. 2, p. 82.

exploitation undertakings, and to carry their production to the seaports. The enormous wealth acquired overseas by a Spanish metropolis that for the aforementioned reasons had not had Europe's opportunity to create an undertaking, hard-working culture, entailed fewer gains than limitations. First of all, the exploitation of mines was a state monopoly, i.e., a monopoly of the Crown; the mineral deposits belonged to the Crown, differently from the land, which under the Hispanic land grant system was granted to settlers for exploitation; moreover, the transport to the metropolis was done according to a strict system of authorized ports – such as La Habana, Maracaibo, Portobelo, Veracruz, and only a few others, by one or two official fleets each year, under rigorous custody (notwithstanding the fact that a sizeable portion of the valuable cargo fell into the hands of English or Dutch pirates every year); and it was owned and marketed by a state entity, the Casa de Contratación [The House of Trade] in Seville. Spain's dependence became clear from the very beginning, as European merchants or agents settled in Seville to channel the new riches – that time's currency – to their home countries to pay for supplies of manufactures and fine products. The discrepancy between the mineral extraction activities and the modest inland exploitation, the royal monopoly of the main colonial riches, the disincentive of manufacturing, and the overexploitation of indigenous labor left their mark on colonial society far into independent life. The conquest wars, the diseases brought in by the Spaniards, and the overexploitation of indigenous labor in the mines – “devourers of men” – led to a population decline that according to some estimates may have reduced from twenty-five million to one or two million the autochthonous population of the Central-American Meseta and from ten million also to one or two million the population of the Inca highlands.<sup>5</sup>

Of the two axes of colonial economy – productive mining exploitation and secular neglect of the hinterland – it was the latter that most influenced the organization of the indigenous society. This is why Chile, although lacking significant silver mines, in general terms shared the region's agrarian and social structure. According to Simon Collier and William Sater, thus would begin one of the most fundamental processes of Chile's history: the establishment of the *encomiendas*,<sup>6</sup> the great latifundia granted the conquistadors under the

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5 On this subject, see especially Donghi, Tulio Halperin. *Historia contemporánea de América Latina*. Alianza Editorial, Edición de 1994.

6 Collier, Simon and Sater, William. *Historia de Chile 1808-1994*. Cambridge, 1996. p. 20 and 21.

Hispanic land grant system, administered by a landowner elite and worked by a semislave population. The consequences of this economic organization were also disastrous: the indigenous population north of Araucania disintegrated and the original Amerindian population was reduced to 20 percent. Miscegenation was also widespread: Francisco de Aguirre, the founder of many cities in northern Chile and in Argentina used to say that “the service one renders God by engendering mestizos far surpasses the sin thereby committed.” The needs of opulent Lima and the rich altiplano mines fostered the country’s exports of agricultural and livestock products. Cattle-raising established the form adopted by the latifundia. The concentration of agrarian property was slightly corrected since the seventeenth century owing to the exportation of wheat. In time, the agricultural worker became a mix of tenant and day laborer, a sort of lessee, strictly subordinated to the latifundium owner, but enjoying relative stability. Marginally, there were hordes of itinerant workers and major regions where minifundia predominated. The tenant system lasted until the twentieth century and gave rise to the traditional “huaso” [the Chilean version of a cowboy] figure. Over time, the tenant system provided the basis for authoritarianism, hierarchism, and cronyism, which would become an essential feature of Chilean culture.

The sociological structure of the indigenous lands was marked from the beginning by miscegenation in a broad sense, the prestige derived from land ownership, social hierarchization, cronyism, and urbanization. Other than the landowner minority that dominated colonial societies and their broad base provided by a work force consisting in large measure of Indians and mestizos, there were other groups more or less defined by their profession or activity, such as merchants, lawyers or notaries, artisans, and others. The highest echelon was defined by ownership of lands in the form of *encomiendas* by virtue of the Hispanic land grant system. The establishment of an *encomienda* in favor of one of the conquistadors or his successors conveyed the authority and dominion “over the land and the men,” similarly to the feudal institution in the Middle Age in Europe.<sup>7</sup> While the landowners and their families had their status defined by the position they occupied in the social hierarchy, the other groups were defined by their professional or occupational category. In neither case entrepreneurship or work seemed to play any role in those

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7 Bloch, Marc. *La sociedad feudal: la formación de los vínculos de dependencia*. Uthea, 1958.



societies and there was little likelihood that those categories could change or advance, i.e., have what is called today social mobility. In the narrow summit of those narrow societies, “the close connection linking distinction, lineage, wealth, and influence, based on the large agricultural properties controlled by an extended family prototype, explains the cronyism that prevailed at that time and which after independence continued to determine the political, economic, and social life in the Ibero-American world.” The essence of cronyism, so strong in Ibero-America are the relations of affinity, protection, and social promotion developed inside several concentric circles that radiate from the most important families constituted according to the Spanish pattern. “As a result, people’s role was not defined by intrinsic personality or accomplishment but on the basis of their links to a given family or social circle, and by the role assigned to them.”<sup>8</sup>

One of the most representative novels about the Chilean situation, *Martín Rivas* by Alberto Blest Gana, told the story of a modest provincial lad in the nineteenth century who was received and protected at the household of the powerful family of Don Dámaso Alonso in Santiago, where he fell in love with the daughter and managed to marry her, not without difficulty, thus becoming a member of the family. The story was no more than a further portrayal of the processes that steadily expanded Chilean aristocratic society without democratizing it but rather making the new arrivals into new aristocrats. The colonies’ broad social base, on the other hand, was formed by a wide variety of miscegenation that in turn reflected the need to exploit labor, as well as the Christian recognition of the dignity of Indians and mestizos, in whose defense Father Bartolomé de Las Casas waged a crusade that reached the Peninsula, where more than once he held large congresses to discuss their condition.

According to Leslie Bethell, Spanish society in America was essentially urban. Widely scattered, Spanish cities were separated by vast extensions of indigenous lands. The city had always been Hispanic society’s preferred locus. But there was never any rivalry between the country and the city. Commerce, artisan production, and the practice of learned professions tended to concentrate entirely in urban spaces, toward which the country played a complementary role.<sup>9</sup> In Chile, the gap between the city and the country arose

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8 Tomassini, L., op. cit., p. 29.

9 Bethell, Leslie (Ed.). Op. cit., tome IV, p. 64.

in the collective consciousness with the beginning of democratization and of social demands in the late nineteenth century. Still according to Bethell, the entire Spanish sector in any province made the city into a centralized unit, indivisible in all its social, economic, and institutional aspects. For the Spaniards, colonizing meant founding cities. Founding a city implied the imposition of order and authority on an unmanageable territory and at the same time the incorporation into the Castilian monarchy of its authorities, its town councils, which thus became part of the hierarchic Spanish State.

Differently from North America's colonization by the British, Spanish colonization of part of Central and South America was not the natural outcome of the development of economic activity and industrialization. Jorge Horacio Hardoy, the Argentine urban historian observed in surprise that Spanish colonization was "an urbanization process without industrialization." Closely associated with this urban option, the Ibero-American world had a legislative obsession. Peninsular Spaniards had spent nearly one thousand years attempting to codify the juridical precepts that ruled their life, giving rise to successive charters, from the *Fuero Real* and the *Fuero de Juzgo* to the compilation of the Laws of the Indies. However, there was no equivalent passion for law enforcement, about which the Hispanic empire had a very lax attitude attributable to the distance separating the ruler and the ruled, the colonies' social heterogeneity, and particularly to an inherent trait of Spanish character: the distance between ideal and practice, the permissiveness toward the law, which is "esteemed but not obeyed", an attitude masterly illustrated in *Don Quixote*.

If, owing to the limitations of space I had to sum up into one word the main features inherited from Spanish America, I would opt for "centralism." In an eloquent work, Chilean academic Claudio Véliz says that this legacy was due to the fact that Spain never experienced the four major decentralization or centrifugation processes as Western culture did: feudalism, which is a way of organizing a disintegrated society; Reformation, which introduced religious diversity and freedom of conscience; industrial revolution; and the French Revolution.<sup>10</sup> Ibero-American centralism is associated with its traditional authoritarianism, elitism, zest for legislation and codification, passion for founding cities, propensity for hierarchization and social exclusion, and renter mentality or failure to attach value to work.

<sup>10</sup> Véliz, C. *La tradición centralista de América Latina*. Ariel, 1984.

This article's argument is that our societies' culture has been determined to this day by those features, coupled with Spain's experience of marginality and internal and international dependence at the time of colonization, and with its attachment to honor, contempt for work, preference for an extractive economy, as well as the importance of cronyism and influence.

## Chile between independence and anarchy

The Ibero-American colonies' independence was due to the turmoil caused by the Napoleonic wars in Europe. After Fernando VII's overthrow, the Hispanic colonies took the path of independence. Brazil followed a different course: with the assistance of his advisor José Bonifácio, Pedro I assumed the government in 1822, promulgated the 1824 Constitution, which vested "moderating power" in the Emperor, who inherited the Portuguese throne in 1826. His abdication was followed by the 1831-1840 regency period while his son was a minor, who then ruled as Emperor Pedro II until 1889. Brazil was thus born as an Empire, which bequeathed to the country the characteristics it still has.

The first reaction in Chile to Fernando VII's overthrow in 1808 was of loyalty to the metropolis. In 1810, a new *criollo*<sup>11</sup> governor convened a *cabildo abierto* [town meeting] to assess the situation. The *cabildo* was the only Spanish institution that had significant representativeness in the colonies. When the gathered assembly shouted "We want a Junta!" a governing junta, a national congress, and the first Chilean army were established. The path to independence was a tortuous one, though: the junta and the congress were both replaced by other institutions many times; there was a period strongly marked by caudillismo; and the different groups that coexisted in society's narrow upper echelon differed about what to do under those circumstances. The different positions did not necessarily coincide with the differences between Spaniards and *criollos*. This period was marked by intermittent warring between royalists and separatists under different, often conflictive leaders – as was the case of Bernardo O'Higgins and José Miguel Carrera. Another division was caused by the Spanish reconquest in 1814, which for three years seemed to return things to the original situation. Under those circumstances, General

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11 Person born in Spanish America of Spanish descent.

José de San Martín, the governor of Cuyo, which was part of the Plate River Viceroyalty, assembled a liberating army, which with Argentine and Chilean troops undertook the feat of crossing the Andes Cordillera and, in a year's time, after the Chabuco and Maipú battles, restored the country's independence with the help of General Bernardo O'Higgins. But independence was still a project that had to go through a long period of anarchy from 1818 to 1833. That same army, now with Chile's greater financial and military backing, including through the creation of its first naval force, undertook the expedition to liberate Peru and Bolivia and ensured the victory at the Junín and Ayacucho battles – a victory that strengthened Simón Bolívar and demolished the Spanish bastion represented by that viceroyalty.

Both the negative effects of the anarchy caused by the *caudillismo* embraced by the main notables of an incipient oligarchy, and the maintenance of some unity and continuity during this process and the subsequent establishment of an “orderly state” were due to the preponderance of the restricted upper class that had issued during the colonial period from the so-called “Castilian-Basque aristocracy.” This was the social group that gradually came into being through the merge of Castilian conquistadors, newly affluent colonial merchants, and Basque immigrants that beginning in the seventeenth century and in greater numbers in the eighteenth century brought into the colony a more practical, mercantile vision. Each of these stages faced somewhat different challenges. The first of these challenges was the border war along a line in southern Chile alongside the Bío Bío River, which divided the country into an extensive zone administered by governments appointed by the metropolis, and another zone south of the same river, in which the governments fought against the Araucanians, the autochthonous inhabitants, a war that for nearly three centuries involved the men and left profound marks in the Chilean family and society.

The second challenge, after those objectives' partial achievement, was the development and administration of the territory and the attendant creation of a nationality, a task for which the generations associated with colonization, owing to their elitism, warlike character, and subsequent debilitation, were not prepared. The war was a crucible in which Chilean society and the army, its most stable institution, were formed, and both bequeathed a significant warlike legacy to the nineteenth century.<sup>12</sup> The authoritarian, centralist, cronyism

12 Jara, Alvaro. *Guerra y sociedad en Chile*. Editorial Universitaria, 1971.

features the Hispanic regime imposed on the incipient Ibero-American societies were reinforced by the repudiation caused by anarchy after independence, by the Castilian-Basque aristocracy's group and individualistic gravitation, the experience of the border war, which did not really end until well into the nineteenth century, and the very Hispanic heritage. Jaime Eyzaguirre wrote that "the old municipal regionalism that the Bourbon regime had endeavored to suffocate reemerges with vigor at the time of independence, although the country could not have done anything other than adopt the habits of autonomy and entrepreneurship instead of following the centralizing course set by the metropolis."<sup>13</sup>

Territorial and social centralization were the main features of Chile's development, differently from the importance of federalism in Brazil, Colombia's regional peculiarities, the difference between people from the sierra and from the coast in other Andean places, and the conflict between the capital and the provinces in Argentina. The rural patriciate consisting of the *encomienda* owners and their descendants, eventually allied to wealthy merchants and the most recent Basque immigrants, naturally assumed control of Chile. Members of this aristocracy traditionally occupied most *cabildo* positions, both in Santiago and in the provinces, and owned most of Chile's wealth, although their fortunes were considerably more modest than those accumulated by the upper class of other Spanish colonies. These notables, whose base and fortune were rural, had their main homes in the city, not only in Santiago but also in Talca or Concepción, whose *patios* were shared by an extended family with their clients and acquaintances, poorer relatives, and a large number of servants. One example of the way these families amassed their fortune and wielded influence can be seen in Pedro de Torres, a Santiago Treasurer, deceased in 1722. Torres managed to become the owner of an entire side of Santiago's plaza mayor, of an hacienda that extended from what is today the eastern part of the city to the cordillera, and another in El Monte, which had belonged to Catalina Lisperguer, who died surrounded by rumors of witchcraft. By the time he died, Torres had defined what would become the model for Chile's upper class, its characteristics, and how to realize it. That model was not too different from the one that would prevail in Chilean society in the nineteenth and twentieth centuries and that was followed by the new Chilean

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13 Eyzaguirre, Jaime. *Fisonomía histórica de Chile*. Editorial Universitaria, 1958. p. 96.

or foreign fortunes, such as those of the Edwards, the Rosses, the McClure's, the Cousiños, or the Urmenetas, many of whom had derived their wealth from saltpeter.<sup>14</sup> Be as it may, until the late nineteenth century, the Chilean economy maintained the same characteristics as in colonial times, imposed by a rural structure that was the base of aristocracy's power.

This aristocracy, contemptuous of any work alien to their haciendas, and desirous of adorning themselves with a Castilian title or with an entailed estate, did not acquire the profile of the nascent bourgeoisie on the Old Continent at that time. However, displaying a sense of opportunity and *esprit de corps*, it knew how to fulfill its primary function, namely, government or the exercise of power, the reason why it was immortalized by a brilliant writer as “the aristocratic *Fronde*.”<sup>15</sup> Now, although its status had always derived from its possessions or proximity to power, which no longer shielded it from the rivalries and conspiracies so typical of the “*Fronde* spirit,” which already during the independence endeavor had pitted separatist leader Juan Martínez de Rojas or the Carrera family against the power of the Larrains, “who were eighteen-hundreds.” The change, when it came in the late nineteenth century, was due to saltpeter.

## The conservative order

It can be said, though, that in Chile anarchy gave way to an orderly period earlier and faster than in many other countries of the region, although they were ruled by the same kind of oligarchy. That was also a longer, more stable period than in the rest of the region, with the exception of Brazil, a period that lasted from 1831 thru 1891. Chilean historiography has attributed this process and its short duration to the personality of Diego Portales, not without lively<sup>16</sup> polemics. Today, Mario Góngora is perhaps the one that has

14 de Ramón. *Historia de Chile, 1500-2000*. Catalunya, 2003. p. 43-44.

15 Edwards, Alberto. *La Fronda aristocrática*. Pacífico, 1972.

16 This thesis was espoused by Jaime Eyzaguirre, Alberto Edwards, and above all by the monumental work of Francisco Antonio Encina, who generally considered as “discordant brains” the groups that were opposed to the Chilean upper class's conservative project; and refuted by Julio Cesar Jobet, Hermán Ramírez Necochea or Gabriel Salazar and Julio Pinto, who argued that “civil society's protagonist's role in the task of building the State has been marginal or nil.” *Historia de Chile*, the 16-tome work published by Diego Barros Arana in the nineteenth century, stops at the 1833 Constitution, but even so the Chilean traditional oligarchy's project was unquestionably justified.

most contributed to the rooting of this thesis.<sup>17</sup> In the preface to his work, Ricardo Krebs argues that “the state that emerged from the independence wars and the subsequent disturbances began to be defined with Portales, who accepted democracy’s political ideal but was also convinced that Chile did not yet possess the ‘republican virtue’ he deemed indispensable for the functioning of a proper democratic system, and thus, realistically organized a strong, centralizing government, thereby reviving, under new republican guises, the old Spanish monarchy.”

Portales, a member of the Chilean oligarchy, was engaged in commerce and with some friends took over the tobacco *estanco* [monopoly] when the State relinquished it, the reason why the members of his circle became known as *estanqueros* [monopolists]. In a well-known 1822 letter addressed from Lima to one of his associates, Portales wrote: “Political affairs do not interest me, but as a good citizen I may express my opinion in all freedom and even criticize government actions. The democracy so much preached by deluded people is an absurd in countries such as the American countries fraught with vices and where citizens lack the virtues necessary to the establishment of a true republic. A republic requires a strong, centralizing government, whose members should be true models of virtue and patriotism.” Portales engaged in politics to help put an end to anarchy that clashed with his basic instincts, and in 1831 he helped elect General Joaquín Prieto as President, a figure that had played a moderating role in the preceding period. A social animal, fond of alternating women and of playing the guitar privately, too human for the conservative ideal and for a city that, in Sir Horace Rumbold’s description, was the seat of a sleepy, ultramontane court, embodied during his short life the virtuous leader in public life.

Portales did not believe in the morality of his society but believed in the institutions: “I do not believe in the Church, he would say, but I believe in the priests.” Prieto convened an assembly that drafted the 1833 Constitution, which replaced over half a dozen heterogeneous constitutional charters and whose broad lineaments were maintained in the 1925 and 1980 Constitutions. That charter prescribed a strong government, susceptible of reelection, who periodically led an electoral intervention; this was the reason why he was considered “the great elector” in Chilean politics, a practice considered by some

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17 Góngora, Mario. *Ensayo histórico sobre la noción de Estado en Chile en los siglos XIX y XX*. Editorial Universitaria, 1986.

“the key to the country’s stability.” The Executive enjoyed clear primacy over the National Congress, from which it could request “extraordinary powers” for a period, and on which it could count for the automatic approval of the annual budget law after the deadline, which was the last drop that would overflow the cup sixty years later, triggering the 1891 revolution. In the speech delivered as the Congress’s closure, Prieto said: “Despising theories that are as erroneous as they are despicable, the constituents have devoted their attention solely to ensuring for ever the public order and tranquility<sup>18</sup> against the risks represented by the inconstancy of the political parties.”

Portales public life lasted only from 1829, the year the conservative revolution won the day, until his death in 1837. These eight years can hardly explain why his ideas inspired Chile’s political and economic life for almost all the rest of the century. De Ramón attributes the fact that his administration gave origin to a “*Portalian* regime” to the efficient functioning of what Portales called “the machine’s main spring,” namely, the exercise of power, and secondly to a team of collaborators, including Manuel Rengifo and José Manuel Cea, Mariano Egaña, the Venezuelan born Andrés Bello and the Argentinian Domingo Faustino Sarmiento and later followers such as Manuel Montt and Antonio Varas. From this group came presidents and ministers, the 1833 Constitution, the promotion of exports, the reorganization of finances and the tax and customs reforms, the Civil, Commerce, and Penal Codes, and the University of Chile, among other institutions on which the new order would rest.<sup>19</sup> Manuel Rengifo, Minister of Finance at the time of Portales, replaced a secular mercantilist policy with a liberal policy that taxed imports that threatened Chile’s incipient production, imposed direct taxation of property and its income, instead of taxing exports by imposing duties on visiting merchant ships. Agricultural exports from the Central Valley acquired major importance, although mining soon became the economy’s main pillar, and the number of ships that anchored at Valparaíso multiplied. All this earned the country Peru’s resentment.

In 1837, General Ramón Freire, one of the major figures of the independence period, rallied troops in Peru against Chile. Meanwhile, the Peru-Bolivia Confederation had been established, headed by General Santa Cruz as

<sup>18</sup> Cited by de Ramón. Op. cit., p. 70.

<sup>19</sup> de Ramón. Op. cit., p. 74-75.



Protector of the new State. Portales, whose aspiration was to see Chile become the Pacific's major power, saw the Confederation as an enemy whose existence could not be tolerated. Freire's adventure provided Portales with the pretext for declaring war against the two countries. The war extended from 1837 to 1839, two years marked by expeditions and battles. Chile's last expedition was defeated and pursued by the Peruvians until Bulnes, its commander, faced them at a battle on the Yungay fields, involving eight thousand troops. Chile came out victorious, Santa Cruz went into exile, and the Confederation disappeared for ever. While twenty years earlier the Peruvian population had received the Chilean liberating army with cheers, this time it had followed its own army in pursuing the Chileans. Chilean support for the war diminished considerably, and the old aristocratic Fronde, which the Minister had bypassed and belittled, began to plot against him. During the war preparations in 1837, Colonel Vidaurre, an old conspirator who had espoused the Fronde cause, arrested Portales in Valparaíso and on the way to Santiago, made him step down from the coach, by shouting "Let the Minister step down!" and ordered him executed. The importance of Portales's legacy steadily increased for the rest of the century. The *Mercury* daily observed that "this horrendous crime increased the war's popularity." The final victory reiterated his importance and over the years history developed a true Portales cult. In repudiation of Colonel Vidaurre, his descendents changed their name to Vidaurre Leal, or Loyal Vidaurre. However, polemics about Portales' figure and project have never slackened.

The government of General Manuel Bulnes, a conciliating minister, created the propitious climate for a gradual convergence of conservative and liberal ideas. Social development, more education, some questioning of the Church's authority, and the development of new economic sectors favored this process, which was more social and cultural than merely political. New figures, such as José Victorino Lastarria, Santiago Arcos, and Francisco Bilbao, some of whom had been active in the *Sociedad de la Igualdad*, or Society for Equality, championed this change of ideas. In 1851, the repressive policy adopted by the government led to a civil war that began in La Serena, extended toward the south, and ended with the conservatives' victory. The rebellion occurred during the presidential elections won by Manuel Montt, a conservative that, according to Bulnes, "was all brains and no heart." That marked the beginning of a period of great material progress, during which a liberal-conservative merge was in silent gestation. Conservatism could not maintain its monopoly

much longer. In 1861, the National Party won the elections, with Joaquín Pérez, a tolerant patrician alien to political disputes, but “drunk with indolence,” as he was described by José Manuel Balmaceda. His successors were Federico Errázuriz and Aníbal Pinto. It fell upon the latter to wage the Pacific War.

Pinto’s government was affected by a decline in mineral exports, which by then included saltpeter, and dropping prices, while the bonanza of previous periods had boosted imports. This, coupled with the international banks’ permissiveness, compromised the country’s finances and its capacity to maintain the Armed Forces in proper shape. Ships stood still, army units were dismantled, the contingent of government employees was reduced, the peso’s inconvertibility was declared, and soup lines were organized in many places. It was under these circumstances that Chile had to face Argentina’s claim of sovereignty over the Strait of Magellan, Hilarión raised Bolivian duties on saltpeter and the Antofagasta railway, and, upon the discovery of new deposits of guano, silver, and saltpeter deposits in Atacama, Peru began to put pressure on the agreed parallel 24 border. The President then ordered the Army to seize Antofagasta and advance into the territory that had been ceded to Bolivia in 1874. But President Pinto had no knowledge of the secret Peru-Bolivia alliance. After hostilities began, Chile declared war on the two nations. The first operations were naval and began with Chile’s reversal: while Admiral Martínez Rebolledo, disregarding instructions, led the bulk of the fleet toward Callao, leaving the old ships unguarded on the Iquique Bay, where he should have stayed, Admiral Grau had quietly sailed with the Peruvian fleet from El Callao and arrived at Iquique, where he sank *La Esmeralda* and killed Commander Arturo Prat, who attempted to take the enemy ship by assault. Late that year, the Chileans caught Grau at Punta Angamos, seized the Ironclad *Huáscar* and gained dominion of the sea. The battles made national heroes of both Prat and Grau. Soon after, though, Chilean troops transported by the Chilean fleet took by assault the inexpugnable Morro de Arica, Tacna’s port of exit in Peru, and after a protracted, bloody battle on land early in 1881, they broke through Peruvian defenses in Chorrillos, inflicting a definitive defeat on Peru at Miraflores, and seized Lima, the Spanish Viceroyalty bastion in the region. Although the war went on sporadically for two years, in 1883 Chile imposed the Ancón treaty on Peru, which ceded Antofagasta and, some years later, Arica to Chile, which also incorporated into its territory Bolivia’s entire seaboard. The Pacific War thus closed a centuries-old, somnolent stage

in Chile's development. Hence, everything started to change, although not dramatically and only after thirty years.

## A turbulent transition

Since the independence battles, Chile had managed to consolidate a warlike Army that grew considerably in the war against the Confederation and in the Pacific War; and a fleet established to support the expedition to liberate Peru in 1818, which was also strengthened by the two wars. The oligarchy's anarchic tendencies were repressed by Portales, save for episodes such as the rebellion that led to his death, a social group that demonstrated that it was increasingly better prepared to govern the country with an authoritarian hand. The economy had acquired some dynamism and diversification, and a "State in good form" now closely matched Portales ideal, earning it for a while an advantage over other countries of the continent. The persistent drawback was the high levels of poverty that surrounded this oligarchy and, more visibly, the religious quarrels that plagued the second half of the nineteenth century, as this was of greater interest to the dominant classes. This climate of relative stability, achieved thanks to – and at the cost of – a quite strict conservative order, lasted four decades in which Prieto, Bulnes, Montt, and Pérez were reelected between 1831 and 1871.

Meantime, Chile's political spectrum was being defined, as the original *pelucones* [conservatives] and *pípiolos* [liberals] decided to establish the Conservative and the Liberal parties, respectively, and a National or Montt-Varist Party was formed at the end of the period, combining elements from both sides. In the 1870s, the grafting of liberal ideas onto the *pelucón* trunk was considerable. At this time, not much after the reforms undertaken by Chilean society, there emerged a strong radical party and different movements that gradually united into a Socialist Party; and a little later, spurred by world tendencies, a Communist Party was formed, which is today's the strongest communist party in Latin America, with the exception of Cuba's. Without tangible changes in Chile's economic structure, save for saltpeter's weight at the end of the century, a political scenario was taking shape, which would firmly set in the twentieth century.

In the late nineteenth century, the conservative order seemed to have exhausted its original thrust and remained in the hands of some traditional

families bent only on enhancing their positions; they had lost the “public virtue” demanded by Portales, without opening up the government to new elements. Since the Pacific War, the country had also lost the crucible of war. The four decades of that order were followed by the quinquenniums of Federico Errázuriz, Aníbal Pinto – on whom fell the conduction of the war – and Domingo Santa María. By then, the ideal of a strong Executive had been replaced by a caricature of parliamentary government, a façade that hid the pursuit of oligarchic interests, supported by what amounted to a true Congress party. “Although the end-century Chile remained within the framework of a traditional economic and social order, as the agrarian activity and the rural world still predominated in national life, over time a scenario favorable to change emerged – in terms of both discourse and practicability – as the society’s driving force.”<sup>20</sup> The seeds of the unceasing changes that would mark the next one hundred years were sowed at this time.

It may be said that the Pacific War, in addition to ensuring Chile’s superiority on the South Pacific, as Portales wanted, gave it the control over saltpeter at a time of extraordinary bonanza for this commodity, deeply transforming Chilean economy, and to certain extent the social map of wealth. However, it also confirmed the aristocratic Fronde’s incapacity to lead the country with the former authority, putting the Executive into question. It fell on Santa María not only to negotiate the end of the war but also to compete with Congress with its “parliamentarian” ideas, amidst a new crisis with the Church, from which he had taken away its remaining prerogatives: the monopoly of marriages and the birth and death records. The latter reflects a period when it was necessary to fight for the rights of a lay society. In a letter that read as a political will, Santa María wrote: “Someday the Fatherland will thank me for having laicized my country’s institutions. The degree of education and culture achieved by Chile deserved the liberation of the consciences of my fellow citizens from medieval prejudices. The Church has lost parishioners, has seen faith wilt in its devotees, and what it has gained is the conservative party’s addition to its ranks.”<sup>21</sup>

In 1886, José Manuel Balmaceda was elected President on the platform of bringing together “the liberal family,” defending the new national wealth –

20 Correa, Sofía; Figueiroa, Consuelo; Jocelyn-Holt, Alfredo; Rolla, Cláudio; and Vicuña, Manuel. *Historia del siglo XX chileno*. Sudamericana, 2001. p. 37.

21 Letter published by Encina, Francisco Antonio. *Historia de Chile*. Tome XX. p. 452-456.

represented by saltpeter – and resuming the defense of the Executive. Both the President and Congress remained inflexible in their positions. By 1889, the President had lost his majority in the Senate. In 1890, he faced the biggest strike the country had ever known, which affected the saltpeter fields and the port of Arica. Soon after, Congress refused to approve the 1891 Budget Law. For the first time, Balmaceda invoked the presidential privilege under the 1833 Constitution and extended the Constitution's life. Congress had won over the Navy, which split off from the Army, and started a bloody civil war whose final battles were won by Congress at Concón and Placilla, where six thousand men died. Balmaceda resigned, took refuge at the Embassy of Argentina, refused the proposals to take him out of Chile, and shot himself in the head the day after his term's expiration. As the German Ambassador observed, immediately power was assumed "by the same classes that had always governed," as they thought that under the circumstances their interests would be best protected by the "parliamentary" system. The parliamentary Republic meant only that Congress had acquired the possibility of controlling the Executive by removing ministers from office. That Republic produced a series of parliamentary practices totally alien to the Chilean presidential system, prolonging for over thirty years what Portales had called "the burden of night" in referring to the burden of tradition in the country.

## A time of change

Historiography has untiringly discussed the role of saltpeter's valorization during the Pacific War as an internationally used fertilizer. As a result of the conflict, Chile acquired the Peruvian province of Tarapacá, where saltpeter had excelled the guano's role in Peru's finances, as well as Antofagasta, a Bolivian region whose deposits were already being worked by Chileans. Although the Peruvian mines had passed into the hands of holders of certificates issued by the government to finance exploitation, the Chilean State returned them to those certificate holders, so that saltpeter ownership remained entirely theirs. Subsequently, as a result of these financial operations, British capital came to have a majority share in this resource's exploitation, principally through Colonel John Thomas North. The Chilean government offset the shrinking of its proprietorship of the deposits by imposing a stiff tax on saltpeter exports, which brought a period of unprecedented wealth, with much higher

salaries than in the saltpeter mines, which changed life on the fields, whose population exploded from 2,000 in 1875 to 340,000 in 1908. The boom spread abundance, mansions, and international opera houses throughout the cities in that area, especially Iquique. But, owing to the country's renter mentality, most of the income from saltpeter went to sumptuary spending by private citizens, including on the now nationalized great parks in Santiago and Concepción; very little went to productive investment. Also, the saltpeter bonanza was extremely short-lived. World War I stopped the development of industrial or synthetic fertilizers in which Germany was very advanced, and after the war, as was the case in the United States, Germany's productive process rapidly accelerated, with the support of the Nitrate of Soda Executive. The boom was over, leaving in its wake a sharper contrast between wealth and poverty.

Another problem of the time was inflation, coupled with the lack of experience with appropriate monetary policies. In the late 1870s, the government adopted the paper money system, as it had been left practically without metal money and because it permitted landowners to redeem the properties they had mortgaged by paying their debts at a fraction of their value; the saving of the overexposed banking system; and the financing of war spending. The result was uncontrolled inflation. Foreign loans in pounds sterling or in dollars contracted since 1896 only aggravated the problem and inflation became endemic, affecting particularly the poor and the salaried to the point that it became known as the "poor's tax." As was traditional in oligarchic Chile at that time, the problem gave rise to prolonged, inflamed polemics between the partisans of the two systems – the "oreros" and the "papeleros," [the advocates of metal money and of paper money, respectively]. The oligarchic leaning toward dissidence eventually led to a situation of permanent ideological conflict.<sup>22</sup>

The turn of the century was a time of sharp contrasts. Two conflicting, individualistic sides under the guise of a parliamentary system held sway. Given the failure of the parliamentary system and the saltpeter crisis, the so-called "social question" was heightened. Santiago was being filled with attractive buildings, such as the Mapocho Station, the Gath y Chávez department store, the National Congress, and the Municipal Theater or the Club de la Unión, testimonies to aristocratic wealth, which built its mansions in Alameda and

<sup>22</sup> See especially de Ramón; Couyoumdjian, R.; and Vial, S. *Historia de América*. Vol. III. Andrés Bello.

on its side streets, a few steps from downtown. In contrast, the situation of the workers and the poor continued to aggravate, or to become more visible owing to migration from the country to the city and to the city's expansion. The housing situation, with great numbers of people living in unhealthy tenement houses or shacks, fostered tuberculosis, alcoholism, prostitution, syphilis, and all sorts of epidemics. *Sinceridad: Chile Intimo en 1910*, a social critical work by Alejandro Venegas (nom de plume of a well-known doctor), and *Casa Grande*, a realist novel by Luis Orrego Luco (1908) had a tremendous impact. Urban misery was thus added to the traditional hardship of rural life.

In the political sphere, this situation spurred, back in 1887, the emergence of the Democratic Party, which together with other parties established at that time would give birth to the modern Socialist Party. After the Russian Revolution, one of those parties became the Chilean Communist Party. Meanwhile, a scattered but motivated labor movement adopted its first organized form in 1909 as the Labor Federation of Chile. On the other extreme, despite the languor of the governments in place, the modernizing ideal emerged, expressed by the intellectual effervescence in a segment of Chilean society that transcended the boundaries of the traditional oligarchy and that included poets of very modest origins, such as Vicente Huidobro or Rosa Alcayaga (Gabriela Mistral) or Neftalí Ricardo Reyes (Pablo Neruda), who placed the country at the top of universal literature. This was also a time of extraordinary material progress. The most emblematic undertaking was the construction of the railroad linking the country's North and South, transforming villages into cities along the way, a process soon followed by the development of national shipping companies that still sail the seas.

The old oligarchy had lost the capacity to interpret the social clamor. For the remainder of the twentieth century it would win only one presidential election, but would continue to exert much influence, as it owned the country's enterprises and wealth, and for twenty-five years it enjoyed the support of the military establishment. In the twenties, the one to grasp the popular effervescence was an unknown deputy for Curicó, called Arturo Alessandri Palma, who had made his career under the guidance of a liberal leader. Alessandri had the ability to lead people, negotiate with different groups, and fire the crowds with his oratory, as yet unknown in Chile. Once elected Senator for Tarapacá, he became the natural presidential candidate and in 1920 won the election with 65 percent of the votes and was received in Santiago with enthusiastic manifestations.

However, the closure of the saltpeter firms had disastrous consequences for the country, plunging into unemployment a whole migrant population that had arrived in the pampas in pursuit of the miracle; drastically reducing fiscal revenue and the jobs on which a considerable portion of the growing middle class had depended; and further constraining the funding of social programs. The oligarchy's power persisted, backed by the parliamentary practices that had sought to leave behind Alessandri's election and that had blocked in Congress his social reforms proposal. The watershed was the Labor Code bill he sent to Congress, which addressed the most sensitive issues of the time. The parliamentary opposition did not impede Alessandri from participating in the parliamentary debates, encouraging division in the two chambers, ignoring the criticism leveled at his ministers, manifesting himself in favor of the presidential regime, and mobilizing the masses throughout the country and in front of the La Moneda Palace, accompanied by army officials.

In early September 1924, when Congress in session was ready to reject the code proposed by the Executive, a group of officials occupied the steps, making their sabers hit the ground. This "noise of sabers" ensured the passage of the social legislation in one day and made the Armed Forces aware of their influence. Some generals who mistrusted the young, demanded the resignation of Alessandri, who asked leave from the Congress and traveled to Italy. Soon after, the officialdom, led by Colonel Carlos Ibáñez del Campo, dissolved the Military Junta and called Alessandri back. Soon after, though, the ongoing conflicts forced him to resign and go into exile again, Alessandri achieved the most comprehensive political and social reform in Chilean history, restored the peso's convertibility, and created the Central Bank, with the advisory assistance of the U.S. Kemmerer Mission. He also appointed a commission to draft the new 1925 Constitution, which notwithstanding the abstention of the political parties, was imposed by the Armed Forces as the condition for institutional normality. Drafted on the basis of the 1833 Charter, the new constitution clearly reestablished the presidential system in Chile. The "parliamentary Republic" entered into history as a further instrument of the oligarchy's interests.

There followed a confused period of military interventions and the proclamation of a socialist republic, during which Emiliano Figueroa was elected President. Carlos Ibáñez, who had enhanced his position with the Army's officialdom, was appointed Minister of the Interior in 1927. Figueroa



resigned and Ibáñez was elected President with 98 percent of the votes and led an openly dictatorial government until 1931. His term was highly creative, though, with the execution of a public works program that was spectacular for the time; the establishment of the first National Airline (LAN-Chile); the improvement of the external finances; the reorganization of the administration; and an agreement with the North American owners of the largest portion of the saltpeter industry (the Guggenheim family) to set up the Chilean Saltpeter Company. The 1929 world crisis had serious repercussions in Chile (which depended increasingly more on its participation in world trade) and led to Ibáñez's resignation in 1931. Albert Edwards would say that the great service Ibáñez rendered Chile was the radical reconstruction of authority. It did not last long, though, and after his fall, the cycle of disturbances that had preceded his election started again.

Using Eclac's terminology, one might say that in the colonial period and in the nineteenth century the Chilean economy accurately replicated the features of the "outward growth" period characterized by specialization in the production of primary goods for the major international markets. The 1929 crisis toppled these markets and took away Chile's possibility of exporting to them, maintaining the modest volume of imports required for the consumption of the ruling class, and continuing its incipient development process. As Raúl Prebisch and the Eclac would later argue, the only strategy the Latin American countries could adopt in practice would be the domestic generation of the formerly imported products. This required an industrialization effort for which their societies were not prepared and which hurt against the competition of similar products supplied under better conditions by the industrial countries. It required state policies to protect nascent industries, similar to those for which Britain's thirteen American colonies had fought in the late eighteenth century, or which Germany had adopted after its unification in 1870. Chile had started a modest industrialization process decades earlier. But the effort now required presupposed a government that shared these ideas, which had taken root in the professionals and in the middle class; that were sensitive to popular interests; and that had no ties to the traditional oligarchy. That kind of government was supplied by the Radical Party that represented a lay country and the middle class, through the victory of Pedro Aguirre Cerda at the polls in 1938 and the presidencies of Juan Antonio Ríos and of Gabriel González Videla until 1952.

The Radical Party had come into being in no spectacular manner in Chile in the late nineteenth century, as the representative of the middle class, education, a lay society, and eventually, industrialization. In 1939, Aguirre Cerda, the author of two books titled *The Industrial Question* and *The Agrarian Question*, set up the Production Promotion Corporation – Corfo, whose antecedents could hark back to Mexico’s Nafinsa and to the Bank of Brazil established a few years earlier. Its function was to support some custom duties, credit, and exchange policies formulated by the government to favor industrial investment. Corfo’s results were spectacular, including the establishment of the steel, electric power, oil refining, sugar, and tire industries as well as other industries in many sectors that did not exist before. This occurred in parallel with the strengthening of the areas of education and health, the expansion of the middle class, and the defense of industrial workers, who made up the electoral base of the Radical Party, a reformist party contemporaneous with the National Liberation in Costa Rica, the Democratic Action in Venezuela, and the APRA in Peru, as well as with other similar movements. Hermán Santa Cruz, the representative of the radical governments at the United Nations, was the father of the initiative that created the Eclac, while Felipe Herrera, another Chilean, was later the creator and first president of the Inter-American Development Bank – IADB.

Herrera was Minister of Finance under the second government of Carlos Ibáñez del Campo, elected by an overwhelming majority he gave impetus to an extremely important economic reordering and reform, which for the first time included a social reorientation of the tax burden, under the slogan “let the powerful pay.” He was also responsible for a significant expansion of social security; the foundation of the Banco del Estado, which brought under its umbrella the housing, agrarian, and industrial credit institutions; and for the establishment of the Copper Department that, short of achieving the nationalization of this resource, enhanced the State’s capacity to carry out research on this commodity and its markets. Ibáñez’s second administration, marked by great institutional creativity, followed the general lines of the development strategy adopted by the radical governments, injecting into it strong populist elements consistent with his political leanings, which is where he differed from his radical predecessors. Upon the expiration of his term, Ibáñez was elected Senator and was succeeded by the only popularly elected government of the right in the twentieth century after Arturo Alessandri’s

reforms. In its irony, history gave the electoral victory to his son Jorge Alessandri, president of a paper enterprise, an extremely sober man who implemented an economic policy that was fully compatible with the mixed economy system originated with Chile's radicals. General Ibáñez's populism and Jorge Alessandri's moderation could not have offered a greater contrast. And yet, Alessandri worked in alignment with the Alliance for Progress proposed by the United States. This is why under his administration the agrarian reform's legal framework was established and the process was set in motion, to be considerably accelerated under the two following administrations. Notice should be taken of the continuity that was observed from the radical governments to the Alessandri administration, a period marked by moderate reformism in the political area and by emphasis on inward growth and industrialization. That period was followed by what Mario Góngora would call "the period of global planning."

The tendency to confront mutually excluding positions and thus to conflict has been incorporated into Chilean culture since independence and particularly after the religious quarrels that began in the nineteenth century and extended into the twentieth century. As this century began, a discussion ensued between the 'monetarists' on the right, who "attributed inflation – and by extension all the evils of the Chilean economy – to monetary and financial phenomena, and the 'structuralists' that explained it in structural terms," that is, in terms of Chile's economic and social structure.<sup>23</sup> This last position was endorsed by Eclac. According to Eclac, to remedy these evils it would be necessary to change this structure, which in turn would require a political movement on a much larger scale than the country had ever known. The degree of complexity that society had attained by then, the expansion of the conflict that divided the various social classes, and the expansion of education, converted these differences into ideological conflicts involving contrasting views about what society's structure should be. The ideologizing of these differences has caused great harm in Chile.

This process started in 1964 with the election, by a large majority, of Eduardo Frei Montalva, the leader of the Christian Democratic Party, an idealist party that for thirty years had maintained only three deputies and two senators in Congress. Christian Democracy was born of the conservative

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<sup>23</sup> Góngora, M. Op. cit., p. 246.

youth, the progressive wing of party with which it waged a constant battle, which as any “sectarian” battle – involving parts of the same whole – acquired an ideological character enhanced by a religious strain. The Christian Democratic program included the building of a society imbued with greater solidarity (communitarism), a major popular promotion project, a determined agricultural diversification policy and acceleration of agrarian reform, for which expropriations did actually begin with Frei. Frei gave impetus to the integration of Latin American countries, playing a decisive role in the drafting of the Cartagena Agreement, and to their independence from the United States, an aspiration expressed in the Consensus of Viña del Mar. At the end of his term, though, the degree of ideologizing in the country and the expelling of two or three important groups of leftist youths from the party froze him in his positions and prevented him from entering into a pact with other collectivities, as needed for the country’s governability, given the climate of confrontation and the loss of the party’s majority in Congress.

Under these circumstances, the leftist parties for the fourth time put forth the candidacy of Senator Salvador Allende, a veteran politician, a great orator, and a man committed to democratic institutions. But the radicalization of the agrarian reform, its use for creating social conflicts in the country so as to give motive for further expropriations, his intention to create a social area of the economy through the expropriation of a great number of industrial enterprises, and uncontrolled inflation, coupled with the conflictive character of his own party coalition and the impossibility of arriving at an agreement with the Christian Democrats, led the Armed Forces, encouraged by local entrepreneurs and United States diplomacy, to overthrow the government in September 1973 and to bomb the La Moneda Palace. Allende refused to leave and shot himself with a machine gun he had received as a gift from Fidel Castro, who had paid a prolonged visit to Chile in that period. Paradoxically, the Armed Forces, which had allegedly intervened to break a transitory impasse, formed a government of indefinite duration, soon to become more ideological than the previous governments.

The gestation of the military coup and the participation of the different branches of the Armed Forces had aspects that even today are not sufficiently clear. Three things are clear: the Army played a central role after the decision was made, owing to its size and to the strategic conditions of its Commander in Chief Augusto Pinochet, who had been appointed by Allende a few days earlier;

with the coup, the Armed Forces arrived to stay, although the old politicians thought they had come only to restore order and to return government to them; as they assumed power, the Armed Forces lacked a specific economic vision. The civilians that were members of the first military cabinets belonged to the country's traditional world. But for over twenty years the Catholic University's School of Economics had taught market economy in the most classic of its versions, under an agreement with the Chicago School. Those cabinet members thus formed an excellent, coherent team that had put their ideas about Chile into a joint document known as *El Ladrillo* [the Brick, or building block]. The Navy maintained contact with the group and sold it to the rest of the government. For fifteen of the seventeen years of the military regime, the "Chicago Boys" reshaped the economy with full military support and without civilian opposition. They had at their disposal an excellent laboratory to implement a set of quite radical market reforms, years before the Reagan and the Thatcher governments and nearly fifteen years before the Washington Consensus. The cost of those reforms in the first decade was an unemployment rate of 30 percent (even taking into account government programs of emergency nonproductive jobs) and a marked increase in poverty, which at one point affected practically 50 percent of the Chilean population, simultaneously with extreme fiscal restriction and a profound crisis caused in 1982 by the payment of the foreign debt, when the State transferred to the Central Bank the onus of rescuing the national banking system. In 1985, though, the country set off on a course of sustained development.

The political forces proscribed by the military government never ceased their activity in exile or in the country itself, and began to come together, forming, after several attempts, the *Concertación de Partidos para la Democracia* [Concert of Parties for Democracy] which included the Party for Democracy (founded at the time to escape proscription), and the Socialist, the Radical-Social Democratic, and the Christian Democratic Parties. The issue of whether to adopt a confrontational strategy to overthrow the military government or to follow the course established by the 1980 Constitution drafted by the government was resolved by the adoption of this last alternative, in consonance with a plebiscite at which the citizens were called to answer "Yes" or "No" to the permanence of President Pinochet, who envisioned a mandate for another ten years. But "No" came out victorious by a comfortable majority. After hours of deliberation during the night in a bunker built under the La

Moneda Palace, the Air Force Commander personally greeted the opposition leaders, and the government accepted the referendum's result. Accordingly, elections were held in 1990 and Patricio Aylwin, the Concertación candidate was elected president. As all of us Chileans were part of that period – either against or in favor – it is not possible to describe its economic results without at the same time passing some judgment on them. What seems clear, though, is that the Concertación is the broadest, most successful coalition that governed the country in the twentieth century.

A writer has recently maintained the “the Concertación's economic axes have been political governability, economic institutionality, and social equity.”<sup>24</sup> To these axes I would add the maintenance of a market economy corrected by social protection policies, and a cultural change. The results of this combination of growth and equity policies include an economic growth of over 5 percent a year, despite the interruption of this trend owing to the Asian crisis, and the reduction of poverty from over 40 percent under the military regime to 13 percent at the end of President Lagos term. In my view, the difficulties Chile has faced to revive its economy after the impact of the Asian crisis reflect in part the limits imposed by the economy's structural problems and by the cost of these governments' social commitments, not so much in terms of the financing of their social policies but of their relation with workers and the labor world. There is a consensus in Chile that the obstacle to imparting dynamism to the economy has to do with the lack of innovation capacity and of flexibility, which of course includes some degree of labor flexibility as well. In compensation, as a result of the right fiscal and macroeconomic policies and the bonanza enjoyed by copper on the world markets, the country has built a financial shield that allows it to face with confidence the threats of recession in the U.S. economy and its possible world repercussions.

The price of this process is the impression that the Concert of Parties for Democracy has lost part of its capacity to govern. This impression has been expressed in a recent work by an author who was the pillar of the fragile governability of the recently recovered democracy under the Aylwin government and who has played a critical role until now. He argues that “the indefinite exercise of power tends to convert it into an end in itself, to become

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24 Muñoz Gormá, Oscar. *El modelo económico de la Concertación*. Catalonia, 2007. Particularly p. 88 ff.

a habit, and eventually to lead to corruption.”<sup>25</sup> This is what occurred in Italy in the early 1990s, after forty-five years of governments supported by similar coalitions, consistently led by Christian Democracy. This is also what occurred soon after in Latin America, where many countries suffered the dismantling of their party system, in Venezuela in particular. Every country must remain sensitive to threats to its governability. **DEP**

Translation: João Coelho

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25 Boeninger, Edgardo. *Políticas públicas en democracia*. Uqbar, 2007.

# Progress and challenges in Colombia today

*Alfredo Rangel\**

**F**ortunately for Colombians, the long, dark night of violence and insecurity that has engulfed us in the last forty years is nearing the end. We are beginning to see the light at the end of the tunnel and to turn the page of this deep-rooted phenomenon in Colombia. Thus, the great, awesome challenges we face for the future will not be significantly associated with the violence that to a great extent has conditioned the country's fate in the preceding decades.

The improved situation in Colombia has been achieved through the application of consistent and effective national security measures that have restored in large measure the security of Colombians and foreigners in the country. The recovery of security has reactivated the economy to an unprecedented degree as compared with previous years and has in turn greatly advanced the solution of the country's social problems.

## **Economic and social development**

The Colombian economy had grown an average of 2.5 percent of GDP in the last decades, whereas last year it grew 7.5 percent, a record in the last

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thirty years. This resulted from domestic and foreign investment encouraged by the improved security conditions in the country. In previous years, annual investment averaged two billion dollars; today it is about nine billion dollars, and there are investment projects for the future totaling another nine billion dollars. According to Eclac, Colombia ranks fourth in the area as a receiver of foreign capital, after Brazil, Mexico, and Chile. Domestic investment has also grown in recent years and today equals 27 percent of GDP, as compared with only 15 percent previously. The external debt declined from 48 percent to 26 percent of GDP in the last five years, and the fiscal debt dropped from 3.6 percent to 0.8 percent in the same period. Colombian exports to the United States have trebled in the last ten years, to total 12 billion dollars. Exports to Venezuela, our second trade partner, increased sevenfold, from 800 million dollars to six billion dollars. For Colombia, this has meant growth, productivity, employment, and better living conditions for the population.

Open unemployment, which stood at 18 percent six years ago, fell to half by late-2007 and now stands at 10.5 percent. During this same period, the population living in poverty conditions declined from 57 percent to 42 percent; this means that at least four million people have been lifted out of poverty in the last five years; this was also the case of ten million people in the last eight years. The population with access to social security increased from 56 percent to 83 percent, as the poorer's access to the system doubled. Likewise, the population attracted to the pension regime rose by 44 percent in the last years. In the immediate future, a slight deceleration of the economic growth to 4.5 percent a year is expected, but the country will continue to grow and seems to be shielded from the risks stemming from the international financial crisis.

## The recovery of security

The country's recovery has been possible because of the recovery of security. Indeed, in 2007 Colombia recorded the lowest homicide rate in the last twenty years; in the last six years, this rate dropped by half, from 65 homicides per 100,000 inhabitants – which is very high in comparison with countries similar to Colombia – to 34 homicides per 100,000 inhabitants in less than six years. Although this rate is still high, the current situation is far less serious than that of some neighboring countries. Today, several countries have a higher homicide rate than Colombia, which until a few years ago ranked first owing to

the internal armed conflict: Salvador, 55; Venezuela, 52; Jamaica, 49; Guatemala, 45; and Honduras, 43. Bogotá, with 18 homicides is in a much better situation than Guatemala City (103); San Salvador (95); Caracas (87); Tegucigalpa (56); São Paulo (55); Rio de Janeiro (53); Brasilia (38); Washington (34); and Lima (22). Should this rising trend hold, the region's average homicide rate of 26 today, three times that of Europe, could reach 30 by 2030, far higher than the world rate of 9 homicides per 100,000 today.

Moreover, Colombia has notably improved its situation related to a crime that for many years occupied an ignominious foremost position, namely, hostage taking. Owing to the 80-percent decline of this crime in our country and its peaking in neighbor countries, at least five Latin American countries now surpass us in the number of kidnappings in relation to their respective populations – in descending order: Mexico, Ecuador, Brazil, Haiti, and Venezuela. Until recently it was unthinkable that Ecuador would now have more kidnappings than Colombia. But it has happened, as shown by the last Pax Christi study on the issue. And yet, ill reputation has stuck to Colombia. It is now said that a country becomes *colombialized* when the number of kidnappings and its internal insecurity in general increases. This occurs precisely at a moment when we Colombians are making a comeback and to a great extent beginning to solve such problems.

## Guerrilla's weakening

The weakening of the guerrilla and the demobilization of the paramilitary groups in Colombia have substantially reduced their violent actions against the population and the State security agencies. For example, guerrilla attacks against small rural settlements in 2002 numbered about 30 and in some cases included control of the populations for many hours, have dropped to two cases of harassment against small towns in the outer confines of the national territory. The forced displacements of people owing to violent clashes between guerrillas and paramilitary over control of parts of the national territory have substantially decreased as well. Illegal guerrilla roadblocks, which totaled 246 in 2002, have fallen to only 18 last year, or to thirteen times fewer.

What has made this restoration of security possible? The explanation is a very effective policy against the armed groups, which has inflicted on them

their greatest *débâcle* ever. The FARC's case is eloquent. Let us review some indicators of their debilitation in the past five years:

**Men in arms.** They have lost 60 percent of their men; from the original 18,000, they are now reduced to seven thousand. For the first time in their history, their troops decreased. Most have deserted or joined government programs. At the same time, their recruiting capacity has also declined in view of the deterioration of their image among the peasant sectors.

**Finances.** Their income has shrunk by at least 40 percent. Despite their closer involvement with narcotraffic, their receipts have declined because now the lion's share goes to the Mexican mafias. In addition, the Negro Acacio front has broken up, and this has meant a significant loss of drug proceeds. Annual kidnappings dropped 92 percent, from 998 to 75. The loss of territory and mobility has cut in half their blackmail capacity.

**Territory.** Measured by the number of municipalities where the FARC had staged attacks against Police Force, their territorial presence has declined by 40 percent. They have definitively lost strategic areas in Cundinamarca as well diminishing their presence and losing their mobility at their strategic rearguard in the country's south as a result of the Patriot Plan. Their urban networks have been broken up and thus they have abandoned their intent to bring the conflict to the urban areas.

**Operations.** Their operational capacity has drastically dropped. Their annual attacks against the Police Force dropped from 399 to 214, nearly half. It should be noted that most of their terrain are mined fields, a totally defensive tactics to stop the advance of the government troops that pursue the guerrillas as they retreat, tactics responsible for 68 percent of the victims among the Police Force. Illegal roadblocks fell from 278 to 37, an 86-percent drop. Their attempts against the economic infrastructure have fallen to less than half, while their attacks against populations fell from 39 to one.

**Leaders.** They had never sustained such a significant loss of leaders as now, whether through capture, casualties, or desertion at all leadership levels, from the rank-and-file to their Secretariat. Numerically speaking, all of them can be replaced, but this series of losses has dealt a hard blow on their morale and meant a significant curtailment of their political, organizational, financial, and military capacity. The capacity and experience of many of the missing leaders are irreplaceable.

**Communications.** The State's intelligence mechanisms hold the FARC practically incommunicado. This has affected their leaders' command and control capacity and led to the troops' laxity, indiscipline, and lack of motivation, as well as to widespread corruption and to embezzlement of resources by middle leaderships, which has further deteriorated their finances and limited their operational capacity.

**Morale.** The FARC's motivation has reached its lowest level ever. Their hopes of a military victory have been dashed. Their military and financial weakness, incommunicado condition, the avalanche of desertions, widespread exchange of information for compensation, the death of important leaders, and the massive popular repudiation last February 4 will continue to undermine their morale and motivation to go on fighting.

In view of the preceding, the FARC now have time against them. Their further weakening will be gradual and irreversible, and the weaker they become, the less will they be able to obtain from a negotiation with the State. The situation of the ELN, which is much weaker, is calamitous. At one point it had 4,500 men in arms, but currently it has no more than 600 or 700, a fraction of its membership in the past. It is close to ceasing hostilities, forced by the government forces.

## Paramilitary demobilization

The Government's security policy does encompass a peace policy that has always kept the door open to peace negotiations with any group willing to negotiate. This policy has led to the demobilization of 32,000 members of the paramilitary groups, 16,000 of whom handed over their weapons, as they were combatants in the armed ranks. This has also contributed to greatly reducing the number of massacres, assassinations, and forced displacements of people, which have been a critical problem in the country in past years.

The demobilization of these groups was a major achievement of the national Government. They were groups that had not been defeated by the State on the demobilization occasion and that on the contrary were thriving from a military, political, economic, and social standpoint. Moreover, they had managed to defeat the guerrilla in many places and held territorial control over many areas of the country. But the State imposed its own conditions for them

to submit to the Justice and Peace Law, the legal framework under which they surrendered their arms and demobilized.

The Justice and Peace Law requires that those guilty of heinous crimes confess all their offenses and surrender their possessions to provide reparation to the victims as a condition for a substantial reduction of their prison sentences. If they refused to make full confession or to surrender all their possessions they could forfeit this benefit and be turned over to the ordinary courts, where they might be sentenced to sixty years detention for their crimes, instead of the eight years under the Justice and Peace Law should they fully meet the conditions. What is important is that this was the first time in Colombia that an armed group was demobilized under conditions conducive to simultaneous gains: to arrive at a significant degree of truth and justice and to ensure reparation to the victims. This had never happened in previous demobilizations of guerrilla groups in Colombia or anywhere else in the world in any process of national reconciliation. As a result of the enforcement of this law, 2,700 demobilized paramilitary were tried, including fifty major leaders, fifteen of whom were extradited to the United States to be prosecuted for narcotraffic, while 137,000 victims were enrolled as plaintiffs and reparation claimants, 1,300 common graves were uncovered, and 1,600 corpses were exhumed.

Demobilization of other paramilitary groups has exposed many political leaders and permitted their prosecution for having allied themselves with these illicit groups to illegally pressure voters or to threaten their opponents so as to obtain electoral advantages. The vast majority of these cases occurred before the current administration, under which these groups have been demobilized. Despite the commotion caused by these proceedings, at no moment was the institutionality or the work of the Congress been jeopardized and the Courts have functioned with independence, a sign of Colombia's institutional strength. Congress is currently considering a political reform to prevent the penetration of illegal armed groups into Colombian political life, an issue on which the National Government, the political parties, and society are in agreement.

It is quite possible that the FARC and the ELN guerrillas will eventually demobilize and much more generous concessions than those offered the paramilitary may have to be made, i.e., a possibly less harsh and strict justice and peace law might be required, which might not elicit the criticism the

Colombian government has had to endure in the case of the demobilization of the paramilitary. But if this is the price of total demobilization of the guerrilla and of the advent of definitive peace in the country, we Colombians might be willing to assume it.

## Narcotraffic

Nevertheless, other problems remain critical in Colombia. The major flaw in the democratic security policy has been associated with narcotraffic. The fight against narcotraffic has not been successful. But this is not exclusively a Colombian problem, as the worldwide war against illicit drugs and particularly against cocaine is being lost. Each day, more cocaine is produced and consumed in the world. Figures are utterly devastating. In Colombia, the size of the areas planted to coca has decreased to fifty-percent as compared with ten years ago; however, this reduced area is producing twice as much cocaine as before, totaling more than 600 tons a year.

Colombia has dismantled all the drug cartels – the Medellín, the Cali, and the Norte del Valle. Thousands of tons of inputs have been attached, hundreds of tons of cocaine have been confiscated, and more than a half a million hectares have been fumigated countrywide. Hundreds of capos have been extradited to the United States; in the last six years, six hundred members of drug trafficking gangs have been turned over to U.S. Courts. And yet, the quantity of cocaine Colombia produces and exports is practically the same or higher. Now, much cocaine is being produced in Peru and Bolivia to supply a growing international market. The United States has about six million cocaine users and this figure has remained stable. Consumption is increasing also in other countries, including Ireland, Spain, France, and Italy, as well as in countries of Eastern Europe and of Latin America, where Argentina is today the greatest consumer, surpassed in the Americas only by the United States. It has seriously penetrated Brazil and particularly Mexico, accompanied by an enormous growth of violence, crime, weapons, and corruption – in Mexico the mafias are fiercely disputing the lion's share of the fabulous illegal profits from narcotraffic.

As narcotraffic's high profitability persists, Colombia has seen the emergence of dozens of small cartels that have replaced the big ones.

Differently from their predecessors that have been dismantled by the State, these small cartels keep a low profile, avoiding violent confrontations with the State and ensuring operation conditions through corruption rather than violence. At the same time, in many rural areas a recent phenomenon has emerged, namely, armed bands at the service of narcotraffic, many of them born of nondemobilized remnants of former paramilitary groups. These illegal armed groups have struck alliances with guerrilla fronts that also engage in narcotraffic, so as to face up together to the State's repressive actions. They pose a new threat to national security and are the outcome of narcotraffic's persistence as and illegal activity that generates enormous profits. They are not counterinsurgent paramilitary groups as those that demobilized and submitted themselves to the Justice and Peace Law; they are true narcogangs that ally themselves to the guerrilla to partition territories, markets, and drug profits and to repel the State together.

## International borders and relations

Another security problem still pending in Colombia is that of borders. I believe some progress is being made, as it has received great emphasis from the national government through the Consolidation Plan, the second element of its democratic security policy. The spreading of the effects of the internal armed conflict onto the territory of neighboring countries has entailed many border incidents, causing political and diplomatic tension between Colombia and some of its neighbors. The Consolidation Plan seeks to seal the borders to prevent the transhumance of irregular groups, the use of foreign territories as these groups' haven and protection areas, reduce the contraband of arms, drugs, and goods, and prevent other crimes such as kidnappings in border zones.

Fortunately, after a long, critical period in relations between Colombia and Venezuela, the situation tends to become normalized. The mutual verbal and public attacks between the presidents of the two countries have ceased and the two governments have expressed their intention to cooperate in the joint surveillance of the border zones and to proceed with the substantial binational integration agenda, which includes mega energetic projects, such as the construction of a multipurpose pipeline linking the Gulf of Venezuela to Colombia's Pacific coast. President Chávez has publicly and clearly dissociated

himself from the FARC guerrilla, about which he used to have an attitude seen as ambiguous by some Colombians and by others as one of firm support and backing. Chávez has declared that there is no place for armed conflict and urged the guerrilla immediately to release the hostages without any counterpart. This has been considered as highly positive by the Colombian government, which has reiterated its decision to normalize relations between the two countries, which enjoy a vigorous, fluid, and growing trade and cultural exchange.

In the case of Ecuador, the situation is somewhat more complex and variable. Although contacts between the two Foreign Affairs Ministries have intensified, with a view to normalize diplomatic relations, which were suspended some months ago, the situation is still far from being solved. Colombia has repeatedly accused the Ecuadorian authorities of being too complacent toward the presence of Colombian guerrillas on their territory, while the Ecuadorian government reproaches the Colombian government for not doing enough to prevent insurgents from crossing the border. But it was the Colombian Military Forces' bombing of the camp the FARC leader Raúl Reyes had maintained for various months in Ecuador that triggered the still unresolved crisis. A recent meeting of the top military echelons of the two countries in Panama suggests that the mutual animosity is abating and that in the future the mutual interest in guaranteeing border security will prevail, as a condition to actively proceed with the economic and cultural integration of the two countries.

Colombia has received strong support from the Brazilian government in the fight against the guerilla and narcotraffic. In turn, Colombia has supported Brazil's initiative aimed at the establishment of a South American Security Council, despite the Colombian Government's initial reservations, as it demanded a clear attitude on the part of all the area governments in respect of terrorism. Once this obstacle was overcome, the Council appears as necessary to strengthen mutual confidence among these countries and for them to address together the threats to collective security.

Colombia's economic and diplomatic relations with the United States are very close and free of concern or uncertainty about the future. The Colombia Plan, a bipartisan initiative, began under the Democrat President Bill Clinton and has been maintained by the Republican government. Thus, it is to be expected that whatever the outcome of the forthcoming presidential election,



this cooperation between the United States and Colombia will continue without hitches, as it has been and continues to be essential for strengthening the Colombian State, restoring security, fortifying the judiciary system, and weakening the irregular groups and drug traffickers. The main pending issue on the bilateral agenda is the Free Trade Agreement, whose approval has been delayed by the presidential electoral campaign in the United States. For Colombians, it is regrettable that the Democrats have postponed the approval of this agreement under the argument that human rights violations continue in Colombia, forgetting that it was thanks to the Democrat government that Colombians have been able to overcome a serious humanitarian crisis, and failing to recognize that today the situation is much better than at the outset of the Colombian Plan. It might be paradoxically stated that the better the situation in Colombia, the worse is the Democrat's treatment of the country, or that when the situation was very serious, relations with the Democrats were much better.

Certainly there is no hostility on the part of the Democrats toward Colombia; it is just a question of electoral tactics, when they seek to launch attacks from every angle against President Bush, whose Administration has had in the Colombian Government a staunch ally. Only under the present circumstances are Democrats bent on attacking Bush's allies. Thus, it is to be expected that, once the elections are over and the new U.S. Administration begins, things will return to normal, should the Democrats win, and that good relations will continue, should the Republicans win. Whatever the outcome, the approval of the FTA is assured, as the Colombian economy has urgent need of this trade agreement to continue to grow and to successfully incorporate itself into the globalization currents.

## Future challenges and presidential reelection

A serious challenge for the future in relation to security in Colombia will require building up on the progress achieved so far, ensuring and intensifying social and institutional control over the territory, and maintaining the positive trend of reduction of all types of crime. This in turn depends on the successful reintegration of the guerrilla groups into society, dismantling the new narcotraffic gangs, achieving peace agreements with the guerrillas, and reducing narcotraffic, of course.

Another challenge Colombia faces is the need to ensure favorable conditions to continue attracting foreign investment and increasing domestic investment to maintain a high growth rate for the steady reduction of unemployment and the guarantee of sufficient fiscal revenue to expand social security coverage and reduce poverty. Economic growth and security are essential to the ongoing pursuit of a more cohesive, equitable, and just society.

President Uribe's term ends in 2010. Colombia's political circumstances today are characterized by the debate about presidential succession after two consecutive Uribe Administrations. An initiative under way aims at the convening of a referendum on a third term in office for President Uribe. It has raised fears in the opposition parties, given the great popularity enjoyed by Uribe, who would be undefeatable at the polls. Indeed, after six years, his popular approval averages 80 percent, the highest enjoyed by a president in the world's democracies.

Those contrary to such reelection argue that Colombia would run the risk of other South American presidents, who after the extension of their mandates displayed authoritarian tendencies, excessively concentrating power and restricting democratic pluralism. In my view, Colombia would not be exposed to such a risk, as it has historically been one of the countries with greatest institutional stability in the region. This means that its democracy is a shield against authoritarian dangers because in Colombia there is full separation and full independence of the branches of government, there are independent control bodies, freedom of the press, and a critical, determined society that watches and controls public authorities. The last word belongs to the National Congress, the high Courts of Justice, and the Colombian people on the approval or rejection of the possibility of extending the mandate of the current Colombian Government. Be as it may, many are the potential candidates of several political parties with sufficient capacity and leadership characteristics to replace the current authorities because the country fortunately has one of the best prepared and most capable leading classes of the region. Whatever the outcome, the continuity of the objectives seems to be assured: more security, more economic growth, more social cohesion. **DEP**

Translation: João Coelho

# Ecuador's socioeconomic development

*Marco P. Naranjo Chiriboga\**

**T**here is a difficulty, as yet unresolved by Ecuadorian academic thinking, about the periodization of history or about the country's historical process in general. Traditional studies have emphasized extensive descriptions focusing personalities or isolated facts, particularly of a political nature, and thereby attempted to construct a national history.

Studies by a new generation of social scientists, especially since the 1970s, have endeavored to change this focus and to undertake a new periodization of Ecuadorian history.<sup>1</sup> They have sought to understand this history in accordance with the peaks and crises of export products, which requires and approach to Ecuador's economic development from the standpoint of its links to international markets.

Other authors seek to arrive at a periodization of Ecuador's history according to the contradictions between the growth of the productive forces and production relations, which ultimately becomes an analysis of the development of the mode of production.

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<sup>1</sup> These authors include Agustín Cueva, Alejandro Moreano, and René Báez, among others.

There are still others who try to understand Ecuador's development from a monetary viewpoint and whose works follow lines similar to those adopted by Milton Friedman or Galbraith in relation to the United States.

We should begin by pointing out that it is difficult to classify production's social relations in Ecuador in colonial times. Authors such as José Moncada, Oswaldo Hurtado or Carlos Coloma have expressed a series of concepts that are not definitive. However, we may say that the conquest process impressed on the Quito Royal Audience (whose territory corresponds to modern Ecuador's) a series of feudal features that predominated over other features that could be associated with capitalism.<sup>2</sup> But it should be recalled that the conquering economy, that is, Spain's, set the conquered economy into motion, which brought some commercial development, especially as regards products that were appropriate to the metropolis's trade or self-consumption.

It was the *criollos* (population born in America of Spanish descent), linked to this commerce, which saw in Spain an obstacle to their foreign operations and headed the independence movements.

In general, the colony's monetary mercantile relations are clearly manifest; they show the interconnection among the colonizers internally and between them and the metropolis. There is no doubt that the reproduction of the native work force as well as the relations between the colonizers and the local population did not occur on a monetary mercantile basis. Extra-economic necessity was the fundamental characteristic of the exploration of the work force.<sup>3</sup>

Paradoxically, these pre-capitalist relations proved unusually persistent until the 1970s, particularly in the inter-Andean region.

On the Coast, on the contrary, salary relations displayed strong dynamism, although servile relations also persisted, especially in the cocoa sector, well into the twentieth century, as forest clearers and planters were subject to extra-economic relations.

The year of 1820 marked the beginning of a period of economic prosperity in the Coastal Region owing to increased cocoa exports as a result of the freedom of trade decreed after Guayaquil's independence.

2 Hurtado, Oswaldo. *El poder político en el Ecuador*. Quito: Catholic University, third edition, 1979. p. 3.

3 Coloma, Carlos. *Particularidades del desarrollo económico del Ecuador*. Revista del I.I.E. de la PUCE. Quito, 1986. p. 3.

Under the international labor division, it fell on Ecuador, by virtue of its *typical characteristics*, to produce tropical goods – *sophisticated* fruit. The country thus connected to the international market through products such as cocoa, coffee, toquilla straw hats, etc.

The need to expand markets, an objective need in view of the industrial development in Great Britain and in some other European countries, also led to the American independence, together with the determination on the part of the Creole merchant bourgeoisie and the native landowners' class to break Spain's trade monopoly. José Moncada describes this independence process as follows:

“The struggle for our country's independence remained always within limits that were advantageous for the landowners and the Creole merchant bourgeoisie.

On the other hand, England's and France's industrial revolution needed the Latin American market for its products. The industrial capitalism that was developing throughout the eighteenth century found in the Spanish dominion an obstacle to the entry of their manufactures into the American colonies.”<sup>4</sup>

The truth is that the objective of political independence from Spain was above all freedom of trade as well as freedom to borrow and to receive foreign investment.

Thus, it should not be at all surprising that the independence wars were financed by the British Empire, which needed to place 70 percent of its production overseas, other than in its colonies.

The independence movement reflected a clear contradiction between the narrow limits of colonial dependence and the subsequent development of the productive forces. This contradiction led to the maturing of production relations in the Colony.

This becomes quite clear when one notices that soon after the proclamation of the Republic of Ecuador, the Riobamba National Assembly put into effect the Laws of the Indies, which meant the perpetuation of the Colony's feudal system.

As a result, feudal production relations became predominant in most of the country. It should be noted, though, that with independence a native

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4 Moncada, José. “De la independencia al auge exportador.” In: *Ecuador pasado y presente*. Quito: Editorial Universitaria, 1973. p. 116.

process of capital accumulation began on the Coast, as foreign trade provided resources for the emergence of commercial and financial capital.

In 1830, Ecuador became one of the world's major, if not the major cocoa exporter. Principally in Guayaquil, a period of increasing economic prosperity began, fueled by the development of agriculture and the export trade. This, as mentioned, would trigger an initial process of original capital accumulation that would be characterized by steady foreign participation, particularly English, not only because England was the country with which we traded the most but also because of the independence debt.

### “The English debt”

“The state debt with England, stemming from the assistance received during the liberation war, put a stamp on the country's subsequent economic development.”<sup>5</sup>

The “eternal” English debt, always profitable for the creditors that *ran the risk of financing the independence cause*, yielded gains not only from the exorbitant interest rates and the advantages of the placement of American bonds; profits were derived above all from the fat deals, then as now, related to the arms traffic, particularly in times of conflict. In this regard, the following quotation is pertinent:

“For the arms providers, there were sales under favorable terms; for the financiers, there were huge discounts on the papers traded, which made real interest on financial investments potentially far more lucrative than the alternative of buying securities locally, where they would be subject to the limits set to interest rates and discounts by the usury law. ...the episode of Ecuador's foreign debt has not been one of the most felicitous in national history.”<sup>6</sup>

Owing to a series of mistakes, the English debt has been paid many times over. One of the aspects has to do with the conditions under which Gran Colombia contracted the debt and especially with how the funds were spent and lastly how the debt was split when Gran Colombia<sup>7</sup> dissolved. The

5 Coloma, Carlos. Op. cit., p. 6.

6 Swett, Francisco et. al. *La deuda externa del Ecuador*. Quito: Banco Central del Ecuador, Corporación Editora Nacional, 1981. p. 12.

7 Corresponded to the former Viceroyalty of Granada, which also encompassed the Captaincy of Venezuela and the Quito Audience.

apportionment of the debt, according to many authors, was not consistent with the countries' economic capacity, as it was done in accordance with each country's population at the time. The debt was split as follows:

Article 2:	Herring Graham y Powles loan of \$2 million, dated March 13, 1822.	
	• Nueva Granada (present-day Colombia)	1,000,000
	• Venezuela	570,000
	• Ecuador	430,000
Article 3:	B.A. Goldschmidt loan of \$4,750,000, dated May 15, 1824, with a \$4,625,950 balance	
	• Nueva Granada	2,312,975
	• Venezuela	1,318,395.15
	• Ecuador	994,579.05
Article 9:	Consolidated debt at 3% interest, of \$6,998,212.25 (pesos) with a \$6,399,987.25 outstanding balance as at December 31, 1829.	
	• Nueva Granada	3,479,993,721/2
	• Venezuela	1,997,896.37
	• Ecuador	1,492,097,251/2
Article 10:	Consolidated debt at 5% interest, \$5,374,905.75 (pesos) with a \$5,359,355.75 outstanding balance as at December 31, 1829.	
	• Nueva Granada	2,679,677,871
	• Venezuela	1,527,416,371
	• Ecuador	1,152,216.50
Article 23	1826 Mexican loan of \$63,000	
	• Nueva Granada	31,500
	• Venezuela	17,955
	• Ecuador	13,545

Source: Swett, Francisco. *La deuda externa del Ecuador*

To these figures should be added the balances of the floating and the public debts, which could not be precisely ascertained.

Ecuador's total imputed debt stemming from foreign loans was 1,424,579 pounds and 5 shillings as established under the Pompo Michelena agreement. On April 13, 1837, the National Congress approved this debt, as President Rocafuerte's government was favorable to the formula, because it considered the population based established appropriate for the arrangement.

Francisco Swett argues that a major reason why the debt was apportioned as shown above was the fact that "for internal reasons, Ecuador did not

participate in the negotiations for the apportionment of the debt, and the formula adopted was prejudicial to our interests, as it was based on the population and not on the three countries' economic capacity."<sup>8</sup>

Be as it may, whether the apportionment of the obligation among the three countries was equitable or not, the continuing depurations and especially the economic policy pertaining to the English debt were marked by a series of developments that threatened to end in territorial conflicts as Ecuador thought of paying the debt with part of its territory.

The boundary problem that arose from Ecuador's payment proposal to the English and the answer of the Peruvian Chargé d'Affaires in Quito are well explained in the following paragraph:

"The cession of territories was the cause of the near break of relations with Peru. Ecuador had granted the English rights of occupation and ceded navigation on the Amazon to the English and the Americans. He added that these actions were unrighteous as they affected territories under dispute and that even if Ecuador had maintained undisputed sovereignty over these territories, Nueva Granada and Peru should have been informed of these arrangements."<sup>9</sup>

All the Ecuadorian governments' attempts to pay the English debt or at least to bring current the interest on it were aimed at presenting a prestigious image before the European community so as to attract new loans and new investments, as well as European immigrants, particularly English, to enhance Great Britain interests in Ecuador.

The negotiations of the agreement to pay the English debt with territories in Ecuadorian Amazon were suspended by the Bond Holders Board in view of Peru's war movements, pending a solution for the territorial impasse.

Finally, the Peruvian Navy blockaded the Ecuadorian Coast, particularly the port of Guayaquil. This led to the signing of the Mapasingue Treaty by General Franco, Commander of Guayaquil, and Peruvian President Castilla. Article five of the treaty, in light of the Decree of July 15, 1802 that ceded to Peru the territories of Quijos and Canelos, declared null the clause ceding territories to British creditors.

8 Swett. Op. cit., p. 12.

9 Kornat, Gerhard Dekonja. "Ecuador: Ensayo Bibliográfico." In: *Ecuador Hoy*. Bogotá: Siglo XXI, 1978. p. 303.



Ecuador paid the Independence British Debt on May 24, 1974 one hundred forty-four years after having incurred it.

The independence debt with England, which yielded no economic benefit, as the total amount was used in the war, was the first foreign investment in the country, and, as far as we have been able to ascertain, the only that entered Ecuador in most of the last century.

## Other early investments

In the Republic's first years, capital concentration and centralization in Europe was just beginning. This is why the Latin American countries in general received no significant foreign investments in the early years of independence, except for a few that were directed to the prospecting and exploitation of gold and silver deposits in the former Spanish colonies.

Ecuador was also involved in the exploitation of mining, but only in the last quarter of the nineteenth century. These foreign investments had the following characteristics:

“The only mines under exploitation were those of the English Zaruma Gold Mining Company, established in London in 1880 with a capital of 250,000 pounds sterling to work the mines of Sesmo, Portovelo, Jarupe, Bomba de Viscaya, Bomba de Pacchabamba, Toscán, Blanco, and Caripamba, all of them allegedly fabulously rich, as it was said that in old times they had produced great quantities of gold. The concession granted the British S. Parson and Son company, recognized its rights to the mines of a large portion of the Republic's territory. Under the concession, the company had free access to the entire Ecuadorian territory and had the right to expropriate, under conditions jointly established by the engineer appointed by the Government and the concessionaire, any lands, farms, or properties belonging to private individuals anywhere in the Republic, as well as the right to assume and exploit other oil wells, lands, and mines belonging to the Government.”<sup>10</sup>

Mining investment in the country had the characteristics of actual enclaves as their degree of territorial autonomy practically made them into economic units apart from the national economy.

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10 Albornoz, Oswaldo. *Del crimen del Ejido a la Revolución de Julio*. p. 47-48.

Another reason for the limited investments in Latin America in the early years of independence may be attributed to panic and to the fall of Latin American securities, particularly at the London stock exchange. Speculation in independence bonds and the debtors' default led investors to think that it would be inappropriate to "risk capitals" in Latin America.

By mid-century, though, foreign investments increased in most Latin American countries, principally in those that produced foodstuffs and raw materials susceptible of contributing to the development of European industry.

As it did not have exportable production to replace the production of Europe's tired lands, Ecuador did not receive new capital for nearly the entire nineteenth century.

In general, the main export for over one hundred years was cocoa. Statistical data compiled by the Central Bank's Economic History Department show that cocoa accounted for the largest share of Ecuadorian exports, not only in the nineteenth century but also in the first half of the twentieth century. In approximately a hundred fifty years, with the exception of 1930-33, 1944-47, and 1950, i.e., only in nine years cocoa did not exceed exports of other tropical agricultural products and oil, which were produced also on the Coast, but in the hands of transnational capital.<sup>11</sup>

Foreign investments in Latin America were generally portfolio investments throughout most of the past century. According to an Eclac report:

"The agricultural products exporting countries of the temperate zone (Argentina, Uruguay, and to a lesser extent Paraguay) replaced the mining countries as the main targets of British capital, while the tropical products exporting countries occupied a secondary position. The reasons for the progressive concentration of British investments on the agricultural countries of the temperate zone are well known. Since 1880, the inflow of British capital permitted the large-scale application of some technical innovations (barbed wire fences, meat freezing, etc.), which allowed the River Plate countries to increase their meat and grain sales to the United Kingdom. The expansion of exports and the attendant foreign exchange increase led British capital to increase investments in those countries."<sup>12</sup>

11 Rodríguez, Manuel. *Serie de exportación e importaciones del Ecuador desde 1852 a 1950*. Central Bank of Ecuador. Unpublished.

12 Cepal. *El financiamiento externo de América Latina*. New York: United Nations publications, 1964. p. 3.

While Ecuadorian governments were intent on solving the foreign debt problems so as to earn international prestige for Ecuador as a solvent country and thus obtaining foreign loans and investment, the motives of foreign capital in Latin America were different.

An appropriate example was President Antonio Flores effort to improve Ecuadorian relations with the outside world through the negotiation of the English debt so as to attract the capital needed to construct a railway.

## Original accumulation

It should be noted that the original accumulation process in Ecuador in the nineteenth century was slow and depended on foreign trade. Ecuador lacked infrastructure and integration. On the Andean regions, feudal production relations predominated, while capitalism flourished on the Coast, based on that region's exports.

Any development of productive forces in the country originated in the metropolitan centers and particularly in England, especially in the nineteenth century, as England was our major trade partner. Also, with independence and even earlier (mainly through contraband), England became the main supplier not only of Ecuador but of all Latin America.

“In the nineteenth century and in the first years of the twentieth century before the 1914 war, according to Puig Arosemena, many of our countries had in Great Britain their major client. Politically independent from Spain by then, we almost immediately became colonies of Great Britain, which imposed on all of us its trading methods and modes. The foremost mode consisted in shipping our products in anticipation, i.e., before knowing at what price they would be paid for. We shipped them on consignment, such as Ecuadorian coffee, as a random example, on which the grower earned no more than a penny per pound, although England sold it for at least thirty times more. And this was what the estate owner earned; one can imagine what the poor peon received. Infamous exploitation that forced us to sell our products at ridiculous prices to the detriment of workers. Infamous exploitation that extended to the cocoa shipments and to other products until the first quarter of the twentieth century.”<sup>13</sup>

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13 Moncada. Op. cit., p. 124.

Under such trade conditions, the development of a country such as Ecuador, in addition to being truncated by internal relations, was further frustrated because trade relations consistently tended to be unfavorable to it.

A traumatic development process then started in Ecuador, substantially dependent on external factors and based on a feudalized and feudalizing internal structure characteristic of a disintegrated country with sharp regional differences and a market that grew only inwardly. This led one of the foremost Guayaquil intellectuals to say in the 1920s that greater monetary issues were necessary because there were over a million Indians on the Andean altiplano that did not participate in the consumers market.

As part of the original capital accumulation, bank capital emerged, particularly on the Coast, owing especially to the expansion of the import and export trade.

The development of commercial capital, which was associated with foreign trade and foreign investment, led to the establishment of the Anglo-Ecuadorian Bank and to the signing of a Friendship, Trade, and Navigation Treaty with England. Lastly, the convertibility of our currency to gold was adopted, which entailed a closer integration of the country into the international capitalist system headed by England.

The nineteenth century's closing years saw the inflow of foreign capital, directed particularly at oil. In 1896, the liberal government appointed a Plenipotentiary Minister to Washington, for the specific task of attracting entrepreneurs interested in railroad construction. North-American and British capitals then took charge of laying railroad tracks, installing telephone and telegraph lines, exploiting the Portovelo mines, and prospecting for oil in Santa Elena.

Foreign investment in Latin America was directed at sectoral development both in the nineteenth century and throughout the twentieth century. In the late nineteenth century, British and American investments were channeled to railroad construction and the provision of public services. The general purpose of railroad construction was to carry the exportable production from the interior to the shipping ports, with a view to obtaining foreign exchange to pay for the debt incurred with railroad construction and for paying interest on foreign investments.

According to the Eclac study mentioned:

“The railroad construction and public services enterprises undoubtedly accounted for the biggest share of the capital invested between 1874 and 1914 in private activities in Latin America – 30.9 percent and 12 percent of the total, respectively, i.e., a total of 42.9 for the two sectors. The study also points out that according to general opinion, the most successful investments for foreign loans were the building of infrastructure, as it not only expanded exports owing to lower transport costs and costs of other nature, but also permitted the expansion of the domestic market and the growth of local industries.”<sup>14</sup>

In Ecuador, electric power and telephone services were in foreign hands, as was the exploitation of oil and mining.

In the late nineteenth century, the development of productive forces, particularly on the coastal region, began to show a sharp contrast with the production relations that relentlessly persisted on the Sierra. The coastal *haciendas* that produced export goods were characterized by monetary mercantile relations, although in some lagging ones there were still pre-capitalist manifestations stemming from the country's socioeconomic structure.

Guayaquil had undergone a significant urbanization process. It was the site of the first factories that met the demands of large population segments that could not afford imported products. Owing to the growing activity characteristic of a “free” trade port, the dynamism of agroexporting activities led to the maturing of the monetary and credit system, so that the first banks were established as of 1860. These banks were necessarily connected to foreign trade, the basic activity in Guayaquil as in the Coastal Region in general.

“Cocoa production sold on the international market had generated a mass of wealth that accumulated in the hands of the bourgeoisie, located especially at the Guayaquil port, which had even established its own banking system: the Commercial and Agricultural Bank, linked to export trade, and the Bank of Ecuador, linked to import trade.”<sup>15</sup>

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<sup>14</sup> Eclac. Op. cit., p. 17.

<sup>15</sup> Moreano, Alejandro. “Capitalismo y lucha de clases en la primera mitad del siglo XX”. In: *Ecuador pasado y presente*. Quito: Editorial Universitaria, 1975. p. 142.

In the late nineteenth century, the need arose to develop capitalist production relations nationwide. The development of such relations, which had been slow even on the Coast, ran against the serious obstacle of pre-capitalist or feudal relations that still existed on the Sierra. The persistent, growing need of a mass of monetary riches stemming from export trade, of free workers and equally free means of production – a freedom that implied their supply and demand, which in turn implied the existence of a market – and the need to expand the social division of labor, provided the cause for the liberal revolution.

The bourgeoisie endeavored to become the leading class (and actually succeeded) to speed up the process of original capital accumulation. But as a bourgeoisie that waged its revolution one century after the successful bourgeois revolutions in Europe, it hastened to leave the country's economy to the international division of labor.

The Ecuadorian Liberal Revolution responded not only to the internal need to create capitalist production relations but also to an external need created by the development of productive forces worldwide.

Moreover, the Ecuadorian “bourgeois” revolution occurred when the capital concentration and centralization processes were already quite advanced in developed countries; for this reason, Ecuadorian capitalism's characteristics are different from the “classical” characteristics of European capitalism.

Accordingly, a theoretical interpretation of capitalism's development in Ecuador should not fit the mold of interpretations of socioeconomic structures that are far from presenting the same characteristics as our specific development. A clear example of this is the discussion about the capitalist development in the national agricultural sector. A consensus has not been reached yet, but each exploration of the issue adds new characteristics, a reason why this process has not yet been strictly defined.

In any case, it should be clarified that the liberal revolution ensured the bourgeoisie's dominion, accelerated the process of original capital accumulation, and more vigorously adapted the country's economy to the international division of labor.

This new socioeconomic structure brought about by the liberal revolution created new production relations as required by developed capitalism, which needed the integration of national markets for industrial production, and above

all a centralized state structure as a guarantee of foreign direct and indirect investments. This structure has been called “manufacturing,” a process in which Ecuador was immersed until approximately 1950.

This process can be succinctly described as follows:

1. Thorough social division of labor to provide a basis for market expansion (labor liberalization);
2. The separation between the manufacturing and the agricultural sectors widened;
3. As a result of the processes pointed out, the population grew rapidly between the beginning of the century and 1950;
4. The preceding made it necessary to develop the construction, transportation, and communications sectors;
5. With the establishment of the central Bank in 1927, the fiscal and tax policy was modernized, which permitted the regulation of credit relations and monetary circulation in general;
6. Banking capitalism, although deep-rooted, was limited owing to the development of the credit system; and
7. Growth of macroeconomic aggregates.<sup>16</sup>

As mentioned, foreign investment in Latin America was directed at railroad construction, which facilitated the transport of export goods from the interior to the ports. In Ecuador, railroads arrived much later than in most Latin American countries because the interior produced goods for the domestic market and not for export. The railroad was constructed with foreign resources and was not aimed at the generation of foreign exchange but at the new strategy of the country's integration to expand the domestic market. This is why it linked the two main cities in the first years of the century, whereas railroads had been operating decades earlier in some of the Latin American countries.

During this period, foreign investments flowed in, slowly but continuously, subject to the frequent crises in the central countries.

These crises affected the development of Ecuadorian capitalism, which, owing to its essentially dependent nature, would experience highs and lows in accordance with the performance of its export products.

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<sup>16</sup> Coloma. Op. cit., p. 9.

In general, foreign investment in the Latin American countries originated basically in England until 1915, just as the region's trade, including both exports and imports, had England as the destination and source. After World War I, though, capitalism's center shifted to the United States.

This was particularly so in the Ecuadorian case. The statistical report mentioned earlier show that since 1915 the largest share of our Ecuadorian exports has gone the United States.

“There are instances of North-American companies that have bought English companies in Latin America since the last century. In Ecuador, for example, the South American Development Company acquired Zaruma's rights in the English Zaruma Gold Company.”<sup>17</sup>

Some authors argue that it was under the United States hegemony that the Ecuadorian economy became definitively integrated into the international mode of production. There is no doubt that the U.S. influence throughout the twentieth century was considerable in Ecuador, which became dependent on that country even for the promulgation of laws and for the conducting of its economy.

For example, Ecuador contracted a U.S. Mission headed by Walter Kemmerer to organize its monetary situation. This mission undertook an institutional reorganization that went much further than the monetary sector, and included the centralization of the economic activity, with the establishment of the central Bank, the technical organization of the State through the founding of the National General Controllershship, the Pension Fund, the Banking Superintendence, and the Housing Bank. The mission not only created new mechanisms to institutionalize the system but also functioned under the direction of Americans: the National General Controllershship was administered by Mr. Edwards, the Banking Superintendence by Mr. Tompkins, and the Central Bank by Mr. Schultz. Lacking the capacity to become integrated into world capitalism on its own, the country had to resort to the developed countries' issuers, who had the “Empire's technical knowledge.”<sup>18</sup>

This shifting of the axis from England to the United States was caused rather by the new geographical conditions of the Latin American countries,

17 Navarro, Guillermo. *La concentración de capitales en el Ecuador*. Quito: Ediciones Solitierra, 1976.

18 Moreano. Op. cit., p. 171.



especially on the west coast, owing to the opening of the Panama Canal, which facilitated U.S. trade and investment on that part of the continent. It should be recalled that before the construction of the Panama Canal, Ecuador was Latin America's farthest country from Europe and from the U.S. and Latin American east coast. It is thus important to note the new geographical conditions created in Ecuador by the construction of the Canal.

This period saw an important participation of foreign capital, which grew at an unprecedented pace. As mentioned, it consisted of British and American financial resources that took charge of railroad construction, the installation of telephone and telegraph lines, the exploration of the Portovelo mines and the exploitation of the Santa Elena oil.

“This was how the Guayaquil Quito Railway Company constructed the railroad (1897), the South American Development Company exploited the Portovelo gold mines (1899), and the Ancon Oilfields explored the oil reserves (1911).”<sup>19</sup>

By the 1920s, the bourgeoisie had consolidated its hegemony; it could be said that it had become the ruling class. It had adapted the country to its circulation and accumulation system and created mechanisms for the gradual transformation of the work force into merchandise. But as it lacked a national project and was umbilically connected to the bourgeoisies of the central countries, it suffered a fate similar to theirs.

From a revolutionary, transforming class it soon became reactionary and conservative. Perhaps a little earlier but definitely as of the 1920s, our main export product – cocoa – was hit by a demand crisis, as the major importers, through different mechanisms, banned cocoa purchases. In addition, cocoa trees were affected by diseases. This caused a drastic drop in export revenues. Our economy, dependent as it was on trade earnings for any development program, entered into crisis. The dominant classes did not react appropriately to the crisis, as the dominant classes of some Latin American countries did to certain extent in the 1930s by creating a domestic market to offset the insufficient growth of the external sector and to mitigate as much as possible the effect of reduced exports, promoting the national industry by shifting resources to domestic production.

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19 Hurtado. *Op. cit.*, p. 87.

The Ecuadorian bourgeoisie aggravated the burden of the crisis on the popular classes and on the incipient national proletariat through mechanisms such as monetary devaluation and depreciation and the reduction of real salaries.

Despite the decline of export production, the economic base of the Ecuadorian capitalist development, the mechanisms of the work force's liberation, created by the liberal revolution, continued to function. The cocoa sector's impossibility to absorb large contingents of the population forced these to migrate in search of work to cities such as Guayaquil, which became surrounded by poverty belts sheltering the migrants and the unemployed from the cocoa plantations.

By the end of 1922, the economic situation of the Guayaquil port workers reached alarming levels, aggravated by the extremely large unemployed population.

Hopelessness, coupled with the extreme poverty of the popular classes, victims of inflation, devaluation, steadily declining real salaries, and unemployment, led to a general strike on November 15 of that year, which was repressed in the pure style of dependent capitalisms, by genocide.

“The bourgeoisie, recently arrived on the stage of history, one hundred years after the triumph of the European bourgeoisies, was faced not only with the rise of the international workers movement and its spectacular victory in the Russian Revolution, but also the beginning of the harassment by the central nuclei of big international capital. It rose to power when the world bourgeoisie ceased to be a creative historical force. Young and old at the same time, it could not create an ideology that offered a historical alternative.”<sup>20</sup>

When the crash occurred in the 1930s at the centers and after World War II, which slackened the bonds of dependence, the response of the Ecuadorian dominant classes did not resemble that of other Latin American countries, which began to grow inwardly by a deliberate State decision, but made the crisis weigh more heavily on the workers and popular classes, instead of giving impetus to some project appropriate to provide a national response to the crisis.

“It was as of the 1920s that oil exports acquired dynamism and achieved greater importance, accounting for a larger share of exports than other national products in 1930, 1931, and 1932.”<sup>21</sup>

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20 Moreano. Op. cit., p.167.

21 Rodríguez. Op. cit.

This explains why as of 1921 foreign capital, particularly direct investment, increased its participation in the mining and oil sectors. Hydrocarbons exploitation acquired importance particularly as of 1923, with the discovery of the Ancón reserves, which produced up to 468,000 cubic meters in 1944.

Three British companies and one American company began exploiting the Santa Helena peninsula oil reserves, although two of the British companies controlled 94 percent of production. Anglo Ecuadorian Oilfields Ltda, the main one, began its operations in the style of an enclave, as it paid no taxes. In 1937, Dutch Shell Co. won an oil exploitation concession, but “abandoned” it under the allegation that no oil existed in that zone, an allegation that would be disproved thirty years later. The U.S. South American Development Co. continues to exploit the Portovelo gold mines under colonial conditions.

This period marked by great export losses may be seen as one in which original capital accumulation grew slowly but continuously.

In addition, foreign investments changed their capital constitution. Until World War I, investments by developed capitalist countries were financed with funds put together at the stock exchanges, while after the war they were financed with own funds or through subsidiaries or affiliates established in the region.

The cocoa export crisis, as was to be expected, plunged the country into stagnation, leading to a profound economic depression that became manifest through a slow process of expanded reproduction, which stopped or even receded at times.

Ecuador had to wait for the emergence of bananas as of 1950 as a new star product of its foreign trade to continue its capital accumulation process, twenty years after the demise of cocoa production. **DEP**

# Guyana's history and economic development

*Tota C. Mangar\**

## Introduction

**G**uyana,<sup>1</sup> “Land of many waters” or “Land of many rivers” is located on the north-eastern shoulder of South America approximately one and nine degrees north latitude and 56 and 61 ½ degrees west longitude. It is bordered on the north by the Atlantic Ocean, on the south and south west by Brazil, on the west by Venezuela and on the east by Suriname.

The provision of exact dates in history is often the subject of a great deal of controversy and in the case of Guyana's earliest history it is no exception. In any event the earliest recorded history of Guyana and indeed the ‘Guianas’<sup>2</sup>

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1 The name ‘Guyana’ emerged in 1966 on the attainment of political independence from Great Britain. It was previously British Guiana (1831-1966) and in earlier times the Dutch colonies of Esequibo, Demerara and Berbice.

2 The name ‘Guianas’ is a name or term that applies collectively to the area that stretches between the Amazon and the Orinoco rivers. It was referred to as the ‘Wild Coast’ during the heyday of European exploration, settlement and colonization. This area was subsequently divided politically into five Guianas namely, part of Spanish Guiana (now Venezuela); British Guiana (now Guyana); Dutch Guiana (now Suriname), French Guiana; and part of Portuguese Guiana (now Brazil).

in general dates back to within a decade of the discovery or more precisely 'rediscovery' of the New World when the Guiana Coast was sighted and traversed by Christopher Columbus during his third Atlantic voyage in 1498.

From around the 1570s non-Spanish Europeans began to take an increasing interest in exploring the area as part of their direct challenge to Spain's New World monopoly. Added impetus was provided with the legendary *El Dorado*, a province of "innumerable gold, silver and emeralds"<sup>3</sup> somewhere along the Orinoco, the Amazon or in the uplands of the Guianas.

Where Guyana's history is concerned the available evidence seemingly points to the notion that the earliest settlement was established on the Pomeroon by the end of the sixteenth century when Dutch vessels were sent out of the province of Zeeland. In 1613 Kyk-over-al was established at the confluence of the Essequibo, Mazaruni and Cuyuni rivers and it became the first durable fortress under the Dutchman, Adrianensen Van Groenwegel. Kyk-over-al showed early signs of progress and it was boosted with the formation of the Dutch West India Company in 1621. The Dutch also quickly turned their attention towards Berbice and Abraham Van Pere was granted permission to colonize the area.

In the initial period these settlements served as trading posts for the thriving barter trade which emerged with the native Indians. European manufactured axes, knives, cloth, beads, trinkets and scissors were exchanged for cotton, hammocks, annatto, tobacco and other products. As the settlements progressed the Dutch extended their activities to tobacco, coffee and cotton cultivation to ensure these commodities were available in commercial quantities. Certain events around the mid-seventeen century had pronounced effects on the future of Guyana.

Firstly, by the Treaty of Munster in 1648, Spain officially recognized the independence of the Netherlands. Then in the early 1650s the Dutch West India Company declared its intention to allow private persons as distinct from the Company to settle. Of greater significance was the eventual reconquest of Brazil by the Portuguese. This development led to an influx of Dutch settlers to Essequibo with much-needed capital and expertise. These earliest Dutch

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3 Hartsinck, J.J. *The discovery of Guiana and the description of the various European possessions therefrom*. Amsterdam: Berchrying, 1770. Vol. I, p. 126.

colonies in Guyana suffered from adverse fortunes of inter-European rivalry and warfare especially between the years 1665 and 1712. They recovered from these attacks and by the 1730s more lands along the coastline were put under sugar, coffee and cotton cultivation.

Dutch colonization was greatly enhanced through the strenuous efforts of Laurens Storm Van Gravesande who became Commander of Essequibo in 1743<sup>4</sup>. He embarked on a deliberate policy of exploration and settlement of Demerara with the aid of English settlers from Barbados and Antigua. It was this marked migration to Demerara that gave rise to the unchallenged dominance of the sugar industry for several decades. In any event it was clear that before the close of the eighteenth century Demerara had made tremendous strides and had eclipsed the older colonies.

Great Britain completed the final conquest of the Dutch colonies in 1803. Formal cession was effected by the Treaty of Paris of May 30, 1814<sup>5</sup> and in 1831 the three colonies were united into the “Colony of British Guiana”<sup>6</sup>. From then on the British inherited the Dutch system of Government which persisted well into the twentieth century.

The nineteenth century witnessed fluctuating fortunes within the dominant sugar industry. Abolition of the British Slave Trade in 1807 and Slave Emancipation in 1834 brought fear, uncertainty and gloom to the plantocracy. This state of affairs worsened with the termination of the apprenticeship system in 1838 as there was a marked exodus of ex-slaves from the plantations. Village movement and peasantry soon gained momentum.

The grave shortage of plantation labour consequently led to several immigration schemes involving various nationalities including Portuguese, Liberated Africans, Barbadians, Chinese and East Indians. The latter source which numbered over 239,000 between the period 1838 and 1917 contributed significantly towards the survival of the sugar industry. This period also witnessed improved techniques in both sugar-cane cultivation and in sugar manufacture as the local industry changed over from muscavado processing to that of vacuum pan.

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4 Van Gravesande, Laurens Storm. *The rise of British Guiana*. Compiled from his dispatches by C.A. Harris and J.A. De Villiers. London: Hakluyt Society, 1911. I, p. 61.

5 Netscher, P.M. *History of the colonies of Essequibo, Demerara and Berbice. From the Dutch establishment to the present day*. Translated by W.E. Roth (S' Gravenhage: Martins Nuhoff, 1888). p. 136.

6 *Ibid.*, 143. Also referred to as “United Colony of British Guiana.”

In the area of Education 1876 marked the year when the Compulsory Education Bill<sup>7</sup> was introduced making it mandatory on the labouring class to send their children to schools. By the close of the nineteenth century the colony witnessed some level of economic diversification in the form of gold production, rice cultivation and cash crop cultivation. There was also constitutional reform and the Arbitral Award of 1899. Working class organization was boosted with the formation of the first trade union, the British Guiana Labour Union by the “Father of Trade Unionism in the British Caribbean”, Hubert Nathaniel Critchlow. Agitation for further constitutional reform led to Crown Colony status in 1928 as the Dutch inherited Court of Policy and Combined Court were replaced by Legislative and Executive Councils.

In 1950 Dr. Cheddi Jagan teamed up with Forbes Burnham and others to form the People's Progressive Party (PPP). Elections were held under a new constitution in 1953 and the party swept to power. That triumph was only short-lived. The fear of Communist threat and pressure from the American Government caused Great Britain to suspend the constitution, dispatch troops and declare a state of emergency. With the toppling of the legally elected government an interim one was imposed. The country received a further setback with the split of the mass-based party into Jaganite and Burnhamite factions. This unfortunate development was to have serious repercussions later and from which the country is still to fully recover. Burnham's faction was renamed Peoples National Congress (P.N.C) in 1957. The colony was gripped with serious socio-political unrests between 1962 and 1964.

Following the 1964 general elections a P.N.C. – United Force coalition government was formed and Mr. Forbes Burnham led the country to political independence on May 26, 1966. It was proclaimed a Co-operative Republic on February 23<sup>rd</sup>, 1970. In 1980 Prime Minister Forbes Burnham became Guyana's first Executive President following general elections and a highly controversial new constitution. By the early 1980s it was clear that the country was heading towards a serious economic crisis. The pillars of the economy sugar, rice and bauxite were experiencing declining production and fuel prices and other import bills rose drastically. With a depletion in foreign currency reserves, shortage of raw materials and spares and a rising national debt, living standards

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7 For details see Hazel Woolford, “Compulsory Social Issues Behind the Education Bill of 1876.” *History Gazette*, N. 26.

fell dramatically. Migration to neighbouring Suriname, Venezuela and Brazil and to the Caribbean and North America increased at an alarming rate.

In August, 1985 Burnham died after undergoing surgery and Hugh Desmond Hoyte became his successor. In the face of a worsening economic situation, a deterioration in essential services, a thriving parallel economy, blackmarketing and an ever-growing migration rate, the Hoyte administration from 1989 embarked on an Economic Recovery Programme with emphasis on divestment and greater involvement of the private sector.

The 1991-1992 period witnessed a number of electoral reforms which eventually led to the re-emergence of the PPP-Civic and Dr. Jagan in government. A programme of re-building was then vigorously pursued. Dr. Jagan died in 1997 and he was succeeded by his wife, Janet Jagan as President. She resigned due to ill-health. This led to the emergence of the young and dynamic Bharrat Jagdeo as President of the Republic of Guyana. Under his leadership the PPP-Civic won both the 2001 and 2006 general elections.

The Co-operative Republic of Guyana with an area of 214,970 km and a population of less than 800,000 <sup>8</sup> people is today divided into ten (10) administrative regions and is a member of the British Commonwealth of Nations and of Caricom. It is also a proud member of several South American and hemispheric bodies as it pursues a sort of continental destiny at this time of its history.

## Post-emancipation economic development in the nineteenth century

The immediate post-emancipation period of the nineteenth century was a period of crisis, experimentation and change. The principal crop sugarcane experienced fluctuating fortunes as a direct result of labour shortages, the effects of the 1846 Sugar Duties Act <sup>9</sup>, a serious challenge from the village movement and peasantry, competition from European beet and the necessity for technological and other advances. Furthermore the liberation of approximately 84,000 ex-slaves at the termination of the Apprenticeship System and the entry of thousands of immigrants from Asia, Africa, Europe

<sup>8</sup> *The Commonwealth local government handbook*, puts the population at 761,000 in 2004.

<sup>9</sup> The Sugar Duties Act of 1846 removed preferential treatment on British West Indian sugar.



and even Barbados “drastically altered the composition of the Colony”<sup>10</sup> and laid the basis for a transformed economy.

Within the first decade (1838-1848) 44,456 ex-slaves had taken over 15,462 acres of land at a cost of \$1,038,000<sup>11</sup>. It meant that there was a significant shift of population from plantations to newly created villages. This was countered by large-scale immigration of indentured labourers to work on the plantations.

Elaborate drainage and irrigation canals, an intricate network of roads and dams, the construction of bridges and sluices, the introduction of steam engines and a more efficient manufacturing system all contributed to the survival of the sugar industry in the nineteenth century. Indeed, Guyana's sugar industry was “technologically the most advanced in the British West Indies”<sup>12</sup> at the time.

In spite of the dominance of sugar there was a fair measure of economic diversification in the second half of the nineteenth century. For example, mining came to the fore with the discovery of gold in the riverain and interior locations of the Cuyuni and Mazaruni districts in the 1870s and this led to a ‘gold rush’ in the ensuing years. The use of wallaba for the production of shingles, staves and posts also emerged as well as charcoal for cooking purposes. There was a gradual rise in prominence of logging and in particular greenheart and exports of this precious and durable wood averaged 641,000 cu. ft. annually for the years 1862-1865<sup>13</sup>. It was exported to industrialized countries for the construction of piers, ports and docks. Balata was first exported in 1859 and by the 1880s the industry maintained an annual export of 200,000 lbs and rose to 482,396 lbs in the 1896-1897 period<sup>14</sup>.

Cash crop cultivation and livestock rearing also gained prominence along with coconut and copra production. Rice, cocoa, coffee, citrus fruits and ground provisions were grown with success. Another area of diversification

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10 Granger, David. “The diversification of the economy of British Guiana, 1880-1930.” In: *Guyana Historical Journal*. Vol. IV & V, 1992. p. 32.

11 Young, Allan. *The approaches to local self-government in British Guiana*. London: Longmans Green and Co. Ltd., 1958. p. 23.

12 Shahabuddeen, Mohamed. *From plantation to nationalisation. A profile of sugar*. Georgetown Guyana National Printers Ltd., 1983. p. 29.

13 Mangar, Tota C. *A brief history of Guyana forestry commission, 1925-2004. 79 years of service to the national economy*. Georgetown, 2004. p. 7.

14 Ibid.

was in building construction. Some of Georgetown's (the capital city) most impressive wooden structures were built in the late nineteenth century with "professional expertise in architecture, engineering and craftsmanship"<sup>15</sup>. There was also expansion in commerce and in wholesale and retail trading along with the availability of banking services, credit and investment finance and insurance services. Of added significance was the call to intensify economic diversification in the colonies<sup>16</sup>.

## Developments before independence

Economic diversification continued in the first decades of the twentieth century. Between the period 1900-1939 rice, dairy farming and timber were some of the areas addressed. Interest in bauxite mining and the production of aluminum surfaced early in the century. The Berbice river districts of Kwakwani and Ituni and the Demerara river districts of Three Friends, Old England, Dakara and Wismar were found to contain high quality ore<sup>17</sup>. Demerara Bauxite Company (Demba) commenced bauxite production in 1917 in response to demands for aluminum during and after World War I<sup>18</sup>. By 1965 mines such as Montgomery, Arrowcane, Maria Elizabeth, Noitgetdacht and Warabaru were producing 90 percent of the country's output of approximately 3,000,000 tonnes<sup>19</sup>.

During the Second World War Government's official policy was that of a "Grow More Food Campaign". This was against the background of severe shortages and rising cost of living. Rice production and rice exports nearly doubled between 1939-1957<sup>20</sup>. In 1957 the first major land development scheme was established at Black Bush Polder on the Upper Corentyne. This scheme covers an area of 31,000 acres with residents involved in rice and cash crop cultivation. Other land development schemes such as Tapakuma and Mara and the Boerasirie Extension Project were also inaugurated.

15 Granger, "The diversification ..." p. 40.

16 West Indian Royal Commission Report, 1898. See also *Sugar without slaves. The political economy of British Guiana, 1838-1904*. New Haven: Yale University Press, 1972.

17 Williams, John. *Diversifying the Guianese Economy, 1900-1939. The bauxite industry*. p. 14 (Paper presented at M.A. Seminar. April 1974, U.G.)

18 Ramraj, Robert. *Guyana population, environments, economic activities*. Greenboro: Battleground Printing and Publishing, 2003. p. 201.

19 Ibid. p. 205.

20 R.P.A. Publication, *Our rice industry*. 1964, p. 2.

This was a period when the diamond industry also made significant strides with both rough and polished diamonds being exported. Production averaged 30,000-40,000 carats annually in the 1960s. Among other industries which progressed in the pre-independence era are fishing, brewery and beverage and the forestry sectors along with wholesale and retail trading, communication and transportation.

## Post-independence economic development

Until 1966 the Guyana economy was basically capitalist-oriented and largely under foreign domination. In the post-independence period and under Forbes Burnham there was a “radical economic transformation along socialist lines<sup>21</sup>.”

In the first instance in 1970 there was the declaration of a Republican status, the Co-operative Republic of Guyana<sup>22</sup>. This was followed by the creation of a number of indigenous institutions and a spate of nationalization ventures aimed at owning and controlling the commanding heights of the economy.

Demba (bauxite) was nationalized in 1971, Reynolds (bauxite) in 1974, Jessels (sugar) in 1975 and Bookers conglomerate in 1976. The denominational schools also came under direct government control. The Demba nationalization of 1971 represented the first instance in the Commonwealth Caribbean of public control of a major sector of a national economy and it was in pursuit of the “declared socialist programme of the Government of Guyana”<sup>23</sup>.

The series of nationalizations and other related matters were quickly accompanied by setbacks. Maintenance and retooling issues, inadequate transportation and marketing problems, labour concerns, loss of vital managerial skills and expertise all began to take toll. From 1976 onwards it became evident that there was a serious depression of economic activity accompanied by acute foreign exchange problems<sup>24</sup>. The 1977 budget indicated the harsh economic reality. It proposed a 30 percent cut in expenditure, price increases,

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21 Ferguson, Tyrone. *To survive sensibly or to court heroic death: management of Guyana's political economy, 1965-85*. Georgetown: Guyana National Printers Ltd., 1999. p. 206.

22 Co-operatives were seen as vehicles of economic and social transformation.

23 Shahabuddeen, Mohammed. *Nationalisation of Guyana's bauxite. The case of Alcan*. Georgetown: Guyana National Printers Ltd., 1981. p. 275.

24 Thomas, Clive. *Plantations, peasants and State*. UWI: ISER, 1984. p. 199.

the removal of subsidies on several consumer items and increases in indirect taxes including custom duties, licences and fees<sup>25</sup>. This was followed by a wage freeze two years later.

In response to this challenging situation the government negotiated a one year International Monetary Fund (IMF) Standby Facility of \$US 15 million Special Drawing Rights (SDR) followed by a three-year Extended Fund Facility involving \$US 100 million and a \$US 23.5 million World Bank structural adjustment loan<sup>26</sup>. The targets and policies of the IMF/World Bank created further economic difficulties by way of elimination of price controls, increased interest rates, reduction in imports, cuts in social services, reduction in subsidies and devaluation of the Guyana currency<sup>27</sup>. These measures failed to improve the economy as targets were not realised but rather there was a substantial decline in production and productivity of the key sectors of rice, sugar and bauxite. The result was a reduced output of exports and increased import prices which led to a balance-of-payment crisis. According to Tyrone Ferguson the “1979-85 years represented the worst period of sustained economic deterioration in the Burnham era”<sup>28</sup>.

At the same time the government faced increasing pressure from the trade union movement in relation to workers plight and wage-related issues. This was aptly stated by its then President, George Daniels when he said “this sustained decline in real wages has seriously affected morale and is daily destroying the will to produce among our work-force<sup>29</sup>” Of added significance was the admission of former Finance Minister, Carl Greenidge that “the productive sector utilisation was an average of some 40 percent of effective capacity due to the chronic shortage of foreign exchange and the consequential shortage of spares and inputs<sup>30</sup>”.

With the country still in the throes of a serious and a prolonged economic crisis the new Desmond Hoyte administration embarked on an Economic Recovery Programm (ERP) under the guidance of the IMF and the Support

25 Thomas, p. 174.

26 Ibid.

27 Ibid. The Guyana dollar was devalued by 16 percent in 1981 and 25 percent in 1984, respectively.

28 Ferguson, p. 345.

29 As quoted in Ferguson, p. 366.

30 Greenidge, Carl B. *Empowering a peasantry in a Caribbean context. The case of land settlement schemes in Guyana, 1865-1985*. Kingston: University of the West Indies Press, 2001. p. 151.

Group of Countries. There was also the massive devaluation of the Guyana dollar in 1989<sup>31</sup>.

## Post-1990 period

Developments from 1990 onwards, including economic and other achievements along with current challenges facing Guyana, are summarised as follows:

- The Commonwealth Rain Forest Project – Iwokrama International Centre for Rainforest Conservation and Development came on stream (1990) involving some 900,000 acres of pristine rainforest. It is aimed at promoting conservation and sustainable and equitable use of tropical rainforests aimed at lasting ecological, economic and social benefits to the people of Guyana and to the world in general;
- A Timber Sales Agreement entered between Guyana and Sunkyong, a North Korean Company, to develop a Forestry Project to manage an area of approximately four million acres (1.62 mln ha) of forest in the North West District. (1990);
- A New International Agreement with Barama Company Limited for a 1.6 million ha concession outside the Greenheart belt for plywood exploitation and manufacture (1991). Investment of \$154 million over a ten-year period;
- Omai Gold Mines commenced operation in Guyana (1993). Gold production increased considerably in ensuing years;
- Significant increase in rice and sugar production;
- Increased production of non-traditional crops;
- Increased production of fish, shrimps and prawns especially for the export market;
- Increase in production of bauxite;
- Increase in production of poultry and eggs;

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31 It was a 230 percent devaluation of the Guyana dollar against the U.S. dollar.

- From 1993 onwards an aggressive Housing policy. The issuance of over 70,000 house-lots; easier access to loans/mortgages from the banking industry;
- Regularization of squatting areas;
- Infrastructural development including roads, bridges, sea-defences;
- More budgetary allocation to the social sector and services. Building of new schools, hospitals;
- Increase expenditure for education;
- Establishment of Tain, Berbice Campus. (2000);
- Completion of Caricom Headquarters. (2005);
- Completion of Convention Centre. (2006);
- Completion of National Cricket Stadium at Providence and hosting of World Cup Cricket Super Matches. (2007);
- Skeldon Modernization Project (Sugar). A \$128 million investment. (Ongoing);
- Berbice River Bridge (Ongoing);
- Emergence of Buddy's International Hotel and several medium size ones and also eco-tourism resorts;
- Reduction of Foreign Debt. From a figure of US\$ 2.3 billion to under US\$ 700 million dollars through debt write off, debt rescheduling, etc;
- International Tribunal Award in relation to the Guyana/Suriname border dispute and the eviction of CGX. CGX to resume oil exploration shortly, and
- The construction of the Takatu Bridge.

### **Some current challenges**

- Racial harmony and national unity;
- Socio-political stability;
- Need to intensify campaign to increase production and productivity;
- Need for full support to the "Grow More Food Campaign";

- The reduction of inflation;
- Eradication of corruption;
- Eradication of the Narco-trade;
- Need to arrest Migration rate and consequential 'brain drain';
- Eradication of Poverty, HIV/AIDS, Malaria and other scourges in society;
- The task of dealing with deportees and their rehabilitation in society;
- The impact of Globalisation and Market Liberalisation;
- Impact of removal of preferences e.g. sugar quota and The European Union and EPA;
- Solving and preventing high profile crimes in society;
- Increase in annual growth rate;
- Halt the decline of the Guyana dollar;
- More Aggressive Investment Policy, and
- Expansion of tourist industry especially eco-tourism and the maintenance of cultural heritage sites for visitors. **DEP**

# Paraguay: the challenges of a landlocked economy

*Juan Carlos Herken Krauer\**

## I. Introduction

**P**araguay's condition as the only landlocked country in South America until Bolivia lost its sea outlet after the Pacific War (1879-1884) can be defined as an ongoing struggle to force history to overcome geographical limitations, while hoping for the needs of world economy to enhance the relevance of the country's natural resources.

Situated in the center of South America, without significant mineral resources, since independence Paraguay has looked for an efficient, less expensive way of placing its products on the world market. The River Plate system, particularly the Paraguay and the Paraná Rivers, was for centuries the Paraguayan economy's breathing channel, saddled with extremely high costs that in the first half of the twentieth century surpassed the cost of freight between Buenos Aires or Rio de Janeiro and Europe or the United States.

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The linking with the Argentine railway system in 1913 should have lowered transport costs but what happened was the formation of a duopoly of the enterprises that had the monopoly of river trade and of railways. The desire and projects for a “second outlet” to the Atlantic have existed since the nineteenth century but none has become reality. In the early sixties, a “second outlet” was found by land with the inauguration of the first bridge on the Paraná River between Brazil and Paraguay, and the relative improvement of the country’s road system, which has made possible a real internal market.

This “second outlet to the Atlantic” and the exploitation of the Paraná River hydroelectric resources in association with Argentina and Brazil allowed Paraguay to triple its volume of economic activity, partially recovering a relative lag of more than half a century in relation to neighboring economies, particularly those of a lesser size.

At the outset of the twenty-first century, Paraguay, despite this relative recovery from a historical lag, continues to suffer from “comparative disadvantages” in respect of access to the world market and of an economic model that, although it has permitted the equilibrium of the external sector’s main macroeconomic accounts, is unable to stem the ongoing emigration of workers at all the different levels of qualification, or to induce a higher degree of industrialization.

It is possible that the acceleration of Mercosur’s integration process, which implies improvement of the communications infrastructure and reduction or elimination of bureaucratic, tax, and exchange costs that harm foreign trade, will create new conditions conducive to an internal multiplier effect, of the agroexports model in terms of jobs and income, complemented by the exportation of hydroelectric power.

## II. Development between two wars, 1860-1932

Little of what was known early in the colonial era as “Paraguay, Giant of the Indies” remained by the beginning of the nineteenth century. The growing economic and political importance of the Buenos Aires port increasingly pulled all the Spanish institutional apparatus toward the south, culminating in the establishment of the River Plate Viceroyalty in 1776. Paraguay thus became a province removed from the decision-making centers, peripheral and

marginal, providing basically mate, tobacco, and timber to the regional market. The expulsion of the Jesuits from the domains of Spain's King Charles III in 1767 caused irreparable damage to the exploitation of economic resources of the zone that became part of the Paraguayan Independent Republic, as well as the dispersion or slavery of the immense indigenous mass that had been catechized and educated by the missionaries.<sup>1</sup>

José Gaspar Rodríguez de Francia's dictatorship (1814-1840) put an end to Buenos Aires's ambition to incorporate the Paraguay "Province" into the new Argentine national system. Rodríguez de Francia promoted austere but beneficial relations with the Empire of Brazil as a way of gaining an outlet for Paraguayan exports and countering Argentine designs. Paraguay's "isolation" at that time was relative. The arrival of the López family to power, under the leadership of Carlos Antonio López in 1841, allowed some modernization of the economic structure and greater integration into the region and the world. Much has been and is still said about "Paraguay's nineteenth century socialism" or its "state capitalism," and even its "industrialization" at that time.

But the state's specific task in the economic sphere, already in Francia's time, was in reality the continuation of the colonial legacy, rather than a forced *statist* objective. Since colonial times, mate exploitation had been a royal privilege; thus, the *king's mate groves* became the Paraguayan state's mate groves, whose access required special permits, and quotas were strictly imposed. The large cattle estates of the Jesuit Missions, which had been converted into the *king's estates* in the late eighteenth century, became eventually the *fatherland's estates*. Although it is difficult to calculate with much precision its size, the herd in possession of the state expanded until it accounted for a third of the total stock in the early 1860s.<sup>2</sup>

One of the richest and most cultivated cattle raisers, Carlos Antonio López, assumed the government in 1841, first as a member of a Consulate, then as President elected in 1844 in accordance with a government regulation that served as a provisional Constitution.<sup>3</sup> The assembly convened to approve

1 One example should suffice: the mate tree cultivation technique developed by the Jesuits was completely lost until the early twentieth century, when it was recovered by European immigrants in northern Paraguay and later disseminated through the producing areas of Argentina and Brazil.

2 Herken Krauer, Juan Carlos. "Proceso económico en el Paraguay de Carlos Antonio López." In: *Revista Paraguaya de Sociología*. 19-54, p. 104.

3 Cardozo, Efraín. *Breve historia del Paraguay*. 1965. p. 70-71.

the Republic's Magna Carta and elect the President consisted, once again, of a selection of the country's "most distinguished citizens and proprietors."<sup>4</sup>

López first task was to institutionalize Paraguay's independence, as no country had yet formally recognized it.<sup>5</sup> Relations with Argentina began to improve with the disappearance of Juan Manuel de Rosa, and by the early 1850s communications and trade with the south had significantly improved. In that decade, Paraguay began to modify its economic structure, thanks to the opening of its borders, a considerable expansion of foreign trade, and the first steps toward the modernization of the country's infrastructure. Exports jumped from 62,276 £ in 1851 to 353,000 £ in 1857.<sup>6</sup> Dozens of European technicians, particularly British, were hired by the government to build an iron foundry, a railway, a shipyard, an arsenal, and other public works.<sup>7</sup>

Paraguay continued to export mainly mate, hides, timber, and tobacco, but in the early 1860s cotton became a major export item, spurred by international prices.<sup>8</sup> Internal and external communications substantially improved under Rodríguez de Francia; external contacts were carried out primarily by river, thanks to an expanding state merchant fleet. When C. A. López died in 1862, his son Francisco Solano inherited the helm of government. He received a country that had made much progress, in comparison with the nearly forgotten Spanish backyard of the century's beginning. Although with a still rustic society and a population surviving in its great majority on subsistence, antiquated agriculture, the country's progress was seen as really exceptional.

According to J. H. Williams, the Paraguayan modernization experience was unique. In South America, only the C. A. López regime achieved a high degree of industrialization without resorting to the massive foreign capital that was impatiently waiting on the wings. Thus, between 1840 and 1870 Paraguay did not mortgage its financial future, escaping the pressures from European investors on neighboring countries. Paraguay paid in cash for what it needed and only purchased what it could pay for. Paraguay did not rely on imported

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4 Ibid.

5 The first foreign power formally to recognize it was the Austrian Empire on Metternich's initiative, in 1842. Schmitt, P. *Paraguay and Europe*. 1963. p. 35.

6 Williams, J. H. *The rise and fall of the Paraguayan Republic*. 1979. p. 102-103.

7 On the role of British technicians in Paraguay see Plá, Josefina. *The British in Paraguay. 1850-1870*. 1976. See also Williams. *The rise and...*, 1979. p. 176-193.

8 Mulhall, M.G. *The cotton fields of Paraguay*. Buenos Aires, 1866. p. 109-111.

capital but rather on the importation of qualified labor. There is no doubt that in 1863 F.S. López ruled a unified nation free of debt and technologically advanced in comparison to other nations of the continent.<sup>9</sup>

This undoubtedly optimistic view must be revised, especially to recognize the changes made under the López men as additions to an already existing economic infrastructure. One could hardly speak of an industrialization policy, as the techniques pertaining to transport and infrastructure were aimed at lowering the costs of production and marketing of agricultural products. Moreover, at that time tariffs on several imports were reduced. Part of the infrastructure, such as iron smelting, may have had a particularly strategic-military objective – owing to the country’s landlocked condition – rather than the possible establishment of a heavy industry sector. Very little was known about the country’s true potential<sup>10</sup> and the absence of foreign capital might be attributed to foreign investors’ reticence about embarking on risky projects.<sup>11</sup> Also, the close identification of the López clan with the Paraguayan state – and the financial benefits derived from this connection – must have caused friction in the Paraguayan elite, many of whose members would side with the Allies in the impending conflagration.

The 1864-1870 Triple Alliance War – or the Paraguayan War, or the “Great War”<sup>12</sup> – was not only the major armed conflict in the history of independent South America; it also established the political structure of regional power that would prevail until the end of the twentieth century, and defined nearly all the national borders, with the exception of the border shared by Bolivia and Paraguay, which would be established through another conflict, the Chaco War (1932-1935). Without oversimplifying the causes of this last conflict, the fact that the only two landlocked nations in South America had plunged into a military conflagration of such magnitude had much to do with access to the River Plate waterway system, and thus to the sea, i.e., to the world market.

9 Williams. *The rise...*, 1979. p. 191.

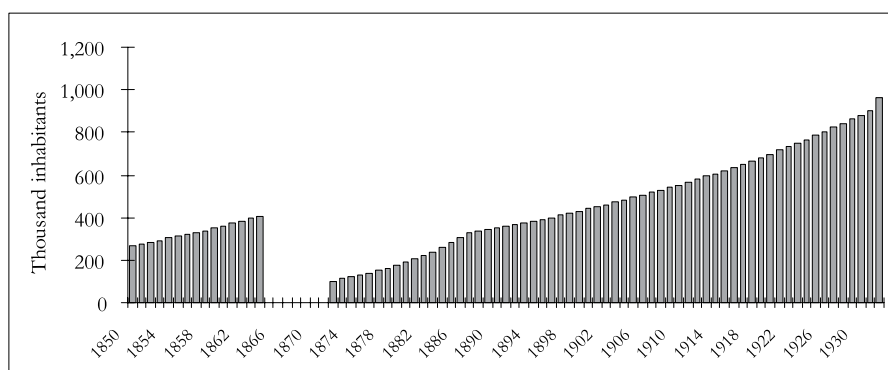
10 Nobody really knew what the Paraguayan population was, and the widely cited figure of 1,337,439 – published by Marbais du Gratty, A.L.H.G. *La república del Paraguay*. 1862. p. 132-33 – at that time was undoubtedly an artifice officially used to instill fear before the country’s potential military force. Before the war, the Paraguayan population could not have exceeded 500,000.

11 F.S. López attempted without success to obtain financing from London in the late 1850s. See Herken Krauer, Juan Carlos. “Proceso económico...” 1982, p. 97-98.

12 The literature on the conflict is extensive. Juan Carlos Herken Krauer as co-author of *Gran Bretaña y la Guerra de la Triple Alianza (1864-1870)*, published in 1983, reviews the main contributions. About the immediate postwar, see H.G. Warren. *Paraguay and the Triple Alliance War: the post-war decade, 1869-1878*. 1978.

The “Great War” frustrated Paraguay’s first major attempt at modernization and integration into the regional and into the world economy, and actually condemned it to decades-long lag in relation to its neighbors. Paraguayan population only regained the pre-war level in the early twentieth century; differently from the population of its Plate neighbors, this recovery was based almost exclusively on the natural reproduction of native men and women.

### Paraguayan population

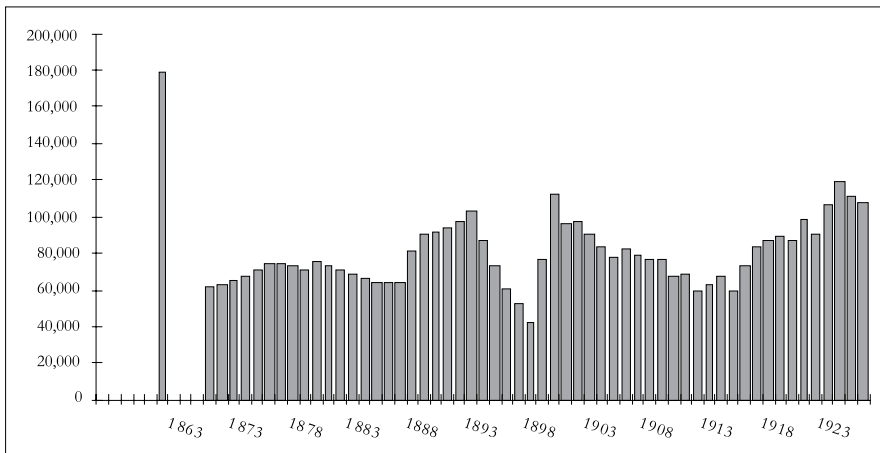


Paraguay’s attempt since the 1869 establishment of the first provisional government in Asunción was to adopt the basic growth model of Argentina, Brazil, and Uruguay – massive European immigration and colonization, agroindustrial exports to the world market, and rapid expansion of the communications infrastructure – was a resounding failure. Already in the 1880s it had to resort to the massive sale of public lands, which would determine the base of Paraguayan economy until the second half of the twentieth century: an economy dominated by extensive latifundia, with a mass of small farmers dependent on subsistence crops and on cotton and tobacco exports. Our calculations indicate that in terms of cultivated land, by 1932 the levels recorded in 1863 had not been regained yet. Paraguay had to depend on massive imports of foodstuffs that, owing to transportation and intermediation costs, arrived on the domestic market at much higher prices than the international average.

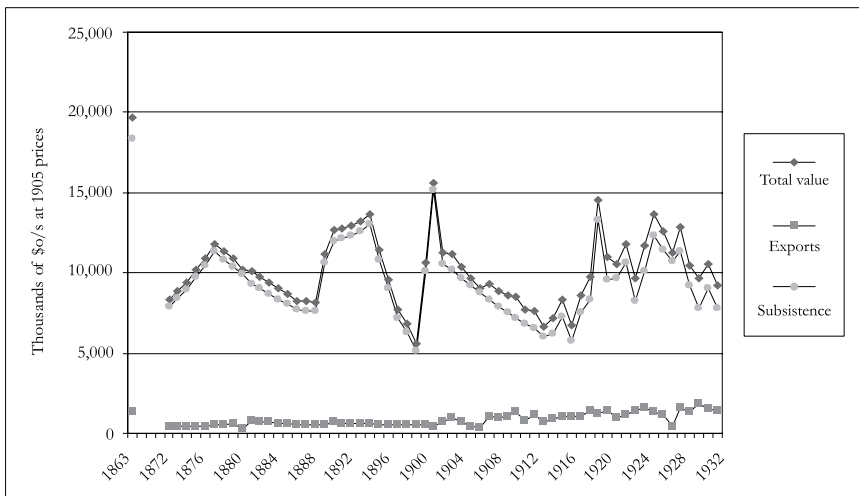
In contrast to a very slow expansion of the cultivated land area, there was a remarkable upsurge of Paraguayan exports, which by the end of the nineteenth century surpassed the record levels prior to 1864. Livestock products, especially hides and meat products, as well forest products, quebracho extract (tannin), and timber were exported to the Argentine market, ensuring

the prompt recovery of Paraguayan exports, more than offsetting the systematic decline of mate exports that lost ground to the Brazilian and Argentine product. Of course, Paraguay's earnings from exports came from the lowest amount of goods flowing out through the River Plate: out of about 809.9 million \$o/s – at current market prices – exported in 1918, the peak year, 82 percent came from Argentina, 14 percent from Uruguay, and only 4 percent from Paraguay.<sup>13</sup>

### Cultivated area



### Value of Paraguay's agricultural production



13 Herken Krauer, J.C. *Economic indicators for the Paraguayan economy, 1860-1932*. Ph.D. dissertation, The London School of Economics and Political Science, 1986. Our calculation of the volume of Paraguayan exports in the period 1960-1932 are based on the Argentine customs records and not on trade records on the Paraguayan side.

Nevertheless, these absolute figures should be relativized according to population and Paraguay's "great lag" after the Great War. Although in proportional comparison with Argentina, Paraguay's share of total exports from the River Plate countries declined during the period, it increased as compared with Uruguay's.

The cumulative growth rate of Paraguayan exports volume, of about 3.6 percent a year – in the 1880-1928 period – was lower than Argentina's, of about 4.6 percent a year. However, this is a significant rate if one bears in mind that Argentina's phenomenal expansion in the period under review was a world record. In addition, the fact that Paraguay had a "late start" implies that the accelerated rate as of 1880 included a fraction of "recovery" of the losses caused by the war. In the early twentieth century, Argentina and Uruguay could be considered mature economies, growing at a slower, but developed pace. If we accept the figures pertaining to the dynamics of world trade growth in 1850-1880 (a 270-percent growth in volume) and in 1880-1913 (a 170-percent growth),<sup>14</sup> Paraguay was beginning to recover during a phase of relatively slower world growth.

Comparison with Uruguay may be somewhat arbitrary, as the choice of an appropriate period may distort one result or another. But it is clear that between 1895 and 1828 or 1930, the cumulative growth rate of Uruguay's exports volume oscillated around 1.0 percent a year, owing mainly to stagnation in the mid-1890s and during World War I, when the volume of Paraguay's exports grew faster. Thus, the two countries' growth rates were practically the same, with a small difference in favor of Uruguay during the war years and in favor of Paraguay in the 1920s.<sup>15</sup>

The figures show that in terms of market value and exports volume Paraguay's performance on the River Plate was agile and proportionately better than Uruguay's as of 1890. A surprising result if one considers the obstacles faced by Paraguay's landlocked economy. But even more surprising is the fact that despite dynamic integration into the world economy, there were no multiplying effects in the economic and social areas, differently from what occurred south of the Plate River: a large share of net export revenues went

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<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

to the extensive latifundia in the hands of foreign capital and to extractive industries with little inclination for reinvestment and internal expansion. Only exports of tobacco, and of cotton after World War I, permitted a relative improvement of some segments of the rural population, which accounted for over 80 percent of the country's total population.

Between 1912 and 1918, the Paraguayan economy recorded exceptional growth rates, owing in large measure to world demand for strategic military products, such as quebracho extract, hides, and beef extract, and to the generalized rise in the prices of raw materials on the world market, fueled by the world conflagration. Several foreign groups recognized Paraguay's potential and some advanced projects were broached, such as infrastructure's modernization, including expansion of railways and the exploitation of hydroelectric resources. Especially the Percival Farquhar Syndicate, which had major participation in Brazilian, Argentine, and Uruguayan railways, and one of whose ambitious projects consisted in integrating the Brazilian and the Paraguayan railway systems, so as to channel Paraguayan exports through Brazilian ports at lower costs, and in eventually connecting Asuncion to the Pacific.<sup>16</sup> The financial crisis that broke out on the world markets right after the beginning of World War I, and the persistent internal conflicts in Paraguay, as well as quite possibly the hostility between British and Argentine investors, drove these groups into bankruptcy or indefinitely postponed those ambitious projects, given the impossibility of securing adequate financing.

As of the 1920s, once the period of intense political instability was over and after some basic monetary and financial reforms, the Paraguayan economy advanced more slowly, but more orderly. This permitted a relative improvement of the Paraguayan army resources, which led to the military victory in the war against Bolivia in 1935. The military segment became Paraguay's major political judge then, and in 1940 a one-party authoritarian power system was installed, which survived through the late twentieth century and which intervened in a very exclusivist manner in the entire productive apparatus.

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16 The projects and activities of these syndicates, including McArthur-Pecks syndicate, have been analyzed in our work "Políticos, empresarios y financistas en el Paraguay, 1908-1920." *Jahrbuch für die Geschichte von Staat, Wirtschaft und Gesellschaft Lateinamerikas*. Cologne: 22, 1985. And in *Ferrocarriles, conspiraciones y negocios en el Paraguay. 1908-1913*. 1984.



### III. The “second Atlantic outlet”

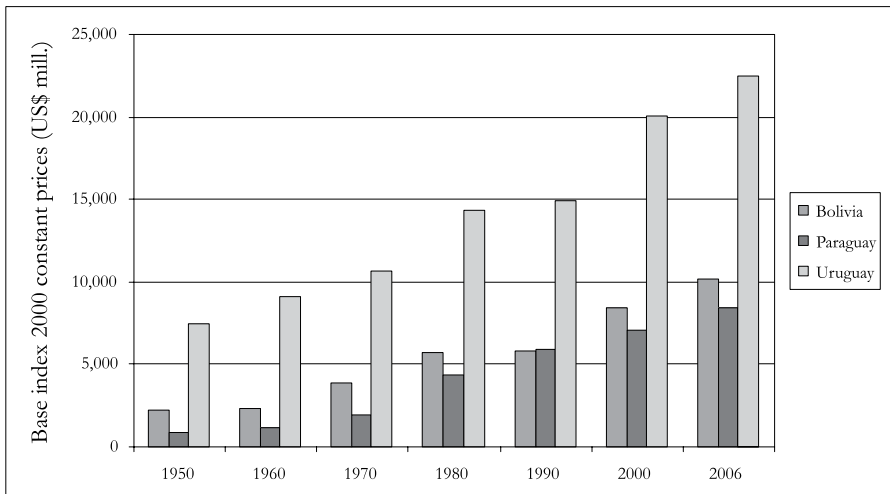
Early in the second half of the twentieth century, Paraguay was still one of the poorest Ibero-American countries. It was predominantly rural, with a communications structure still basically geared to the Rive Plate estuary, scarce industrialization, and intense emigration of labor at all levels of qualification toward the neighbor countries, particularly Argentina. Communications infrastructure was still quite basic. Since 1913 there had been no railway extension, except for lines in the Chaco, used solely for transporting quebracho rolls. The country’s only paved road, built with a loan from the U.S. Government, was about forty kilometers long. In general, the productive structure did not differ much from what existed at the time of World War I, with predominance of extensive agroexporting latifundia.

Since the 1960s, a drastic change has occurred. After decades of waiting and of truncated projects, Paraguay could now count on a “second Atlantic outlet,” thanks to land connection through Brazil when the Brazilian Atlantic ports, particularly Paranaguá but also Santos – began to handle increasingly more the flow of Paraguayan exports and imports. Several other processes coincided then. A slow but systematic land redistribution and the gradual dismantling of the old latifundia owing to the declining world demand for quebracho extract and the accelerated loss of the Paraguayan mate market made possible a steady advance of the agricultural frontier (cotton and soybean and other grains in particular), especially eastward. This in turn attracted massive waves of new settlers, particularly from Brazil. The modernization of the agricultural and livestock sector’s productive apparatus was also made possible by greater use of technologically advanced work implements. Both the cultivated area and the production and exports volume started to expand at an accelerated pace. To this was added the 1970s construction of the Itaipu and Yacyretá hydroelectric dams on the Paraná River, which triggered a boom in the construction sector, with multiplying effects throughout the economy. Paraguay’s geoeconomic axis systematically shifted toward the East, after over a century and a half of near paralysis as it was turned to the South, and induced a fundamental change in the economic structure, thanks to the exportation of hydroelectric power.

The impact of the “second Atlantic outlet” and the exploitation of the hydroelectric resources are clearly reflected in macroeconomic data. Between

1970 and 1990, Paraguay's GDP tripled at constant prices. In regional terms, the Paraguayan share in the aggregated value of the GDP of Bolivia, Paraguay, and Uruguay rose from less than 10 percent in 1950 to more than 20 percent in 1990, which shows the Paraguayan economy's performance far above the regional averages.<sup>17</sup>

### GDP 1950-2006

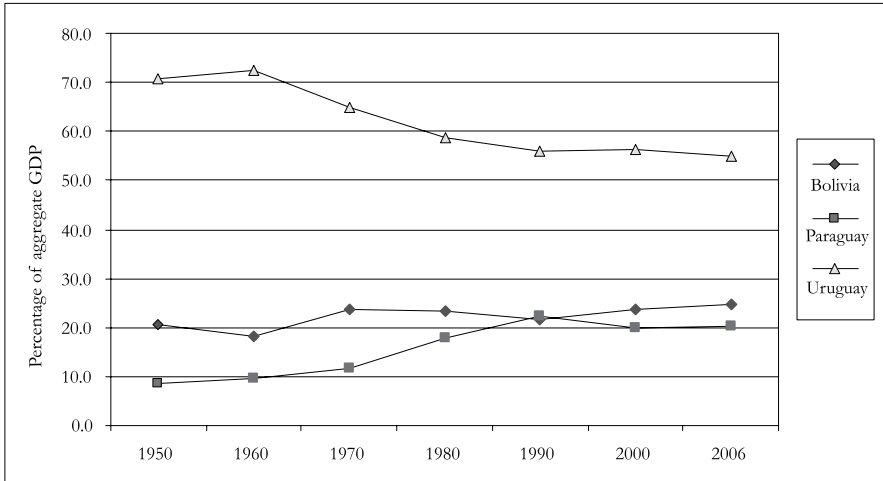


The upsurge of Paraguayan exports,<sup>18</sup> according to the volume series, exceeded the neighbor countries' exports growth rate. Between 1980 and 1995, the volume index of Paraguayan exports rose from 14.6 to 153.8 (Base 100 = Year 2000). After relative stagnation since the late nineties, a new reactivation can be observed in recent years, motivated in large measure by the extraordinary rise of raw material prices on the world market.

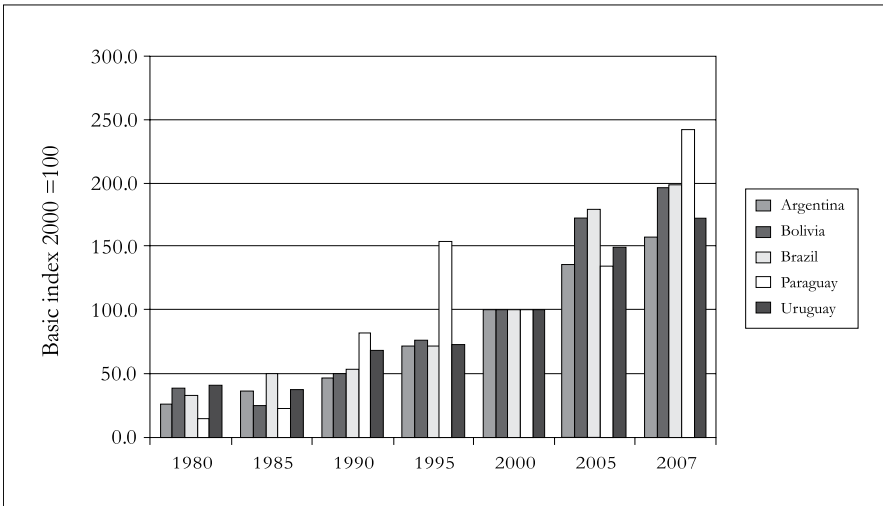
17 Another calculation based on IMF 1980-2006 data, based on current PPP dollars – the currency's purchasing power – situates the Paraguayan GDP's share in the ensemble of "small countries" at 24-28 percent.

18 The high level of "unrecorded trade" in Paraguay and the phenomena of reexportation and under- and overvaluation of customs records mars the statistical purity of foreign trade flows, particularly as regards officially declared value. The volume series are more representative, provided a stable correlation is established between recorded and unrecorded flows.

### National share in Bolivia, Paraguay, and Bolivia collective GDP



### Exports volume

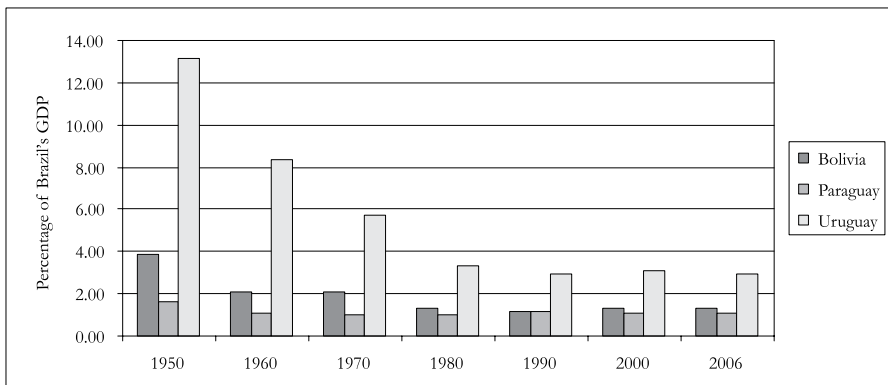


Despite considerable improvement of some macroeconomic indicators pertaining to the balance of payments, Paraguay, similarly to other small economies of the region, is unable to generate job sources and maintains a very unequal income distribution. The massive emigration of surplus labor – which has been Paraguay’s social axis since the mid-fifties (except for some years in the eighties, when the number of immigrants exceeded the number of

emigrants) has accelerated in recent years, with the addition of the United States and Europe as destinations, a regional process that also affects particularly Bolivia, Ecuador, and Uruguay.

Coexistence with the Brazilian economy – South America’s largest – and the increasing border interaction of all kinds of flows – goods, labor, and capital – is an irreversible, steadily advancing, process, which also raises questions about the final impact of this exchange on economic indicators. There is a “de facto economic integration” along Brazil’s western border, despite the dividing boundaries and the pertinent controls. It is clear that the generation of aggregate value – to be taken into account in the preparation of macroeconomic statistics in this “integrated region” – may result from various factors on both sides and will end up by being recorded by one side or both sides. For smaller economies such as the Bolivian, Paraguayan, and Uruguayan, this may present a significant statistical bias that relativizes the genuineness of some indicators.

### Share of the national GDP in relation to Brazil’s



The overall effect of the phenomenal expansion of the Brazilian economy on the neighboring small economies in the last five decades poses a major, inevitable question with no easy answers. At various stages of the world economy similar situations have occurred, when the accelerated pace of a much larger economy may send positive waves to small economies or suffocate them or drag them at a slower pace. However, it is extremely difficult to make a distinction between “endogenous” and “exogenous” determinants of economic pace.

There is no doubt that in Paraguay's case there is a strong correlation between its stage of great expansion and that of Brazil, although Bolivia, Paraguay, and Uruguay account for a steadily declining proportion of Brazil's GDP, particularly in Uruguay's case. But the noteworthy stability of the national share since the nineties may indirectly indicate that the "de facto integration" mechanism and various regional agreements, such as Mercosur, are establishing more solid, systematic links among these economies; this may induce a regional growth cycle less differentiated at the respective national levels.

#### IV. Crossroads at the beginning of the twenty-first century

The key determinant of Paraguay's access to the world market and comparative competitiveness is still the cost of transportation, as regards both monetary aspects and opportunity costs. More significant than the condition of a landlocked country is the ineludible realization that Paraguay's is an economy too far away from its natural Atlantic shoreline as well as from its hypothetical Pacific coast. In terms of transport economy, the basis is still the relation of sea, rail, and land transportation costs – 1:5:7, depending on the volume transported and the quality of the road infrastructure. Several studies indicate that the financial impact of transport and insurance costs for Bolivia and Paraguay are higher than for the other countries,<sup>19</sup> to which should be added the implicit and invisible costs stemming from the time spent in delivering merchandise to the seaports and from the different administrative and customs barriers.

19 Transport and insurance indicators. Component share of the value of the transport of chemicals, which are homogeneous products.

Country	CIF cost-FOB cost)/CIF cost (as percentage)
Imports from Asia	
Bolivia	14.21
Paraguay	11.37
Other countries	7.25
Imports from the European Union	
Bolivia	9.42
Paraguay	7.16
Other countries	4.65

Paraguay, like similar countries, still requires an expansion and substantial improvement of its communication infrastructure in every direction, including also a significant improvement of the Plate Basin waterways. The lack of a railway system to connect its producing regions to the major Atlantic ports will continue to add supplementary costs to foreign trade, which reflect in the reduction of net aggregate value, thereby hampering a more balanced and sustained national development.

Under this scenario, the way to regional integration as regards both a common external tariff and the establishment of free trade zones pending a prospective customs union, and to economic integration, which implies the coordination of macroeconomic policies and the creation of a common currency, is the core of a strategy aimed at improving the comparative advantages of landlocked countries such as Paraguay. Mercosur, established between 1985 and 1991, is to certain extent creating conditions for such a process, although many unanswered questions remain as to whether free trade agreements are leading to another “trade deviation” rather than generating “new trade.”<sup>20</sup> Be as it may, it is clear that in recent years there has been a remarkable upsurge of most export items of the Mercosur countries, which have capitalized the relative prices of raw materials on the world market.

It is essential, though, to note that in terms of the dynamics of the world economy there has been a retrocession as regards the South American economies’ participation, if one looks at their national share in the world GDP, calculated on the basis of the currency’s purchasing power, which allows a more equitable comparison between countries with highly different economic structures and relative prices. In the case of some Mercosur countries, this decline is systematic, with the exception of Argentina, which has experienced a rebound in the last ten years, largely explainable by a recovery from the nineties’ crisis.

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20 There is extensive literature on the subject. Some of the most relevant recent contributions on the different integration projects in the Americas include the following: Fanelli, J.M. *Regional agreements to support growth and macro-policy coordination in Mercosur*. New York, 2007; Hugueney Filho, C. Cardim, Carlos Henrique. *Grupo de reflexão prospectiva sobre o Mercosul*. 2003; Azevedo, Andre Filipe Zago de. *The economic effects of Mercosur: an empirical analysis*. 2001; Our works *Hacia una economía política del Mercosur*. Asunción, 1995, and *Mercado de trabajo y migración en el Mercosur*. Asunción, 1996, anticipated a very difficult regional integration, given the substantial differences in economic productivity among the member countries and the continuing migratory flows owing to the lack of job sources in the zones of lesser income.

### National share in world GDP (Percentage based on PPP)

Year	Argentina	Bolivia	Brazil	Paraguay	Uruguay
1980	1.095	0.078	3.576	0.048	0.078
1990	0.715	0.058	3.064	0.047	0.062
2000	0.813	0.063	2.959	0.043	0.063
2006	0.780	0.061	2.818	0.041	0.056

There is no doubt that this relative decline is a result of the substantial increase in world production originating in Asia, particularly in China, followed by India and other countries, as well as of the economic recovery of Russia and other Eurasian economies. Once again, one sees the catch-up effect in the economic growth models, which permit the relatively lower per capita income countries to grow for a while at a faster pace than countries with a higher per capita income. So far, the average per capita income of most South American economies, including the currency's purchasing power, is higher than China's or India's. It will be only a question of some years, though, when the purchasing power of the average income of those countries will catch up, provided the fast pace of Asian GDP growth in the last years holds, something not to be waived aside, given the immense population mass of those countries that are still in need of full integration into a market economy of certain technological and cultural level. The listing of these factors that change the world economy's profile should not hinder the realization of a relative decline of Ibero-America's participation both in world GDP and in the world exports market, with the exception particularly of Mexico since the mid-twentieth century. This analysis, in turn, raises the question as to whether the "South Atlantic" is losing ground in terms of attractiveness and competitiveness in view of the steady concentration of trade and financial flows on the Pacific and the Indian Oceans.

The disadvantages in terms of the economy's reduced volume, i.e., of the lack of 'positive residues of the economy of scale phenomenon', and in terms of the difficult access to world commercial ports, as is Paraguay's case, can be relativized only from the standpoint of an actual regional integration including a communications infrastructure at competitive prices vis-à-vis the world market and eventually a monetary integration that would eliminate a substantial portion of collateral financial costs. This is the only way "small

countries” would not be bypassed by the current globalization wave and could achieve a higher degree of creation of industrial aggregated value in producing zones, which in turn would boost job creation.

## Tables and charts

1. Paraguayan population, 1860-1932. Our work *Economic indicators for the Paraguayan economy. Isolation and the world economy, 1860-1932*. Ph. D., dissertation. London University, 1986.
2. Cultivated area in Paraguay. 1863-1932. Our work (1986).
3. Value of Paraguay’s agricultural production. 1863-1932. Our work (1986).
4. GDP at constant prices. Argentina, Bolivia, Brazil, Paraguay and Uruguay. 2000 US\$ dollars, 1950-2006. Source: Eclac.
5. National share in Bolivia, Paraguay and Uruguay collective GDP, 1950-2006. Source: Our calculations based on Eclac data. 2000 US\$ dollars.
6. Exports volume. Argentina, Bolivia, Brazil, Paraguay and Uruguay. 1980-2007. Source: Eclac.
7. Share of national GDP in relation to Brazil’s. Bolivia, Paraguay and Uruguay. 1950-2006. Source: Our calculations based on Eclac data.
8. National share in world GDP (PPP), 1980-2006, “*purchasing parity power*.” Our calculations based on IMF data. **DEP**

Translation: João Coelho



# New perspectives on Peru's economic development

*Manuel Burga\**

## Introduction

**A**t the approach of the year of 1919 that marked the Republic's first centennial, Augusto B. Leguía, a keen politician egressed from the ranks of the Civil Party that governed the country, announced a political proposal that he thus summed up: "A New Fatherland." A new country in opposition to Antero Aspíllaga, the ruling party's candidate, who according to Leguía represented the "old country" that had been unable to fulfill the republican promise of a better life for Peruvians.

At the same time, university students established the "Conversatorio Universitario," or a university brainstorming group, at the San Marcos University to undertake a review of the first century of republican life. In the same spirit, but from within the Civil Party ranks, Pedro Dávalos y Lissón, an intellectual and relatively successful entrepreneur, published in 1926 a two-

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volume study titled *La Primera Centuria: Causas geográficas, políticas y económicas que han detenido el progreso moral y material del Perú en el primer siglo de vida independiente* [The first century: geographical, political, and economic causes that have hindered Peru's moral and material progress in its first century of independent life]. This same idea, of the failure of the republican project, of an unfulfilled promise, was taken up by the writer Mario Vargas Llosa in his novel *Conversation in the Cathedral* (1969) situated in General Manuel A. Odría's time, as he speaks through the journalist Zavalita, one of the novel's characters, who is always wondering to himself: "An when did Peru got f... up?" This question goes beyond what people asked during the republic's first century and that seeks to probe the reasons or causes of the republican project's failure.

Throughout his entire oeuvre, Jorge Basadre (1903-1980), the foremost historian of the Peruvian republic, sought to understand the nineteenth century, especially the guano period (1845-1875), as a period of "fallacious prosperity" and of "regrettably missed opportunities." Nowadays, though, with the twentieth century over and in view of the frustration of major political projects and of many dreams and illusions, it is often thought – particularly according to a recent Peruvian historiography as illustrated by the young people of the "Conversatorio Universitario" – that, after all, the nineteenth century left important lessons, such as the great legacy of the 1821 independence and the liberal experience of the "practical Republic" of Manuel Pardo (1872-1876), which was ahead of its time and was aborted by its leader's assassination in 1878 and by the War against Chile (1879-1883).

A new national memory is thus aborning, according to which the nineteenth century and particularly the liberal experience appears as a frustrated, unfinished project that should be resumed. Apparently, one should forget the frustrations and dramas of the twentieth century and go back to the preceding century. This is what has led me to title the last section of this essay with a question: "The past resurrected?" This benevolence toward the nineteenth century may be due to the drastic changes occurred in the world in the last quarter of the twentieth century as well as to the relative economic successes entailed by globalization: five years of sustained development in Peru (2001-2006) with inflation at close to 1.5 percent a year and sustained growth of 4 percent a year. This vision could be reinforced by what is occurring right now: according to the National Statistics Institute's last Technical Report, national

output in May 2008 grew 7.3 percent.<sup>1</sup> All these indicators lead young people to reevaluate the nineteenth century and to return to a seemingly buried past, as a demonstration that history is anchored in the present. As Benedetto Croce said so many times, one builds and interprets on the basis of the present.

## 1. Guano economy and fallacious prosperity: anarchy and incipient militarism (1821-1872)

South American independence was sealed between 1821 and 1824, when the San Martín and Bolívar armies converged on the Peruvian territory. San Martín, with his monarchist leanings, soon gave up his project and went into exile in Europe. Bolívar, more firmly convinced of the need to build a liberal republic, remained in Peru until 1826. This political and military undertaking had three fundamental consequences: (a) political independence accompanied by a protracted economic crisis; (b) the emergence of covetous military caudillos, thirsty for power; and (c) instability, anarchy, and struggle for power.

Naturally, the independence wars had aggravated the economic crisis, which was fundamentally rural and persisted since the end of the colonial era. Silver mining in new regions, such as Cajamarca in the late eighteenth and early nineteenth centuries, was stalled by the wars. The greatest damage was sustained by the rural economies of the country's interior: the Spaniards' rural properties were seized, as were the estates of some religious orders; many of them were sacked to feed the patriot and the royalist armies. The result was the near extinction of agriculture, rural economies in crisis, and reduction of State and Church revenues, which depended on the production of those properties.

But independence's major legacy was the emergence of military caudillos, most often generals and colonels that had earned their braids in the independence wars and that entitled themselves to the right of enjoying the fruits of independence. Agustín Gamarra, Santa Cruz, Echenique, Castilla, and Balta were only the better known ones. They disputed power by making use of what they had, i.e., weapons, and doing what they knew best, i.e.,

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1 "The favorable development of economic activity in the country is being explained by the sustained dynamism of both the domestic and the external demand and by increased investment in both private and public projects." *Boletín Técnico*, INEI (National Statistics and Data Processing Institute), N. 7, July 2008. p. 3.

war. They forgot republicanism's fundamental principles and discarded the ideal of a representative government, of a nation of citizens endowed with rights, duties, and freedoms. As fiscal revenues dramatically dropped, the rulers of the moment had to resort to loans, money used to serve the very foreign debt and to pay for military spending and the state bureaucracy's expenditures. There was no tranquility or sufficient intelligence for changing the old economic model. The State had neither legitimacy nor the strength to promote the requisite changes.

Soon, in the early 1840s, a miracle happened: the discovery of guano on the Pacific islands, particularly on the Ballesta islands off the Chincha province, approximately 150 kilometers from Lima. Guano is the excrement deposited way back in time by sea birds on those islands where it never rains. This fertilizer was used by the Incas but in colonial times its use was not necessary, owing to the abundance of land. The discovery of the fertility of cultivable land soon spread throughout Europe; that was the beginning of shipments and of the commercial affairs of the Peruvian State, the sole proprietor, which yielded enormous profits. For about forty years, between 1840 and 1880, through different channels, such as national consignees or foreign contractors, Peru exported eleven million tons of guano that earned the Peruvian State approximately 750 million dollars (McEvoy, Carmen: 2007:33). Today, that figure does not seem so extraordinary, but that income made possible the laying of the nation's material foundations and the opening of the national economy to foreign capital.

Guano put an end to the extreme military anarchy and ushered in a pacification period under the second administration of Ramón Castilla, particularly after his 1854 "liberal revolution," in actuality a military uprising against Colonel Echenique, his former ally, who between 1848 and 1853 had dilapidated the earnings from guano with the payment of the internal debt – a measure called consolidation. At that time, the word "consolidated" became a synonym for "corrupted."

In 1854, Marshal Ramón Castilla, thanks to the guano wealth and on the recommendation of liberal civilians surrounding him, could decree the abolition of the colonial tax imposed on the indigenous peoples and finance the manumission of slaves from Africa. He also resumed the railways policy of his first term (1845-1851). The elimination of the tax on indigenous peoples meant

the permanent elimination of fiscal revenue and led the indigenous peoples to eagerly distance themselves from the State and seek refuge and protection on the haciendas. The state spent 7,651,500 pesos to buy the freedom of slaves. That money benefited principally the slave owners rather than the freed slaves, who fell into transhumance and dwelt in unhealthy shanties. Major spending was also directed at reinforcing the war navy, constructing public buildings, and installing gas lighting in Lima.

The most important event related to the exploitation of guano was perhaps its 1862 consignment to major Lima merchants, who formed the National Guano Consignation Company to have the monopoly of guano exports to different European countries. The consignment contract remained in force until 1869; after those seven years of lively business, the Arequipa-born Nicolás de Piérola, President Balta's young Minister of Finance, dropped the Lima consignees and signed a contract with Auguste Dreyfus, a French merchant residing in Lima. The clear intention underlying this new public policy that probably ensured greater beneficence and liquidity for the Peruvian State was to keep the group of Lima merchants away from this extremely important source of wealth.

This government's decision, as we shall see, had enormous consequences for the immediate future. Manuel Pardo, one of the Lima consignees, a prominent young politician, together with the other Lima merchants, with whom he had maintained close family, political, and intellectual relations since 1859-1862, when they had united to publish *Revista de Lima*, decided to form a political group with electoral intent. Thus was born the Electoral Independence Society, which participated in the 1871-1872 political campaign and formed the first civilian party structure without support from the military government in place, and, breaking the military caudillos' tradition, defeated President Balta's candidate. Reaction to this unprecedented, novel situation was a military uprising in the classic style to annul the civilian candidate's victory. The most remarkable and surprising, though, was the popular reaction to that military uprising led by the Gutiérrez brothers – Tomás, Silvestre, and Marceliano – who ended up by being executed by the population (July 1872). In reprisal, the military immediately executed President José Balta. But nothing prevented Manuel Pardo's assumption of the government of the Republic as Peru's first civilian president.

## 2. Liberal *civilism*, war, and national reconstruction (1872-1895)

According to recent historical research, the most outstanding fact pertaining to the Manuel Pardo Government, which lasted a short period of four years (1872-1876), was that it left profound marks in national history. It should be added that, although his was a short period of government, the liberal group that had assumed power in August 1872 had cohered since 1859-1862 around the *Revista de Lima* and included wealthy merchants, distinguished families of colonial origin, intellectuals, politicians, professionals, and university figures. Military caudillismo, represented by the Gutiérrez brothers, attempted to stop them in July 1872, but in an unprecedented civilian attitude, were murdered by Lima's population. It was alleged then, so as to incite the classical hatreds of the time, that behind the excited mobs were the followers of the Civilian Party.

The *civilists* themselves called that period the *Practical Republic* or the *Republic of Truth*, and the manifest intention of its protagonists was to open a new chapter in national history and pursue – although this may sound paradoxical – the original republican ideals of independence, which had been laid aside by the military caudillos of the guano era. A new republic had to be established and this had to be accomplished not only without those caudillos but in spite of them. This is why Manuel Pardo established the National Guard and started to lean on it. On the quiet, he distanced himself from the army, weakened it, neglected military equipment, cancelled procurement, and thereby made a mistake of incalculable consequences.

This must be understood in light of a modernizing project headed by a political party bent on making up for lost time and on building a “Republic of Truth.” By that was meant a modern republic with a representative form of government, with citizens in full enjoyment of voting rights, decentralized, and with a State at the service of the regions. This new leadership promoted a State reform and required from Congress active legislative work. It promulgated a new Public Education Regulation (1876), which reformed the Peruvian educational system, secularizing its three levels, and steering the university toward the preparation of the kinds of professionals most needed for the country's progress. The new republic brought in Frenchman Pierre Pradier-Fodéré to establish the School of Political and Administrative Sciences at the

San Marcos University for preparing the future functionaries of the modern State. Also in 1876, the School of Bridges and Roads was founded, which later became the School of Engineering.

The economy also experienced great difficulties in this period. Guano had been practically depleted, shipments were dramatically reduced, the Dreyfus contract was rescinded,<sup>2</sup> and the consignees remerged. The government, hostage to the previous primary exports model, seeking a way to replace guano as a source of revenue, took into public ownership the saltpeter deposits in the southern provinces of Tarapacá and Arica in 1873. By then guano was scarce. The State depended on other economic sectors, such as the wool sector, which reached an apex in the Andean south, as well as on the good position of sugar and cotton exports, whose production had tripled between 1866 and 1875, thanks to the guano capital used to equip the haciendas. Manuel Pardo proposed a drastic tax reform to increase the collection of permanent ordinary revenues and put an end to prosperity based on one fungible resource such as guano. Times were difficult; in 1872-1873 a profound fiscal crisis threatened the payment of the foreign debt, the State bureaucracy, and the military apparatus. This period of the "Practical Republic was truly marked by a confluence of difficult issues, reform and fiscal crisis, guano and saltpeter, major political conflicts, and a relegated, dissatisfied army."

### The war with Chile (1879-1883)

Chile declared war on Peru in April 1879 under two pretexts that seemed implausible to Peruvians: the secret treaty signed by Peru and Bolivia and the nationalization of the saltpeter mines, both in 1873. By 1878, General Mariano Ignacio Prado had replaced civilian Pardo in Government and the State seemed to be returning to presumably superseded eras, such as the era of the guano leviathan. The country was not prepared for a war with Chile and thus, after a few months, in October 1879, after the Angamos combat, the sea was lost to Peru. Also the saltpeter provinces of Tarapacá and Arica were quickly lost and the Chilean army advanced northward. General Patricio Lynch set fire to several northern sugar plantations whose owners refused to pay taxes and

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2 "The process of realization of the ambitious concept of a *civilist* nation-State, which resorted to all available political and ideological means, was carried out amidst the most dramatic economic and social crisis in Peru in the nineteenth century." Mc Evoy, Carmen, 2007. p. 245.

attracted paradoxical as this may seem, the popular sectors, the urban plebs, and the Asian workers “enslaved” on the *haciendas* to the cause of the invading army. This was how General Baquedano definitively defeated Peru’s regular army in the proximity of Lima, San Juan, and Miraflores on January 13 and 15, and peacefully entered the city, converted the San Marcos University’s main building into his general headquarters. Chilean troops sacked the city’s cultural goods and the Chilean government deported to Chile prominent Lima figures, including President Francisco García-Calderon.<sup>3</sup> Defeat had been complete. The only one that resisted, more or less successfully, was Andrés Avelino Cáceres and his peasant army but he was nevertheless definitively defeated in 1883, after which tough negotiations began.

As war ended in 1883, Peru had lost the saltpeter mines, the guano islands for a while, and the Tarapacá, Arica, and Tacna provinces, and was forced to sign the prejudicial Treaty of Ancón (1883) that permitted the Chilean army to leave. Agriculture, mining, and trade had incurred huge losses and were practically paralyzed. Abandoned haciendas and mines ruined by the war levies. Shops sacked by the desperate plebs, and the “Peruvian notables” jailed in Chile and out of grace in Peru.

### National reconstruction (1883-1895)

This period is also known as militarism’s second period. It is the time of the military caudillos that emerged from the war as owners of the Andean haciendas: Miguel Iglesias in the north and Andrés Avelino Cáceres in Ayacucho, in the south. Iglesias signed the Treaty of Ancón with the Chileans. The two men fought each other, until Cáceres, considered the resistance hero, finally assumed power and led the country through this painful political, economic, and moral reconstruction. The caudillos disputed with each other over haciendas and mines that miraculously began to recover. The country returned to the primary exports model, exporting agricultural products from the coast, and wool and metals from the Andean regions. At the end of the nineteenth century, the sugar plantations were modernized thanks to the favorable sugar prices and became model plantations with enviable production and productivity

3 The dramatic compilation of letters by Manuel Candamo, a correspondent at that time, has been recently published in Lima: José A. de la Puente Candamo and José de la Puente Brunke (ed.). *Perú desde la intimidad. Epistolario de Manuel Candamo (1873-1904)*. Lima: Ediciones PUCE, 2007.



on the northern coast, such as the Pardo family's Tumán, the Gildemeisters' Casa Grande, and the Grace and Company's Paramonga, supported by both domestic and foreign capital. Lima's, Arequipa's, and Cuzco's textile factories also seemed to experience a boom period at the same time. Even Lima and Cuzco breweries sounded promising. The traditional primary exports model was in place and functioning, while some manufacturing plants made their timid appearance. Coming out of a military defeat, militarism seemed to be exhausting itself.

### 3. The Aristocratic Republic and the New Fatherland, 1895-1930

In 1895, as in the old times, a government succession crisis occurred. President Remigio Morales Bermúdez died and two strong candidates vied with each other for the post: Andrés Avelino Cáceres and Nicolás de Piérola – one a military officer and the other a civilian very close to the military. Both were persistent caudillos after the War with Chile and turned the city of Lima into a battlefield that inspired Pedro Dávalos y Lissón to write a strange novel in 1905, titled *Ciudad Colonial* [Colonial City]. The confrontation revived the old grudges and political and social passions of the past. And yet, a strange political marriage took place. The Civilian Party, restored and headed by Manuel Candamo, and Nicolás Piérola's Democratic Party entered into an agreement to support Piérola, who inaugurated a government that ushered in a long period called by Jorge Basadre *La República Aristocrática* owing to the predominance of the Civilian Party in the entire period. Between Nicolás de Piérola (1895-1899) and José Pardo (1915-1919), the Civilian Party elected all the presidents, except for a brief interruption by Guillermo Billinghurst's populist government (1912-1914), which in turn was interrupted by a military coup that returned the government to the *civilists*.

This period coincided with the “Belle Époque”, the frenchification of costumes, sensibilities, attitudes, and social tastes in the city of Lima and in the country's major cities. The so-called oligarchic Lima families wielded social, cultural, political, and economic power. They included intellectuals, such as the García Calderón brothers and José de la Riva-Agüero, as well as owners of commercial enterprises, haciendas, and mines, and the capital's foremost

lawyers. In addition, Francisco García Calderón and José Pardo became presidents of the San Marcos University and then Presidents of the Republic. It might be said that they enjoyed a unique social legitimacy.

### Main exports – 1900-1930 (percentages of the total)

Years	Sugar	Cotton	Rubber	Wool	Oil	Copper
1900	32	7	-	7	-	14
1905	32	7	16	8	-	10
1910	20	14	18	7	2	13
1915	26	11	5	5	10	29
1920	42	30	1	2	5	12
1925	11	32	1	4	24	18
1928	13	21	--	4	28	20
1930	11	18	--	3	30	19

Source: Burga, Manuel and Flores-Galindo, Alberto. 1979. p. 73.

The above table shows the structure of Peruvian main exports at the time. The novelty was copper and oil, associated more closely with North-American enterprises, recently established in the country. Oil exports gained relevance in the 1920s, whereas copper exports did not change much. Sugar and cotton were the most important agricultural products on the coast, produced by Peruvian- and foreign-owned haciendas, particularly on the northern coast. Rubber, which came from the Amazon region, had a very short period that was nevertheless devastating for the regions involved, such as Iquitos and Madre de Dios. Wool, a more stable, representative export, came mainly from the Andean South and was the backbone of the region's economy. It was collected at the haciendas and indigenous communities and by Arequipa merchants, both small and big, that bought it from the production sources and on the small Sunday markets in the cities, and exported it to England through the Mollendo port. In turn, they introduced English and French textiles and other European products that strangled the incipient textile manufacturing sector in the region. By the late 1920s, El Huayco (Arequipa), Maranganí, Lucre, Atahualpa, and Estrella textile plants of Cuzco became unable to compete with European fabrics, especially English ones.

The “New Fatherland” period (1919-1930) was actually an interruption of the *civilists*' Aristocratic Republic. Augusto B. Leguía became President of the Republic (1908-1912) as a *civilists*' ally but soon took his distance from them and ran against them at the 1919 elections, and when he suspected that the usual might occur, namely, military plots to facilitate the victory of the official candidate, he took over the government with the Civil Guard's support and dislodged the *civilist* candidate, inaugurating the “New Fatherland” government that lasted eleven years. In 1920, after sixty years, as a sign of the new times, a new Constitution was approved. It included many novelties for both the middle classes and the inland indigenous populations. That decade was a highly complex. The government reinforced its relations with and dependence on the United States and promoted North-American investments. It formed a political party and, like Manuel Pardo before him, sought to convert it into a national organization and to establish it firmly in the provinces. In this effort, it dramatically confronted the *civilists* in many departments of the country. The result was the massive appointment of new political authorities, governors, and vice-governors opposed to the old dominant *civilist* group. In its eagerness to defeat the *civilists*' “old oligarchy” in every area – politics, the economy, the university – the government sought allies all around, including inland merchants or students of the San Marcos University, who wanted to share the university's government and demanded university reform.

An event that perhaps transcended the economy based on primary exports was the criticism of bossism or the traditional large Andean latifundia. This criticism was associated with the defense of the indigenous peoples, their culture, their history, and their unjust economic and political reality. Both in Lima and in the provinces pro-Indians currents and intellectuals emerged, which discovered the Indians and supported their demands, helping them in the major coastal cities, justifying their restlessness, and even explaining the peasant uprisings of 1919-1923. The Indian made his entry on the national stage, which led to his discovery. Jorge Basadre used to say that the Indian was the twentieth century great discovery. This discovery was accompanied by anthropological and archeological studies that traced back Peruvian history to its farthest roots. The Indian's presence kindled the political debate about the nature of the Peruvian nation; two of the prominent figures in this debate were Víctor Haya de la Torre (APRA) and José Carlos Mariátegui (Socialist Party). Calls for the Indian's incorporation into the nation began to sound.

Some maintained that the best way to accomplish this was through education. The socialists maintained that the “Indian problem” was actually a land tenure problem and that the latifundia should be done away with and their land should be returned to their original owners. That was the beginning of a debate that would last the entire twentieth century and eventually lead to the 1969 Agrarian Reform.

#### 4. The modern leviathan and the population overflow, 1945-1975

In 1967, French sociologist Francois Bourricaud published his *Power and Society in Contemporary Peru*. The book was published simultaneously in France and in Argentina and was immediately and widely disseminated in Peru. Bourricaud’s central idea was to analyze the emergence of the middle classes, the migration from the provinces to Lima, and the Peruvian oligarchy’s crisis, so as to understand Peru of that time.

##### Peruvian population

	Total	Lima
1876	2,651,840	100,156
1940	6,207,967	562,885
1961	9,906,746	1,632,370
1972	13,572,052	3,002,043
1981	17,005,210	4,164,597
1990	22,332,100	6,414,500
1995	23,532,000	6,914,000

Source: Klarén, P. 2005. p. 521-522.

Approximately around 1940, the Peruvian population reached the level of pre-Hispanic time, right before the Conquest. Nearly four centuries of population deficit had elapsed, which led to the promotion of African immigration, followed by the immigration of Europeans, and finally of Asians. Now the situation was just the opposite, and its consequences were unpredictable. Lima’s population had grown at a faster pace than the country’s

overall population: rural populations migrated to the coastal cities, particularly to Lima. They did not come to buy urban land or bring in qualified labor but to look for work, health, education, survival and to this end they resorted to invading uncultivated land on the city's periphery. They hoisted a Peruvian flag and took possession of the sandy plots. This demand, according to economist Richard Webb (1999), spurred an enormous growth of the State that stopped only in 1975.

### Peru's sectoral economic structure, 1950-1975

	1950	1955	1960	1965	1968	1975
Agriculture	22.6	21.5	18.5	17.0	14.6	12.7
Fishing	0.4	0.6	1.4	1.7	2.6	0.7
Mining	4.5	0.6	10.4	6.0	8.8	6.0
Manufacturing	13.6	14.8	17.0	18.5	23.6	26.2
Construction	5.1	6.2	5.0	4.4	3.8	6.1
Other	53.8	51.8	47.7	52.4	46.8	48.3

Source: Javier Tantaleán Arbulú, Lima, 2001. p. 452.

The above table shows a new economic model in Peru. The economy still emphasized imports substitution through a vigorous manufacturing development, without neglecting the traditional exports. This period of enormous social demands began at the end of World War II and was soon to experience capitalist prosperity at the time of the Korean War, and finally ended in the 1973-1974 crisis. In the political sphere, unprecedented events occurred. This period started with the democratic spring of the National Democratic Front (1945-1948), which ended with a military coup staged by General Odría, who inaugurated a government that lasted eight years of relative economic stability, dynamic traditional exports, and major public works. Odría was succeeded by Manuel Prado (1956-1962), whose government seemed to point to a sort of oligarchic restoration and was actually the Peruvian oligarchy's swan song. Prado's rise to power was due to APRA's support and was justified by the need to overcome the period of persecution APRA leaders had been subjected to under the previous government. Throughout this time, the peasants' pressures for land distribution never ceased.

Attention should be called to the government of the architect Fernando Belaúnde (1962-1968), who defeated APRA but whose administration was abruptly terminated by General Velasco's military coup. This was a period when the influence of the 1959 Cuban Revolution encouraged the guerrillas of 1963-1964 and a silent agrarian reform was undertaken by the hacienda owners themselves under pressure of the peasant populations that resented the dominance of the old landowners' oligarchy. Social and political movements protested against the American presence in Peru, particularly in the mines of the central sierra and on the northern coast's oilfields. This situation led to the 1968 military coup.

That was the beginning of the government of the Revolutionary Armed Forces headed by General Juan Velasco Alvarado (1968-1975), who occupied the facilities of the International Petroleum Company in Talara, the infamous IPC, on the northern coast, as an indication of the nationalist government's intentions to put a definitive end to the power of the Peruvian oligarchy and its foreign partners. That was the first step toward the nationalization of strategic enterprises. The year of 1969 marked the beginning of the Agrarian Reform, which affected all haciendas of more than 150 hectares. It was unexpected and surprising, and actually meant the expropriation of haciendas, particularly those that for tax evasion purposes had been undervalued by their owners, many of whom thus received almost no compensation. The land problem that had been the object of the long-standing socialist discourse seemed to have been definitively solved by the government, as if it had heeded the words of José Carlos Mariátegui. Haciendas were converted into cooperatives or into companies of social interest-SAIS on the Andean agricultural and livestock-raising latifundia. A face of Túpac Amaru II, the 1780-1781 revolutionary, was contrived to be used as a symbol of the SAIS that resulted from the enforcement of the Agrarian Reform Law, accompanied by a fictitious phrase attributed to him: "Peasant, your poverty will no longer feed the boss."

The military government explicitly proposed to carry out a socialist revolution, although this was not admitted by the politicians and intellectuals of the left. After the Agrarian Reform, the Velasco government promulgated the Industrial Community Law, which affected all industrialists equally. It also undertook an educational reform on a large scale, meant to substantially expand coverage, end illiteracy, respect cultural diversity, and promote higher education

apt to meet the country's needs. The world crisis that had broken out in 1973, the difficulty in obtaining external loans, the mounting social demands, and the drastic reduction of fiscal revenues confronted the government with serious economic and social problems. Under such circumstances, in August 1975 a military coup was staged by General Morales-Bermúdez, aimed at checking the economic process begun in 1968 – actually in 1945 – and a democracy restoration process was put in motion.

## 5. Return of economic orthodoxy: 1975-2000

The military government's second phase (1975-1980) saw the installation of a Constituent Assembly, which approved the 1979 Constitution, which embodied the ideology, sensibilities, and economic model of past decades, a model that was soon, insistently and somewhat pejoratively called populism. This was an economic, State populism that nevertheless was able to rein in the decade's population overflow. This was well summarized and analyzed by anthropologist José Matos Mar in his book *Desborde Popular y Crisis del Estado. El Nuevo rostro del Peru en la década de 1980*. [Population overflow and crisis of the State in Peru. Peru's new face in the 1980s], Lima, 1984. Further to François Bourricaud's work, Matos Mar speaks of an unfinished nation, the Andean migrants in Lima with their new faces, who should be urgently counted as full citizens of the new country.

The new Constitution drafted under Víctor Haya de la Torre's presidency had a clearly tempering bias. APRA had been discharging this function quite well since the fifties, attaching priority to the return to democracy over any economic dictate or criticism to big capital, without foreseeing that in May 1980, with the burning of ballot boxes in Ayacucho, the Sendero Luminoso ["Shining Path"] would launch its armed operations in the country. During this period, Peru had two governments: Fernando Belaúnde (1980-1985) and Alan García (1985-1990). It should be noted that that was Latin America's lost decade. Belaúnde's administration started with the reversal of the Velasco reforms, when the newspapers, such as *El Comercio*, and radio and television enterprises were returned to their proprietors. According to some, the Shining Path's revolutionary project had been stopped or temporarily reined in by the Velasco government's military reforms, but its political and military advance from the country to the city seemed unstoppable. Violence, terrorism,

assassination of public authorities, and reprisals against peasants that refused to join its ranks induced a voluminous migration to the cities. The former immigrants and their successors in this exception period expanded the informal economy from which they derived their living, were repelled by those that were used to the traditional way of life. At this time, Hernando de Soto published *El otro Sendero. La revolución informal* ["The Other Path. The economic answer to terrorism"], Lima, 1986. Differently from the previously mentioned book, which demanded the incorporation of the new Peruvians into the actual Peru and offered a diagnostic, the new work presented a proposal inspired on the concept of informal revolution and based on the million of migrants that had invaded lands, had no title deeds, paid no taxes, and had small informal enterprises. Hernando de Soto proposed to help them to join the formal economy, by providing them with title deeds and simplifying administrative procedures for the formalization of their economic activities.

Inflation started in 1980-1985 and by the end of this period it already seemed out of control. President Belaúnde himself harshly criticized the payment of the foreign debt and reduced the percentage of its yearly quotas as he considered them immoral. Under the following administration, inflation reached 1,722 percent in 1988 and 2,776 percent in 1989. Real income dropped 22 percent between 1987 and 1989 and matched the sixties' levels. This was the decade when a nontraditional export that had long been used in Peru, namely, coca leaves, reached impressive marketing levels. In 1980, 10,000 hectares were planted to coca in Alto Huallaga, the central rainforest area, and by 1986, that figure had jumped to 195,000 hectares. This obviously illicit product was a source of wealth reminiscent of silver in colonial times, of guano in the nineteenth century, and of oil in the twentieth century. Converted into cocaine, though, it has devastating effects on its consumers. Well informed, the Shining Path moved to the rainforest area and introduced a system of quotas it extorted from producers and drug traffickers, which earned it such huge profits that it was able to recruit paid militia and adequately equip itself to take the city by assault.

The country was living in an emergency situation of war and constant Shining Path assaults on cities, particularly on Lima. Under these circumstances, President García, taking his own party associates by surprise by his reading of the situation, announced the nationalization of private banks. This was an



answer to scarce investment in the country and to the voluminous national capital deposits with foreign banks. This marked the beginning of society's discredit of him and reactions were varied. As a matter of fact, García had announced a measure that seemed to resurrect the heterodoxy of the military reforms. The measure caused profound social uneasiness, further fueled by astronomical inflation, drastic reduction of real income, food scarcity, and unending lines. Civil society voices were raised, calling for a return to orthodoxy, and overnight converting Mario Vargas Llosa, the great Peruvian novelist, into the standard-bearer for an orthodox economic reform to put a stop to the crisis, inflation, terrorism, and popular poverty.

Surprises soon succeeded each other, when an outsider, an unknown president of the National Agronomy University defeated the laureate novelist and launched a rigorous economic reforms program. He put into motion all that had been proposed by Mario Vargas Llosa, including a monetarist-style stabilization program to curb inflation. This program included reintegration into the international economy, trade liberalization, resumption of debt payments, incentive of foreign investment, prices control, elimination of subsidies, and privatization of state enterprises. Actually, Mario Vargas Llosa had proposed a neoliberal surgery, which Alberto Fujimori performed without anesthesia. As he was inaugurated on July 28, 1990, Fujimori announced urgent reforms and in the first days of August he announced what soon became known as "Fujishock." The Lima population became silent, wandered about in the following days, and the country entered into paralysis as if the population had been suddenly hit by awareness – the awareness of the inevitability of such a "Fujishock." There were no excesses, no loud protests but only immobility, resignation, and civil docility.

Soon there followed a gigantic process of deregulation of state enterprises, which was actually a kind of privatization of the State. These reforms and the resumption of the liberal or neoliberal orthodoxy were coupled with a generally successful fight against subversion, the seizure of State, Legislative, and Judiciary powers, the self-coup of April 5, 1992, the closing of Congress, and the convening of a democratic Constituent Congress. This Congress adopted the new 1993 Constitution, which incorporated the ideology, sensibilities, and reforms under way. Moreover, it paved the way for Fujimori's reelection through amendments to and "authentic interpretations"

of the Constitution. This permitted successive reelections, the second of which was clearly fraudulent, intensifying criticism of Fujimori's administration and harked back to President Augusto B. Leguía's successive reelections that ended with a military coup, which threw him in prison, where he died. Why was the same mistake being committed, as the lesson from the past was so recent and so clear?

## 6. The past resurrected? Growth and democratic recovery, 2001-2006

Government per capita spending rose from US\$1,059 in 1975 to US\$1,990 in 1990, although per capita revenue collections in the same period dropped from US\$710 to US\$159. Production also stopped growing in the 1980s and collapsed between 1988 and 1990. Differently, as shown in the table below, population continued to grow. In 1940, six percent of the Peruvian population had secondary or higher education; by 1990 this figure had risen to 55 percent.

### University enrollment (1940-1995)

Years	Public	Private	Total
1940	2,324	1,046	3,370
1945	7,861	1,108	8,969
1950	13,154	1,515	14,669
1955	12,490	1,722	14,212
1960	27,040	3,207	30,247
1965	54,170	10,506	64,676
1970	81,486	27,744	109,590
1975	127,819	53,852	181,671
1980	183,317	73,903	257,220
1985	228,270	126,424	354,694
1990	233,625	126,153	359,778
1995	242,438	158,300	400,738
2000	254,732	171,297	426,029
2006	285,876	282,219	568,095

Source: Resumen Estadístico Universitario-2005, ANR, Lima, 2007. p. 53.

In the same period, literacy rose from 42 percent to 86 percent. University enrollment climbed from 3,370 in 1940 to 568,095 in 2006 and enrollment in public and private universities was nearly the same. This massification of higher education had a series of major consequences, including the public universities' crisis and instability and the middle class's preference for private universities. But the most important changes, as pointed out by Richard Webb (1999), occurred in social subjectivity: there was now a huge contingent whose expectations could not be fulfilled. As a rule, this new population demanded new work posts, better quality jobs, and better remuneration. This dangerously heightened social dissatisfaction.

Here we come to President Alejandro Toledo's administration (2001-2002), which set itself two major tasks: sustained economic development and recovery of democracy. To achieve the latter, it emphasized respect for democratic institutionality and for the Rule of Law, and in this connection the work of the Truth and Reconciliation Commission should be recognized.

### The Truth and Reconciliation Commission

Material losses caused by subversion: US\$20 billion.

Number of dead: 69,280

Number of dead in Ayacucho: 40 percent of the total

Victims in rural zones: 79 percent of the total

Source: *Cinco años*. Lima, 2006. p. 42.

This government also set the State and public administration reform in motion. Decentralization was tackled "as one of the first reforms for the modernization of the State and society" (p. 90). The greatest effort, though, was directed at economic recovery and sustained growth.

**Exports performance**  
(Quinquennial averages in US\$ millions)

1981-1985	3,190
1986-1990	2,975
1991-1995	4,074
1996-2000	6,300
2001-2005	10,629

Source: *Cinco Años*. 2006. p. 131.

Improvement of fiscal revenues coincided with increased exports. The macroeconomic indicators for 1001-2006 are really encouraging: they point to sustained economic growth, unprecedented in the last thirty years. This presupposed leeway will permitted the implementation of various investment programs in traditional sectors or in state spending, such as raising elementary and secondary teachers' salaries, which nearly doubled in this period. University faculty salaries are also being improved under a program to equalize them with those of magistrates. Equal emphasis is being laid on combating poverty.

Year	Poverty	Extreme Poverty
2001	53.3	24.1
2002	53.8	24.2
2003	52.2	21.9
2004	51.6	19.2
2005	48.8	18.1

Source: *Cinco años*. 2006. p. 165.

The steady improvement of metals on the international market has helped stabilize the Peruvian economy. The opening toward international markets allowed many new Peruvian agricultural products to find valuable markets. Many inland regions are now producing for the international market, so much so that one hears of an agroexporting sierra. However, much of the road infrastructure is still lacking as is a genuine educational reform at all levels. There is also much to do yet to combat poverty, as indicated by the figures

mentioned. Peru's current economic model, based still on primary exports, favors economic growth rather than wealth distribution, and private enterprises rather than State participation, which favors investment. If all of this were happening in relation to an industrial economy, more jobs could be created and poverty could be effectively reduced. Under the current economic model, though, the result is rather doubtful. The editor of *Punto de Equilibrio* journal published by the Pacific University, an institution specializing in economics and business administration, from which many of our ministers of finance graduate, suggests that this model has now reached its limit and that another model should be looked for: "the wealth boom allows us to chose an economic model based on greater solidarity to promote economic development."<sup>4</sup>

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Translation: João Coelho

# An overview of Suriname's economy in the 19<sup>th</sup> and 20<sup>th</sup> century

*Jerome Egger\**

## Introduction

**L**ooking to the north came naturally to Suriname. The south held only mysteries to the people who were concentrated in the coastal region of the country. Even though it is part of mainland South America not much attention was paid to the continent. As a Dutch colony from 1667 to independence in November 1975, it was common to accept the voice of the mother country in almost anything. However, at the same time enough room existed to maneuver within the existing colonial structure. Analyzing economic developments from the 19<sup>th</sup> to the present makes clear that some of the patterns laid down during colonialism have not disappeared yet. In this article, I will give a broad overview of the Surinamese economy from the early 19<sup>th</sup> century to the present. The main argument brought forward in the paper is that monoculture existed,

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first in agriculture and later on when mining began to dominate. Although economists and politicians accepted the need to diversify, it took a long time before actions were taken to do so. Diversifying the economy is an ongoing process now, even though only a handful of products still dominate it.

## A plantation economy

In the early 19<sup>th</sup> century the plantation complex influenced the whole society. In this sense, Suriname epitomized the general picture of the Caribbean with its history of slavery and sugar. The latter was one of the staples from the Caribbean but slowly more products were produced. Coffee, cacao, cotton also found their way to the fields of the plantations.

The first half of the 19<sup>th</sup> century saw periods of both profit and loss. The Surinamese plantation economy had survived a major crisis in 1773 when the Amsterdam stock exchange recorded a substantial fall. Some plantation owners – heavily indebted – lost their possessions in Suriname. The country would not be as profitable as before that period. But the existing picture in Surinamese historiography that after this year the plantation economy collapsed, needs revision. Absenteeism increased and quite a few of the plantation owners did not reside in Suriname anymore. On the other hand, investments were made so things could not be as bad as some had written before. As one historian wrote, planters in the 19<sup>th</sup> century were trying to survive while others exploited their land as much as possible to leave as quickly as they could, with their pockets filled.

In the first few decades of the 19<sup>th</sup> century cotton proved to be profitable. Investments in the cultivation of this product increased. Not only Dutch capital but also money from Great Britain entered Suriname. Towards the middle of the century the price of sugar increased again. This led to banks willing to give the necessary funding so that more could be produced. Compared to the 18<sup>th</sup> century the investments had decreased drastically. Some plantations, however, were able to modernize production and they introduced steam machines. Thus, Suriname had lost its appeal as a place where fortunes could be made quickly but individual plantations and planters managed to make handsome profits and on the whole they continued to produce staples on their plantation for the European market.



Another aspect of the plantation economy was the forced labor that was used from the mid 17<sup>th</sup> century on. Slavery was abolished in 1863. With the manumission of all the slaves, the plantation lost part of their workforce. Indentured labor brought the solution. The colonial government recruited Asian men and women to work in Suriname, as well as laborers from other overcrowded Caribbean islands such as Barbados. Suriname is one of those countries where economic needs led to a multicultural society. The first to arrive, were a small group of Chinese in 1853, but they quickly disappeared as an agricultural labor force to become petty traders and later on shop owners in the capital Paramaribo where they made their presence felt from the late 19<sup>th</sup> century on. East Indians came from India in 1873. They would become the largest indentured group. Approximately 34.000 came to the country. The last to arrive in 1890, were the Javanese from Indonesia. They were also part of the Dutch colonial empire in Asia. In their case negotiations and guarantees were not necessary as was the case with the East Indians, who were British subjects. In the end indentured laborers were able to stretch the live of plantation agriculture, but could not save it. When their contracts expired most of them either went back to their country or accepted a piece of land to cultivate. They became small peasants who slowly increased their capital to become part of the multi-ethnic landscape of Suriname.

## Economic activities after 1863

The years after 1863 saw major changes in the economy. The former slaves slowly drifted away from the plantations. A number of opportunities made it possible for them to find work in other branches of the economy. Some became small peasants and one of the districts, Coronie, showed clearly that they did not completely abandon agriculture. It would remain a place almost completely populated by former slaves that would continue to produce foodstuff. It also made honey and quite a few families kept pigs. Coconuts made it possible to extract coconut oil and the vessels led to mat making. The picture that former slaves refused all work associated with the plantation because it reminded them of slavery, does not hold true. Some were very successful in the cacao business.

Towards the end of the 19th century cacao was profitable as never before. During some years it even exceeded sugar as the most valuable export

product. In the year 1895 almost 4.5 million kilogram cacao was exported, the highest amount ever. Unfortunately this product was easily affected by diseases. One of these destroyed the trees after 1895, and the country lost a valuable product. Production declined and even though in the early 20th century things changed for the better, it never again reached the same heights as before. Cacao was cultivated not only on plantations but also by individual small (mostly Creole) peasants. All had made good money when it boomed.

Another possibility for the descendants of slaves to participate actively in the economy, were the riches in the forest. Gold was found and it led to a rush into the interior first by individuals and then by major companies that wanted to invest on a large scale. The Surinamese interior turned out to be very difficult to work with heavy equipment in those days and these companies failed. Men working alone, the so-called porkknockers, or those in small groups were successful and did some major findings. In 1895 they found some 748 kilogram, a year later 846 and in 1897 approximately 905. This gives a good indication of how quickly the gold mining developed. Around 5000 men were active working in the business. This is another reason why it was so important in those days. It provided work to Creoles who had drifted out of the plantation and who were living in the only city Paramaribo where jobs remained scarce. Families depended on the men working in the interior for months. But when they came back to town they showed of their riches. Songs that are still popular remind us of those days. Fortunes were squandered, but others also built houses or paid for their children to study. In the end the possibility remained to go back to the jungle to look for more gold.

Another booming business in those days was natural rubber, balata. In the early 20<sup>th</sup> century Suriname exported balata. A few of the major producers were able to make a handsome profit. Between 1893 and 1911 some 6266 ton found its way to foreign markets and in its heyday more than 5600 men made a living in this business. The companies were situated in the most western part of the country, Nickerie. As with gold, men left their families to work in the interior “bleeding” the trees so that they could tap as much milky stuff. Balata then was used as one of the substances in isolation material and to make tires for cars. Later on synthetic rubber made balata superfluous.

## Growing participation of indentured laborers

The indentured laborers also participated in the economy. They had a five year contract and after this had expired they could renew it, return to their mother country or accept a piece of land in exchange for their return passage. After 1895 most of the East Indian laborers stayed in Suriname because they were given a piece of land without losing their right to return to India. One of the major contributions that they made was the cultivation of rice. Africans were familiar with rice but they usually planted the dry variety but Indians were used to the wet variety. In the early 20<sup>th</sup> century production increased and the country did not have to import as much as before. Moreover, quite a few of the small peasants received land in the vicinity of Paramaribo where they planted vegetables and produced milk. They sold their produce in the city and were able to accumulate capital. They bought more land, build better houses and slowly they also saw the need to let their children go to school although this came later and was applied to boys first. Only after World War II more girls were allowed to attend school.

The Javanese stayed longer on the plantations. They were Dutch subjects and did not receive the same treatment as the East Indians. Moreover, the largest group came in the twenties and thirties of the 20<sup>th</sup> century when indentured labor from India had stopped. Most of them worked on the plantation and only later they received small plots of land. Some of them became small peasants.

The Chinese never became a large section of the population but their influence should not be underestimated. They had their own shops and more people depended on them to provide the basic goods for the population. Quite a few of them allowed their customers to have an account. They could buy and pay later. In times of economic hardship it helped families to survive. However, the Chinese also encountered difficulties with the business sector of the country, particularly when they set up their own firms to import the goods. This made them compete with vested interests. In 1911 a war of words existed between the Chinese and some of the established firms. Advertisements in the newspapers called for a boycott of Chinese shops. They returned the favor by calling their fellow countrymen not to buy wholesale at those companies. After a few months they were able to find common ground but this episode shows how they were able to penetrate into a very lucrative part of the economy.

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## Establishing a bauxite industry

In the late 1940s and 50s Suriname would become the most important producer of bauxite in the world. It began in the early 20<sup>th</sup> century when Americans looked outside their borders for bauxite, which is the raw material for aluminum. Aircrafts and the war industry needed this metal to produce what was needed. The two world wars in the first half of the century led to the need for huge amounts of this metal and Suriname would profit from the increasing usage of aluminum.

The Aluminum Company of America (Alcoa) came to Suriname when it was clear that the reddish material that had been used to harden roads in the capital Paramaribo was high grade bauxite. The Americans had used bauxite from Europe before World War I had broken out. Ships carrying grain from the United States to Europe returned with bauxite. This cheap way of transporting it, was disrupted when the war broke out in 1914. Alcoa looked closer to home to see if they could purchase bauxite. Suriname's neighbor, the colony of British Guiana, had already discovered that they could deliver the necessary bauxite. In the case of Suriname, samples sent to Germany had made clear that the amount of commercially exploitable bauxite was interesting enough to actually do so. Alcoa received all the necessary licenses to establish a company in the eastern part of Suriname. A small sleepy village called Moengo, became the company town and operations started in 1916.

Alcoa established a subsidiary called The Surinaamsche Bauxite Maatschappij (SBM Suriname Bauxite Company) in 1916. Explorations to see where the most interesting bauxite depositories were, increased. The government allowed the company to bring in workers from Indonesia when they could not find enough miners in the country. This is remarkable because indentured laborers were brought to Suriname to continue agricultural production on the plantations.

However, exports did not happen overnight. The laws in Suriname had to change to make it possible for a foreign company to mine. The Colonial Parliament in the country and the Dutch government did not agree with each other. It took a while before the law was accepted on January 1, 1920. All the preparations that had been going on resulted in an industry that would dominate the Surinamese economy and would continue to do so in the 21<sup>st</sup> century.

The law that regulated mining activities in the country turned out to be very generous towards the SBM. Inexperience with foreign companies and large scale operations in both Suriname and the Netherlands made it possible that this law was accepted. Within a few years the company absorbed all the known bauxite reserves under its wings. Their influence on the Surinamese economy increased. In January 1922 the first amount of bauxite left the country on its way to the Alcoa factories in the United States. More followed in the same year.

The operations in Moengo quickly expanded. More workers found employment at the company and a crusher to break the bauxite in smaller pieces was brought to the mines. All these rapidly increasing activities indicated that profits could be made and investments would not lose money. In 1924, five times as many bauxite as in the first year was exported from Suriname. SBM continued their search for the deposits in the eastern part of the country and soon all of the supplies fell under their concessions.

Another smart move the SBM made in those years, was to replace the American staff working for the company with Dutch engineers. The Surinamese government had requested it, because some plans to expand the operations had been made and they preferred to see Dutch men doing this work. SBM did not object to this request. On the contrary, they were able to be even more successful. Another new factory was built to wash and crush the bauxite in 1925 and even more workers found work in Moengo. In short, while sugar remained profitable in the 1920s, the bauxite industry was on the move.

## Economic activities in the 1920s and 1930s

Although it is understandable that focus in the 1920s was fixed on the bauxite industry, it should not be forgotten that other products contributed more towards export earnings. Economic activities in the country continued to be dominated by agricultural production. Take 1920 for example: Sugar and cacao had the highest value amongst products sent to outside markets. The third highest was balata followed by coffee, gold and timber. In 1925 sugar remained the most important product followed by balata and coffee as a close third. However, things began to change towards the end of the decade. In 1930 bauxite had already become the highest foreign currency earner followed

by coffee, balata and sugar. From then on in the 1930s it remained the most valuable currency earner.

It should not be forgotten that other economic activities took place. The small peasants found their way to the markets with vegetables, ground provision and fruit and contributed tremendously in feeding the population. The rice production increased and this made it possible to import less and less. Trade with the United States and the Netherlands surpassed all other countries but once in a while newspaper stories indicated small changes. Here and there in newspapers of that time small advertisements showed that small quantities of meat from Argentina made it to the local markets. Small quantities of Brazilian products did the same. But on the whole the above mentioned countries dominated the economic landscape.

Suriname would not escape the world economic crisis after the stock market collapse of Wall Street in 1929. It can be argued that this crisis started even earlier because after the short boom when World War I ended, stagnation came to characterize the local economy. Imports usually exceeded exports in the 1920s and quite a few workers could not find work. Plantations preferred indentured laborers. When India forbid the recruitment of its people the main concentration of laborers came from Dutch East Indies (present day Indonesia). This would continue till World War II in 1939. The war made it very dangerous to travel the seas. Moreover, the disruption in Asia caused by Japanese expansion also led to abandoning the arrival of more Javanese.

The 1930s were even bleaker. Prices for commodities fell on the world market and for small countries like Suriname this had even worse effects. The bauxite industry had to scale back their operations. Workers were fired, earnings for the country dropped and the number of ships to transport the ore decreased. In 1930, 700 people worked for SBM, just one year later it had fallen to 400. They lowered the salaries and the work week was shortened. In 1933 only 242 men worked for the company. This is a good indication what was happening in the country. Some initiatives by the government to alleviate poverty included projects to stimulate people particularly in the capital to go back to the land and grow their own food. They also gave permission to those interested to work in the old gold fields again. In the end it did not help much. Towards the end of the 1930s the economy picked up again.

## World War II and the Surinamese economy

The Surinamese economy profited from the war in quite a few ways. The bauxite industry had picked up steam around 1938 and was already producing more bauxite than before. When the war industry really began to work overtime in the United States, it was good news for the country. In the beginning of the war some transports were lost when German under sea boats destroyed the ships but when the Americans found a way to attack them, nothing could stop bauxite from reaching the factories in the United States. In 1942 and 1943 Suriname was the main supplier for the Americans. This bauxite was so important that they were willing to send soldiers to protect the bauxite industry.

The eastern French Guyanese borders belonged to the Vichy regime in France that sympathized with Hitler's Germany. Moreover, the USA also knew that Germany had plans to disrupt as much as possible the transport of raw material to their country. In the end the Americans were able to remove the French Guyanese government. They were replaced by a friendlier one towards the Allied forces. The soldiers in Suriname served their time and helped to build a good airport and a road from the capital to this place. The Netherlands had been overrun by the Germans in May 1940. The fact that American soldiers were in the country made them feel more protected. People in the country were also confronted with American efficiency. This made a lasting impression and together with the Hollywood movies endeared the country in the mind of Surinamers.

The war did more than just develop the bauxite industry. Building better facilities to protect the country led to work that was usually well paid for by the Americans. Small peasants sold their goods and earned a lot more than just a few years before. People had money to spend on eggs, meat, vegetables and more. The country prospered. More money was available for education. Students continued their education after the primary education level. New schools were built and books that were needed from Holland could not be bought. More and more depended on books and magazines from the United States. In short, the war made more people aware that the Netherlands were not the only spot in the world to look at.

## Economic development in a post war situation

After 1945 things had changed in Suriname. During the war the Dutch did not have to supplement the annual budget for the first time in many decades. Moreover, the Dutch realized that a planned economy was necessary if Suriname was to become a modern state. The first economic development plans were written and implemented. It started with the so-called Prosperity Fund (Welvaart Fonds) in 1947. The money went into a major exploration of the economic possibilities in the country. Scientists left the city and their bureaus to go to the interior to analyze the soil, see what possibilities the forest held and to try to find all kinds of minerals that would contribute to the further development of the country. Cartographers did important work to develop a reliable map of the whole country. In some cases they went to places where no human being had ever walked. This was the first time so much work was done that would help to develop other sectors of the economy.

As a result of all the work that the government had done, new industries arose. One Dutch company set up a modern timber factory that used the trees from the interior. Bruynzeel became famous not only in Suriname but also in other Caribbean countries and even a few South American ones such as Venezuela. Their prefab houses with quality wood lasted longer than most people would have thought. Land was prepared to stimulate major agricultural activities. The Dutch polder system made it possible that rice cultivation increased rapidly. The economy picked up, but even though attempts at diversification led to new industries, bauxite still dominated.

During a short while after the war, the demand for bauxite dropped. But it did not take long before the demand increased. The Cold War made sure that the war industry could again turn out weaponry in large quantities. SBM expanded its production in Suriname after 1949. In 1946 long negotiations between the company and Suriname had taken place to decide the future of the industry in the country. It was a period when they wanted more out of the bauxite deal that had been signed in the early 1920s under completely different circumstances. These long and tough negotiations resulted in a deal that satisfied both parties. Moreover, when the Korean war started in 1950 the demand for aluminum was so high that the bauxite production went up quickly.



Apart from investments to explore the possibilities in Suriname the post war period also saw more funding for the educational department. The government wanted to increase the level of education because this would be the only way to develop the country. Important schools were the teachers training institutions that were established as day time schools. Before the war these school only taught on a part time base in the afternoon and at night. More teachers were trained to go to the districts and the interior to teach the students away from the capital. Another major development was the creation of a high school that made it possible to train students up to the entrance exams for the universities. In the case of Suriname it meant that students could do all their studies locally prior to attending universities in the Netherlands. More scholarships also became available to local students. Not only children of the elite could afford to study at universities now but more and more middle and lower class boys (and a few girls) got a chance to go abroad and return with a university degree. In the late 1950s and in the 1960s the results were visible in the number of ministers who had studied abroad and who did not belong to the traditional light skinned elite. Some of the managers of banks and insurance companies, lawyers, doctors and civil servants now belonged to a different section of the population. They replaced or in quite a few cases joined the old guard. Foreign companies also began to employ these newly trained local people.

## The 1960s and 1970s

It may be a bit monotonous, but again the bauxite industry has to be in the spotlight when the 1960s are described. Major investments by the Americans led to the first integrated industry in a developing country. Bauxite was made into alumina and finally Suriname also made aluminum. Before this happened in 1965, another deal was signed with the SBM. This so-called Brokopondo agreement is so important, because further developments depended on this piece of paper. The Surinamese government and Alcoa in the United States committed themselves to develop the industry even further. Alcoa was willing to build a hydroelectric dam to generate enough electricity to produce not only alumina but also aluminum. In 1965 the whole project was finished and Suriname became the first developing country that had such an industry.

Even though bauxite dominated, the rice industry also reached higher levels of production. The country was well known for its development of new varieties of paddy that could yield more rice and better grains. Timber also developed into a profitable industry and fishery, shrimp in particular, brought in some foreign currency. All of this led to steady development of the country even though high unemployment remained a problem. After 1967/68 this was an even bigger problem because the major investments according to the Brokopondo agreement had been made and all the workers who had been employed building the dam and the factories could not be placed in other projects. These were the years of a growing number of the population who found their way to the Netherlands. All Surinamers were automatically Dutch citizens. Most of the people had a reasonable command of the Dutch language, thus, the move to the motherland was not such a big step.

The 1970s brought changes to Suriname. It became an independent country on November 25, 1975 but in less than 5 years a military coup put an end to a democratic tradition of regular elections and a parliament where discussion were held, sometimes very intensely, sometimes not on a high level with personal attacks and even some physicality once in a while. The economy would also feel the pressure of higher oil prices in the world. But only in the 1980s the country sank into a deep crisis when the economy faltered. It took many years to slowly stand up again and to begin a new phase of rebuilding a shattered economy. We are still in the middle of it.

## **Economic developments in an independent Suriname**

When Suriname became independent in 1975 things still looked very brightly with only a few dark clouds on the horizon. Oil prices had gone up when the OPEC (Oil Producing and Exporting Countries) raised them in 1973. Suriname had more than enough foreign currency to pay for these imports. Moreover, the hydroelectric dam generated the needed energy for the bauxite industry. On top of that the country received extra income when the IBA (International Bauxite Association) was established. A number of the more important bauxite exporting countries thought they could repeat the success of the OPEC in bringing together those countries that were considered the more significant ones. And if that was not enough, Suriname

had also received a golden handshake of more than 2 billion Dutch guilders when it became independent. All of this made the future look good. What went wrong?

After 1975 major investments went into the infrastructure. In particular, the West Suriname project absorbed a huge amount of resources. The idea was to create a second city, but again bauxite industry would be the basis for economic growth. Large amounts of bauxite had been discovered and the government developed the idea that many possibilities existed. Timber, tourism, agriculture and more would be developed in that section of the country. However, small businesses and an active private sector were forgotten in the wider picture. Moreover, jobs were created but not always the kind that the local people were looking for. Political bickering between the government and the opposition also did not help creating an environment that was conducive to optimism in society in general. In the end a very South American solution was found. The military took over on February 25, 1980.

When the army entered politics, people – in the first instance – were optimistic that they would work towards a turn for the better in the country as a whole. This is indeed what happened in the first two years. Low income housing was created, utilities produced better services for all and bureaucracy seemed to be doing things a bit more efficiently. In December 1980 a State Oil Company was established, one of the truly success stories of the so-called revolutionary period. However, as in other South American countries abusing power is not exceptional to the military. Opponents were quickly labeled contra revolutionary and in December 1982, 15 of them were executed. The Dutch decided to suspend all development aid. Another recession in the world lessened the demand for bauxite and aluminum. These were two heavy blows to the economy of Suriname. Slowly things got worse. Inflation went up, not enough foreign currency led to empty supermarkets and the government had to ration most of the foodstuff and other necessities of daily life. On top of that a guerrilla began in 1986 when a dissatisfied former bodyguard of the army commander took up arms. All the bauxite mines were inaccessible for the company and the whole country suffered. Soon, it was clear that the army would not be able to destroy the guerrilla and that the latter could not defeat the army. In the end, the army decide to reintroduce democracy and elections were held in November 1987.

The new elected democratic government had to solve many problems. The economy was in shambles and the guerrilla war kept going on. It cost a lot and an already bad financial situation got even worse. It took quite a while before the problems slowly became more manageable. In 1992 a comprehensive peace treaty was signed with all the groups fighting in the interior. When the world economy picked up, the bauxite industry also showed signs of growing profitability.

The new millennium got under way and the economy began to grow again. Increasing world prices for oil worked really well for the State Oil Company and the gold industry grew quickly. Tourism is another positive development that now generates income for the country and the timber industry is also picking up. Even though the world economy is again in an uncertain phase where it is not clear what the outcome will be, Suriname is doing reasonably well.

## Conclusion

In the last two centuries the Surinamese economy was predominantly agricultural in the first instance. Later on, mining took over. However, it remained a monoculture because it depended on just one or a few products. Attempts to diversify never succeeded completely. Nowadays, people realize that a broad based economy that generates foreign currency from different sources has a better chance to succeed. On the other hand, it is not easy to produce many different things with a population of approximately 500.000 people. There were periods when the economy failed to satisfy the needs of the people. In the twenties and thirties and again in the eighties and nineties of the 20<sup>th</sup> century major crises made it difficult to be optimistic. However, the economy picked up and in the new millennium, the future looked a bit brighter. The oil industry is generating a substantial share of the foreign currency, gold is also producing well and eco tourism seems to hold important new possibilities for the country. In short, there is no need to lose faith in the future of Suriname.

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# Uruguay, the region and international integration

*Gerardo Caetano\**

**T**he purpose of this essay is to suggest some lines of reflection about two of the decisive factors in Uruguay's economic development: the dialectic relation between region and the world in the country's international integration strategy and the relationship between politics and the economy as the determinant of public policies. From a long-range historical perspective encompassing both the regional context and the major directions of local politics, this essay emphasizes a review of recent periods falling between the 1973 coup d'état and the left's first national victory as recently as 2004.

## I. "Hegemonic States" and "Border States" of the River Plate Basin. Major implications for the economic history of the region's countries.

**The historical issues of antagonism and border country's features: development, similarities, differences.**

In geographical and economic terms as well as in a broader historical sense, the River Plate Basin has displayed a bipolar configuration, consisting

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of a *hegemonic pole* made up of the large States of Argentina and Brazil, and a *border zone* made up of the three “small” countries: Bolivia, Paraguay, and Uruguay. The long-standing competition between Argentina and Brazil for leadership in the region has without any doubt provided the main basis for the conflict model that prevailed in the region until at least the late 1960s and perhaps more precisely until the mid-1980s. In turn, the “border States” basically oscillated as a pendulum – although in different ways, as we shall see – between the two giants, once isolationism ended after the ominous destruction of the “original” Paraguay by the Triple Alliance War.<sup>1</sup> Deprived of a sea outlet since the condemnable Pacific War, Bolivia, similarly to Paraguay, became a geopolitical prisoner subject to the limitations stemming from this situation. Uruguay, though, owing to its privileged location at the mouth of the River Plate Estuary, was able to establish connections outside the region, although as we shall see, its history cannot be understood save in close, albeit more flexible relation to the events in the region. In different ways, including military confrontations between countries (between Bolivia and Paraguay in the fratricide Chaco War, 1932-1935), the River Plate Basin’s small countries constituted a border area, over whose backing the region’s two giants heatedly disputed so as to ensure their respective projects and leadership aspirations.

In this connection, Paulo R. Schilling has rightly observed that “the region finds itself in the following situation: two large countries – Brazil and Argentina – with dissimulated expansionist tendencies, and three small countries in terms of geography, population, or economy: Uruguay, Bolivia, and Paraguay. The latter two are landlocked countries, with no sea outlet: ‘geopolitical prisoners’... Their liberation depends fundamentally on integration. Uruguay, strategically situated on the River Plate Basin, between the two big countries and the Atlantic Ocean, with the possibility of building a super port in La Paloma (for vessels of the future) could play a fundamental role in the integrated region’s future.”<sup>2</sup>

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1 On the lamentable historical episode of Paraguay’s devastation by the so-called Triple Alliance War and its many consequences for the region, a reading of the following works by Brazilian scholar Luiz Alberto Moniz Bandeira is emphatically recommended: *O expansionismo brasileiro e a formação dos Estados da Bacia do Prata*, translated into Spanish as *La formación de los Estados en la Cuenca del Plata. Argentina, Brasil, Uruguay, Paraguay*. Buenos Aires: Editorial Norma, 2006; and *Brasil, Argentina e Estados Unidos – Conflito e integração na América do Sul (Da Tríplice Aliança ao Mercosul)*, translated into Spanish as *Argentina, Brasil y Estados Unidos. De la Tríplice Alianza al Mercosur*. Buenos Aires: Editorial Norma, 2004.

2 Schilling, Paulo R. *El expansionismo brasileño*. México: El Cid Editor, p. 133, cited in Zugaib, Eliana. *A Hidrovia Paraguai-Paraná e seu significado para a diplomacia sul-americana do Brasil*. Brasília: Instituto Rio Branco, 2005. p. 42.

This duality or bipolarity has been and undoubtedly still is one of the keys to understanding the River Plate Basin's political vicissitudes in the course of its history. As we shall see in detail further on, the great majority of the conflicts that erupted in the region has had to do with the significance of this duality, and particularly with the dialectics stemming from the contest between the two hegemonic States for leadership and from the limited actions carried out by the three border States as they sought to take advantage of the dispute between their giant neighbors and to assert their interests and rights curtailed by the region's visible asymmetries.

A quick look at some of those conflicts can show how their solution, particularly as regards the period of the long predominance of the logic of conflict in the region, has depended in large measure on the interrelation between the two poles in respect of many issues, including the following: free navigation on the inland rivers, ensured by fire and sword after the Triple Alliance War (1865-1870); the gradual formation of the national States in the River Plate Basin through the misfortunate delimitation of their respective territorial limits;<sup>3</sup> the resolution of the predominance of the "transversal" or "longitudinal" axes in the contest for dominion over headwaters (in favor of Portugal first and then of Brazil, after they took possession of them through the *bandeirantes* or the military, from colonial times thru the nineteenth century) or over estuaries (in favor of Argentina, for obvious geographical reasons); the protracted dispute – currently further fueled by the energy crisis – over the exploitation of the hydroelectric potential of the River Plate Basin; the controversy about how to address issues such as environmental preservation or the management of water resources; the design of so-called "export corridors" and the orientation of the landlocked countries (Bolivia and Paraguay) toward the Atlantic or the Pacific; the region's waterways, their overall engineering and geopolitical orientation toward the Atlantic or the Pacific; the more recent controversy over the possibility of imparting a thrust to projects related to the exploitation of the energetic potential and to energetic connectivity based on gas and oil; and the involvement (in steadily increasing association with the United States) in programs geared to the generation of biofuels or to alternative energy sources.

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3 On this subject see especially Luis Alberto Moniz Bandeira. *O Expansionismo Brasileiro e a Formação dos Estados da Bacia do Plata*, translated into Spanish as *La formación de los Estados en la Cuenca del Plata. Argentina, Brasil, Uruguay, Paraguay*. Buenos Aires: Editorial Norma, 2006.



A closer look shows that underlying these conflicts is the historical contention between Argentina's and Brazil's hegemonic aspirations (as was the case between the Spanish and Portuguese American possessions in colonial times). But the elucidation of each of the issues pointed out above depends also on the *big ones'* interaction with the *small ones*. This interaction was in the form of military conquest, as was the case of the Triple Alliance War against Paraguay, when Mitre's Argentina and D. Pedro II's Brazil acted together, with Uruguay playing a secondary role, or other cases in which Brazil acted alone with quite specific aims, as in the conquest of the headwaters of the three great rivers (Paraná, Paraguay, and Uruguay) that make up the River Plate Basin's major water systems. On other occasions, such as during the 1930-1980 period, referred to by many authors as the "geopolitical era," the action tools were diplomatic initiatives or bilateral negotiations, particularly in respect of the exploitation of the energy potential of the international rivers. In this latter period, the conflict between the hegemonic States was expressed in the tension between bilateralism and multilateralism. For many reasons, including geographical and economic as well as political and historical, Brazil clearly tended to prefer the former strategy, while Argentina, much less successfully (and without fewer strategic plans) tended to resist the advances of its northern giant neighbor by invoking the principles of multilateralism. The resolution of this last tension had much to do with the attitude the three border States adopted separately in general, given the lesser experience of Uruguay.

However, the three border States – the Basin's three small ones – have not managed this common condition in the same way. They could not do so for both geographical and historical reasons. Bolivia, without a sea outlet since 1870, could be considered the "Basin's least interested country,"<sup>4</sup> owing particularly, as we shall see, to the scarce attention it received from the region's "giants" and the onerous alternatives offered it by them, particularly by Argentina, to assert its interests in the River Plate zone. As pointed out by Bernardo Quagliotti de Bellis, "the voice of history" imposed on Paraguay and Uruguay different, nearly antagonistic ways of acting as border countries. "A distinct historical structure and function would consolidate Paraguay as a frontier outpost, a besieged bastion, a closed border, and Uruguay as a natural prolongation of the eastern 'Bank', a land of its own, a dynamic

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4 Dallanegra Pedraza, Luis. *Situación energética argentina y la Cuenca del Plata...* Op. cit. p. 20.

world in the gaucho area, an open border.”<sup>5</sup> Their way of life and of acting as border States had also to do with their structural and situational positioning vis-à-vis Argentina and Brazil, which was undoubtedly a major determinant that conditioned their initiatives and projects. Prophetically speaking on this subject and about his well-known Montevideo, Juan Bautista Alberdi wrote in the first half of the nineteenth century: “Montevideo has in its geographical situation the twofold predicament of being necessary to the integrity of both Brazil and Argentina. The two States need it as a complementation. Why? Because on the banks of the River Plate tributaries, the main key to which is the Oriental State, are located Argentina’s most attractive provinces. As a result, Brazil cannot rule over its river provinces without the Oriental Bank and Buenos Aires cannot rule over Argentina’s coastal provinces without the Oriental Bank’s cooperation.”<sup>6</sup>

This community and diversity feature calls for a review of the political and economic strategies implemented by the three border States. Paraguay, as rightly pointed out by Eliana Zugaib, oscillated between Brazil and Argentina after a slight recovery from the disaster of the Triple Alliance War, in pursuit of the best conditions to ensure its national interests. In geopolitical terms, Paraguay had special relevance to Argentina, as it held the key to the consolidation of the north-south axis in the Basin. Owing to different circumstances, though, including the absence of specific policies and plans on the part of the Argentine rulers, Paraguay ended up by shifting its preferences toward Brazil. According to Zugaib, Paraguay’s geopolitical action would follow two basic lines imposed by its geography: (a) maintaining the different alternative ways of communication with the Atlantic in the south by river, through Argentina, and in the east by railroad or highway, through Brazil; and (b) taking maximum advantage of the exploitation of its water resources, which would allow it to play an astute game of equilibrium on the Paraná River, somewhat out of proportion to its specific weight. Thus, the country’s isolation in the continent’s interior, separated from Bolivia by the Chaco’s desert zone and from northeastern Argentina by the uninhabited and economically depressed Formosa province, limited its room for action. This made it easy for Brazil,

5 de Bellis, Bernardo Quagliotti. “Uruguay en la Cuenca del Plata.” In: Dallanegra Pedraza. *Los países del Atlántico Sur...* Op. cit., p. 175.

6 Quoted from *Ibidem*, p. 179.

in the sixties and seventies, to exercise a deliberate policy toward Paraguay's incorporation into its sphere of influence.<sup>7</sup>

As to Bolivia, since its defeat in the 1870 Pacific War, when it lost its sea outlet to Chile, the recovery of a sea outlet became the central issue of a historical claim and the main thrust of its foreign policy. At various moments, Bolivia also displayed a pendular attitude, though differently from Paraguay. Bolivia was not in the same position as Paraguay as a key country and final arbiter to decide which axis (north-south or west-east) would prevail in the Basin and lacked Paraguay's hydroelectric resources to negotiate major works with the region's biggies. This made Bolivia extremely dependent on Brazil and Argentina. The former held the key to the access to the Upper Paraguay and could thus channel its production to the Paraná-Plate system, but the northern giant withheld the power of decision, as regards not only the altiplano country but also Paraguay, as it controlled the two countries' access to those waterways. Another possible access to the Atlantic for Bolivia was the Santos-Arica railways, which reinforced Brazil's power. Other possibilities of access to the Atlantic through Argentine territory were too costly, and Bolivia did not find a more generous attitude on the part of Argentina, which limited itself to grant it only two free zones in its ports. According to Elena Zugaib, "Bolivia's extreme dependence on the two biggies for its communications and exports, owing to its divided geography and historical development, accounted for its circumspect, cautious behavior. In the view of some authors, Bolivia had to design a difficult-to-balance foreign policy, which should not be pendular but characterized by a balanced friendship with all its neighbors."<sup>8</sup>

As regards Uruguay's case, which we shall analyze further on as a prime example for comparison with the region, it should be said right off that the country's most significant trait throughout its history has been precisely its condition as a border country. This circumstance made the territory into a border marker between the Portuguese and the Spanish dominions, then into a buffer State (cotton wool placed between glass items to prevent breakage, as has been said more than once) between two biggies, and led the eastern State founded in 1830 episodically to adopt a pendular policy. Soon, though, owing to its privileged location at the mouth of the River Plate and despite

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7 Zugaib. *A hidrovía Paraguai-Paraná...* Op. cit., p. 41.

8 Ibidem. On this point Zugaib agrees with what Luis Dallanegra Pedraza had pointed out in the work compiled and coordinated by him: *Los países del Atlántico Sur. Geopolítica de la Cuenca del Plata*.

the lack of a seaport on the Rocha coast, which would undoubtedly have provided it with many more geopolitical and trade alternatives vis-à-vis Brazil and Argentina, Uruguay was often called to play a key role in regional equilibrium. According to Pedraza, “Uruguay’s role is that of a vital space to maintain a balanced, harmonious integration in the River Plate Basin. Thus, its first action should be aimed at organizing its internal space according to established priorities and to its social, political, and economic possibilities and interests. The planning of Uruguay’s reality should be based on its geopolitical possibilities and aim at dovetailing with external socioeconomic change processes, as this would ensure the country’s strategic security. Uruguay must adopt a dynamic international policy in the regional environment, as well as achieving a consistent internal territorial organization in accordance with a socioeconomic development plan.”<sup>9</sup>

In sum, despite the lingering, often irreversible asymmetries between the hegemonic pole and them, the border zone countries of the River Plate Basin have played and still play a vital role in the region’s destiny. Without them or against them, a historical perspective seems to indicate that the two biggies cannot solve their conflicts and much less ensure the region’s (and even less South America’s) global governability, with its many ensuing implications. As mentioned, Uruguay’s example will be used further on as a prime comparison tool to endow this thesis with persuasive force.

### The hegemonic States and their protracted dispute in the region

As mentioned, the key to understand the prior history of the River Plate region is the Spanish-Portuguese and then the Argentine-Brazilian geopolitical antagonism. This dissimulated contest began in colonial times, unfolded throughout the nineteenth century and most of the twentieth century, and acquired a more structured, consistent form as of 1930, at the outset of the so-called geopolitical era, when, with different results, both Brazil and Argentina began to formulate their foreign policy with the intent of besting the other and assume the leadership in South America. In connection with the consolidation of the long-held conflict model, the region’s basic geopolitical

<sup>9</sup> Dallanegra Pedraza, Luis. “Situación energética argentina y la Cuenca del Plata.” In: Dallanegra Pedraza, Luis (Coord. and Comp.) *Los países del Atlántico Sur...* p. 9.

and economic antagonisms are referred to in terms such as Atlantic vs. Pacific and Amazon vs. River Plate.<sup>10</sup>

Originally, these disputes were over the predominance of the transversal over the longitudinal axis; they disturbed the precarious order of free navigation on the inland rivers, achieved after the Triple Alliance War. Gradually, the crux of the antagonisms became the attempt to monopolize the flow of productive and export traffic in the entire region, expressed through the establishment and dominion of transversal corridors (favorable to Brazil) or longitudinal corridors (favorable to Argentina). This pretension at economic and political hegemony associated with the consolidation of territorial, productive, and trade dominion evinced the contrast between the estuary (controlled by Argentina and the base of a River Plate centripetalism) and the headwaters of the big rivers (under Brazilian dominance). Over time, this dispute was replaced as the core of geopolitical antagonism between the region's two big ones by control of the Basin's water resources, especially as regards the hydroelectric exploitation of the Upper Paraná basin. Under these new circumstances, the main locus of the battle moved to Paraguay and the focus became the construction of dams and the diplomatic negotiations about how to order and regulate the Basin's energetic potential.

Little by little and in direct relation to the successive main axes of dispute, the Southern Cone's geopolitical equilibrium was ruptured in favor of Brazil, as witness a sharp rise in Brazil's main economic indicators and a parallel decline of Argentina's. Eliana Zugaib refers to this ruptured balance thusly: "Of the two main protagonists, Brazil had advantages that ensured its greater influence over the order of fact and of law prevailing in the region. These vantages stemmed in large measure from the fact that Brazil enjoyed a privileged position as an "upstream" country, which allowed it to control the three great rivers that made up the Basin, as their headwaters were located on Brazilian territory. In addition, the exclusive possibility of operating simultaneously on both Basin axes – the natural North-South and the traditional East-West axes – not only allowed Brazil a better management of the interocean relationship but, owing to its geographical position, permitted it to direct the outflow of foreign trade through its deep-water ports, whereby it controlled the foreign trade of the other River Plate Basin countries.

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<sup>10</sup> Zugaib, p. 38.

Moreover, through its consistent, pragmatic policy, Brazil maintained more fluid relations with the other River Plate countries than Argentina, whose relations were dictated by policies that swayed between integrationism and anti-integrationism according to the changing governments in the neighboring countries. Brazil thus managed to maintain a better system of alliances with the smaller countries, as was the case of Paraguay, thereby guaranteeing its objectives in the River Plate Basin.”<sup>11</sup>

This last contrast, owing to the consequences of the different policies and strategies adopted by Argentina and Brazil toward the other border States of the River Plate Basin is of utmost importance for explaining the border states’ quite different performance and trajectories. Most authors agree that Brazil’s advance and Argentina’s retrocession had to do a lot more with this political and economic factor than with supposedly unquestionable natural or geographical advantages. Luis Dallanegra Pedraza, for example, points out Argentina’s lack of an appropriate, efficient policy toward its neighbor countries of the River Plate Basin, which had negative consequences, reflected in a model that was inadequate for the country’s sustainable development. According to him, the foremost factor of this serious problematic situation was Argentina’s flawed foreign policy: “The lack of a clear foreign policy toward its neighbor countries, as a result of its traditional isolationism from the rest of Latin America, caused Argentina’s loss of influence over Paraguay, a key Basin country in the Upper Paraná. Thus, it lacked, both in the short- and in the medium-term, the requisite capacity to maintain the natural North-South axis, thereby compromising its economy and geopolitics because of the East-West axis’s influence.”<sup>12</sup> The author summed up its criticism of Argentina’s foreign policy in a long list of shortcomings: “lack of a geopolitical doctrine or concept,” “lack of a definition of the national interest,” “lack of a clear view of its integration into the region and into Latin America,” “lack of a clear, focused foreign policy,” “lack of a model of the country desired.”<sup>13</sup> Dallanegra Pedraza concluded his study on a particularly severe, somber note: “Given these shortcomings of Argentina, and Brazil’s ever stronger presence in the region, there is the risk of an imbalance that would be favorable to Brazil, which

11 *Ibidem*, p. 51-52.

12 Dallanegra Pedraza. *Op. cit.*, p. 50-51.

13 *Ibidem*, p. 51-52.

might condition the development of Argentina's most modern and dynamic part – the River Plate Basin zone – and thus of the entire country.”<sup>14</sup>

These harsh comments were made by Dallanegra Pedraza at a crucial moment in Argentina's contemporary history: 1983, at the end of the dictatorship and beginning of the democratic period under President Ricardo Alfonsín, who took office with a clear awareness of the weaknesses of the country's foreign policy, particularly toward the neighboring countries. It should be no surprise that soon after taking office Alfonsín adopted an active policy of approximation with Brazil, which led to the signing, with Brazilian President José Sarney, of the Iguazu Falls Act, the forceful preamble to the ambitious regional integration process, as we shall see further on.

It should be reiterated that at those crucial moments of Argentina's contemporary political history, the criticism leveled at its foreign policy (in respect of the initiatives implemented not only during the dictatorships but also throughout a major part of the twentieth century) was focused on the lack of consistent strategies toward the River Plate region. Reviewing Argentina's shortcomings in regard to the use and exploitation of the Basin's rivers, Nicolás Boscovich pointed out the following: “1. Lack of clear overall objectives for the north-northwest regions and for the exploitation of its huge water resources put an end to what should have been the *unity of Argentina's River Plate basin system*. 2. Mistaken priority of objectives, influenced by the world crisis of nonrenewable fuels and the disorientation caused by the immediate unavailability of alternative sources. 3. Lack of autonomous hydroelectric projects to optimize the production of energy, relegating to a second plane (and in some cases totally discarding) the improvement of navigation. 4. Lack of a proper investment plan and the deferment of priority internal projects in favor of shared projects that at a first stage further widened the imbalance and consolidated *the new transversal determinism* in the Southern Cone.”<sup>15</sup>

Given this lack or equivocal nature of Argentina's policies and strategies toward the River Plate Basin since colonial times, Portuguese America first and then Brazil took advantage of circumstances to militarily conquer strategic zones and to carry out initiatives and negotiations with a keen sense of

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14 Ibidem, p. 53.

15 Boscovich, Nicolas. *La Argentina en la Cuenca del Plata...*” Op. cit., p. 81. Author's italics.

opportunity and appropriateness. Thus, in the context of Brazil's previously mentioned "horizontal foundation," geopolitical intelligence was displayed in the military occupation of the great rivers' headwaters and in the development of consistent foreign policy initiatives aimed at achieving advantageous association with the neighbor countries. Early on, Brazil had a better realization than Argentina about the importance of controlling key spaces in the River Plate Basin, i.e., it discovered much earlier (and derived benefit from this) the importance of regional geopolitics as an irreplaceable axis of foreign policy. In addition, it knew how to lay a solid foundation for its diplomatic political action. It focused on the wide range of issues involved in the Basin and knew how to manage the conflict, often by force and with an imperial intent, focusing on the crucial issues of each historical stage; when the issue was free navigation on the rivers or when the focus shifted to the orientation of the Basin as a whole and the control of its production and export corridors. Moreover, better than any other country, it realized that the twentieth century's most relevant issue was the exploitation of the Upper Paraná water resources, especially in respect of the generation of hydroelectric power.

When the time came to replace the conflict paradigm with one of cooperation, Brazil was able to move from a position of strength. After the disputes over regional leadership, which characterized the four decades known as the "geopolitics era," (1930-1970) as well put by Eliana Zugaib, "Brazil was able to consider itself as the winner on three counts. It had consolidated the export corridors policy, which undermined the usefulness of the traditional trade channels; built the Itaipu dam, which hindered the optimum use of the Basin's resources and precluded navigation on upstream Paraná waters; and ensured, according to some authors, its 'more or less discrete tutelage of Bolivia and Paraguay. This way, Brazil gradually 'dominated' the Basin."<sup>16</sup>

As we have seen, figures indicating a long-standing tendency revealed the consolidation of Brazil's advance and Argentina's retrocession in the contest for hegemony in the River Plate Basin. While Argentina advocated the just principle of a multilateral and regional management of the Basin, Brazil responded according to its old developmentist tradition, spending untiring efforts on works, without neglecting the diplomatic front. Toward the late

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<sup>16</sup> Zugaib, p. 56.



eighties, while Brazil could boast sole or bilateral participation in thirty-five hydroelectric dams in the River Plate Basin, Argentina had built only the Salto Grande dam in partnership with Uruguay. The two countries' GDP showed among other things a sharply unequal exploitation of the Basin's resources. Brazil's leadership in this connection had already been recognized by the United States, a country toward which Brazil had implemented an approximation policy since World War II, in flagrant contrast with Argentina, which under Peronism adopted first a neutral stance and then a nonalignment position. Approximation with the United States was consolidated under the Brazilian military dictatorship, when General Golbery Couto e Silva, in association with other officers, led a policy of privileged association with the great Northern power, which in his view would strengthen Brazilian leadership in the region, with attendant advantages on various planes. Several of the tense movements of the rivalry between Brazil and Argentina had much to do with the contrast between the former's "pro-American Occidentalism" and the latter's nonaligned vision, as variously reflected in the U.S. interventionism and interests in the Basin's region<sup>17</sup>

As an old region of conflicts and the scene of a fundamental geopolitical antagonism between Argentina and Brazil, which left clear winners and losers, by the 1970s the River Plate Basin was moving toward a change of paradigms for its overall condition. The time was propitious for a shift from an already resolved confrontational logic, whose possibilities of providing a basis for future tasks had been exhausted, toward a stance of cooperation, which many factors, both regional and external, indicated as being much more appropriate for successfully meeting the emerging challenges. It was not a simple task to change the geopolitical axis in a zone where conflict had historically been the key factor in the formation of the States and in the models of development and exploitation of the natural resources of a Basin brimming with riches and possibilities.<sup>18</sup> But, as it usually happens, converging factors permitted all the actors to derive benefits from this attempt at change, although, as is

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17 Although many authors work from this angle, the most comprehensive and current treatment of this issue is perhaps to be found in Luiz Alberto Moniz Bandeira: *Argentina, Brasil y Estados Unidos. De la Triple Alianza al Mercosur*. Buenos Aires: Editorial Norma, 2004 (Translated from the Portuguese original).

18 For a thorough, comprehensive study of the meaning of conflict in the region's history, see J. Calatayud Bosch. *Los conflictos entre los pueblos de la Cuenca y el proceso formativo de los Estados*. Montevideo: Ediciones Liga Federal, 2001.

frequently the case, it was more a matter of rhetoric than of actual practice, and there is notice of unfortunate results. Be as it may, the new international circumstances and their further demands on the region, as well as the challenge of emerging issues that called for integrated responses spurred a geopolitical change of great magnitude in the Southern Cone.

## II. Uruguay's case and its implications: the endurance of some integrationist premises

### International Uruguay

Without fear of being mistaken or falling into exaggeration, one may say that all along its history Uruguay has been obsessed with the *outside* represented by the world and the region. If we look at its economic history, its demographic and social development, its cultural formation, the collective views of politics and of participation in international debates, we can hardly contest this perception. The *outside* has been for Uruguayans, in the words of Francisco Panizza, a *constitutive image* and a *constituent outlook*. The world and the region have now and then served as a comparison standard but have also been collectively conceived and perceived as a place from which *we are looked at* and which thus *constitutes* us.

In sum, the Uruguayans' world has been historically an *inside* interpenetrated by the *outside*, with the lines separating the two often blurred. From the time of the last Colony to the independence revolution, the Uruguayan territory lived under a strong tension caused by the dilemma of becoming either autonomous or integrated into the region. The outcome of the revolution and the constitution of Uruguay as an independent State (against Artiga's wish and contrary to his federation proposal) did not alleviate this tension, as it became quite clear in the following decades. It might even be said that in a way this tension runs through the entire Uruguayan history and can be felt even today in respect of its participation in Mercosur.

This duality, which could be considered a constituent element of Uruguayans' collective experience, has given rise to several dilemmas and discussions, some of which are applicable to other countries of the region. One of these dilemmas has to do with the priority targets and directions of

the integration thrust: international integration that may mean privileged association with neighbor countries or a preferred connection with the more advanced nations of the northern countries of the West – the *continental frontier* or the *transatlantic frontier*. In this connection, more than once countries of the region have felt the urge *to enter the world by skipping the neighbors*. The idea that our countries would fare better by having *rich friends far away than poor brethren nearby* (according to Alejandro Vegh Villegas, twice Minister of the Economy under the last dictatorship period) has had important advocates in different countries and at different moments of regional history.

Another starting point for rethinking integration from the perspective of Uruguay as well as of Paraguay and Bolivia requires full assumption of the *border country* condition. A border both separates and joins. It is by definition an area of ambiguities, a zone of multiple, complex exchanges. A border is more than just a limit. A *border country* must perceive itself as such and all the implications thereof. Throughout history, Uruguay has repeatedly assimilated this notion when it had to rethink its pendular relation with its giant neighbors or when it formulated its foreign policy so as to become a factor of regional equilibrium, particularly in a tacit role of informal arbiter or intermediary between countries of the region, especially between Argentina and Brazil. More than a continuity of the strategies of its foreign policy (from the time of José de Herrera in the nineteenth century to more recent governments on several occasions), Uruguay has found in these ideas a perennial source of inspiration.

Uruguay's small size and attendant insufficiency of its internal market is a further reason to think about its economic and trade integration into the region, for the country's economy has to be geared to exports and to be highly dependent on its competitive participation in the regional and international markets. In both an economic and in a political sense, Uruguay is and is not *international*, to paraphrase the title of a well-known work by Luis Alberto de Herrera. In economic terms, the *inside* cannot be a prime factor in injecting dynamism into the economy; this requires communication with the *outside*. By the same token, Uruguay's integration calling (the same applies to Paraguay and Bolivia) cannot be based on a conception of integration that sees the bloc as *an expanded import substitution zone*. Uruguay's product marketing patterns have always reflected an *open regionalism*, conceived as an instrument for fighting as a bloc with its neighbors to conquer new and better markets. This view, which

may have been considered under certain circumstances in the past, is today endorsed by many camps, but this does not preclude pertinent, responsible debate. What deserves being discussed and looked at from different angles – and for which there are abundant precedents – is *how* to become integrated into the region and into the world.

Demographic development also encourages integration. Uruguay's society has been in large measure an alluvial society that expanded through immigration, the major defining factor of the country's social evolution in the nineteenth century and part of the twentieth century. For many decades now, especially in recent decades, Uruguay has been also a country of emigrants owing to a significant Diaspora in both quantitative and qualitative terms, particularly toward the nearby provinces of Argentina and states of Brazil. This is not just a demographic datum but a key element of the national culture and identity. Something similar must have occurred in Paraguay and Bolivia also.

### Trajectories, debates, and models

A society is also what it believes to be and what it wants to be. Uruguayans have often recreated the myth of being the descendants solely of *the men who got off ships*, stressing their condition as *the offspring of European immigrants* (particularly Spaniards and Italians) and underestimating and downplaying the contribution of other immigrants and of other racial and cultural strains, such as the Blacks' and the Indians'. Without any Indigenist impostures or forced multiculturalisms, a pretended Europeanizing homogeneity and the cultivation of an enduring alienation from the neighbor countries of the region and the continent seem to have been at the root of a true cultural emblem symbolized by the metaphor – actually apposite for a long time – of an *American Switzerland*.

This “*us*” of a *self-absorbed Uruguay* that is autarchic, educated to be *different* and *to walk alone*, as opposed to the “*others*” of the region, became associated with the construction of a prevailing collective imagery, markedly alien to a historical trajectory clearly intertwined with regional trajectories. In this regard it is pertinent to succinctly recall some of the milestones along our extensive historical trajectory, which point to a quite consistent, regionalist tropism in the economic domain.

Reference has been made to the intensity of this tension between autonomy and integration, which was already visible in our *fragile, tardy Colony*, in Carlos Real de Azúa's expression. Reyes Abadie, Burschera and Melogno sum up this period as *prairie, border, and port*. In more than one sense, this threefold, fundamental structure is manifest throughout Uruguayan history. But if we were to single out one of these three elements as particularly defining, the choice would probably fall on the border as a zone of litigation, indetermination, and as a trade and cultural crossroads favoring transportation and cultural and commercial exchange.

This border condition, as mentioned, determined also one of the fundamental axes of the revolutionary period. The English historian John Lynch said that there were two revolutions in the region: one revolution on the River Plate and another against the River Plate. The oriental revolution, particularly in its first phase under Artigas, sought at first to harmonize the two trends but the inevitable clash with Buenos Aires led the revolution to settle for the second alternative. One of the revolution's key features was that it sided the Orientals with the defense of the *particular sovereignty of peoples*' against the port-cities' absorbing trend. The struggle between federalism and centralism or unitarianism, with all the implications pertaining to the economic organization of the Basin's territory, had to do directly with the confrontation between different views about the forms of autonomy or integration into the region. The feud between Federalists and Unitarians was then much more serious than a controversy about different models of political organization, as it involved two quite antagonistic concepts of revolution and even of future development.

In the first decades of independent life, the nascent Oriental State and its neighbors, all in the process of establishing their political identity, shared a basically common history, often without any distinctions. During this long process encompassing the emancipation Revolution, the *Great War*, and the *Paraguay War*, the scenario par excellence was the region. The national States, particularly the River Plate nations were not firmly established until 1830, when the Oriental State came into being after the 1828 Preliminary Peace Convention. As pointed out by Argentine historian José Carlos Chiaramonte, there was then a proliferation of identities, from the different names for provincial (*Oriental, Porteño, Cordobés*), for regional (*Argentine*, then

understood as *Rioplatense*), and for continental (*American*, or more frequently, *American Spaniard*). Major conflicts and social processes were addressed at the regional level. There were no boundaries: juridical (Uruguay's first, 1830 Constitution, for instance, did not mention them), political (the Argentine, Oriental, Unitarian, Federalist, Blanco, and Colorado camps were in permanent association with each other, just as the groups in the conflict-ridden southern zone of the Brazilian Empire), or economic (the region's major business was the so-called transit trade, carried out on the waterways then available in the River Plate Basin), or sociodemographic (incipient social formation and the first immigrant waves became associated with populations that pulled up stakes and settled down with only a vague sense of boundaries).

In addition, the utopia of a rapid economic and trade integration into the Western world of the North after the rupture of the colonial ties to Spain had to face in the entire Latin American region what Tulio Halperin Donghi has called *the long wait*. The great expectation held by the members of the government elites in Spanish America right after independence in respect of supposed gains that would *naturally* come with trade opening proved naïve. Effective integration into the world markets had to wait several decades. It may be said that only in the last decades of the nineteenth century the majority of the Latin American countries – under British hegemony – found a place on the capitalist world market, when a convergence of internal and external conditions made possible the region's first capitalist modernization processes.

Integration into the world markets occurred initially with the implementation of modernizing models that favored *outward development*, through initiatives strongly dependent on the hegemonic centers of the Western world led by England. This initial capitalist modernization seemed to run along the same track as integration into the region, which could not fail to have profound implications (both economic and cultural). That was when the key issues involved in the contest among different modernizing models were defined. On the one hand, a modernization program that imitated without restrictions the major European models of modernization (*building bridges over the ocean to bring in civilization*, as the Colorado Manuel Herrera y Obes would say in Montevideo during the siege); on the other hand, the often vague and imprecise intention to adopt a development model grounded on the national

and regional matrix and to establish on that foundation a more demanding, dialectical relation with the transatlantic *civilizing* experiences (*taming a steed and slaughtering a cow is also civilization*, said Bernardo Berro, a nationalist, but not a Blanco doctor, from the besieging Cerrito). Jumping from the region to the world or jumping over the region to the world were, with a wide range of grays and intermediate alternatives, two of the opposing propositions of the modernization dilemma in the region's countries.

These were some of the issues debated among Uruguayans in the late nineteenth century, particularly as of the major 1890 economic and financial crisis, which exposed the undeniable shortcomings of the agroexporting model and its strategies for participating in the dynamics of the world capitalist markets. That major crisis, which erupted not incidentally in London, rapidly spread to the marginal zones, giving rise to other profound crises. The Uruguayans of the late nineteenth and the early twentieth centuries confronted the crisis as a prospective challenge. Uruguayan society, including the most diverse ideological tendencies, faced that decisive situation as a call to rethink the country and its future. This in turn required reviewing the nation's history, designing new models to be implemented, adopting procedures for political, economic, and social integration, discussing worldviews, and finding effective ways for setting the country on the path toward international integration (*international Uruguay*, as referred to later by the National Party's leader Luis A. de Herrera on the title of one of his major works), through an encounter with the world and with the region.

For the countries of the River Plate region, a period of projects and serious conflicts but also of creative synthesis then began. The debate about integration and its models started once again. The consolidation of modern countries presupposed in more than one sense the ratification of an *outward modernization* agenda, which nevertheless permitted closer ties with the region and a quite flexible, manifold participation in the capitalist markets. Although this period was undoubtedly characterized by a *fragile prosperity* and particularly by the vulnerability of the region's incipient economies (especially the Uruguayan economy) to the oscillations of the world markets, it was also a period when economic links and other types of ties brought the countries of the River Plate Basin closer together.

## Consolidation of Uruguay's modernization: stop-and-go reformist drive of the *first Batllismo*

We shall now summarize some key features of the culmination of Uruguay's modernization process in the late nineteenth century and the first decades of the twentieth century. This decisive period in Uruguayan history was marked in more than one way by the stop-and-go<sup>19</sup> nature of the reformist project advocated by – though not exclusively – the so-called *first Batllismo*. In this context, under the strong influence of a matrix of economic development, political culture, and regional and international integration that took shape since the beginning of the independent Oriental State (1830) and during the *Great War* (1838/39-1851/52), the State assumed a greater role with strong integration content, simultaneously with the emergence of a modern party system. At the same time, Uruguayan politics gave rise to a well-coordinated electoral system and society defined itself, as we shall see, as politically-centered, with many implications on several planes. These processes provided a background for the expansion of a format of economic modernization in Uruguay.

None of the processes that strongly marked the nineteenth century in Uruguay meant a jump into the void or a clean-cut rupture with the past. Even the most innovative and enduring phenomena absorbed the legacy and traditions of a rich history fraught with meaning. This calls for a listing of some of the major inherited features that characterized the political struggles and pursuits of Uruguay as it emerged from an intense forging process at the outset of the twentieth century.

- a) According to Carlos Real de Azúa, a good starting point would be “*this evident, undeniable weakness of the manifestation, in nineteenth-century Uruguay, of the continent's power constellation [...] [characterized] by the economic and social hegemony of the agribusiness entrepreneurial sectors and their intertwining with the Church and the Armed Forces as factors of consensus and coactive support.*”<sup>20</sup> The threshold of the twentieth century provided a timely opportunity for the configuring of this power constellation: in 1900 Uruguay was much more open for receiving and interpreting

19 A reference to the title of the well-known work by Carlos Real de Azúa: *Impulso y su freno: tres décadas de batllismo y las raíces de la crisis uruguaya*. Montevideo: Banda Oriental, 1964.

20 See Azúa, Carlos Real de. *Uruguay: ¿una sociedad amortiguadora?* Montevideo: Banda Oriental-Ciesu, 1985.



the impact of the typical phenomena of modern politics, which were somewhat leisurely unfolding in that new, alluvial country.

- b) Restrictions imposed by external circumstances were relative, as the initially weak implementation of capitalism was still under way and Uruguay's supply of products to the world and regional markets was quite diversified, still based solely on livestock production. Although it formed part of the British *informal market*, Uruguay still remained a border country enmeshed in imperial contests. This and its very smallness made possible certain gestures and policies of a nationalizing bias as well as some bargaining room.
- c) The combination of these weaknesses – oligarchic rule and capitalist implementation – helped reinforce the State's presence in the economy and in civil society. By the end of the nineteenth century, the Uruguayan State already displayed a solid interventionist tradition, expressed not only in its increased coactive and administrative power but also in its performance of entrepreneurial and arbitration tasks. Batllist reformism found an entrepreneurial and intervening State – of which it was both heir and new propeller – in which the dominant social classes and their players enjoyed *relative autonomy*, and in which they saw, despite everything, the possibility of putting forth their demands and dissimulating their hesitations.<sup>21</sup>
- d) This State primacy also contributed to the centralization of specifically political initiatives in Uruguayan society. Formed early on and resistant to the recurrent doctoral and merger-inclined<sup>22</sup> propositions, the political parties or their predecessors served as reliable intermediaries in respect of the demands of a civil society deprived of strong entities and of a public political space almost monopolistically defined, well-ordered by the State. *Blancos* and *Colorados* soon accepted each other as well as an agenda of co-participation in government work.<sup>23</sup>

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21 The thesis of the Uruguayan State's *relative autonomy vis-à-vis the dominant classes*, of *Poulantzian* inspiration, had been adopted as a basic support by many Uruguayan and foreign authors that have studied the first *Batllist* period. Some of these authors are Carlos Real de Azúa, José P. Barrán, and Benjamín Nahum, Henry Finch, Germán Rama, and Juan Rial, among others. Their works cited hereunder are included in the bibliography.

22 Throughout the nineteenth century, the doctoral elite earnestly endeavored to put an end to the power of the Oriental caudillos. To this end, many advocated the merge of the two parties into a Nation's Party, explicitly excluding caudillismo representatives therefrom.

23 See Pérez, Romeo et al. Op. cit.

- e) Sharing a liberal republican background (in broad terms), whose imaginary they helped expand,<sup>24</sup> *Blancos* and *Colorados* thus participated in a binary and dialectic scheme that could not be reduced to the *liberal-conservative* opposition so typical of nineteenth-century Latin America. After ferocious conflicts, repeated negation and exclusion, the two parties were able to weave a background fabric in the society and culture of that *gringo motherland*<sup>25</sup> that was aborning. Thus, they ended up by accepting each other as legitimate agents and each camp in its own way expressed this generic liberal matrix then available and hegemonic.

This early party matrix and the propitious climate for the introduction of liberal ideas and myths (with touches clearly derived from a heightened *civic republicanism*, as we shall see) combined with other aspects, whose consideration exceeds the limits of this article. This notwithstanding, we want to mention some of them at least in passing: the weakness of the colonial political and cultural world, and particularly of an *Indian Christianity* similar to the situation in other parts of the American continent; the weakness represented by territorial, ethnical, and community cleavages owing to the prevalence of a small-scale vision that favored the building of a citizenship defined by the political context and its predominant actors; and an overwhelming, early primacy of the urban setting and particularly of the capital, which in turn favored homogenizing integration schemes.

As a consequence of the preceding, in the second half of the nineteenth century an incipient associativism was already visible, in which, differently from what occurred in other countries of the continent,<sup>26</sup> was evident a significant, although not exclusive intermediation of political parties. With primitive features and many shortcomings, the political parties were major factors of this associative and press explosion, which occurred quite differently in other countries. All of this had to do with what we might call a precocious

24 See Panizza, Francisco. "El liberalismo y sus otros. La construcción del imaginario liberal en el Uruguay (1850-1930)". In: *Cuadernos del Claeh*, n. 50, Montevideo, 1989.

25 Immigration and particularly the forms of naturalization and incorporation of immigrants into political life are central issues that concern us, although their specific consideration exceeds the limits of this article.

26 For a comparison of these processes of associativism in the River Plate Basin, see the works on Buenos Aires by Hilda Sabato based on her research on *Citizenship, political participation, and formation of a public sphere in Buenos Aires, 1860-1890*, and her work *La política en las calles. Entre el voto y la movilización. Buenos Aires 1862-1880*. Buenos Aires: Sudamericana, 1998.

densification of the political society to the detriment of a weaker, segmented civil society.

The 1890 economic and financial and the political-military crises that led to the 1897 and 1904 civil wars posed a great challenge to the political system. Based on set of prognostics about the country's future, certain issues reemerged with force, such as political legitimacy, the attendant expansion of the concept of citizenship, and the need for new political and social players. Those two crises elicited an ambitious introspection that had much to do with the identity of those who engaged in it and were much more closely connected with professional politics than with the productive structure.<sup>27</sup>

As the main interpreter of the new times (the *formative times*, as Batlle himself and Ordóñez called them), *Batllismo* (as Barrán and Nahum called it) was born in the *golden cradle* of the State, which by then possessed an insuperable military force (as was confirmed in 1904) and was an invigorated intervener in the economy and in society. It was born from the matrix of the old Colorado tradition, whose key features were the running of the government (in Colorado hands for four decades) and identification with the State.

The trajectory of that *first Batllismo* can be traced through a series of reforms undertaken in various areas of the country's life. Its plan of changes, aimed above all at the country's modern integration, ran on six major tracks: economic reform (nationalization, statization, and promotion of industry through protectionism); social reform (critical support of the labor movement, promotion of a protective social and labor legislation, implementation of *solidarity* measures aimed at the poorest sectors); rural reform (progressive elimination of the cattle-raising latifundia, alternative promotion of small proprietors, and better equilibrium between livestock-raising and agriculture); tax reform (higher taxation of the rich and reduction of consumption taxes, including tax collection objectives and economic and social dirigisme); moral reform (improvement of education, fostering of a cosmopolitan national identity, radical anticlericalism, women's emancipation proposals); and political reform (comprehensive politicization of society, collegiate Executive).<sup>28</sup>

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27 José P. Barrán and Benjamín Nahum have studied in depth and with precision the professionalization of the 1900 political cast and its considerable business community origins. Cf. Barrán, José P. and Nahum, Benjamín. *Batlle, los estancieros y el Imperio Británico*. Tomo III. *El nacimiento del batllismo*. Montevideo: Banda Oriental, 1991.

28 Barrán, José P. and Nahum, Benjamín. *Batlle, los estancieros y el Imperio Británico*. Tomo IV. *Las primeras reformas (1911-1913)*. Montevideo, 1983.

These reforms (many of which were not fully implemented) elicited not only enthusiasm and determination but fear and resistance as well. Early *Batllismo's* first crisis reached a peak in the electoral defeat of July 30, 1916. In a context of increasing social and political polarization, a Constituent Assembly was convened for reforming the 1830 Constitution. The polling worked as a true plebiscite about the reformist model, identified then with a collegiate proposal backed by *Batllismo* and indirectly by socialism. Its outcome was a surprise to many: that was the first time the secrete ballot and universal male suffrage were adopted and the Uruguayan citizenry categorically manifested itself against the government and its reform proposal. The year of 1916 was a paradoxical milestone of modern Uruguayan democracy. At a first glimpse, the check to reformism<sup>29</sup> resulted from a blunder at the polls. The political democracy of universal suffrage, finally embodied in the new Constitution,<sup>30</sup> was born simultaneously with the political imperative of conciliation and pact, parsimony in regard to social change, and fear of hegemonic impulses. From then on, as of that State re-foundational act, Uruguayan society would seek to solve its basic disputes through the legitimate institutional channels of a democracy of parties, co-participation, and elections.

What was that often-mentioned *Halt!* policy announced by Feliciano Viera, Batlle's successor after his second term? In general terms, it meant a check, a stop, a freezing of reformist plans but not a retrocession, at least not at first. The reining-in of the reformist thrust did not lead to the hegemony of the anti-Batllist right. The conservative change of direction in 1916 also had its *Halt!*<sup>31</sup> It was a period of confirmation of Uruguay as a *services country*, with a significant provision of tourist services to Argentina and a trade intermediation

29 A few days before the 1916 electoral defeat, then-President Feliciano Viera (Batlle's own successor) announced at the party convention a "*Halt!*" to the reforms under way, arguing that the population did not seem to share *Batllismo's* avant-garde plans.

30 The new Constitution, which entered into force in March 1919 and was the outcome of a political pact between *Batllismo* and the nationalist opposition, embodied – as we shall see in detail further on – a set of innovative provisions as compared with the 1830 first Charter, including the following: separation between Church and State; universal male suffrage; expanded electoral guarantees; establishment of an exotic, two-headed Executive (consisting of a President and a National Administrative Council); recognition of public enterprises; establishment of a nearly annual election calendar; and flexible constitutional reform procedures. Real de Azúa has rightly pointed out that the constitutional pact seemed to have been inspired by a determined attempt to *exorcize power*.

31 Caetano, Gerardo. *La República Conservadora (1916-1929)*. 2 tomes. Montevideo: Fin de Siglo, 1992, 1993. and Caetano, Gerardo and Jacob, Raúl. *El nacimiento del terrismo (1930-1933)*. 3 tomes. Montevideo: Banda Oriental, 1989, 1990, and 1991.

proposal aimed mainly but not exclusively at the Brazilian state of Rio Grande do Sul. *Modern Uruguay* – similarly to other countries of the region – was thus born amidst the debate about the virtues and defects of different models of *inward* and *outward integration*. For many decades, beginning in the late nineteenth century, discussions were held about the construction of a deepwater port on the coast of the Rocha province, the forms of economic and trade coordination in the River Plate Basin, or the possibility of having economic relations with both Argentina and Brazil, the sale of services under production complementation schemes aimed at the agricultural or the industrial sectors. Subsequent crises, such as the 1929 crisis, exposed the need for manifold, not univocal integration into our regional or worldwide *outside*.

### Reformist Uruguay's crisis and authoritarian drifting

In addition to the different, contrasting models, the different situations Uruguay has experienced in the last eighty years seem to reinforce the conviction that the national destiny has profited much more from pluralist schemes than from dogmatic positions regarding policies aimed at integration into the region and into the world. As a small country subject to the pressure of giant neighbors, Uruguay had its best moments when it maintained itself as a dynamic factor of equilibrium and intermediation between Argentina and Brazil; tried flexible, dialectic ways of participating in world and regional markets; and adopted pragmatic schemes of economic development that combined different strategies and proposals. At the same time, the country knew how to take advantage of favorable international conditions. And yet, contemporary Uruguayan history is full of negative examples and is marked by a lack of daring and creativity for giving impetus to innovative strategies.

These shortcomings became especially clear when the post-World War II world became fully visible in the mid-1950s, and the country had difficulties in maintaining the traditional forms of participation in the world economy. At that time, the Uruguayans and many of the other peoples of the region realized that the world had drastically changed, to the detriment of Latin American interests, and made unfeasible the mere replication of the old, classical import substitution model, particularly in respect of their participation in the world economy.

Full awareness of these circumstances and the challenges they posed for Uruguayan society were and still are a polemical issue. A report on the debates

about this issue and the minimal follow-up of the policies implemented on the part of the various governments in the last decades would exceed the limits of this article. However, some current processes should be pointed out to illustrate fundamental aspects of Uruguay's economic history.

- a) A radical change in the conditions of the country's participation in the international economy, which was consolidated after the first oil shock in 1973, on the eve of the dictatorship;
- b) The establishment, notwithstanding the still ongoing debate, of agendas and policies pertaining to economic opening and to exchange and capital freedom as of 1950,<sup>32</sup> which gave rise to a widespread, though debated opinion in favor of a more open model;
- c) The incorporation by major segments of the Uruguayan population of international cultural and consumption patterns, which contrasted with the persisting income distribution inequalities; and
- d) Continuation of the debate, with different actors and arguments, about the problem of the country's participation in the world, in view of the generalized perception of globalization's many consequences.

In recent decades, owing to the many phenomena and processes addressed in the preceding, the first world has become farther removed from us and the central economies are steadily *uncoupling* themselves from the economies of developing countries, for which the top problem is now their marginalization. In compensation, our countries are now associating themselves more closely with the region, which entails both benefits and risks, as shown by the ups and downs of recent years.

In this connection, the establishment of Mercosur should be seen as the outcome and the corollary of a historical process that encompasses a trajectory of longer duration. The signing of the 1991 Treaty of Asunción that formally established Mercosur ratified in many ways the re-encounter of various countries of the region with threads of their history, reinforced and consolidated by the radical changes that occurred in the last thirty years. In

32 In 1959, the nationalist government elected in November 1958, with a majority of the so-called *herrero-ruralista* [...] faction, managed to have the Monetary and Exchange Reform approved in Congress. This, coupled with the signing the following year (1960) of the Uruguayan State's first Letter of Intention with the International Monetary Fund, is usually interpreted in the country's economic history as the beginning of more liberal, opening-oriented policies, which became radicalized under the dictatorship.

this respect, many facts could be cited, such as the erratic performance of foreign trade and the services' orientation, and the parallelism and increasing intertwining of the trajectories of the region's political systems after the dictatorships, among many other examples. The closer ties to the region are in turn associated with the deepening on a world scale of what has been called a new *archipelago order*, an indispensable reference for understanding many of the ups and downs of these globalization times.

Also in this connection, it should be stressed that the sixties in Uruguay saw the replication of many processes that were well-known in Latin America at that time. The economic crisis reflected in a disruptive view of *industrialization without horizons*, a *stagnated agricultural* sector deprived of markets, and *imbalanced foreign trade*, undoubtedly the less defensible legacy of the reformist country and its *fragile prosperity*. The alternative adoption of ultraliberal policies prescribed by the International Monetary Fund soon failed without yielding the results expected by their advocates. In view of the generalized crisis of the development model, political violence made its appearance in the country as an instrument of the struggle for power, after decades when inner conflicts were seemingly resolved at the polls. Ideological polarization reached Uruguay, then deprived of its old "shock absorbers" (a redistributor, *ersatz capitalist* State, Keynesian parties that under a patronage system regulated the labor market and internal prices, the surpluses stemming from favorable conditions for farm exports, etc.), backed by a population that was beginning to face unprecedented problems (impoverishment, galloping inflation, unveiled cases of corruption, and repressive policies to counter increasing social protest).

It cannot be said that in the decade and a half between the National Party's 1958 victory (and the ensuing liberal public policies) and the coup d'état of June 27, 1973, the political and social actors did not look for alternatives. Some of these include the following: the seesawing economic policies between liberal orthodoxy and pendular movements of a developmentist orientation; the drastic changes in the traditional parties (the Colorado Party's shift to the right, particularly after Pacheco Areco took office in December 1967, and the National Party's move to the center-left under Wilson Ferreira Aldunate's innovating leadership); the start of the Tupamaro National Liberation Movement-MLN, with its armed guerrilla of a *focalist* nature; the process of labor unions' unification that led to the National Workers Convention and the convening of the so-called People's Congress (1965); the emergence of

violent, ultraright groups; the consolidation of militarist groups within the Armed Forces, in constant fight with constitutionalist groups, led by General Seregni; and the establishment in 1971 of the Broad Front, a coalition of left groups as an actually competitive third force, among other events and processes of major consequence.

The Uruguayan process underwent a marked radicalization as of 1968 under the Pacheco government, fueling a repressive response to the increasingly military character of MLN's actions and to the intensification of protests staged by the labor and student movements. The government not only radicalized its repressive policy but also made an authoritarian adjustment to the economic policy that same year, establishing an *entrepreneurial office* (consisting of major representatives of capital, who replaced *professional* politicians, and issuing a decree *freezing prices and salaries* on June 28, 1968 (which led to a considerable transfer of income from workers to the entrepreneurial sectors). Increasing polarization led to an unprecedented rise in political and social violence, which left a trail of dead and injured civilians not seen in the country since the last civil war in 1904. Against this background of heightened conflicts, the inner core of the Armed Forces began to feel clearly in favor of a coup, backed by the U.S. government, as was the case in the rest of the continent.

The 1971 elections, which ended in a political tie that put in office President Juan María Bordaberry, a Catholic fundamentalist from the ruralist ranks imbued with clearly antidemocratic ideas, could not, as in the past, solve serious disputes. With the first actions of State terrorism, under a weak government headed by a President disloyal to the institutions, and a new military offensive triggered by the MLN in 1972, which ended that same year with the guerrilla movement's total defeat (officially announced in October by the Armed Forces), the way was clear for the military coup backed by Bordaberry. The rupture of the institutional order would be completed the following year in two stages: the first instance of military insubordination on February 9 (when the institutionalization of the protagonist participation of the military in government was accepted); and the final act of June 27 (the coup d'état proper, accomplished after the dissolution of the Legislative and immediately countered by a general strike called by the National Workers Confederation-CNT and supported by the parties and sectors opposed to the nascent civilian-military regime).



### III. Recent times

#### The civilian-military dictatorship (1973-1985)

The coup d'état that was the outcome of the Uruguayan crisis acquired a significance that transcended the country's boundaries. Perhaps on few other occasions did Uruguay participate in Latin America's dramatic pulse; as it seemed, it divested itself of the *singularity* which it had so highly prized. In only three years, between 1973 and 1976, the Southern Cone fell entirely into the hands of military dictatorships (*the other Holy Alliance*, in the words of Carlos Quijano) that responded to similar external stimuli, implemented similar economic policies, and, barring major differences, practiced the same systematic violation of human rights. Paradoxically, this manner of Uruguay's linking to the region (its *Latin-Americanization*, some said) occurred simultaneously with an extraordinary process of worldwide changes from which the country remained relatively isolated.

According to a periodization by Uruguayan social scientist Luis E. González, the twelve years of Uruguay's authoritarian regime (1973-1985) can be divided into three clearly distinguishable stages: (1) *commissarial dictatorship*, 1973-1976; (2) *foundational trial*, 1976-1980; and (3) *democratic transition*, which began in 1980 and *formally* ended – although not in many substantive aspects – with the assumption of power by civilian authorities in 1985.

Engulfed in the perplexity of the recently-acquired power that initiated the process, commissarial dictatorship was incapable of coming up with a project other than *putting the house in order*, as it had been seriously disrupted by the highly criticized *omnipresent subversion*. The *commissar* proved implacable and tenacious, left almost no vestiges, and in general its administration was successful (the first moments were confused, to the point that some confused the *commissar* with the *founder* of a progressivism that mirrored Peruvian situations). Under those circumstances, traditional political activity ceased, parties and organizations of the left were *surgically* made illegal, the University suffered intervention, and Public Administration was subjected to a *sanitary* treatment, with thousands dismissed for ideological reasons. Repression was unleashed, radicalizing State terrorism, which had started before the coup d'état. Politics became extremely *privatized* (thereby betraying its essence), and politicians were publicly denigrated.

What should be done after the *house had been put in order*? For President Bordaberry (confessed antidemocrat and ardent admirer of the Brazilian dictatorship and then of General Pinochet's), the Southern Cone's new political equation presupposed *a radically different concept from the one based on Montesquieu's classical division of powers*. The coup d'état meant the end of the *artifice* and given way to *natural, authentic* authority. This had *to be given institutional form* and *this new equilibrium had to be embodied in the Constitution*. The President concluded that permanent, real authority was necessary, established *with the general acquiescence* of the Armed Forces. As public power was solved this way, there is no need to insist, in the case of *private power*, on the source of disunity and dispute (*on the indisputable*), which he identified as being the political parties. In the end, the Armed Forces opted for a different course: to solve the impasse in the least costly way, namely, by maintaining the dictatorship on the basis of a *democratic* discourse, without discarding the pretension of restoring a *betrayed* political order. The parties had built the nation and men, not the system, had placed it at risk, but popular vote had endowed them with unshakeable legitimacy. The *new Republic* to be founded through constitutional decrees would have parties instead of *corporations*, as Bordaberry wanted. In the meantime, military tutelage would create the conditions for its proper functioning.

The disagreements between Bordaberry and the military led to the June 1976 crisis, which culminated in the President's ouster and the designation of Alberto Demicheli (an aged politician with a conservative Colorado background, who also entertained neo-corporatist ideas) as pro tempore President. In a public communiqué, the Armed Forces declared that they did not want *"to share [...] the historic responsibility of suppressing the Traditional Parties..."* As the first measures of his government, Demicheli issued Institutional Acts 1 and 2, suspending *until further announcement* the call for general elections and establishing the *Council of the Nation*, respectively.

The course of economic policy in this period was one of the many relevant continuities between the Pacheco and the Bordaberry Administrations before 1973 and the regime de facto presided by the latter as of June 27, 1973. The 1973-1977 National Development Plan prepared in 1972 by the Office of Planning and Budget of the government that preceded the dictatorship was ratified after the coup with a few, secondary additions, whose implementation, by the way, proved relative.

As a matter of fact, the actual implementation of the new model, which presupposed a drastic radicalization of the previous liberalizing programs, did not start until a year later, with the new neoliberal impetus provided by the designation of Alejandro Vegh Villegas as Minister of the Economy and Finance in June 1974. This delay in the application of the planned strategy reflected, among other things, the initial priority attached to political *normalization* by the authoritarian regime, which played right from the beginning its role as a commissarial dictatorship. The late-1973 oil crisis and its serious repercussions generated a vigorous thrust in Uruguay – including on a symbolic plane, the traumatic framework required by every extreme economic policy (such as the one that was then beginning to be applied).

A look at some economic results achieved in 1973-1976 clearly show the major changes occurred in Uruguay's economy and society: rapid, steady GDP growth; expansion, despite the official discourse, of the tertiary sector of the economy, to which the State significantly contributed; foreign trade restructuring, through a major reformulation of exports, although this was accompanied by a persistent trade balance deficit; and greater income concentration, further aggravated by a real salaries reduction, among other no less important processes.

Income's regressive distribution led to the workers' increasing economic and social exclusion, in tandem with higher gains of entrepreneurs and foreign capital (essentially financial), the new regime's actual social base. The overwork strategy could barely mask the growing pauperization of broad segments of the population, to which was added the dramatic increase of emigration. Official spokesmen then boasted that very little of traditional Uruguay remained.

The solution to the disagreement between Bordaberry and the Armed Forces, whose details came to light years later, in addition to implying the President's replacement and a stop to his corporatist impetus, marked the beginning of the attempt to build a *new political and institutional order*. In their discourse, the military insisted that this change would provide crucial support to the consolidation and deepening of the structural adjustment of the economy, begun in the preceding years. Imbued then by a new messianism and spurred by the success achieved in relation to some economic indicators (particularly GDP growth of over 3 percent a year since 1974), the military corporation seemed to embrace the premises of a neoliberalism at all costs and to ignore at

first the undertaking's social costs. Structural adjustment supposedly attached priority to the economic policy's objective of reducing the cost of labor and the State budget, which in turn required a reduction of the fiscal pressure and a definitive end to the traditional redistributive policies.

Until 1978, the economic policy was directed mainly at promotion of nontraditional exports and liberalization of the exchange market. As of 1978 and principally as of 1979, the form of structural adjustment changed, and the *financial market project* began to be implemented. Among other things, the project presupposed Uruguay's integration into the international capital market; accordingly, emphasis was laid on prices stabilization through a radically monetarist management of the balance of payments. Through an officially imposed, significant foreign exchange lag, trade opening and capital movements increased, and the pace of output growth accelerated (exceeding 6 percent in 1979), albeit at the cost of a ballooning of the foreign debt (it increased by nearly 30 percent in 1979) and of an equally large trade balance deficit (which rose from US\$71,200,000 in 1978 to US\$418,200,000 in 1979 and to US\$621,700,000 in 1980). Once again, the economic boom rested on extremely fragile foundations.

While the overcoming of the product's historical stagnation rested on shaky economic pillars, the undertaking's social costs already represented a dramatic picture for the neediest segments of Uruguayan society. Real salaries continued to decline in parallel with income concentration and the steady enrichment of the upper strata. This, however, did not lead to a significant increase of savings and of productive investments. Meanwhile, the rest of the population determinedly engaged in multiple jobs, although only the middle sectors managed to contain for a while the drastic reduction of their purchasing power. The poorer segments, without any possible way out, experienced increased pauperization under the impact of the elimination of the redistributive policies and of the freezing of the State's social spending.

To this *foundational trial's* economic and social framework there corresponded a political environment characterized by the first attempt to achieve the legitimizing of the military project through a plebiscite on Constitutional reform. On September 1, 1976, Aparicio Méndez (an old politician with a long experience as a nationalist militant) took office as President of the Republic. A series of Institutional Acts paved the way for

him to decree – something denied Alberto Demicheli, whom he replaced – a drastic proscription of politicians. The political ineligibility decreed in different degrees was meant to be for fifteen years, which clearly showed the dictatorship's long-term perspective. This way, party activity was formally suspended without the political cost that an outright suppression of parties would have entailed.

Between 1978 and November 1980, the regime showed that it was determined to legitimize its action by calling the citizens, without party intermediation, to the polls, a process that would culminate in the constitutional plebiscite. As a way of securing the citizens' support, the military leaders were for a *prudent opening* – in the words of one of the most prominent generals at the time – in the form of a restricted, controlled reactivation of political life. The Armed Forces believed that if they managed to elude international pressure and control the influence of political parties, their project would acquire explicit legitimacy in the eyes of the population, through the popular vote. To this end, they intended to mask their tutelage behind a constitutional proposal that political scientist Luis E. González has characterized as a hybrid of *traditional roots*, on the one hand, and *national security doctrine*, on the other.

On November 30, 1980 – even the day and the month conformed to political tradition – Uruguayans peacefully and silently went en masse to the polls amidst suspicions of fraud and defeat. Over 85 percent of eligible voters voted: 885,824 voted against the military project (57.9 percent) as compared with 643,858 that voted in favor (42 percent). The 3:2 ratio against the authoritarian project, although far from being a numerically overwhelming imbalance, had an enormous political importance that surprised both government and opposition. The 1980 plebiscite thus put the dictatorship at a second crossroads. Conceived by the Armed Forces as the culmination of their foundational endeavor through the legitimizing to be ensured by popular vote, the plebiscite turned into their defeat on November 30 and into a victory for the opposition, as well as marking the decisive moment when democratic transition began.

Though many Uruguayans were not aware of it, Uruguay certainly surprised world opinion with this process. How to explain that at a time of strong, albeit asymmetrical economic boom, with all the media at their disposal, and after the *successful* Chilean example of 1977 and 1980, the

Uruguayan military lost their first electoral contest? Was it the triumph once again of politics over any other form of community coexistence? The weight of democratic as well as antimilitary tradition, the influence of the brief, veiled call for voting “No,” the discontent over the effects of the economic and social policies implemented, certainly help explain that outcome. From the standpoint of their continuative, arrogant dogmatism (which kept them from seeking support in the parties), the military missed the way. As regards immediate results, it may be said that the Uruguayan Armed Forces were more efficient in commissarial tasks than in their foundational endeavors, and that they never completely abandoned the former for the latter.

The final stage of the *transitional dictatorship* (1980-1985) brought into relief a marked recovery of the Uruguayan parties as key actors in public life. The dictatorship finally *accepted* its epilogue, moved above all by the setback it suffered in its political initiative. It was the citizenry, which as of the 1980 plebiscite had peacefully imposed itself and played a protagonist, increasingly inevitable role that led the military to plan a strategy aimed at finding the *best way out*.

The year of 1982 was decisive, for in its course a significant part of the political opposition was legalized, with the exception of the left; new social opposition movements emerged and established themselves; and the end of the year saw the beginning of the economic and financial *débâcle*. The dictatorship's attempt to mold a *new society* had failed and the regime lost credibility even among the various segments of the economically powerful sectors. Except for the financial circles, still encouraged by speculation possibilities, the other groups of the entrepreneurial class – industrialists, merchants, and particularly rural producers – began more and more explicitly to withdraw their support and even to assume challenging attitudes. But resistance to the dictatorship was reinforced and organized basically from *below*: some labor unions began to give signs of reactivation, university students also started to organize themselves again, and the same thing occurred with the cooperative movement in the housing sector. At the political parties' internal elections permitted by the regime, held in November 1982, the results proved even more unfavorable to the government than in 1980, as the citizens handed the victory, by a wide margin, to the forces that were more clearly democratic and opposed to the traditional arguments.

While this was going on on the political scene, the economic boom that had peaked in 1978-1980 was approaching a drastic finale. Coupled with other macroeconomic disequilibria, the delay in fixing the dollar exchange rate – the corner stone of the “*Uruguay, a financial market*” project – had seriously aggravated the dispersion of relative prices. Soon, the *stabilizing attempt* would be enmeshed in its own fundamentals: the acute external imbalance and a situation of virtual payment incapacity brought down the experience. The collapse was caused by a further, considerable increase in foreign indebtedness, the continued aggravation of capital flight, and the drop in net internal reserves, while the government’s inflexible exchange dirigisme came apart and the economic team was replaced.

There followed an extremely rigid, *recessive adjustment* of the Uruguayan economy, according to a program based on a new letter of intention signed with the IMF in February 1983, under especially strict conditions in different areas (requirements pertaining to internal policy, costs, terms, grace periods, etc.). The new adjustment’s priority objectives were first to reestablish a minimally sustainable situation of the balance of payments, while aiming at prices stability and at the resumption of growth, regardless of the social costs. In December 1983, Vegh Villegas returned to head the Minister of the Economy and Finance with the stated purpose of preventing dictatorship from bequeathing to democracy an economic situation similar to a *trash dump*, in his very words. The results of this final recessive adjustment exposed clearly a negative balance of the radicalization of the neoliberal program. Although inflation and the fiscal deficit were brought under relative control, the social and economic costs were excessively high. According to Hugo Davrieux, the reduction of the State’s current expenditures was achieved almost exclusively at the expense of a drastic reduction in the purchasing power of pensions and retirement allowances, which reached its lowest level in three decades. Moreover, real salaries dropped nearly 30 percent between 1983 and 1984; the unemployment rate climbed dizzyingly; internal indebtedness grew, seriously affecting ample entrepreneurial sectors; imports fell nearly 30 percent; public spending declined (despite the persisting deficit), while the financial servicing of the debt jumped from 3.7 percent to 22.4 percent of consolidated spending.

The Armed Forces, after a prolonged internal process from which Lieutenant General Alvarez, the dictatorship’s last President would come

out the loser, formulated a strategy that presupposed the relinquishing of the project of creating a *process's party*, as well as the maximalism of the first negotiations with the parties in 1983. The predominant tendency in the end was the search for a way out, for which the best shortcut should be sought so as to leave the military corporation unscathed, thanks to an orderly withdrawal. It was then that the transitional dictatorship entered its second phase, under an agreement between the military and politicians, increasingly marked by negotiations, which returned the political parties to the whelm. This negotiating endeavor led to three closely interconnected results: it relativized the pressure of social mobilization, revved up the political dynamics (in view of the general elections scheduled for November 1984), and tailored the military's exit to the terms of a pact between the military and the majority of political parties, a pact known as the *Naval Club Pact*. The negotiation of the transition had the participation of the Colorado Party, the Broad Front, and the Civic Union; the National Party abstained from participating in protest over the arrest of Wilson Ferreira Aldunate, its top leader, who had returned from exile on June 16, 1984.

The returns of the November 1984 elections showed a striking resemblance to the picture in 1971, which ratified, among other things, the persistence of the electoral tendencies and the *restoration* inclination that seemed to point to the democratic transition. The major differences pertained to the correlation of forces inside each camp (especially in the Colorado Party and in the Broad Front), which kept almost unchanged each party's share of total votes. The Colorado Party maintained its share of total votes at around 41 percent, but internally the *Batllist* sectors left the Pacheco followers as a clear minority. The National Party totaled 35 percent of the votes, less 5 percent from its share prior to the dictatorship, owing certainly to the absence of its major leader from the campaign as well as to the flight of conservative votes in view of the consolidation of a progressive majority in the party. In addition to seeing its identity recognized after eleven tough years of repression and the military's failed attempt to eliminate it for good, the Broad Front won 22 percent of the votes and thus returned to Parliament, albeit with significant internal changes: the spectacular number of votes won by the then-Movement for a Government of the People (of the moderate left, headed by Hugo Batalla), which relegated the Communist Party to a second plane, was a sign of major changes in this direction. Differently from what



had occurred during the rest of the political process under the dictatorship (particularly the 1980 plebiscite, the 1982 internal elections, or the great mobilizations of 1983), it was ultimately the aforementioned *silent majorities* that decided the contest.

### The last twenty years. Cycles of the governing process (1985-2005)

In general terms, three major cycles can be identified from a historical perspective in the course of these two decades of democracy:

- i. *Democratic transition (1985-1989)*, an undertaking that practically monopolized government action and the main attention of Sanguinetti's first Administration;
- ii. *Stop-and-go reforms (1990-1999)*, a feature that encompassed Lacalle's Administration and Sanguinetti's second, ending as the Brazilian crisis began in January 1999, and followed by the beginning of recession in our country; and
- iii. *Recession, collapse, and economic reactivation (1999-2005)*, which were some of the main vicissitudes of the last government headed by Jorge Batlle.

As pointed out, the democratic transition actually began when the elected constitutional authorities took office after the 1984 elections that were truncated owing to the proscription of individuals and parties. The undertaking, which envisaged a broad agenda (amnesty for political prisoners; investigation and prosecution of those guilty of serious human rights violations under the dictatorship; reinstatement of or compensation to dismissed public servants; regularization of the institutions' functioning under the Rule of Law, etc.). This was undoubtedly the major task the first, post-dictatorship democratic government had to face. Soon leaving behind what had been agreed under the National Programmatic Agreement (Conapro) with the parties and the main social actors, the new government headed by President Sanguinetti established what has been called a *national harmonization government*, under a limited, though operational agreement with the National Party, then under Wilson Ferreira Aldunate's leadership.

With pending accounts but also with the advantage of better performance and achievements in other areas (reinstatement of thousands of public

servants, and the overall restoration of a climate of freedom, for instance), most *Blancos* and *Colorados*, despite their internal differences, particularly among the latter, considered the transition completed, while the government intensified its efforts aimed at restoring order and at *general normalization*, as well as at administering the economic and social crisis inherited from the dictatorship, a normalization seen as being gradualist even inside Sanguinetti's own party. Be as it may, progress was made toward restoring some of the macroeconomic equilibriums (although a heavy fiscal deficit would be left for the next government); GDP grew; real salaries actually increased; tripartite collective bargaining in the private sector was resumed; inflation declined slightly, with ups and downs; major social indicators improved significantly; and investment was promoted in various areas.

After Wilson Ferreira Aldunate's death in March 1988 (which cleared the way for a rising Luis Alberto Lacalle) and Jorge Batlle's victory in the following year over Enrique Tarigo (in the internal elections of an increasingly less united *Batllismo* with flagrant political and ideological differences internally), with a debilitated left dramatically affected by the rupture of its unity (owing to the breakaway of the People's Government Party-PGP and the Christian Democratic Party-PDC, which would form the *Nuevo Espacio* with other minor partners), the 1989 elections occurred in a context of centrifugal competition between the two favorite candidates, both of a clear, similar liberal orientation. The outcome of the elections gave impetus to a new reformist agenda of a definite liberal character. Actually, it marked the introduction into Uruguay of the Washington Consensus's so-called *first generation reforms*, inherent to the international financial organizations' interpretation of the new stage of globalizing capitalism. It should be noted that these ideas were espoused since early on by both Lacalle and Batlle, who did not hide them during their campaigning. In the meantime, Sanguinetti held to nuances of the two candidates' focus, then predominant among Latin American governments. After tough negotiations, an agreement was finally concluded, which provided the foundation for the *National Coincidence* government and gave Lacalle a majority in Congress.

Although the coalition government's many vicissitudes soon left Lacalle without a majority in Congress and in isolation, the government did proceed with some of its initiatives and reforms, some of which had formed part

of Lacalle's campaign platform, while others stemmed from a pragmatic adaptation to the region's integration movement. One of these measures that stands out was Uruguay's incorporation into Mercosur, which had begun as an alliance restricted to Brazil and Argentina years before. This initiative, initially promoted by Itamaraty and soon embraced by Argentina, had an immediate, strong impact on the recently installed Uruguayan government, which promoted the country's speedy adherence to the regional agreement. It was clearly perceived since Lacalle's Administration that staying away from the agreement would entail serious negative consequences for Uruguayan trade (for long already established in the region) and further isolate the country. Finally, as we have seen, the Treaty of Asunción was signed by the presidents of Argentina, Brazil, Paraguay, and Uruguay on March 26, 1991. Moved by certainly different visions and projects, the four Uruguayan parties represented in Congress approved the Treaty (with few abstentions of the left), possibly in the hope that regional integration might be the longed-for *engine* capable of *unblocking* the country's internal paths, to its own benefit.

Another example of change achieved despite the difficulties faced by the wounded *National Coincidence*, was the sharp change of course as of 1991, in respect of the deregulation of the labor market, not by an amendment of the legislation in force but by not enforcing it. The areas in which the Lacalle government met with major impediments were precisely those that he considered decisive: the *Public Enterprises Law* and Social Security reform. In the first case, the government managed to obtain the Congress's approval of the law, whose main provision subjected association with private capital to the approval of the National Telecommunications Association-Antel, but the law was impugned by sectors and parties as well as by social organizations opposed to it. After compliance with the legal requirements, the matter was submitted to a popular referendum (the second such occurrence) on December 13, 1992, which had conclusive results: 71.58 percent voted against the law vs. 21.19 percent that voted in favor of it. As to Social Security reform, the political failure was even greater, as no law could be approved.

The 1994 election returns exposed an extremely singular situation – a near triple tie of the Colorado Party, which came out the winner, the National Party, and the Broad Front-Progressive Encounter, in that order. Suffice it to say that the difference between the first and the third parties

was only 1.7 percent of valid votes. Elected President once again, Sanguinetti immediately engaged in a tough negotiation to win support for a coalition government with more solid, enduring foundations than his predecessor could achieve. To reach this essential objective, so as to be able to tackle a series of reforms, Sanguinetti had crucial support from an ally – Alberto Volonté, the National Party's new chairman, of a marked inclination for negotiation and a determined advocate of a firm coalition capable of pushing for the reforms in various areas.

This is how a *Coalition Government* was established on solid foundations, with the support of eighty-four legislators in the General Assembly (64 percent of total membership). The results of such an agreement, which endured practically until the election year, exceeded all the cooperation results achieved by previous governments. This can be illustrated by a short list of accomplishments: fiscal adjustment; Citizenship-based Security Law; Social Security Reform Law; National Budget Law; Alcohol Monopoly Dismantling Law; rendering of accounts with zero spending; Investment Law; Energetic System's Regulatory Framework Law (whose impugnation did not meet the requirements for calling a referendum); constitutional reform enacted by Congress and approved in a referendum by the minimum of 50.4 percent of cast ballots on December 8, 1996; and other less relevant initiatives.

Supported by a more disciplined coalition, Sanguinetti's second Administration was able to carry out several reforms, including the social security reform (through the establishment of a mixed regime that combined the universal regime provided by the Social Security Bank with a complementary system of individual savings and capitalization); educational reform (including the decentralization of teacher's training centers; universal coverage of preschool education for children aged four and five; the extension of full-time school to poor areas, with the provision of daily meals; the educational authorities' persistent rejection of the policies aimed at decentralizing and encouraging private education initiatives; the always controversial modification of plans and programs (all this implemented with little participation and the flaw of deferring the ineludible need to raise the extremely low salaries of teachers and professors, etc.); continuation of the State reform (characterized by emphasis on focus, decentralized management, flexible provisions, encouragement of competitiveness and productivity,

incentive for reducing the contingent of civil servants, etc.); and constitutional reform (with significant changes in the country's classical electoral system popularly known as *ley de lemas* [party-list proportional representation law], and other lesser changes regarding the government system and the relations among the branches of government.

To this review of reformist proposals that characterized Sanguinetti's second Administration two other distinctive aspects of this 1995-2000 period should be added: first, the interrupted improvement, followed by moderate growth (with ups and downs late in the decade) of the poverty levels (particularly as regards the structural problem of child poverty and indigence), notwithstanding the continued economic growth and the steady improvement of other social indicators (child mortality rate and the universalization of preschool education in particular); second, a vigorous resumption of the controversy over human rights violations under the dictatorship and the search for the truth about what occurred then.

As to the resurfacing of the issue of human rights violation under the dictatorship, it should be noted that the controversy about this *outstanding balance* from the dictatorial period was reignited by local as well as by international motives. Before this, various attempts and specific initiatives had been undertaken with a view to a renegotiation about the issue with the military and the government, focusing on the clarification of those occurrences and on the Armed Forces' and the State's need to assume institutional responsibility for them. Initiatives in this respect were numerous, but all of them met with a decidedly contrary attitude on the part of the government and the military, which blocked any new attempt in this regard. The response of the top brass was always unanimous and peremptory. In April 1997, the generals signed a *commitment* according to which they maintained *the same line* contrary to the setting-up of commissions to investigate the past and to the *start of revisionisms that could lead to no good outcome*.

The constitutional reform approved by referendum by a minimal margin in December 1996 was applied for the first time in 1999. On that occasion, contrary to many prognostics that saw no change for him, Jorge Batlle, then aged 72 and with fifty-five years of uninterrupted political activity, ran for the fifth time for President and finally was elected. After winning the nomination by his Colorado Party, he won the November 28 runoff (after

signing a pragmatic agreement with the National Party), with 52.26 percent of the votes as compared with the 44.53 percent won by the Progressive Encounter headed by Tabaré Vázquez. The coalition that emerged after the runoff election resulted from the union of the second and third political forces in number of voters, with the exclusion of the first force (Broad Front-Progressive Encounter), and with narrow majorities in Congress (55 out of 99 deputies, and 17 senators out of 31), despite each party's notorious internal differences.

After an auspicious beginning characterized by initiatives such as the establishment of the *Commission for Peace* and the acknowledgement of a problem that, similarly to the investigation of the human rights violations under the dictatorship, previous governments had considered closed, the country suffered under the so-called *seven plagues* (foot-and-mouth disease, monetary disequilibria in relation to the region, financial crisis, turmoil in the international markets, etc.). Under these circumstances and in addition to controversies, President Batlle and his government saw a vertiginous drop in his popularity and credibility. A major contributing factor to this was the President's verbosity and his serious mistakes in political communication, which affected both public opinion and his relations with powerful interlocutors such as the Presidents of the region and the national and international press. The foreseen crisis that finally broke out in all its virulence in 2002 found a weakened government on various fronts. The basic tenets of the 1996 constitutional reform – the establishment of electoral norms aimed at encouraging strong, lasting coalitions and the emergence of presidents with personal political force and support on their own merits – soon exposed his ineptitude at that juncture. The coalition came apart at the worst possible moment and the presidential nucleus weakened at such a point that it became almost paralyzed and incapable of negotiating. As we know today and intuited then, there was no lack of conspiracies to end Batlle's term and anticipate elections, a catastrophic hypothesis that was avoided thanks to institutional loyalty and the civic spirit displayed by all other actors.

At the most critical moment of the 2002 crisis, Senator Alejandro Atchugarry's assumption of the Ministry of the Economy meant a kind of tacit transfer of the government's leadership from the presidential nucleus, paralyzed and without credibility, to a sort of Prime Minister, who managed

to find support for governability amidst the torment through agreements with Congress and the backing of more involved party leaders. It is no exaggeration to say that that period was perhaps the Batlle government's most difficult and at the same time the most successful, although its harvest came later.

The magnitude of the crisis was unprecedented. Recession lasted practically four years and a half, from January 1999 thru the mid-2003. The country was brought to the threshold of default – which finally could be avoided – by many factors, including GDP's drastic drop between 1998 and 2002 (in both global and per capita terms); unemployment levels that neared 20 percent; marked reduction of real salaries; higher inflation; the public debt-GDP ratio; the equally drastic drop in exports; decline of the manufacturing industry; greater indebtedness of the agricultural and livestock sector; and the devastating crisis of the financial system, among other things.

The terrible social consequences of the crisis endured. In the space of only four years, more than 100,000 Uruguayans emigrated; this exceeded the rate of births and deaths in the same period. According to official figures, by the late 2003, poverty had climbed from 30.9 percent to 56.5 percent of the population aged up to four years and to more than 50 percent of the population under 18. The rate of school absenteeism was very high, and the number of young people that neither studied nor worked was considerable. The torment exposed the State's failure in paying attention to a social emergency. It also became crystal clear that the *hyperintegrated society* and the *State as a shield to the weak* has been left behind.

A year and a half before the change of Administration, the internal and external constraints to the government's functioning became evident, and the electoral campaign had a premature start with the referendum on the National Fuels, Alcohol, and Cement Administration-Ancap Law on December 7, 2003 (which resulted in an impressive, maybe even unexpected 62.3 percent disapproval of the law, and constituted in reality a devastating plebiscite on the unpopularity of the government and of the foremost figures of the two parties, namely, Sanguinetti and Lacalle). However, the international environment was steadily becoming more favorable to the consolidation of the country's incipient economic recovery, for which the agricultural and livestock sector provided the impetus, owing to very good prices and market opportunities. Economic indicators began to point to an accelerating pace

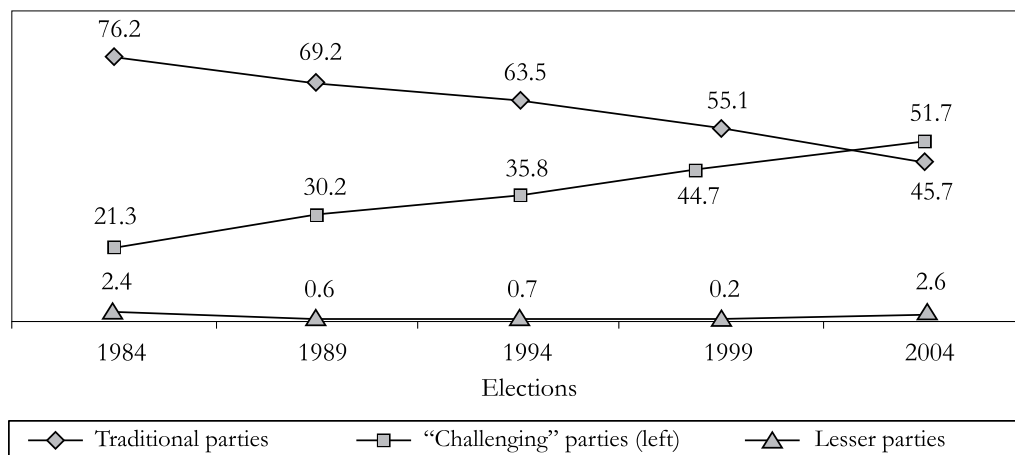
of recovery, although transfers to the social sector and the latter's influence slowed down and became more limited – while GDP grew between 12 percent and 13 percent in 2004, poverty increased.

Despite the surprising results of the internal elections of June 27, 2004, which pointed to a runoff, with a National Party under new leadership and with greater aspirations of competing with the left, developments as of July confirmed the more general prognostics: the electoral victory of the *Progressive Encounter-Broad Front-New Majority* (EP-FA-NM), after a mistake-free campaign, during which this coalition kept ahead. The returns of the election of October 31, 2004 were decided by an avalanche of votes for the left, which won a majority in both Legislative Chambers. This victory of the EP-FA-NM and of its presidential candidate Tabaré Vázquez at the first balloting on October 31, 2004 marked without any doubt a profound, historic turn in Uruguayan political history. Thus came to an end the 175-year long hegemony of Colorado and nationalist governments or civilian-military dictatorships that had ruled the country in sporadic alternation (with a clear primacy of the Colorados over the nationalists, despite some instances of cooperation and coalition). The left's victory came at a time of continuing electoral decline of the traditional parties since the establishment of the Broad Front coalition in February 1971, which accelerated at a dizzying pace in the previous decade, and particularly in the previous five years. Winning a majority in the two Legislative Chambers was also an unprecedented event since the democratic recovery in March 1985 and even before, if one takes into account the period before the set-in of the dictatorship in 1973.

One should look at the extent of the changes from a historical perspective. Despite a rift between 1988 and 1989, the left has steadily grown since the end of the military dictatorship, particularly in the last decade. The chart below shows the development of the electorate of the *traditional parties* (Blancos and Colorados) as compared with that of the so-called *challenging parties* (basically, the left). The trends could not be clearer: the continuing decline of the Blancos and Colorados as a whole and the systematic, steady growth of the left, both when it was divided (since 1989 with the splitting-off of the *Nuevo Espacio*) and since its reunification in 2004 as the Progressive Encounter-Broad Front-New Majority party.



**Chart 1**  
**Electoral evolution of the Uruguayan party system**  
**by party blocks. Series 1984-2004**



Source: Area de Política y RR.II. del Banco de Datos de la FCS/Udelar.

As the series of electoral records is limited to the record of the evolution of valid votes per party in the last twenty years, there is no doubt that the major change in the Uruguayan citizen's voting behavior occurred precisely in this period, and is permanent and incremental.

**Table 1**  
**Valid votes by party. Series 1984-2004. In percent**

	Colorado Party	National Party	Civic Union/ P.D.C./PI.	Broad Front	Nuevo Espacio	Other Parties	Total
1984	41.2%	35.0%	2.4%	21.3%	-	0.0%	100%
1989	30.3%	38.9%	-	21.2%	9.0%	0.6%	100%
1994	32.3%	31.2%	-	30.6%	5.2%	0.7%	100%
1999	32.8%	22.3%	-	40.1%	4.6%	0.2%	100%
2004	10.6%	35.1%	2.1%	51.7%	-	0.5%	100%

Source: Area de Política y RR.II., FCS/UEDELAR database, based on Electoral Tribunal data.

A more comprehensive look at the course followed by the political system in the last two decades will detect some marked tendencies: (1) profound political change has been the dominant feature of political history in the last

twenty years; (2) differently from what occurred in other countries of the region, liberal reforms have been implemented at a more moderate, gradual pace, while the weight of the State has been preserved as the decisive factor of the new public-private balance; and (3) despite the checks mentioned, there have also been often less obvious but important changes and adjustments in this time span, as shown in the preceding pages.

#### IV. Concluding observations

This overview warrants the suggestion, from a historical perspective, that two main lines of reflection have been decisive in the construction and implementation of a successful model of economic development in Uruguay. From a strategic standpoint, it can be said that the country's economic future depends in large measure on a wise combination of its undeniable regional rooting and calling and its no lesser need to adopt an intelligent, effectively international opening. This has to do once again with a more intense creative tension of an *international Uruguay*. The reformulation of relations between politics and economy according to premises that are more adequate to the requirements of the changing times in which we live is a crucial factor in a country and a society in which, despite everything, politics, the State, and the parties continue to have a bearing and great influence on the public agenda as well as in the development of the economy. As interrelated parts of a same discourse and as interacting dimensions of the formulation and implementation of a development strategy, these two analytical lines, in addition to helping a rereading of Uruguay's economic history, are useful for understating more recent challenges. Many of the vicissitudes and ups and downs of the left government's experience since March 2005 are a confirmation of this.

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# Venezuela's challenges in the 21<sup>st</sup> century

*Jorge Pérez Mancebo\**

## Introduction

**T**he Colonialism's historical legacy and the perpetuation of an unequal international division of labor are the major obstacles to the development of Third World countries.

Based on these subordination relations, we shall describe the accumulation model and the development of these countries' productive apparatus. This material base determines the character and dynamics of relations between state and society, as well as their exhaustion and decadence, which coincide with the decline of the accumulation model. As a consequence, institutional codes and practices unravel and become frayed, giving rise to tensions and uncertainty, which in turn, in the case of Venezuela, has allowed an avenging, popular, and insurgent project dissociated from the status quo to score a victory at the 1998 elections, thereby triggering a process of changes and transformations in the country.

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In the conclusion, we shall list what in our view are Venezuela's major challenges in the twenty-first century under different possible scenarios.

In view of the subject's characteristics and the limitations of an article, we shall devote one paragraph to a single aspect, trusting that these paragraphs will be self-explanatory, as each will sum up an event, idea, or historical milestone.

## I. Venezuela and the world market

1. Colonization saw these territories from the viewpoint of minerals. Priority was attached to regions that seemed to have mineral resources, basically gold and silver. The other territories received attention according to their capacity as food providers to support mining. The Viceroyalties thus enjoyed high priority, while the other regions were the food-supplying periphery.

2. The independence wars decimated men and herds and caused the neglect of agricultural production. One of the consequences was the debt assumed by the Republic of Colombia in the end. With its separation from the Republic of Colombia in 1830, Venezuela, with its economy in shambles and a decimated population, assumed 28.5 percent of the total debt. Coffee replaced cocoa as the main export.

3. Between 1837 and 1844, the world was convulsed by an economic crisis that seriously affected Venezuela. The foreign debt significantly increased, eliciting the threat of the British fleet, and private debt was recognized as public debt. In 1849, the incipient financial system was shaken by bankruptcies, which aggravated the situation, as the State came to the rescue of creditors.

4. At the end of the 1864 Federal War, onerous loans were contracted from abroad, which further depleted the National Treasury's coffers.

5. Foreign investments began to arrive in Venezuela in the last three decades of the nineteenth century. The state promoted these investments, guaranteeing high returns. Railways, the telegraph, roads, bridges, aqueducts, buildings, and monuments sprung up throughout the country.

6. Between 1898 and 1903, there were three hundred seventy-two military occurrences, coffee prices fell, and generalized insolvency led to the blockade of Venezuelan ports by foreign powers in 1902.

7. In the first decade of the twentieth century, a fairly successful economic program was implemented, which coupled with the prevailing peace climate, restored foreign investors' confidence.

8. Venezuelan exports at this time consisted mainly of coffee and cocoa, followed by cattle, sugar, tobacco, indigo, and forest products.

9. Throughout the thirties, oil definitively displaced agricultural products as the main export. In 1928 there were one hundred fifty oil companies registered in Caracas, and Venezuela ranked first in the world as oil exporter and second as oil producer.

10. In 1930, oil revenues allowed Venezuela to pay off its foreign debt, which ceased to be a motive of discussion and concern until the late seventies, paradoxically at the precise moment when nominal oil prices increased significantly.

11. Since then, history has been determined by the behavior of oil prices on the international market and its effect on fiscal revenue and substantial impact on the rest of the economy. These prices have a marked cyclical character, which makes them difficult to manage and to be taken advantage of.

12. In 1976, oil output was 2.3 million barrels per day; today it is 3.2 million barrels per day. Prices have varied: \$11.25 in 1976; \$29.71 in 1981; \$12.81 in 1990; 10.57 in 1998; \$84.63 in 2007; and estimates put them at \$125.76 in 2008.

13. In real terms, though, at 1967 prices the situation is as follows: \$7.05 in 1976; \$10.91 in 1981; \$1.16 in 1998; \$10.53 in 2007; and \$14.71 in 2008 (estimated). This explains behavior of the markets, how they have discounted the increases, and the prices' low impact on the world economy.

14. A glimpse at recent history shows that crises similar to the current one have occurred on four occasions since the seventies: in 1973-1974; from late 1978 thru March 1980; from October 1987 thru October 1990; and from April 2000 thru May 2001. Thus, assuming that we entered a period of stagflation last October, this would be the fifth such crisis in thirty-eight years.

15. In this context, we notice that imports rose from \$14.584 billion in 2002 to \$41.911 billion in 2007, thereby increasing the Venezuelan economy's vulnerability to external factors.

16. Foreign debt remains at manageable levels at \$36 billion, similarly to international reserves, which shows that the oil price increases are transferred abroad through imports.

## II. Models of accumulation and productive apparatus

1. The models of accumulation in Venezuela have been determined by Venezuela's participation in the world market, the State's behavior (by action or omission), and the kind of productive process or of goods that impart dynamism to the rest of the economy.

2. The juxtaposition of productions in each phase provided the foundation of the national economy, and the relations resulting from extraction and marketing originated a web of connections and transformations that has become known as structural heterogeneity.

3. Venezuelan society has been organized throughout history around primary exports production: cocoa late in the colonial era, coffee in the nineteenth century and through the thirties of the twentieth century, and then oil to this day.

4. Traditional economy, based on primary agricultural exports, may be dated from the end of the colonial era until the third decade of the twentieth century. Characterized by technologically outdated productive forces, under an unplanned institutional framework (except for Juan Vicente Gómez' period, when the national state was consolidated) that was inadequate for an efficient exploitation of resources. This activity was not able to generate dynamism capable of radiating to other sectors.

5. In 1929, oil took the place of the agricultural sector in the GDP. The nature of the ownership of this resource would radically change relations and dynamics in Venezuelan society.

6. Public ownership of hydrocarbons in Venezuela is a complex synthesis of juridical norms from old Spanish colonial law, the French mining law of the eighteenth century and early nineteenth century, and Venezuela's traditional mining and oil law of the nineteenth, the twentieth, and the twenty-first centuries. Evidence for this is found in the San Lorenzo Ordinances issued by King Philip on August 22, 1584 and in the Quito Mining Law promulgated by



the *Libertador* on October 24, 1829, which, in its first article, tacitly established that ownership of the mines passed from the Spanish Royal Crown to the Republic. After Gran Colombia's dissolution, the Senate and the Chamber of Representatives of Venezuela, meeting as the Congress, promulgated the Law of April 29, 1832, which established the following: Under the Decree of October 24, 1829, the Ordinance that shall serve as a norm for the Government in respect of mines, shall be that of New Spain, of May 22, 1783, pursuant to that Decree's provisions. This norm was maintained in all juridical instruments and determined developments from the twentieth century on.

7. The nature of the State as owner of the country's basic industry, creator of the economic infrastructure, and backer of industrial and agricultural production through its credit institutions is called state capitalism.

8. The industrialization process actually occurred, in our view, as the domestic market expanded owing to income from oil and to the stimulus this effective demand offered to attract foreign investment basically in the assembly industry.

9. This process occurred in the forties and fifties of the twentieth century, when capitalism made considerable progress in the country. International companies consolidated and expanded their control over nonrenewable natural resources, beginning with oil and extending to iron. Subordinated to the international capital, private capitalists made their incursion into manufacturing, under an import substitution scheme. On some occasions, foreign enterprises participated directly in this process. Both production and consumption became modernized, technology was basically imported, and immigrant workers with some qualification flowed in. Policies aimed at stimulating production were adopted as protectionist measures against competition.

10. In the sixties and seventies, production in the country experienced unprecedented growth, although expansive thrusts were subject to the oscillation of export revenues. The most important event of the period was the nationalization of the iron and oil industries in 1975 and 1976, respectively.

11. Higher oil revenues in the seventies spurred the growth of national industry, which was also stimulated by the demand for durable goods, textiles, and foodstuffs. Facilitated imports also grew as a means of controlling inflation and owing to trade pressures. Basic industries expanded, as did steel production, and major aluminum enterprises established themselves in the

country. Refineries were also expanded, despite disinvestment on the part of concessionaries, and major petrochemical enterprises prospered.

12. An exchange crisis in 1983 affected the dollar's price, which had remained stable throughout the twentieth century. Industry displayed contradictory features: it reached a new apogee while inputs, almost entirely imported, became more expensive.

13. The nineties marked the apex of liberalization in Latin America. Venezuela was no exception. The effort to prune subsidized or unproductive sectors made necessary an adjustment to the high production costs and the attendant social and political consequences that would last several decades (in 1989, disturbances took place in the country's major cities, an occurrence that became known as "*El Sacudón*" – The Shake-up).

14. In 1994, the financial sector entered into crisis (the cost of assistance was calculated into \$8,000.00). The government in office tried various economic policies that ended up with liberalism; the dismantling of the domestic productive apparatus continued, paying tribute to efficiency and the market, and catapulting imports.

15. The process Venezuela is currently undergoing may be neatly divided into two periods: 1999-2003 and 2004-2008. In the first, the growth rate was negative (-7.8 percent) and gross fixed investment was -15 percent, approximately. The internal conflicts that degenerated into an attempted coup d'état and two lockouts contributed heavily to these results. In the 2004-2008 period, the average growth rate has been 9.7 percent, and the gross fixed investment interannual rate has been 35 percent. Exchange control was adopted to prevent capital flight and attacks on the exchange rate. Domestic production has not accompanied increased demand, and a unique system of exchange control has allowed an unprecedented growth of imports.

16. This rapid overview would be incomplete if we failed to underline the serious consequences the overvalued exchange rate has historically had on the industrialization process (the Dutch disease).

### III. State and society

1. Before colonization, the inhabitants of the territory that is now Venezuela devoted themselves to fishing, hunting, gathering, and to incipient

agriculture, except on the Andean zone, where farming practices were more advanced. There was thus no institutional superstructure as in other regions of America.

2. This Province was considered as a supply center. It was the Province of the New Granada Viceroyalty, which became Captaincy General in 1777, only thirty-four years before declaring its independence.

3. In 1808, when Spain was occupied by France, the hierarchic and institutional web through which Spain controlled these territories unraveled, giving rise to the independent movements that led to the nascent republics.

4. The Republic of Gran Colombia was founded at the Cúcuta Congress in 1821; it lasted until 1831, and encompassed the territories of today's Colombia, Venezuela, Ecuador, and Panama, as well as small parts of the territories of what is today Costa Rica, Brazil, and Guyana. It came apart in the late twenties and early thirties, owing to political differences between the advocates of federalism and of centralism, between conservatism and liberalism, and to regional tensions among the peoples that formed part of the Republic.

5. The structure of the 1830 Republic of Venezuela was two-tiered: Caracas and the Provinces; Council of Government and Executive Office. Slavery was maintained, as was the caudillismo inherited from the liberation wars. Caudillismo is a local phenomenon, embodied in figures that are political and military bosses and owners of vast territories.

6. The nineteenth century saw numerous internal conflicts that were decided by arms and that bled the battered Venezuelan population. Historians have numbered one hundred eighty of such conflicts. The bloodiest, most important of them was the Federal War (1859-1863). The "Call to Federation" produced a violent irruption of the llanos forces into the Venezuela scene. The insurrection's political direction, especially after the death of Ezequiel Zamorra, was assumed by the landowners, social segments of the urban bourgeoisie, and military caudillos imbued with a bourgeois ideology. Even Zamora's own program was of an essentially intellectual nature; it demanded the abolition of the death sentence, the ad perpetuum prohibition of slavery, the adoption of universal suffrage, as well as the principle of government alternation. It meant a renewed attempt at merging two social and racial realities – whites and the mixed races of agrarian Venezuela.

7. As to its consequences, it may be said that the Federal War did not change the structures of the traditional agrarian society. The conciliatory solution adopted with the signing of the Coche Treaty in April 1863 marked the nominal triumph of the Federation, although in practice this political principle was never more than fiction. This has led many authors to claim that in the last analysis the Federal War meant no more than an ideological exchange between political elites.

8. In the seventies and the eighties of the nineteenth century, important measures were taken to make Venezuela into a modern National State. They included the adoption of the silver bolívar as the national monetary unit (March 31, 1879); public, compulsory education up to sixth grade; the II National Census; the inauguration of the Caracas-La Guaira railway (1883); the installation of the Venezuelan Language Academy (1883); and the introduction of telephone service between Caracas and La Guaira.

9. President Cipriano Castro (1899-1908) built a bridge to free the country from the vicissitudes of the nineteenth century and move it toward modern times by the following developments: (a) a stop to the political fragmentation process; (b) relative incorporation of a new leadership into the administrative and military areas; (c) nationwide ascension of General Juan Vicente Gómez; (d) temporary flourishing of nationalism; (e) confrontation with monopolistic foreign capital; and (f) a more marked influence of the United States on national politics and economy. It was a transition period, whose original goals were defeated by the establishment of a personality-centered dictatorship and by corruption that tended to pervade the top echelons of government, which ended with a coup d'état.

10. In November 1908, General Castro was forced to leave the country for health reasons and Gómez became the pro tem president. On November 19, Juan Vicente Gómez, in association with his restoration allies, cattle raisers and merchants staged a coup d'état under the allegation that a coup was supposedly being plotted by Castro's allies at his behest. On April 27, 1910, the National Congress appointed him Constitutional President for 1910-1914. Until 1913, it could be said that Juan Vicente Gómez endeavored to lead a contentious government; in addition to taking necessary opposition-counteracting measures, by a 1910 decree he established the Military Academy as the kernel of a national army, which would subsequently put a definitive end to the system of private armies controlled by regional caudillos.

11. That regime's milestones undoubtedly coincided with a radical change in the country's political and economic structure. The year of 1914, after the discovery of the Mene Grande oil deposits, marked the beginning of Venezuela's transformation into an oil nation. Laws were enacted and the first regulations were issued in respect of the exploitation of this energy source, which the nation could understand only as "Wealth." Another landmark was the construction of roads that ensured land communication within the country and helped create a national conscience. The Hydrocarbons Law was enacted, the Workers Bank and the Agricultural and Livestock Bank were established, and the Labor Law was promulgated. Between 1908 and 1935 the Venezuelan National State was consolidated, with certain limits to public freedoms.

12. In the subsequent years, a series of measures were adopted, which remained in force until the sixties, including the new National Constitution and a modern Labor Law (1936). The 1936 February Program and the Triennial Plan (1938) were also introduced to foster economic and social progress. New institutions were also founded: the National Pedagogical Institute; the National Labor Office; the Ministry of Agriculture and Livestock; the Ministry of Communications; the Venezuela Child Council; the Industrial Bank; the National Exchange and the Exports Control Offices; and lastly, in 1940, the Central Bank of Venezuela.

13. On October 18, 1945 a confrontation of two democratic tendencies took place: a gradualist tendency, characterized by certain mistrust of the population's political maturity for exercising its political rights and a more radical and populist tendency, firmly convinced of the decision-making capacity of society's most popular segments. The more radical faction won the day and assumed power for a short period, thereby ushering in a period of tyranny that lasted until 1958.

14. Between 1952 and 1958, major public works were undertaken, including the Caracas-La Guaira Highway (1953); the Orinoco steel mill (1953); the Urdaneta Avenue (1954); and the Simón Bolívar Center, among others. Despite the notable infrastructural transformation undergone by Venezuela (and particularly by Caracas) during this period, the latter was characterized by the settling in of an iron dictatorship that dissolved the main political parties, labor unions, and in general any type of opposition. Democracy was definitely interrupted in this period of Venezuela's twentieth century history.

It may be said that it was in this period that the 1936 triennial plan's objectives were finally achieved.

15. In 1960, two institutions were established: the Venezuelan Petroleum Corporation-CVP to oversee the national oil industry, and the Organization of Petroleum Producing Countries-OPEC, the international oil cartel established by Venezuela in association with Kuwait, Saudi Arabia, Iraq, and Iran. The General Rafael Urdaneta Bridge over Lake Maracaibo was built at this time. Public and unproductive private lands were distributed to stem the decline of agricultural production owing to the oil boom. Proprietors of confiscated lands received onerous indemnification. The phase of representative democracy began then.

16. The mid-seventies saw the development of two initiatives in the cultural sphere: the Ayacucho Library (with an outstanding collection of Latin American literary masterpieces) and the Gran Mariscal de Ayacucho Scholarship Program to qualify thousands of Venezuelan students at the world's most prestigious university centers. In 1975 the iron industry was nationalized, followed the next year by the nationalization of the oil sector. The economic policy affected small and medium enterprises adversely, while favoring the large conglomerates. In the first years there was an attempt to implement a full employment policy that on the one hand punished entrepreneurs under the 1974 law against dismissals without cause, and on the other hand gave immense power to unions and independent workers. The result was an explosion of circulating liquidity and its impact on consumption until 1977.

17. The volume of oil revenues allowed the implementation of a plan geared to infrastructure and basic industries – steel, aluminum, hydroelectric power, etc. The Venezuelan Investment Fund was established to maintain fiscal balance.

18. Representative democracy's status quo was maintained until 1998, despite increasing institutional deterioration and economic disaster.

#### IV. Decline of the renter model

1. As mentioned, the world economy entered into a crisis characterized mostly by stagflation in 1973-74, late 1978-March 1980, October 1987-October 1990, late 1997-1998, and April 2000-May 2001. This was the declining phase of the Kondratieff cycle, whose critical points occurred between 1974 and 1994.

2. The Venezuelan economy's dependence on the external sector as source of resources and productive and consumer imports had a strong impact on its dynamics and on the accumulation model.

3. Since the mid-seventies, a downward trend has been noticeable in real per capita revenue, from + or – \$1,500/per (1998\$) in 1975 to + or – \$350/per in 1999.

4. The concentration of exports on oil and oil by-products and on iron, aluminum, and steel accounted for 88.64 percent of total exports in 2002, in keeping with the historical trend.

5. In the same period (1975-1999), real salary in 1998\$ dropped from \$5,200 in 1978 to \$2,000 in 1999.

6. The economic growth rate averaged 1.1 percent in the eighties and 1.5 percent in the nineties.

7. The external debt's percentage of GDP rose from 5.2 percent in 1975 to 78.2 percent in 1990, ending in the period under review at 38.6 percent in 1998.

8. The relation of employees and workers remunerations to exploitation surpluses in the national accounts went from 48 percent vs. 38 percent in favor of remunerations in 1960 to 51 percent vs. 32 percent in 1998 in favor of exploitation surpluses.

9. The labor structure in the last decades of the past century was as follows: 48.7 percent workers in the formal labor market; 37.9 percent in the informal sector; and 13.4 percent unemployed in 1984, as compared with 40.8 percent, 46.0 percent, and 13.4 percent, respectively, in 2000.

10. In 1996, an adjustment program known as the Venezuelan Agenda was introduced, whose salient features were: a tax hike, elimination of the exchange control adopted in 1994, liberalization of interest rates, public spending discipline, gradual adjustment of prices in general, tariffs, and gasoline prices, privatization of state enterprises, and opening of the oil sector (privatization of the oil industry).

11. It should be noted that in the past eighties and nineties, population grew at an average rate of 2.4 percent, while GDP grew only an average of 1.4 percent. The population increased from 13 million in 1976 to 23 million in 1999 (about 28 million today).

12. Oil production was of 2.3 MMb/d in 1976 and grew to 3.3 MMb/d in 1998.

## V. A time of change and transformation

1. The crisis that erupted with full force in the mid-nineties has been seen as systemic. At that time, the depressed international prices of raw materials, social exclusion, regional instability, and the monoproducer nature of our economy, among other factors, made for a worrisome picture of the future and compromised stability.

2. The outlook faced by President Chávez was terrifying:

- Social conditions: unemployment and underemployment; fall of real income; collapse of the health system; costly, inefficient services; and citizens' insecurity;
- In the ideological area: loss of ethical values; contempt for public affairs; hope for a solution to restore order and ensure justice; as well as expectation of jobs, social security, and institutional efficiency;
- In the political area: progressive deterioration of institutions and actors; bureaucracy that obstructed norms and procedures; ministerial inefficiency; serious problems regarding coordination and coherence among the branches of government as well as between the central government and the provincial and municipal governments;
- In the economic area: declining oil revenues; marked macroeconomic disequilibria and persistent inflation; and retrocession of the productive apparatus, and
- In the energy area: political and managerial debility of central administration institutions; mistrust among senior decision-makers in this sector; violation of the OPEC quota agreements; falling prices; uncertainty about the international environment (Asia, Russia, Iraq), to mention only a few issues.

3. In Venezuela, extreme poverty (situation in which one cannot satisfy one's basic food needs) has declined by 54 percent. In 1996, nearly half of the Venezuelan poor population (42.5 percent) lived in such conditions. By 2007, extreme poverty had dropped to 9.4 percent.



4. In 1998, according to data from the United Nations and the National Statistics Institute-INE, Venezuela's Human Development Index was 0.6917, indicating a medium level of development. Thereafter, this index rose to 0.878 in 2006. The country thus ranks already in the 0.8-1 bracket.

5. In 1998, investment in education (resources allocated to education) stood at about 3.38 percent. In 2007 it rose to 5.43 percent. If we add investment by regional and local governments, and particularly the huge volume of resources allocated to the Robinson II, Ribas, Sucre, and Che Guevara Missions, the total amount of resources allocated to education surpassed 7 percent of GDP.

6. The number of internet users has significantly grown, from 680,000 in 1999 to over four million in 2006.

7. From 1999 to August 2007, the number of pensioners climbed to 649,498. While between 1977 and 1998 the annual average of new pensioners was 17,591, between 1999 and 2006 this average jumped to 81,371 who received a minimum salary.

8. In 1998, only 80 percent of the population had access to potable water; in 2007, this figure had risen to 92 percent, which means that more than 24 million people in the entire country now enjoy this benefit. In 1998, only 62 percent of the population had access to sanitation; in 2007, 82 percent of the population were benefited by sewerage.

9. Leaving out the lockout and sabotage years, we can point to a healthy economy. It is worth pointing out that in 2004 its growth hit the historical record of 18.3 percent. In 2005 and 2006, it grew at 10.3 percent, while exports grew at 8.4 percent.

10. A comparison of inflation rates between the Revolutionary Government and the three preceding governments shows that current inflation rate is the lowest. The average inflation rate under the Jaime Lusinchi government was 22.7 percent; under Carlos Andrés Pérez, it was 45.3 percent; and under Rafael Caldera, it was 59.4 percent. In these nine years of the Hugo Chávez Frías government, inflation has averaged 18.4 percent, while during Rafael Caldera's second term it reached 103.2 percent.

11. Economic growth has caused a major improvement in the labor market. Unemployment has significantly declined, from 16.6 percent in January 1999 to 6.3 percent in December 2007, a ten-percent drop.

12. The public debt was drastically reduced, from 78.1 percent in 1989 to 18.5 percent in 2007 in relation to total GDP; this is the lowest indebtedness level, at least in the last seventeen years. The reduction of the foreign debt allowed also a reduction of the public debt to 11.2 percent of GDP by late 2007, a much lower percentage than in 1998, when it was 25.5 percent. In 1998, the 3-billion dollar debt with the International Monetary Fund and the World Bank was paid off.

13. In May 2007, the minimum salary became the highest in Latin America. In nominal terms, it has had a 512-percent recovery since 1997 and stands now at Bs. F.<sup>1</sup> 614.79.

14. In 1998, the country's international reserves were 14.849 billion dollars; by end-2007, they had risen to 33.5 billion dollars. In 2006 they had more than doubled, reaching a historical record of 36.672 billion dollars.

15. The Gini coefficient, which was 0.49 in 1998,, dropped to 0.42 in 2007. Although this was a slight decline, it meant a reining in of its rising tendency since 1970. In 2007, the population's richer 20 percent earned 53.6 percent of national income, while the poorer 60 percent earned 25.5 percent. In 2007, the richer 20 percent earned 47.7 percent of national income as compared with the poorer 60 percent's 29.7 percent. The gap is narrowing; it has declined from 28.1 percent to 18 percent, a 10.1-percent drop.

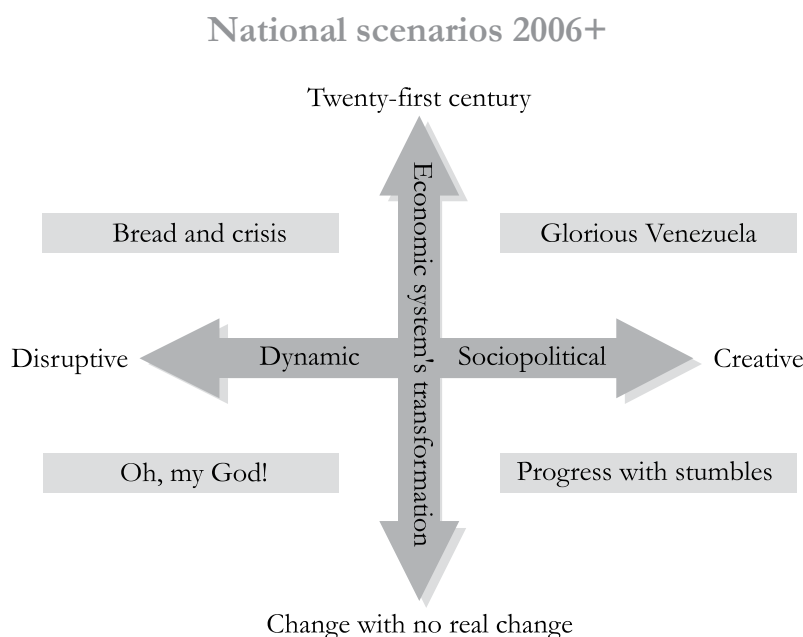
### Twenty-first century challenges

The challenges faced by the Bolivarian Republic of Venezuela are not much different from those faced by the other countries of the region: diversifying exports and reducing imports through dynamic domestic production that is diversified and consistent with its potential and the population [needs], as well as regional integration conducive to the full development of the country's capabilities and advantages.

With a dependent and underdeveloped economy this was no easy task. Three years ago I took part in a team effort to elaborate national scenarios. I believe that a brief description of each one of them may express the challenges posed for each possibility considered.

1 *Bolívar Fuerte* [Strong Bolívar]. National currency of Venezuela.

The areas of uncertainty include the transformation of the economic system and sociopolitical dynamics, and especially the critical areas of institutional efficiency, recomposition of the political system, entrepreneurial conduct, and (paradigmatic) cultural transition.



### **Bread and crisis**

- Media-dominated institutions, bereft of a country vision;
- Atomization of the political system;
- Inconsistence between environmental discourse and action;
- Implementation of pressing social programs;
- Progressive stagnation of international relations;
- Partial economic reforms;
- Fiscal reform;
- Efficient management of the oil cycle;
- Implementation of key sectoral policies: oil, chemicals, petrochemical, gas, agroindustry, aluminum, electric power, tourism, etc.;
- Alienation from multilateral organizations;
- Emergence of daring entrepreneurs;
- Inconsistent technological policy, and
- Paralysis of property democratization.

## Oh, my God!

- Unshared country project;
- High oil prices;
- Inconsistent, incoherent economic policy;
- Heightened entrepreneurial lack of confidence;
- Continued technological lag;
- Heightened social conflictive climate;
- Environmental depredation;
- International isolation, and
- Retrocession in property democratization.

## Progress with stumbles

- Establishment of a selective social program;
- Asymmetrical institutional development;
- Adoption of partial agreements by political forces;
- Pro cyclical macroeconomic management of oil events;
- Entrepreneurial negative reaction to government economic policies;
- Progressive adaptation to national and international environmental norms;
- Limited internal economic integration process;
- Persistent technological lag, and
- Slow progress toward property democratization.

## Glorious Venezuela

- Shared country project;
- Development and crystallizing of new values;
- Establishment of functional, efficient institutions;
- Oil: key sectors' industrializing factor;
- Coherent, consistent economic policy;
- Emergence of competitive entrepreneurs;
- Visible positive signs of an integrated social project;
- Progressive incorporation of advanced technology;
- Positive trade negotiations in a multipolar world, and
- Furthering of property democratization. **DEP**

Translation: João Coelho



Soekidjan Irodikromo, (1945 -)  
Compositie I. Acrylic on canvas, 100 x 100 cm



# Youth on the plantation

*Sylvia M. Gooswit*

**S**oekidjan Irodikromo was born on June 20, 1945, on the Pieterszorg polder, on the right bank of the Commewijne River. Shortly after his birth, the family moves to the Johannesburg plantation, a small community of about 50 people. Father Irodikromo works in the fields, mother is at home where she

grows rice and vegetables, fishes and keeps chickens and cows for sale. As the eldest of fifteen children, Soeki is the first one to go to school – on the nearby plantation Rust en Werk, about three kilometers of walking distance. Often he has to stay at home to help with rice farming or caring for the cattle.

There is not much entertainment on the plantations. Big occasions are the festivities for the annual Javanese rituals, attracting people to the plantation from far and near. The Wayang performances last all night and deeply impress the young Soeki. Drawing is his favorite subject in school. He draws everything that he is interested in. His biggest example is his uncle, a well-known *dalang* (puppeteer) of Rust en Werk who made his own Wayang puppets of cardboard or leather.

And so, as a child, Soeki draws Wayang puppets with charcoal in his school notebooks and with his slate-pencil on a slate. Other material is unavailable. Later on, he starts drawing teenage idols such as Elvis Presley and Brook Benton, copying them from bubblegum pictures.

## Art education in Paramaribo

Soeki's talent is timely recognized by an uncle from Paramaribo, the poet Surianto. Under his supervision Soeki, when he is about 15 years old, moves to town and his uncle enrolls him at an art institute, where the passionate painter Nola Hatterman takes him under her wing. He receives training in drawing and painting techniques and learns how to handle different materials. His role model in this period is Erwin de Vries. But he is not yet near the exuberant free-thinking which characterizes de Vries' work. First, he has to do learning assignments such as anatomic studies, landscapes, portraits and still lifes, using different materials such as chalk, poster paint and oil paint. He also learns drawing and painting from a model, and how to make preliminary studies before the real work begins. Nola Hatterman is strict: in the first four years of the academy, the students may work on paper and cardboard only. Not before their last year they are allowed to paint on canvas.

Soeki's life changed course in 1966, through a Lucky coincidence. A flight with President Lyndon B. Johnson of the United States makes a stop at the Zanderij airport. As a hospitable gesture, an art exhibition is set up in the airport with work from artists living in Suriname at that time. Among them are Stuart

Robles de Medina, Rudi Getrouw, Nic Loning and also the young art student Soeki Irodikromo participates with a small oil painting called Akka. Johnson selects one painting to take with him, the one by Soeki. Shortly after Soeki is offered a scholarship by Sticusa<sup>1</sup> for further training in The Netherlands.

## Freedom and identity

Soeki enrolls at the Academy for Visual Art in Rotterdam. Because of his level he can skip the first of the four years. At this free academy, he gets acquainted with other techniques: lithography, etching, linocuts. After finishing his education in drawing and painting, he specializes for another year in ceramics.

His introduction to exponents of the Cobra Movement is extremely inspiring, especially the freedom, fierceness and the expressionist colors fascinate him. He goes to museums and eagerly absorbs it all. According to Soeki, his awareness was raised in Rotterdam.

“Here I have felt like a second-rate citizen because of some horrible experiences that deeply touched me. I felt like a stranger in the Dutch society and outside of my circle of acquaintances I was treated as such. After finishing my studies, I realized that I had to be independent. I had lived in Rotterdam for five years and one day I placed all the products resulting from these five years of creative work on the floor, selected them and put them in order. I then asked myself: Is this Suriname? Is this Soeki? Do I see myself in these products? I did make them myself, but still they are strange to me. In The Netherlands one’s past fades away without you noticing it. I asked myself: ‘Soeki, who are you?’ Then I felt that I belonged in Suriname, that Suriname was my home. I had to get the face of Suriname that I wanted to present in that very Suriname. I had to go back to my people. In my opinion, Suriname was the place where I had to fulfill myself as a painter.”

In 1972 Soeki returns to Suriname, with his family. By this time he is married to Mieke Leendertse and they have a baby. The first years are difficult. For an independent artist it is not easy to get bread on the table, after an absence of five years. In this period Soeki is still strongly influenced by Cobra

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1 Dutch Foundation for Cultural Cooperation.



and paints in an expressionistic way. The freedom this group works in fits him extremely well and so does expressionism. But his first exhibition is not well attended. Apparently, Suriname is not ready for this kind of paintings. Soeki needs to find a job to feed his family and he works as an art teacher at Teacher Training Colleges and highschoools for three years. But he keeps painting at home and exhibits his paintings at least once or twice a year “to let Suriname know who Soeki is”. In this way, he has steadily been building his autonomous career. **DEP**

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# Construtora Norberto Odebrecht

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## *Odebrecht Perú: a successful partnership*

**R**elations between Construtora Norberto Odebrecht and Peru are the story of a long-standing, successful partnership. In 2009 we will be celebrating thirty years of our operations in Peru, a historic milestone that testifies to the solidity and maturity of our relationship that goes back to 1979, when Odebrecht began its internationalization process, as it was awarded the construction contract for the Charcani V Hydroelectric Plant in the Arequipa province in southern Peru.

Located on the slopes of the Misti volcano on the Andes Cordillera, the hydroelectric plant, with its almost completely subterranean works, catches water from the Chili River. The power generated by Charcani V meets the power needs of Arequipa, one of Peru's major cities, and of the Cerro Verde mining complex.

In the late 1970s, when construction began, the Arequipa population had to live with power rationing, as electricity was available only for three hours a day to allow local enterprises to operate. In addition, the scarcity of water

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prevented the expansion of local agriculture. There was an urgent need to implement a project to overcome these difficulties.

The Charcani V works began in 1980; eight years later, the hydroelectric power plant was inaugurated. Once completed, it did away with the daily shutoff of the power supply, thereby significantly improving the *arequipeños'* quality of life. The availability of power also permitted the establishment of a metal-mechanic industrial zone, which attracted more people to the district, leading to the emergence of new neighborhoods and commercial centers.

Currently, Charcani V generates approximately 70 percent of the power supply in southern Peru. Owing to the advanced technology used in its construction, today, two decades later, the hydroelectric power plant is still one of the country's most modern plants, operating at one of the lowest costs of electric power production in the region.

In 1988, the same year we finished Charcani V, we signed a new contract. This time, Odebrecht would be responsible for making into reality an over fifty years-old project, namely, the Chavimochic Irrigation Project. Located in the desert region of La Libertad, the project included the execution of two hydraulic engineering works to divert water from the Santa River to irrigate the Chaco, Virú, and Pampas de Pur-Pur valleys. A hydroelectric plant with a capacity of 7.5 MW was built, which catches water from the main channel of the Chavimochic Irrigation Project and generates sufficient power to supply the city of Virú.



Figure 1. The Chavimochic irrigation system and its results.

The irrigation work made possible the addition of new lands to regional agriculture by supplying water to the cities of Trujillo and surrounding rural populations. This impressive set of synergically-operating initiatives entailed a qualitative jump in the local economy and opened new job and income-generation opportunities for the population. Today, the formerly desert La Libertad region is one of Peru's major exporters of agricultural products.

Owing to the trusting relationship cemented by these first joint projects, Odebrecht's operations in Peru gained impetus and expanded considerably in the 1990s. Since 1993, not one year has gone by in which we have not won new contracts pertaining to some additional phase of some recently completed work or to completely new projects.

Among these initiatives implemented by *Odebrecht Perú*, some projects deserve special mention. In Olmos, a city in northern Peru, we have executed works that permitted the damming and subsequent deviation of the Huancadamba River, a project planned eighty years earlier but never tackled. Owing to this initiative, made possible by a public-private partnership – PPP, part of the river flow will be redirected to the Pacific Ocean through the Transandean Tunnel, which will be 19.3-km long and 4.8-m wide. When completed, the project will allow 460 million cubic meters of water to irrigate over 40,000 hectares of fertile land on the Cordillera slopes. In addition the flow will also feed two power plants.

As was the case in Chavimochic, the Olmos Project will impart a strong impetus to the local economy, creating jobs and improving the population's quality of life, as it will transform this formerly unproductive region into a prosperous area.

The project is being executed with utter care and attention, as it is located in the proximity of an archeological site of the pre-Incan Mochica civilization that thrived in the area over two thousand years ago. Something similar occurred during the execution of the irrigation work in Chavimochic, when a pyramid by the equally pre-Incan Chimú civilization was discovered precisely at the outlet of the main tunnel. The discovery area was isolated, the engineering plans were redrawn, and the canal was detoured so as to preserve the archeological site. In both cases, past and present, Odebrecht's conduct has been governed by respect for local history and culture and for the preservation of the peculiarities of the areas and communities where we work.



Figure 2. Map showing Odebrecht's operations in Peru.

In addition to the Olmos Project, *Odebrecht Perú* is developing other major initiatives. On the shore of the Pampa Melchorita region, 169 km from Lima, a natural gas liquefying plant is being built. As member of the CDB Melchorita Consortium, Odebrecht participates in the building of the auxiliary marine facilities, including a 1,350-m long docking bridge; PLG ship loading facilities; an approach canal; and an 800-m long offshore breakwater. Including financing costs, this Peru LNG Project will involve US\$3.8 billion, the largest direct foreign investment ever in Peruvian history. Of this amount, US\$247 million refer to a contract signed between Odebrecht and Peru LNG. When completed, the Melchorita complex will allow the country to export its gas surplus to international markets.

Currently, the Peruvian economy is constantly showing signs of vigor and maturity. In the last few years, the country has maintained one of the highest GDP growth rates in Latin America. Recently, Peru has achieved investment grade, an international recognition that attests to the soundness of the country's business environment.

The continuous improvement of infrastructure has undoubtedly been a crucially important factor of this sustained growth, as investment in this key sector has had significant impact on the entire economy. The improvement of the transport infrastructure, for example, has helped overcome logistic and geographical obstacles, and thus enhanced the competitiveness of Peruvian goods both at home and abroad.

This vision, which favors physical integration as an essential instrument of sustainable economic growth, has guided two other initiatives in which Odebrecht participates in Peru. The Iirsa North and the Iirsa South projects, for instance, are being developed in the country to create the two interocean corridors that will interconnect the Brazilian and the Peruvian transport networks. Odebrecht leads the two consortiums in charge of executing the works.

As members of the Iirsa North Construction Consortium-Concin, we participate in the construction, rehabilitation, and improvement of 955 kilometers of a road that will connect the Amazon region to the Pacific. Odebrecht is responsible for the stretch linking the Paita seaport on the Pacific to the Yurimaguas river port on the Peruvian portion of the Amazon River.

Our activity in the area, just as in all the regions where we operate, is oriented not only toward the execution of works. We also have a firm social and environmental commitment to integrated, sustainable development of both the inner community consisting of the Odebrecht personnel and the local community. In this respect we promote different initiatives. In the environmental area, we have contributed to the *Proyecto Biodiversidad*, by expanding the animal custody center, an institution that provides support to the spectacled, or Andean bear, a typical, endangered species of the region. In the field of education, the consortium of which we are part has channeled resources to the *Escuela para Todos*, a literacy program that has been expanded to offer quality elementary education to 177 students.

These projects and other initiatives we have undertaken in the areas of health and vocational training provide a brief glimpse of the many social benefits associated with the works done in connection with the North Amazon Multimodal Axis. They reflect at the local level a broader strategic partnership for continental physical integration, which has already generated manifold advantages for Peru's northern region and will certainly continue to do so in the near future.

A similar process is under way in southern Peru, where once again Odebrecht is combining the provision of engineering and construction services with the exercise of environmental responsibility, as we participate in the Southern Interocean Highway-Conirsa. After completion of its 710 kilometers, the road will establish Brazil's first link with the Pacific Ocean, connecting the Peruvian town of Iñapari, which adjoins the Brazilian town of Assis Brasil, in the state of Acre, to the Pacific port of San Juan de Marcona. The work contract calls for the construction, operation, and maintenance of roads connecting Iñapari to Inambari (stretch 3, in the Madre de Dios Department) and Inambari to Urcos (stretch 2, in the Cuzco Department).

As is the case with Iirsa North, we implement different initiatives to benefit local communities along the Interocean Highway Corridor South-Iirsa South. Since 2006, assuming our role as agents of change and our commitment to improving the quality of life of the populations living in our field of operations, Odebrecht and Conirsa are implementing the *Social Responsibility Integrated Plan*. In 2007, we also introduced the *Programa Itinerante de Apoyo a la Salud y Educación – PASE* [Itinerant Program in Support of Health and

Education], an extensive project aimed at providing information and training to the population in respect of preventive health. As regards the environment, a *Plan de Desarrollo “Interoceánica” Sur* is under way, in which representatives of Odebrecht, Conirsa, *Conservation International*, and *Pro Naturaleza* have worked in close cooperation, promoting conservation and development initiatives along stretches 2 and 3 of the South Interoccean Highway Corridor.



Figure 3. Already built Iirsa south roads.

The joint implementation of these projects illustrate Odebrecht’s and Conirsa’s close cooperation with the Peruvian government and with private enterprises and organized civil society in Peru, aimed at combining sustainable development in the regions where we operate and at improving the quality of life of the populations that will be the beneficiaries of the services we provide.

These and so many other initiatives testify to Odebrecht’s commitment to Peru’s socioeconomic development. Between 1970 and 2007, over 43,000 people made part of the enterprise and contributed to our projects. Including concessions already under way, paved roads total more than 2,300 kilometers. In addition, we have built 240 kilometers of irrigation canals and over 180



kilometers of potable water systems. We have dug more than 85 kilometers of tunnels for irrigation projects and built over 60 kilometers of power transmission lines.

Odebrecht has opened roads to the future in Peru on the coast, in the jungle, and on the sierra. In nearly thirty years of partnership, we have worked consistently to satisfy our clients and with the firm commitment to respect the social and environmental peculiarities of the regions where we make ourselves present. Under the orientation of *Tecnología Empresarial Odebrecht – TEO*, we believe in our collaborators' potential and invest in their education through work. We are the only Engineering and Construction enterprise of a foreign origin that has worked in Peru without interruption since 1979. All these factors are a great incentive to work ever more vigorously and ever better so as to perpetuate and further strengthen the successful partnership between Odebrecht and Peru.

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# Grupo Andrade Gutierrez

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## Brazil-Peru: a mature partnership

### The weight of history

**B**razil and Peru, similarly to the other South American countries, still suffer from what one might familiarly describe as the effects of a historical hangover from “five hundred years on the periphery,” to borrow an expression from Samuel Pinheiro Guimarães. Their economic life and even their political perceptions still bear the marks of centuries of asymmetrical ties to the great world power centers, a connection that was changed but not extinguished by political independence won in the first quarter of the nineteenth century. It subsists owing not only to actual asymmetries but also to the general notion of a center-periphery relationship that, though still real, is now less striking than is seemly perceived and accepted by important, influential sectors of national opinion in the two countries.

An illustration of this state of affairs on our continent is the fact that to this day a road starting from Brazil and crossing the Andes toward South America’s west coast is seen by significant segments of public opinion more

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as “an outlet to the Pacific” than as an infrastructure undertaking capable of facilitating the economic integration of neighbor countries. Or, conversely, that access to the Amazon region is perceived primarily in the Andean countries as “an outlet to the Atlantic Ocean.” In both cases, such an attitude betrays a widely disseminated opinion in South America that what is important is maintaining ties to the major centers of world economic power rather than promoting the approximation of neighbor economies.

In its broad lines, this picture still persists, but it is also clear that it has significantly changed, both objectively and subjectively. Objectively, at the global level the relative importance of the major centers, particularly of the United States, has declined, not owing to absolute decadence but to the increasing importance of others, particularly of the major emerging economies and to the attendant worldwide diffusion of power. It is significant that back in 2004 *The Economist* already pointed that four out of the world’s ten major economies (in terms of the parity of their currencies’ purchasing power) were those of developing countries or countries in transition.<sup>1</sup> In January 2006, the same publication indicated, based on the same criterion, that in 2005 the ensemble of the developing economies had accounted for slightly over half of the world output and for over half of the global GDP in current U.S. dollars.<sup>2</sup> Today, without going into greater statistical details, one can point to the notorious economic rise of China and India, the already commonplace reference to the BRIC countries (Brazil, Russia, India, and China) as major ascending powers, and the growing agreement on the need to change the vote composition and/or structure at important international institutions (IMF, U.N. Security Council, G-8), so as to better reflect the current international distribution of power. All of this reflects the gradual emergence of a new international order and the growing awareness of this trend.

## A new regional reality?

South America will not be able to face these global changes without also changing the perception of its position on the world scene and of the kind of relationship that must prevail among its countries.

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1 “A Survey of the World Economy – The Dragon and the Eagle.” *The Economist*, Oct. 2-8/2004.

2 *The Economist*, 1/21/2006.

In a world in which the position of the developing countries as a whole was characterized above all by an asymmetric relationship between the center and the periphery, relations among peripheral nations tended to move in one of two directions: adhesion of some to the center and, which resulted in their relative alienation from the rest of the periphery; or attempt to agglutinate the peripheral countries with a view to change a world economic order seen as harmful to the interests of the poorer countries, or at least better to protect themselves from its effects. To some extent, this dichotomy still exists, albeit to a lesser degree.

Historically, though, the second possibility has been often hindered by mistrust and sharply diverging interests among supposed allies. We have seen the debilitating consequences of this divergence in, for instance, the weak operational capacity of the Group of 77 in the 1960s and 1970s. Countries that should form a cohesive group united in advocating measures aimed at promoting the reform of the standing international order to their common benefit, were united only in their discourse and had difficulty in agreeing on specific, corrective mechanisms.

At the regional level, similar problems have hindered the realization of the grand vision of full Latin American integration. In this regard, the South American integration objective may be seen as the expression of a strategic retreat: as Latin American integration cannot be achieved, South American integration is being attempted – so far with debatable results. At the time the First South American Summit was convened, Ambassador Luís Felipe Lampreia, our then-Foreign Minister, implicitly admitted as much in a *Carta Internacional* article, in which he stated that Central America and the Caribbean had been left out of that meeting not only because of South America's specificities but also because of those two regions' too close, direct connection with North America, and with the United States in particular. In other words, some peripheral Latin American countries had already adhered to the center and thus there was no reason to invite them to the South American encounter in Brasilia. The evident flaw in this argument is that the attitude of a given country toward the center is defined on the basis of political option and not of geography. As we know, there is a diversity of positions within South America itself and not only as regards South America vis-à-vis Central America or the Caribbean.

In a world in which international concentration of power tends to become diluted, political cooperation and economic integration among developing countries may in principle assume a more constructive, less defensive character, although possible differences of perception or conflicting objective interests may persist. The central idea now is the establishment or consolidation of equitable, productive links instead of confrontation of a common adversary – the center, in this case. The objective is to pool resources for a synergetic effort to ensure that the final outcome will exceed the sum of what one of the parties could achieve by itself. This is the spirit of the current pursuit of South American integration and, more specifically, as well as more relevant to this article, of cooperation between Brazil and Peru. This allows President Luís Inácio Lula da Silva to announce the high priority his government attaches to South American integration, while his Foreign Minister reveals the intention to maintain a mature, more strategic relationship with the United States, in which Washington would see Brazil as a partner indispensable to the development of stable relations with South America and even with Africa. In other words, in Brasilia's perception, there is no antinomy between South American integration and good relations with the United States, as the objective is to strengthen the South American countries and not to antagonize the center.

This reasoning seems to guide Brazil's foreign policy on the continent, but does not eliminate the difficulty of achieving the stated goal of South American integration. In addition to the inevitable obstacles to the realization of a project of such magnitude, two additional problems come up. First, the perceived lack of equity in a project of integration among economies that, in spite of being all considered as "developing economies," have marked asymmetries in relation to each other. In the perception of the weaker ones, this would lead to a clear bias toward the region's stronger economies, particularly toward Brazil. The dissatisfaction on the part of countries such as Paraguay and Uruguay is public and notorious. The second problem is the divergence about the attitude toward the center, particularly toward the United States. While some seek to establish special ties to Washington, or have already done so, either in the form of bilateral trade agreements, as is the case of Chile and Peru, or in a broader sense, as Colombia has done, other countries, such as Venezuela, can only conceive of South American union against the United States, seen by Caracas as the great enemy. Differently from these countries, others, such as Brazil, see no contradiction between South American integration and good relations with

Washington, even though they do not wish a formal, closer economic association with the great northern power. In brief, given these differences, even the idea of South American instead of Latin American integration seems at best a very long-term project. Under these circumstances, one should not, at risk of losing sight of the ultimate South American integration objective, downplay less grand, but more pragmatic efforts toward bilateral cooperation.

## Brazil-Peru

To a different degree, Brazil and Peru as countries with a vast territory, low population density, and considerable geographical diversity, face internal problems related to regional disparities and to the functional integration of their different regions.

According to Enrique Cornejo Ramírez, *“el Perú es un país megadiverso en el que confluyen diversas razas, lenguas y ecosistemas, lo que le da una gran potencialidad en sectores como la agroindustria, el turismo o la industria forestal. Su compleja geografía, sin embargo, dificulta la integración física entre los peruanos y pone a prueba a la más sofisticada ingeniería.”* [Peru is a country of great diversity, encompassing various races, languages, and ecosystems that make for a great potential in areas such as agroindustry, tourism, or forestry. Its complex geography, however, poses difficulties for the physical integration of the Peruvian peoples and tests the most sophisticated engineering.]<sup>3</sup> Brazil, without the extreme cultural diversity and with a much less complex geography, has substantial experience in dealing with problems of regional inequalities and the physical integration of its vast territory. It has also developed a diversified industrial base, including an important civil construction sector, with technically advanced and economically solid enterprises with extensive international operations.

These complementary needs and experiences offer, thus, a wide field of possible cooperation in the development of the Peruvian infrastructure, a field that has been explored for sometime by Brazilian companies with very good results and promising perspectives. It is an area that is not only beneficial to the bilateral exchange of services but also important to the development of the Peruvian economy as a whole and specifically to commerce between the two countries.

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<sup>3</sup> Cornejo Ramírez, Enrique. “La economía peruana y el desafío del crecimiento con inclusión social” in *DEP: Diplomacia, Estrategia y Política*, No. 7, July/September 2007.

A good example of the importance of infrastructure works and international cooperation is the rehabilitation of the Fernando Belaúnde Terry Road in the San Martín region. In 2000, the area mayors, members of the Municipalities Association, met at Tocache to adopt measures to reverse the process of the region's increasing exclusion and to join efforts to implement those measures. It was soon agreed that the most important, pressuring measure was the rehabilitation (reconstruction, actually) of the Fernando Belaúnde Terry Road. Early in 2007, the diagnostic was confirmed by a survey done under the Poverty Reduction and Mitigation Project funded by Usaid-Peru to identify the bottlenecks that hindered the region's development. The study concluded that the main problems were "the Fernando Belaúnde Terry Road's precarious condition" and the "scarcity and high price of electric power." By itself, the road's deterioration along which 107,000 people live allegedly accounted for yearly losses of 250 million dollars. Finally, in September 2002, the U.S. and the Peruvian Governments signed a Special Objective Grant Agreement, for the main purpose of ongoing reduction of the cultivation of coca for illicit ends. Under the agreement, Usaid donated 25 million dollars for the rehabilitation of the Fernando Belaúnde Terry Road between Juanjuí and Tocache. The U.S. Army Corps of Engineers was charged with calling for bids and for overseeing and controlling the work, whose execution fell to the Brazilian construction company Andrade Gutierrez. Work began in 2004 and was delivered to the Peruvian government eighteen months later by Usaid, which had contracted Andrade Gutierrez.

However, the importance of bilateral cooperation is not limited to taking advantage of such a propitious opportunity related to the needs and attendant possibilities of an area of particular relevance for development and integration. Peru has a considerable potential and has known how to expand its economy at an accelerated rate in recent years, although it faces, as pointed out by Enrique Cornejo's article, the huge challenge of ensuring that the benefits of this growth are more equitably distributed. Between 2002 and 2005, Peru's GDP grew at an average annual rate of 5 percent and even at a higher rate in the two following years. Thus, between 2000 and 2007, Peru recorded the second highest per capita income growth rate in Latin America, second only to Chile's. In the first half of the decade, this expansion was due mainly to increased exports, but in the two following years it was due mainly to domestic demand, which grew 9-10.6 percent a year, a substantially higher rate than the GDP and

exports growth rate. The economically active population-EAP also grows, but at a rate of only 350,000 people a year, while employment could be ensured only by a growth rate of about 7 percent. It is thus not surprising that in 2004 underemployment affected 8.5 percent of the economically active population and underemployment reached 54 percent. In sum, nearly two thirds of the economically active population were unemployed or underemployed. We could add to the list of economic and social indicators, which would only confirm the overall evaluation that Peru today has good economic performance, but faces a mighty challenge of social inclusion. Sustaining such economic development and thus creating conditions for solving social problems can only be reinforced by a bilateral cooperation environment, in which the elimination of infrastructure bottlenecks is highly important.

The presence of Brazilian civil engineering enterprises in Peru is thus an important part of mature cooperation between the two countries, cooperation that is not limited to the elimination of trade bottlenecks and the attendant increase in trade in goods. This is convincingly illustrated by the case of Andrade Gutierrez, which has a significant portfolio of projects, already completed or under way, that are relevant both to a better performance of the Peruvian economy and to closer continent integration in some cases.

Andrade Gutierrez arrived in Peru a little over fifteen years ago, in 1992, and began its civil engineering operations in the country with the construction, under a consortium with local enterprises in the Piura region, almost 1,200 kilometers north of Lima, of the Talara liquid cargo pier, to serve the country's oldest refinery, the second largest in capacity. The dock to be constructed should have a capacity to accommodate ships of up to 35,000 traveller tons, and a ballast water treatment plant. Today, the facility allows the safe docking of tanker ships to load up the refinery's products and the discharging of ballast water at sea under ecologically appropriate conditions.

That was the first step toward a long, rich cooperation history. Other steps would follow, particularly in respect of roads, but also of power generation, through a series of major civil engineering projects that continues today.

In 1993-1995, Andrade Gutierrez executed for the Peruvian government an important work of recuperation of a 235-km stretch of the Pan-American Highway South. This is one of the most traveled roads in the country, which allows cars and trucks to travel without interruptions between Ica and Lima,



thereby facilitating the outflow of the region's predominantly agricultural production to Lima, the main domestic consumer market. Other projects would follow, including the rehabilitation and paving of the Tarma-La Merced road (1996-1998) and the La Merced-Shankivironi highway (1997-1999), which overlapped with the construction of the water intake structure and related works for the San Gabán II hydroelectric plan (1996-1999)

However, even more important than a listing of individual projects, significant as they may be, is the political vision embraced by all the South American Heads of State at the First South American Summit held in Brasília in 2000, that it is not sufficient to execute individual projects. It is necessary to discuss together the integration of the continent's infrastructure. Only this can maximize the contribution of such undertakings to the achievement of the ultimate integration objective. Accordingly, the summit approved the Initiative for the Integration of Regional Infrastructure in South America-Iirsa as a forum for comprehensive discussion of infrastructure projects susceptible of contributing to the unanimously endorsed integration objective, which would remain mere dead letter without the continent's physical integration.

Iirsa approved nine Integration and Development Axes, four of which involve Peru and three involve Brazil:

- Amazon Axis – Iirsa North (Peru-Ecuador-Colombia-Brazil)
- Iirsa South (Peru-Brazil-Bolivia)
- Interocean Axis (Brazil-Paraguay-Bolivia-Peru-Chile)
- Andean Axis (Peru-Ecuador-Colombia-Venezuela-Bolivia-Chile)

As can be seen, the “integration axes” approved by Iirsa are extremely important for a serious cooperation effort between Brazil and Peru in the area of transport and communications infrastructure. The Amazon North multimodal axis, for instance, extends for 960 kilometers and encompasses not only the road stretches between Paita and Yurimaguas but also the Yurimaguas and Iquitos river ports, and the Huallaga and Marañón waterways that complete the linking with the Brazilian border. The projects contemplated under Iirsa, many of which are already under implementation, with the participation of Andrade Gutierrez and other Brazilian enterprises, enhance the possibilities of increased interchange between a country with Peru's potential and Brazil, South America's major domestic market.

## By way of conclusion

As mentioned in the beginning of this article, the idea of the Latin American countries' integration as a positive sum game, in which the countries' association could yield greater gains than a mere aggregation of the region's national products, was a long time in taking root in the respective capitals. Its first formal expression, heavily influenced by the Eclac thinking, was the 1960 Treaty of Montevideo I, which created the Latin American Free Trade Association (Lafta/Alalc). In principle, integration should eliminate or attenuate some evils that plague developing economies, such as the narrowness of the respective domestic markets and the attendant difficulties hindering specialization and the achievement of economies of scale.

Due to reasons briefly discussed in this article, the ideal of integration did not go forward in the context of the treaty. Two decades later, we have the II Treaty of Montevideo which created the Latin American Integration Association (Aladi) that also fell short of its goals.

In 2000, forty years after the signing of the Treaty of Montevideo I, Brazil took the initiative of convening a summit meeting of South American countries considered less bound to the United States than the countries of Central America and the Caribbean, and endowed in their ensemble with specificities that should theoretically facilitate a closer approximation than would be possible if all of Latin America were involved. Thus, still under the Fernando Henrique Cardoso's government, the concept arose of a new continental regionalism, or South Americanism, which is still current.

Today, based on the wisdom gained from retrospection, it seems that any ambitious idea of regional integration – whether South American or Latin American – should be taken as a long-term objective, of desirable but remote realization. Thus, without losing sight of this distant goal, we should pragmatically develop bilateral approximation schemes with our neighbors, particularly in respect of projects susceptible of contributing also to the far-off objective of regional integration. This is the context of our cooperation with Peru in the area of infrastructure.

Translation: João Coelho



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# Embraer – Empresa Brasileira de Aeronáutica S.A.

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## Embraer goes international

### Introduction

**A**irspace industry, of which Aeronautics is the most significant segment, has a wide range of highly demanding characteristics that make it special and differentiated.

Few industries in the world are faced with such an array of awesome challenges as aeronautics – from the simultaneous employment of multiple advanced technologies to highly qualified manpower to the requirements of a global industry by definition to the requisite flexibility to respond to abrupt scenario changes to the enormous amounts of capital required for its operations.

Based on the experience amassed in over three decades of activity in this competitive, aggressive, and sophisticated market, we at Embraer like to say that the aeronautics business rests on five major pillars, which in turn rest

[www.embraer.com.br](http://www.embraer.com.br)

on a single foundation – our clients’ satisfaction, the source of the results that will ensure our stakeholders’ gains and the enterprise’s continuity over time. These pillars are as follows:

- *Advanced technologies:* in view of the highly demanding operational requirements pertaining to safety, drastic environmental changes, and weight and volume restrictions, the aeronautics industry employs a wide range of point technologies and serves as a lab for their fine-tuning before they are passed on to other productive segments and activities. Complex, sophisticated technologies are involved not only in the product but also in the development and manufacturing methods and processes, in addition to the use of the best practices available in financial and human resources management.
- *Highly qualified manpower:* to ensure the efficient, productive, and consistent use of these advanced technologies, it is essential that qualified personnel be available at all levels of the industry’s operations: computer-supported projects, relations with suppliers and clients around the world, manufacturing using sophisticated numerical control machines, and the devising of elaborate financial solutions with international institutions.
- *Flexibility:* abrupt scenario changes that affect the world economy and the geopolitical order, the most recent example of which were the terrorist attacks of September 11, 2001, have immediate impact on the air transport industry and thus on aircraft manufacturers. Flexibility in adapting to such changes with a minimum loss in terms of efficiency and costs is of crucial importance for ensuring survival and preservation.
- *Capital intensity:* owing to the massive investment required for developing new products and raising quality and productivity, coupled with long development and maturation cycles, capital intensity is another major feature of this business sector. For example: the development of the Embraer 170/190 aircraft line required an investment of US\$1 billion and the new A350 Airbus plane should require no less than US\$15 billion!



Legacy 600

- *Global industry:* low output and the high cost of production makes the aeronautic industry an exporting and global concern by nature, as regards both its client and supplier base and the financial institutions that back it. The same Embraer 170 aircraft that operates under the flag of Finnair, Finland's airline, in the severe Scandinavian winter must also stand the high humidity and temperature levels of southern United States, where it operates under United Express's flag. In both cases, Embraer must be permanently available to its clients, providing local technical support and immediate access to parts and components, thereby honoring its commitment to the success of their business and aiming always at their full satisfaction, which will in turn ensure additional orders in the future. At the same time, Embraer must experience the different environments in which it operates, so as to detect positive or negative tendencies and changes in the scenarios and to be able to provide a speedy response.

All these characteristics make the aeronautic industry into a fascinating as well as a high-risk business. Failure of a new product may make the enterprise that developed it unviable and force it out of the market. The disappearance of traditional enterprises, such as the Dutch Fokker's and the Swedish Saab's exit from the civil aeronautic market are two examples of this harsh reality.

Notwithstanding the major risks involved, developing an autochthonous, strong, and autonomous aeronautic industry has been part of the strategic agenda of many nations, which invest heavily in its development over the years, recurrently supporting it by various schemes – celebrating major Defense systems and products contracts, financing new aircraft development programs under favorable terms, and providing all sorts of tax incentives.

## **Embraer goes international**

Aware that winning new markets, which are essential for its growth and consolidation will become effective only if backed by its physical presence in these markets, through industrial plants or units for rendering post-sale services and support to clients, Embraer has, since its privatization in 1994, gradually extended its operations internationally as a strategic objective.

Far from losing its Brazilian identity and distancing itself from its origins, Embraer will, through internationalization, ensure new business deals, the strengthening of its trademark, and the generation of higher-qualification jobs in Brazil, in proportionately higher numbers than in its subsidiaries and controlling enterprises abroad.

In 1997, as it regained strength after introducing in the market its ERJ 145 commuter jet, Embraer launched its internationalization strategy by adopting measures that included (1) expanding or opening sales and marketing offices and replacement parts distribution centers; (2) participating in joint ventures; and acquiring traditional, renowned enterprises specializing in aeronautic services.

## **United States and Europe: consolidated presence**

Embraer has long been active in the United States and in Europe – since 1978 and 1983, respectively – through sales and marketing offices and client support units (parts and services).



Phenom 100 and Phenom 300

The two units have had and continue to have a vital role in the expansion of its operations in those two main commercial aviation markets in the world. Including Brazil, 950 commercial jets, in addition to 800 turboprop planes as well as military planes made by Embraer are now flying. The U.S. and the European markets account for 95 percent of its total exports.

Facilities at the U.S. unit, located in Fort Lauderdale, FLA have been expanded to keep up with Embraer's operation since it delivered the first ERJ 145 commuter jet in December 1996 in that market. In November 2006 it had 234 employees and a spare parts stock of over 50,000 items.

With the increase of its business and client base in Europe, Embraer decided to concentrate into one place, located in Villepinte, near the Paris Roissy-Charles de Gaulle airport, its sales and marketing and client support units, including a major spare parts warehouse, one of which was already located in Villepinte while the other was previously located at the Le Bourget airport. The new integrated facilities should enhance the operational efficiency of a body of 194 employees charged with managing assets totaling 172 million euros and providing services to 37 clients.



## China and Pacific-Asia: strategic markets

Given the importance of its economy, which has steadily grown at high rates for the last two decades, as well the strategic significance of air transport as an integrating factor and a development engine on a continental-size territory, China has been selected by Embraer as a strategic goal, which requires specific, differentiated treatment in view of its cultural characteristics, far removed from the Western world.

Embraer's presence in China started in May 2000, with the opening of a sales and marketing office in Beijing, followed soon after by the opening of a spare parts distribution center in the same city.

In 2001 and 2002, it negotiated an agreement with Chinese authorities under which it would be allowed to install an industrial plant to make ERJ 145 family aircraft for the Chinese market.

Finally, in December 2002, an agreement was signed with Aviation Industry of China II (AVIC II), establishing the Harbin Embraer Aircraft Industry (HEAI), a joint venture controlled by Embraer, which holds 51 percent of voting shares.

In February 2004, Embraer announced its first sale in China through HEAI: six ERJ 145 jets sold to China Southern. Other significant sales followed: the same number of the same model sold to China Eastern Jiangsu in March 2005 and to China Eastern Wuhan in January 2006.

In August 2006, Embraer announced the sale of 50 WRJ 145 planes and 50 EMBRAER 190 jets to the HNA Group, China's fourth largest air company. This deal was the first sales contract of an E-Jet on mainland China, with a list price of US\$2.7 billion. ERJ 145 delivery will start in September 2007. The 50-seat jet will be made by HEAI in Harbin, in the Heilongjiang Province.

By end-2006, HEAI will have delivered 13 ERJ 145 planes, which, together with the five sold in 2000 to Szechuan before the establishment of the joint venture, will bring to 18 the total number of these jets currently operated by Chinese airlines.

As regards the Pacific Asian region, in December 2000 Embraer opened a sales and marketing office in Singapore, entrusted with implementing the enterprise's trade strategy for the region's markets, including the Indian subcontinent.



Embraer's Headquarters. São José dos Campos

The Indian aeronautic market is undergoing a deregulation process and shows bright growth prospects. In this context, Paramount, a recently established company, has announced the start of its operations, based on the operational leasing of two jets: Embraer 170 and Embraer 175.

Also in India, Embraer has signed a major contract with the government for the sale of five Legacy 500 jets, particularly adapted to meet the comfort and safety requirements of that country's authorities.

### **Expansion of Embraer's client services and support base**

Embraer plans to continue expanding its client services sector not only to ensure that its clients will achieve excellent dispatchability rates for their aircraft fleet but also to provide them with other services, such as aircraft maintenance and repair, to their full satisfaction, which is essential for the achievement of our goals and the growth of our operations.

Thus, in addition to consolidating its client services in Brazil through the transfer of its Services Center to the Gavião Peixoto Unit, it has expanded its services operations in the United States, with the addition of the new facilities of the Embraer Aircraft Maintenance Services-EAMS, in Nashville, Tennessee, and in Europe, with the acquisition of OGMA-Indústria Aeronáutica de Portugal S.A., in Alverca, Portugal, announced in December 2004, at the completion of its privatization process.

Early in 2005, EAMS expanded its facilities at the Nashville International Airport to raise its services capacity, in view of the growing fleet of Embraer aircraft in the United States. This major decision led to the progressive hiring, as of 2005, of additional EAMS employees, bringing their total to 277 by November 2006.

Since its establishment in 1918, OGMA has devoted itself to aircraft maintenance and is today a major representative of the European aeronautic industry, providing maintenance and repair services for civil and military aircraft, engines and components, and modification and assembling of structural components, as well as engineering support.

Its main clients are the Portuguese, the French, and the U.S. Air Forces and the U.S. Navy, Nato's Maintenance and Supply Agency, and the Dutch and Norwegian Navies, among others. In the trade area, OGMA also provides services to airlines such as TAP, Portugalia, British Midland, and Luxair, and to enterprises, including Embraer and Rolls-Royce.

In addition to doing maintenance work, OGMA also manufactures structural components and composite materials for Boeing, Airbus, Lockheed Martin, Dassault, and Pilatus. By November 2006, its work force totaled 1,606 employees, which makes it Embraer's largest unit and subsidiary.

## **Preserving culture, values, and attitudes – an enduring challenge**

The velocity of Embraer's expansion since 1996, when its ERJ 145 aircraft went into operation, has brought with it formidable challenges in respect of the preservation of culture, values, and attitudes, a concern that continues to guide the enterprise's actions.



Embraer 170/190 family

To illustrate the magnitude of such a challenge, suffice it to mention that in April 1997, Embraer had only 3,200 employees scattered through five operational units – three in Brazil and two abroad. Today, nine years later, it has 18,670 employees, scattered through thirteen operational units – five in Brazil and eight abroad. In just one of its units, located in France, 26 nationalities and 19 languages are represented in a work force of 194.

One of the managers' top priorities is to recognize the worker's ethnic and cultural diversity and their different working environments, including specific labor legislations, while developing their maximum potential by directing their energy toward the business's objective, in perfect consonance with the enterprise's ethical and moral values.

The main element for the achievement of this intent is the so-called Management Methodology through Action Plan. Each year Embraer prepares an Action Plan based on a five-year perspective and follows a strategic planning model that takes into consideration markets, competitors, the enterprise's capabilities, opportunities, and risks, priorities, and results, among other factors.

The Enterprise's Action Plan is based on the equivalent internal plans for each corporate, functional, and business area, reaching down all the way to the plant floor, all in accordance with the general guidelines issued by the enterprise's top management. The enterprise's variable pay policy, encompassing all employees, takes into account the targets agreed by the leaders and the led along the entire chain of command. The Action Plan is thus the key instrument for the management of the business, and for all the employees' alignment with and commitment to the agreed targets and results.

In addition to the Action Plan Methodology, Embraer maintains a strong Internal Communication culture aimed at integration with its employees and their families and at disseminating Embraer's central values and concepts.

Internal Communication works in a global, integrated manner, through the use of tools that are both modern of highly attractive to the employees:

- Embraer's Director and President has his own tool for communicating with employees, called *Em Tempo*, issued simultaneously in Portuguese and in English. More recently, *Em Tempo* has been issued in special editions on video;
- Embraer Intranet is a tool of corporate reach and our employees' main source of information, which is accessed an average of 24,500 times a day;
- Some 600 internal communiqués are issued annually and made available to employees through Intranet and bulletin boards; 25 percent of these communiqués are of corporate reach;
- The *Embraer Notícias* [Embraer News] is devoted to issues that are essential to Embraer's culture: the Management Methodology through the Action Plan, the importance of cost discernment and contention, combating waste, team rallying around Embraer's broad entrepreneurial objectives, etc.;
- Interviews with Embraer's top executives are translated and sent to the units located abroad. As they consistently address market evaluation and the enterprise's strategies and objectives, they are well heeded by employees;

- Articles published in the national and international media on themes of interest to Embraer's business are translated and made available to employees.

Armed with this vision and determination, grounded on ethical and moral values, and having integrity as the spring of its actions, Embraer embarks upon an extremely challenging and competitive entrepreneurial activity. And in so doing it brings to the markets the image of an efficient, agile Brazilian enterprise known for its quality products and technological state-of-the-art.

Translation: João Coelho



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