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Argentina, towards another kind of country

Roberto Lavagna *

As 2001 ended and 2002 began, the Republic of Argentina dramatically hit rock bottom. This was not the result of yet another failure in the succession of disasters stretching back 27 years but of a failure so resounding that it devastated Argentine society.

The utter collapse of the economy was the outcome of long years of misguided policies generating sporadic mirages of prosperity, known in economic jargon as bubbles, on the heels of which dire crises invariably ensued.

By December 2001, Argentine society was crippled. Asphyxia took hold on several fronts: economic, following four years of recession; financial, as all the international markets closed their doors to the country, which was no longer able to fulfil its external commitments; institutional, with the fall of the Government and a string of presidents coming and going in a single week; and social, since more than half the population fell below the poverty line.

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The consequences of the nineties are common knowledge: dismantling of the production system, disruption of the job market, an accrued current account deficit of 90 billion dollars, a trade deficit amounting to 23 billion dollars, and outright doubling of Argentina's foreign debt.

By April 2002, Argentina had defaulted on almost 110 million dollars (of a total debt of 144 billion, of which 35 billion were owed to international organizations), its economy had ground to a halt, employment had sunk to an all-time low, forecasts of hyperinflation were virtually unanimous, and the population's money was trapped in the *corralito* and the *corralón* (government-imposed freezes on financial assets) with no less than 14 different currencies in circulation. Argentine society was engulfed by a sense of despair and distrust in the country's rulers. The only possible way out of the crisis was to react and set about instilling a state of normality. At that point the State had to take upon itself the ineluctable task of apportioning losses.

The Government immediately set about its task, endeavouring:

- to resist corporate demands to transfer the brunt of the crisis to the State and society as a whole;
- to propose “voluntary” solutions to the urgent problem of the *corralito* and the *corralón* when the domestic and international finance systems were pressing for compulsory measures; and
- to draw up new agreements firstly with international financial organizations and then private creditors, focusing negotiations on the un-negotiable need to secure social recovery, economic growth and the country's real capacity to repay its debt.

Then alone could Argentine society begin to administer itself the one advisable, effective medicine for curing the ills that beset it: growth. Otherwise, it faced certain collapse.

A firm “no” was thus given to requests that it: (at that juncture) unjustifiably raise public service tariffs; adjust balance sheets by the rate of inflation and thus reduce tax payable on profits; eliminate retentions on exports until the crisis was contained; maintain in dollars payment by a convergence factor (a benefit granted

to exporters in 2001); implement an exchange insurance scheme to assist companies that had run up debts abroad. Likewise, the government refused to pay installments on the debt that might throw the recovery process into reverse, to allow one sector of the finance system to resume loans in dollars to clients earning in *pesos*, to compensate financial institutions for measures decreed by the Courts that were not yet definitive, and to make fiscal adjustments that might jeopardize rapid headway being made in reaching an agreement with the IMF.

Had the government accepted all or some of those “demands,” it would have repeated the mistakes made as Argentina emerged from the 1982 and 1989-90 crises, when the State played the “fool’s part” and ended up carrying losses that ran to billions of dollars.

Restoring normality and growth

Three years and a few months have elapsed since the collapse of the Argentine economy, and the results of the “Plan to Restore Normality and Growth” are already visible: in the interim, Gross Product has recovered 26%, following more than twelve consecutive quarters of growth, strongly driven by industrial output, which has increased 38.5% in the same period. These figures, it goes without saying, are an all-time historical record in Argentina.

Other macroeconomic indicators also display record figures: investment at current prices reached 21% of GDP in the fourth quarter of 2004; exports attained US\$ 35 billions; a 5% fiscal surplus has been achieved (including accounts for the provincial administrations). Domestic consumption grew 9.4% last year. A process of reindustrialization is under way in Argentina with the active participation of many companies, especially small and medium-size firms in the industrial and agro-industrial sectors, almost entirely responsible for the up-turn in employment figures.

Throughout this period, 2.5 million new jobs have been created, not only as a result of sustained economic growth but also because the new pattern of inclusive development with social justice is generating more jobs per unit of GDP. This is the result of greater attention being afforded to small and medium-size businesses and to regional economies, the expansion of the domestic market, and the competitive performance of Argentine exports. This turn of events has enabled 5.2 million Argentines to rise above the breadline.

This year, following long, hard negotiations, an agreement has finally been reached on restructuring Argentina's external debt. The difficulties encountered were hardly surprising given the characteristics of the debt, scattered over 152 different bonds, 6 currencies and 8 distinct jurisdictions. In this context, Argentina's argument that without growth combined with social inclusion, the country will not be able to sustain its repayment capacity for any length of time is beginning to win acceptance in international circles. This is perhaps the most important contribution our country has made to stability in international finance markets.

Time to consolidate

Argentine society is now in a position (though conditions may not yet be ideal) to consolidate the current growth trends and avert the classic "stop and go" dynamics that have beset its economy over the past three decades.

The prime objective now is to consolidate sustainable growth and ensure equitable distribution. Investment and domestic consumption must serve as the economy's dynamo, since consumption is the variable of aggregate demand that can most swiftly lever the narrowing of the gap between Argentina's potential product and real product.

Indeed, consumption would not have been able to expand over the past three years had the wage mass not increased as it has due to increases awarded for greater productivity in the economy, both by decree and through sectorial collective bargaining agreements or direct negotiations between companies and their workforces. Likewise, the State has allocated resources to the necessary social plans, which in time must be reconverted into job creation schemes.

None of what has been accomplished hitherto can be consolidated, however, unless the discipline behind fiscal surpluses is maintained. This has afforded the Government the necessary independence to set its own policies, including the policy that has underpinned its vigorous negotiation of foreign debt. That holds true as much for the Nation as for the Provinces, which have made a strenuous effort over this period to reorder their finances and contribute to the national surplus. Clearly, federalism is little more than a mockery of federalism if the provincial administrations have to fall back on the national exchequer to settle their debts and cover regular expenses. Today, on the contrary, they can not only fund their ordinary expenses but also plan and develop their own infrastructure projects.

In terms of foreign trade, too, Argentina is implementing structural changes which are due to be consolidated. Positive growth in both exports and imports is producing trade surpluses that plough substantial foreign currency earnings into the country's renewed industrialization while also covering the Nation's external commitments as the State firmly moves to reduce the debt-to-equity ratio.

This new pattern of behaviour is visible in the burgeoning diversification of export products and markets and in the growing proportion of capital goods, components and replacement parts for equipment comprising Argentina's imports. This reflects the investments associated with Argentine businesses' need to re-equip or modernise their plant to meet the gathering demand in their domestic and export markets.

In this respect, over the last three years the Government has worked to provide the right conditions for industrial concerns to establish themselves or continue to operate in the country and to promote foreign trade. Nonetheless, private enterprise clearly determines the results in the industrial sector. In addition to action within the region, the Government is firmly committed to removing trade barriers through international negotiations both on an individual basis (the country is assuming a leading role it had not played before) and in liaison with Mercosur partners and the Group of 20, taking place with diverse trade blocs and in the sphere of the World Trade Organization (WTO). Most relevant in this respect are the Doha Round within the framework of the WTO and South-South negotiations, a proposal incidentally put forward by the present Argentine administration.

Naturally, a great deal still remains to be done, especially in terms of redeeming the country's social debt. The ideal – which does not have to be dissociated from what is feasible, providing the right decisions are made – is to restore the structural stability of the economic system and to double Gross Product every 15 years. To this end, ideas must be matched by action. Certain bedrock definitions must be accepted as an overarching framework of ideas. These include:

- “monolithic thinking” has been a major cause of failure while, on the contrary, tolerance, willingness to engage in dialogue and honest dissidence make for abundance;

- the integration of the modern world, making for open, flexible, democratic societies, is an inexorable spin-off from greater foreign direct investment and international trade;
- scientific and technological development cannot be postponed; and
- social inclusion and the fight to eradicate poverty must not be neglected so long as a single Argentine citizen is in need of support from the State.

The conditions required for Argentina to consolidate consistent recovery and growth are the patently positive trends displayed by all the present economic indicators and the country's wealth of natural and human resources. As Argentina is rich in both, its strategies must be based on development combining extensive use of its natural resources with intensive use of its human resources.

Argentina must make the most of its natural advantages in sectors such as livestock, fisheries, mining and energy in all its forms. The natural competitive edge has enabled several of these sectors to weather adverse economic conditions better than others. The crucial role they can play is in generating hard currency earnings, occupying the country's territory to the full and preserving certain aspects of its national identity.

Still insufficient processing and relatively low aggregate figures is what keeps these activities below the current ceiling. That can be partly offset by joint private and public policies designed to enhance differentials.

Despite the social and educational setbacks experienced in the last quarter of a century, especially in the nineties, it can still be claimed that Argentina maintains a comparative edge in the developing world with regard to human resources.

That advantage can be harnessed in sectors such as tourism, design, arts and fashion, in the media, advertising and cinema, in publishing and broadcasting, education, medicine, social and personal services, in biotechnology, animal and human genetics, in the nuclear and space industries, aeronautical development and services, in product engineering, capital goods for agriculture and food processing, software and information technology in general, communications, technology for gas production, in the chemical and

petrochemical industries, construction goods relating to mining, pharmaceuticals and generic medicines in particular, integrated programmes like Remediar, and so forth.

On this front, the Government has done its part by opening up trails that must now be explored by the private sector. Examples of such action include the Software Law, the MiPC programme designed to reduce the digital divide, the National Nanotechnology Plan, the Biotechnology Bill, the radarization plan, Invap's satellite agreements with Nasa. None of these are particularly high-profile undertakings but all will lay the foundations for another kind of country.

This new dimension can and should be attained in the present decade and be fully consolidated by the time Argentina celebrates the bicentennial of its Independence in 2016. To achieve this we must not only train our sights on the horizon but also look back to survey our own experience. The recent past is eloquent proof that the easiest path is not always the most suitable: economic bubbles inevitably burst, and recurrent reconstruction comes at the cost of social suffering, hefty investment and time. ■■■

The indigenous movements in Bolivia

Álvaro García Linera *

Bolivia is one of Latin American countries with the highest indigenous demographic density. When it became a republic in 1825, Indian peoples made up nearly 90 percent of the population and were excluded from citizenship rights. Today, approximately 62 percent of those over age 15 identify themselves as members of an Indian people and a little over 40 percent of the population speak an Indian language as their mother tongue. Of the thirty-eight original indigenous peoples, two are the most important – the Quechuas, who account for 30 percent of the overall population, and the Aymaras, who make up 25 percent** The Quechuas are concentrated predominantly in the valleys, while the Aymaras live in the altiplano, in both rural and urban settings. The population of El Alto, the country's third largest city, is mostly Indian. The other thirty-five peoples, living mainly in low, flat lands, make up six percent

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** National Statistics Institute, *Censo de población y vivienda 2001*, La Paz, 2002

of the total population. These demographic and geographic differences, as we shall see, help explain some characteristics of collective action and the discourse of indigenous movements today.

Although the history of indigenous people in the Americas is marked by cycles of extermination, insurgence, pacts, and partial inclusion in the predominant national structure, in Bolivia the cultural assimilation and miscegenation in the last century have not erased or attenuated the deep socioeconomic differences among the various social identities. This was due not only to the indigenous peoples' resistance capacity but above all to the limited, partial, and often simulated character of the State-driven inclusion and homogenization processes. Despite the extension of citizenship rights to all in the mid-20th century, land distribution in the valleys and in the altiplano, the access to free education in recent decades, and all such reform processes have been accompanied by a reemergence of mechanisms of exclusion and social and symbolic devaluation of the indigenous origins and identities that, in the long run, have revitalized the ethnic claims movements. Despite the equality proclaimed by law, in everyday life and in public life an indigenous ethnic origin, language, name, or skin color is cause of practical devaluation as regards the exercise of rights. Thus, over time, there occurred a cultural segmentation of the structure of opportunities and social mobility, visible in the ethnic segmentation of the labor market. A study done by the Catholic University using data of the latest population and housing census shows that 67 percent of vulnerable jobs in Bolivia, 28 percent of semi-qualified jobs, and 5 percent of qualified jobs are held by indigenous individuals. The study also focused on the differentiated salaries according to ethnic origin and found that indigenous individuals earn in average 30 percent of what a non-Indian performing the same task earns.

As regards living conditions, although it has percentwise declined in Bolivia in recent decades, the unsatisfied basic needs index (NBI), which is internationally used to measure people's quality of life, has remained unchanged in the municipalities that identify themselves as indigenous, particularly in the countryside,¹ and, in Bolivia, poverty is all the greater in the more predominantly indigenous population.

¹ Arreaño. *Pueblos originarios o indígenas en Bolivia*. Viceministerio de asuntos indígenas y agropecuarios, La Paz, 2003.

Poverty and welfare, exclusion and social ascension thus have a strong ethnic, cultural, and linguistic component. From the point of view of the State, there are valued and less valued ethnicities, socially sanctioned, penalized cultures with respect to social ascension, and cultures socially qualified for and rewarded with social recognition. It can then be said that, strictly speaking, ethnicity in Bolivia plays the role of capital, the ethnic capital, which is a social plus, a desirable, monopolizing capital that facilitates social ascension. It can further be said that in Bolivia, ethnic capital,² together with economic and cultural capital (college degrees, etc.), is an additional component, as a lingering bad habit, that can determine social ascension and decline, inclusion and exclusion, hierarchies and social compartmentalization.

It is not surprising, then, that in recent decades the indigenous social movements have recovered unquestionable political vitality and, in Bolivia's case, accumulated a mass of parliamentary and extra-parliamentary political capital that makes them into social forces of interpellation vis-à-vis the State, of political governability, institutional reform, and real possibility of democratically rising to government in the future. Indeed, in the last elections in 2002, one of the indigenous candidates won one percent of the number of votes won by the winning candidate, who would be deposed a year later by a social uprising.

The numerous indigenous social movements

In Bolivia, owing to the historical indigenous peoples' diversity, it is not only one indigenous movement that has participated in social and political struggles. There are several indigenous movements that differ greatly in their demands, attitude toward the State, mobilization history, identity, and social base.

Some of the major indigenous movements include the following:

1. The Aymara indigenous movement, active in the altiplano and coordinated by the *Tupac Katari* Peasant Workers Only Federation of La Paz - Fsutclp-Tk, affiliated with the Peasant-Workers Only Union Confederation of Bolivia-Csutcb.

² García Linera, A. "Espacio social y estructuras simbólicas. Clase, dominación simbólica y etnicidad en la obra de P. Bourdieu". In Bourdieu. Alianza Francesa/Embajada de España/Instituto Cultural Goethe/Plural, La Paz. 2000.

The Csutcb, which has *union* in its name but which is actually a community of peasants and Indians, is the oldest indigenous structured organization of this new cycle of the indigenous reawakening begun thirty years ago among the urban and rural Aymaras. Although the Csutcb initially coordinated the Aymara and Quechua indigenous communities, in recent years it has split in two. The organization of the Quechua-led wing (Roman Loyaza) is geographically the largest, while the Aymara wing (Felipe Quispe) has the greatest pressure capacity and has a political discourse.

The Aymara are the indigenous people that live in the La Paz and Oruro provinces, have stronger social cohesion and greater mobilization capacity (the major road blockages take place in this area), and a keener sense of identity as a result of the existence of a numerous, influential contingent of intellectuals who, in recent decades, have recreated a historical narrative about the autonomy of the Aymara nation. Although inside the Aymara movement there are many tendencies and various forms of organizing social mobilization (political parties, cultural and neighborhood groups, etc.), the Csutcb, which rallies all the organized peasant communities round traditional loyalties, is the most important and compact sociopolitical mobilization force in the country, and its demands are directed exclusively at the State.

Possessor of a clear-cut indigenous identity in confrontation with the State, which it considers colonial, the Csutcb combines economic demands (roads, health, education, tractors, economic assistance) and sociopolitical demands (nationalization of the oil sector, a new economic model, indigenous self-government). To this end, it has resorted to both uprisings and negotiation to gain recognition and has veered towards a type of Aymara nationalism, demanding with increasing insistence self-government. In this past decade, its discourse has spread to urban indigenous sectors and to the rest of the indigenous movements in the country, particularly to the Fejuve of El Alto, where most of the peasant mobilization issues have been reformulated for use in an urban setting.

2. The Bolivian Eastern Indigenous Confederation (Cidob) and the Santa Cruz Ethnic Peoples Coordinating Office-Cpesc bring together dozens of small indigenous peoples of the lowlands. Living in the Amazon and the Chaco regions, where there are extensive landholdings, these indigenous organizations established in the eighties have managed to organize numerous peoples that for a long time have been invisible owing to their low demographic

density. Assumed Indians, their demands are directed at the State or at landowners and agricultural entrepreneurs in the region at other times and have a more far-reaching character (community property deeds, development projects, bilingual education, etc.). Differently from the indigenous movements in the uplands, who resort to blockading the roads in protest against the State, the indigenous organizations of the eastern zone prefer protest marches and are more inclined to deal with the State through negotiation, pacts, and recognition.

3. Yungas and Chapare Coca Producers Federations. These bring together the peasant-indigenous communities in the inter-Andes valleys and the Bolivian tropics. They encompass a little over 50,000 families. Their organizational identity has changed in recent decades from a peasant to a peasant-indigenous organization. Most of these communities consist of Aymara, in the case of the Yungas, the centenarian coca-growing lands, and of Quechua peasants and dismissed workers in the Chapare, a region where coca growing has expanded in the last three decades.

Although an indigenous identity has been rapidly adopted in these regions, the demands of the *cocaleros*—the workers in coca production—fall into the category of the peasant, moderate claims. As coca-growing can yield an average income four to five times higher than that of an average peasant (600 dollars a year), this activity has been one of the few opportunities the subordinate sectors have had of benefiting from free trade and of rising socially. Paradoxically, in a scenario in which the free market ideology prevails, local governments, under U.S. pressure, have coercively restricted the coca leaves business (both for licit, traditional consumption and for illicit industrialization), forcing the movements to harden their mobilization methods to defend their crops to the point where they have become more radical in terms of social pressure. Thus, from relatively moderate demands, the *cocaleros* were pushed to resort to the mobilization of collective strength, which on various occasions has led to the blockading of the country's major routes of economic significance (as the Santa Cruz-La Paz highway).

In the last four years, owing to the rising strength of the several indigenous movements in the entire country, the *cocalero* movement has adopted a strategy of regional and national alliances, leading to the formation of an electoral “political instrument” which managed to place second in the 2002 national elections, with only a one-percent difference from the National Revolutionary

Movement-MNR, the winning party. More than a party, this “political instrument,” called Movement toward Socialism-MAS, is a flexible coalition of several indigenous and non-indigenous, rural and urban, workers, unions, and peasant social movements that has taken its mobilization structures to the parliamentary sphere. Strictly speaking, currently MAS, whose top leader is the Indian Evo Morales, has had to change its language to fit into the urban environment with a higher degree of cultural miscegenation; thus, it can be said today that Morales heads a political movement and a political proposition of a clear social mixed-race content, similar to the demands of decades ago by other political groups of mixed-race middle class, with the difference that now this proposition is spearheaded by and Indian.

4. Federation of Neighborhood Associations of El Alto-Fejuve. This federation brings together the urban neighborhood associations of the city of El Alto. Established in 1954, when El Alto was simply an agglomeration of semi-urban neighborhoods, Fejuve represents most of the 700.000 residents, who are predominantly Indians (80 percent), the other being recent migrants from the rural areas. They are organized into urban community cells (the neighborhood associations), which are the only autonomous “social security” the migrants can count on to build their houses, pave their streets, provide basic services, or ensure local security. The El Alto neighborhood associations assumed a major role in recent years, owing to the increasing politicization of their demands, centered on the de-privatization of basic urban services (water, electricity, transportation), on participation in the social rebellion that deposed President Sánchez in 2003, and on the demand for the nationalization of the oil sector in May and June 2005. With a high percentage of construction and factory workers (about 40 percent) and a strong discourse based on the indigenous ideology prevalent in their structural organizations, the neighborhood associations are the most visible expression of a social movement that combines the old workers experience in the unions and the discourse and practices of the urban-based Aymara Indians.

The protagonist political role of the neighborhood associations had been in gestation for the last five years. Breaking away from the patronizing welfare systems that tied the neighborhood associations to national and municipal government parties, Fejuve’s first moment of political autonomy came with its participation in El Alto’s demand for a public university. These mobilizations lasted two years (2002-2003) and led to the strengthening of the neighborhood

networks and to their increasing politicization. In August 2003, the neighborhood associations staged a 48-hour strike in protest against a municipal form and, months later, in September-October 2003, they would receive the “post” and the identity influence of the indigenous mobilization begun by the altiplano Aymara peasants against the sale of gas to Chile, promoting an unarmed insurrection that, after 69 deaths, ended with president Sanchez de Losado’s flight. In January 2005, another Fejuve mobilization achieved the rescission of the potable water managing contract with *Aguas del Illimani*, a French enterprise, and finally, in May-June the neighborhood associations led a new cycle of national protests, with a three-week strike demanding the nationalization of the oil sector, which ended with president Carlos Mesas’s resignation.

Today Fejuve is the country’s strongest social movement, an instrument of national and State demands, which has led it to envisage political State power as a means of satisfying these demands. This points to the emergence of a new political system and a new economic regime.

Today’s Indianist movement

Although there is today a wide range of indigenous movements and leaderships in Bolivia, the common cultural scenario that unites them is an ensemble of plans, interpretations, and emancipating projects collectively conceived in the course of the last decades. Whether in their version more inclined to agreements and the defense of the rights of the “minority” (lowland indigenous movements) or in their “majority” version inclined to taking power (the Aymara indigenous movement), they warrant the belief in an Indianist demanding, discursive, and identity-affirmation platform, based on which each leadership and organization attaches priority to certain elements and contributes in turn to its amplification as an expanding discursive universe.

Indianism

Universal suffrage, the agrarian reform that has put an end to the latifundia in the altiplano and valleys, and free, universal education, turned the revolutionary nationalism’s ideology into a vision of the time, involving a goodly portion of the imagery of the peasant communities, which found in this manner

of achieving full citizenship, recognition, and social mobility, a nationalizing and culturally homogenizing call capable of replacing and diluting the national-ethnic resistance program entertained decades before. Those were times of increasing *de-ethnicization* of the peasant discourse and ideology, supported by the nationalist State, both in the masses democratic stage (1952-1964) and in the first stage of the dictatorial phase (1964-1974).

The material support for this period of national-State hegemony in the rural area was the increasing social differentiation in the country, which allowed the creation of internal mobility mechanisms through the markets and the expansion of the mercantile base of the rural economy, the accelerated exodus from the country to large and middle-size cities, and the flexibility of the urban labor market, which encouraged belief in a successful move from the country to the city, with the promise of stable, salaried jobs and access to higher education as means of social ascension.

The first failures of this project of economic modernization and nationalization of society began to become evident in the seventies, when ethnicity, expressed by name, language, and skin color, was reinstated by the ruling elites as another selective mechanism of social mobility, reviving the old colonial logic of social qualification and disqualification that adopted ethnicity, social connections, and economic capacity as the main criteria for social ascension or descent.

All this, coupled with the limitations of the labor market, incapable of absorbing the growing wave of migrants, created propitious conditions for the resurgence of the Indianist view of the world, which had gone through various stages in the last thirty-four years: a *formative* stage, the State *cooptation* stage, and the stage of its conversion into a power strategy.

The first stage, in the seventies was a period of *Indianism's* gestation as regards both the discursive, political, and cultural construction that opened cultural frontiers and a way of perceiving social exclusion and hierarchy. In some cases, this discursive formation reviewed colonial and republican history to show the injustices, usurpation, and discrimination to which the indigenous peoples were subjected with respect to the management of wealth and social power. In other cases, the barriers to the processes aimed at ensuring full citizenship and social ascension, offered by the nationalist "mestizo" project begun in 1952, were denounced. These two complementary trends had a

denunciatory, interpellating discourse that, based on a historical review, exposed the impossibility of honoring the commitments regarding citizenship, miscegenation, political, and cultural equality, with which nationalism approached the indigenous-peasant world after 1952.

This happened, beginning in the seventies, when the State-centralist and productive model was in full sway, promoted through the activity of temporarily or permanently migrating Aymara intellectuals who had a college degree and experience of urban living but still had ties to rural communities and their systems of labor union authority. These intellectuals, in political autonomous circles or in small cultural undertakings (soccer, radio programs, speeches in plazas, etc.)³, gradually built among the leaders of agrarian unions a network of communication and re-reading of history, language, and ethnicity, which began to dispute the legitimacy of the discourse of the peasant movements, with which the State and the left appealed to the indigenous world.

The essential contribution of this period was the reinvention of *Indianitude*, no longer as a stigma but as subject of emancipation, historical design, and political project. This is an authentic discursive rebirth of the Indian through the recovery and reinvention of his history, his past, cultural practices, penury, and virtues, which was to have a practical effect on the formation of self-identities and forms of organization.

At this first formative stage, the work of Fausto Reynaga stands out. Reynaga may be considered Indianism's most important and influential intellectual figure of this historical period. His work was aimed at constructing an identity; as there is no collective identity *ab initio*, it has to be formed vis-à-vis and against other identities. Indianism then not only differed from the "other" mestizo, colonial Bolivia but also from the workers' left that was closely associated with the nationalist State's homogenizing, modernist project.

Right off, Indianism took arms against Marxism, an ideology predominant in the university and workers' left, and opposed it just as vehemently as it had opposed Christianity, another strong ideology of the time, considering both as the main ideological components of contemporary colonial domination. This Indianist disqualification of Marxism as an emancipating project must

³ Hurtado, Javier. *El Katarismo*. Hisbol, La Paz, 1985.

have been influenced by the very attitude of the leftist parties, which continued to subordinate peasants to workers, were opposed to viewing the national-indigenous issue as a cause and, just as the higher classes do it today, considered as a historic retrocession vis-à-vis “modernity” any reference to an emancipation project based on the community potentialities of the agrarian society.

Beginning with its strengthening as opposition, the Indianist discourse in the late seventies split into four major currents: the first was the labor current, which led to the establishment of the Peasant-Workers Only Union Confederation of Bolivia-Csutcb that somehow symbolically sealed the rupture of the peasant unions’ movement with the nationalist State in general, and in particular with the military-peasant pact that had launched a military custody of the peasant organization. Based on this mass strategy, the regional lowland organizations (Cidob, Cpesc) would emerge with their own, autonomous discourse.

The other current to emerge was party politics, with the establishment not only of the Indian Party-PI in the late sixties, but also of the

Tupac Katari Indigenous Movement-Mitka and the *Tupac Katari* Revolutionary Movement-Mrtk. These parties were defeated in various elections until the late eighties. The third current, alongside the political and the labor currents, was the academic, historiographic, devoted to sociological research. It has been said that all nationalism is basically historical revisionism. Thus it was not rare to see a substantial generation of migrant Aymara entering the university world in the seventies and eighties, devoting itself precisely to carrying on, in a rigorous manner, this historical revisionism through studies of uprisings, caudillos, and indigenous claims from colonial times to today.

Today, although Indianism has several currents, the strength of the Indianist movement is centered in the Csutcb. But as happens with the identity of every subordinated people, this mobilization force does not fail to present the intertwining of several strategic ways of facing the State. Thus, although it is possible to come upon a strong ethnic rhetoric in the leaders’ speeches and in the symbolism used to identify themselves (portraits of indigenous leaders, the wiphala), the mobilizing and discursive force of the Cstucb lies in being grounded on class and economic claims, as those that led to the first major blockading of roads by the brilliant union leadership headed by Genaro Flores in December 1979. Csutcb mobilizations, in which the political and ethnic-

national content predominated over strictly peasant claims, took the form of the rebellions of 2000, 2001, and 2003.

A second moment of this period of discursive and elite formation of the Aymara identity occurs when, in the early eighties, the discourse begins, slowly but steadily, to lose focus; the Indianist-Katarist ideologues and activists began to split noticeably into three major currents. The culturally-inclined took refuge in the domain of music and religiosity and are known today as the “pachamanicos”. Basically, their discourse has lost its original political weight and has now a strong content of *folklorization* of *indianitude*. A second current, less urban than the preceding one, is known as the current of the “integrationist” political discourse, as it embodied the claim that being Indian is a force for exerting pressure for getting some recognition in the State system. It is a discursive formation of the Indian as complainant, demanding recognition by the State so that he may become integrated into the State system as well as a full citizen, but without losing his cultural peculiarities. The *katarist* wing of the movement of reinvention of *indianitude* is what gives substance to this position. The Indian stands as an unequal before the State because of his cultural identity (Aymara, Quechua) and thus becomes a symbol of deprivation of rights (equality), of a future (full citizenship), and of an identity distinction (his multicultural being).

This discourse builds its imagery based on the existence of two kinds of citizenship: “first class” citizenship, monopolized by the *q’aras* [Tr. *Q’aras* is an Aymara word for the elite that makes up 25 percent of the population], while “second class citizenship” is for the Indians. Given this hierarchy of Bolivian society, this discourse fights for recognition of the difference but so as to suppress it, promote equality and homogenization to achieve “first-class citizenship”, at least on the political level.

In this case, *difference* is not bandied about as warrantor of rights, as ensuring rights would require thinking about a multicultural kind of citizenship or claiming for collective political rights, differentiated kinds of citizenship, and pluralist political-institutional structures but equal political prerogatives before the State. *Difference* is here an intermediate step toward leveling, and thus the political horizon on which Katarism projects Indians is still that of the State kind of citizenship espoused by the ruling elites for decades. In a way, the distance between the modernizing discourse and that of revolutionary nationalism does not lie in the final objective—citizenship and the institutional framework for its exercise—but rather in the recognition of cultural plurality

as a requirement for achieving citizenship. This is precisely the contribution of the modern, liberal discourse to the issue of “peoples” and “ethnic groups.” It should not be surprising, then, that many Katarism figures that originated this discourse would later cooperate with the modernizing, multicultural proposals of the former nationalist party that climbed to power in 1993.

At the same time, in the eighties, this ideological current, closer to the peasant labor movement, would be more inclined to approximate the Marxist currents and even the predominant labor movement organized under the Bolivian Workers Confederation-COB. For example, Genaro Flores managed to form alliances with the Democratic and Popular Unity-UDP leftist front for the 1980 elections and some of their political leaders participated in President Siles Zuazo’s government.

In subsequent years, leaders of the Katarist faction sought to modify from the inside the organic composition of COB’s social representation, leading to one of the most important indigenous challenges of the workers’ left.

A third discursive variant of this Indianist movement would now be strictly national-indigenous. It was intuitively incorporated at the beginning by Indianist militants, activists, and theoreticians under the influence of Fausto Reynaga,⁴ who would fight for the establishment of an Indian Republic. In this discourse, Indians did not ask the State for the right to be citizens but rather stated that the Indians themselves wanted and should govern the State, which, precisely because of this Indian presence, ought to be another State, another Republic, as the existing State was a power structure erected on the basis of the exclusion and extermination of the Indians.

From this perspective, the Indian comes out not only as a political subject but also as a power, command, and sovereignty subject. The Indian’s very historical narrative that informs this discourse goes beyond the denunciation of exclusion, needs, and sufferings that characterize the culture-based reconstruction; it is a heroic, to a certain extent warlike narrative, punctuated by uprisings, resistance, contributions, cyclically reconstructed episodes of grandeur, that someday would be definitively reestablished by the “Indian revolution.”

⁴ Reynaga, Fausto. *La revolución de La Paz, 1970; La razón y el indio*. La Paz, 1978.

In this case, the Indian is presented as a political and social power project, a replacement for the republican regime of the *Q'ara* elites (whites and mestizos) that will be considered unnecessary in the pretended social model. At its initial stage, this discourse took the form of pan-Indianism, as it referred to a single Indian identity that covered the entire continent, with minor regional variants. This transnational view of this civilizing Indian structure may be considered imaginatively expansive because it overcomes the classical localized character of Indian demands, but at the same time shows a certain weakness in minimizing the differences among Indian groups and the different strategies of integration, dissolution, or resistance adopted by each indigenous nationality under the many republican regimes established since the last century.

At a second stage, an inner trend of this Indianist current, headed by Felipe Quispe and the *Ayllus Rojos* organization,⁵ would work with two contributions inherited from Reynaga. One was the recognition of a popular Bolivian identity resulting from centuries of truncated culture- and labor-determined miscegenation in different urban and rural zones. This would gain importance because, from the original Indianist standpoint, the “Bolivian” was merely an invention of an extremely small elite, whose role was to go back to its original European countries. From this new perspective, though, the forms of popular Bolivian identity, such as the workers’ identity, up to a certain point also a peasant identity in certain regions, emerge as collective subjects with which political alliances and mutual agreements would have to be made, among other arrangements. This would be the political meaning of the so-called “two-Bolivias’ theory.

This discourse’s second contribution is the specificity of the indigenous Aymara identity. Despite an effort to imprint on the Indian the characteristics of the various urban and rural sectors, there is a more precise, effective reading of this identity construction with respect to the Aymara world, not only because of the politicization of the Aymara language and territory, but also because of its forms of organization, its history, differentiated from that of the other indigenous peoples. Thus, the Aymara Indian is the one that is seen as the clear expression of a collective identity and as political subject, bent on self-government and autonomy. There is a close inter-relation between the reading of the historical

⁵ Quispe, Felipe. *Tupac Katari vive y vuelve carajo*. La Paz, 1989.

indigenous struggles for autonomy and the modern readings of self-determination of nations as conceived by critical Marxism and whose importance lies in the fact that it shifts the focus to specific territorial environments, to verifiable population masses, and to institutional power and mobilization systems that are more compact and effective than those of *pan-indianitude*. I can thus be said that, starting from this discursive formation, the Indian and Indianism evolve into a strictly national discourse—that of the Aymara nation. These two Indianist contributions as a power strategy took away the focus from the animosity of this current against some other Marxist currents, making room for a dialogue, tense as it might be, between this Indianist current and emerging Marxist intellectual currents that helped define, much more precisely, the direction of the struggle and the construction of political power through this Indianist strategy.

The second stage in the construction of the national indigenous discourse was that of State co-optation. It began in the late eighties, when intellectuals and activist of the indigenous movement were feeling great political frustration, as their attempt to turn the force of a unionized Indian mass into electoral votes did not achieve the expected results. This caused an accelerated fragmentation into seemingly irreconcilable currents in the Indianist movement, none of which managed to play a hegemonic coordinating role. Integration and internal competition in the liberal-republican power structures (party system, delegation of political will, etc.) would set some of the structural limits to the Indianist-Katarist reading, which tended to integration and to pacts. This was also a time when, in addition to society's greater permeability to this discourse, there occurred the first attempts to recast the proposals from the leftist Bolivian parties and intellectuals, but not with the intention of understanding these proposals but solely of using them as instruments in the pursuit of foreign electoral support and funding.

At a time when the whole society and the Marxist parties watched the brutal collapse of the identity and strength of the unionized working mass, the reworking of an ethnic discourse seemed an alternative option. Thus, the conceptual structure with which the decadent left would approach the construction of an indigenous discourse would not recover the entire logical structure of this proposal, as this would have required a dismantling of the colonial and avant-garde framework that characterized the left then.

Curiously enough, this was also a time of internal confrontation in the Csutcb, between the Katarist-Indianist, peasant-ethnic discourse and the barely

ethnicity-colored leftist discourse. Genaro Flores's defeat in the 1988 congress brought to a close a cycle of the Katarism-Indianism discourse at the Csub, opening the way for a long decade of predominance of de-politicized, culturally-colored versions of indigenous identity, often directly promoted by the State or nongovernmental institutions. Simultaneously with this retreat of labor and the electoral frustration, part of the Indianist militancy adopted more radical forms of organization, establishing the Tupaj Katari Guerrilla Army, in which the theoretical proposal of Aymara indigenous self-government and the bolstering of militarized structures in the altiplano communities began to take root, and, fifteen years later, influenced the organizational and discursive characteristics of the indigenous rebellions in the northern altiplano in the 21st century.

The MNR was to become the political party that would more clearly seize the meaning of the discursive formation of an indigenous nationalism, seen as a danger, as well as the weaknesses affecting the indigenous movement. Through the alliance with Víctor Hugo Cárdenas and a series of intellectuals and indigenous movement activists, the MNR would make into a State policy the rhetoric recognition of the country's multicultural reality, so that the Popular Participation Law triggered social ascension mechanisms capable of absorbing both the discourse and the action of a significant part of the increasingly dissatisfied indigenous intellectual camp.

Although enforcement of the 1994 Popular Participation Law, which decentralized administrative State functions in favor of municipalities, often contributed to a remarkable strengthening of local labor organizations that managed to project themselves at national elections, it can also be seen as a quite sophisticated mechanism of cooptation of local leaders and activities, who began to wage their struggles and shape their organizations in accordance with the municipalities and the indigenist instances expressly created by the State. This was to give rise to ethnic fragmentation, as well as encouraging the resurgence and invention of local indigenous ethnicities, *ayllus* [Tr. *Ayllus* are traditional organizational groupings and social structures of the Aymara in Bolivia], and indigenous associations separate from each other but vertically linked to an economy based on demands from and concessions by the State. Thus, the autonomous indigenous identity supported by the organizational structures of the "unions" established since the seventies, would be faced with a kaleidoscopic fragmentation of *ayllus*, municipalities, and "ethnic groups" identities.

This was the moment of rearrangement of the indigenous movement's internal forces and currents, of a speedy taming of the identity discourses to conform to the parameters established by the liberal State, the social disorganization, and the scarce mobilization of the indigenous masses. With the exception of the great 1996 march of protest against the National Institute of Agrarian Reform-Inra law, the main social protagonist's role in social struggles would shift from the Aymara altiplano to the *cocalera* zones of Chapare, where a peasant-type discourse would prevail, complemented by some cultural indigenous components that would gain force over time.

The third stage of this new Indianist cycle can be characterized by a *power strategy*; it began in the late nineties and early 21st century. This is when Indianism ceased to be an ideology that persists in the vestiges of domination and spreads as a protohegemonic view of the world and that attempts to compete for leading society, culturally and politically, to the neoliberal ideology that has prevailed in the last 18 years. Indeed, it can be said that Indianism is today the most important and influential, emancipating worldview in the country's political life, as well as the discursive and organizational nucleus of what we may call "the new left."

Regardless of whether the players in this reconstruction of the contemporary political axis accept the leftist label as an identity,⁶ in terms of sociological classification, the indigenous social movements, in the first place, and the political parties they have generated, have created an "antagonist relationship among composite parts"⁷ in the political universe, which can be perfectly represented by a spatial dichotomy such as "the left and the right." But this does not mean that now, as before, there is an identity; identities tend to self-description (Aymara, Qheswa) or to refer to origins ("ancestral nations") or the labor movement (the Coordinadora's "simple, working people").

The material base for this historical position of Indianism was the capacity of community uprising with which the indigenous communities would respond to an increasing process of deterioration and decadence of the peasant community structures and the mechanisms of social mobility from the country

⁶ As a matter of fact, strong Indianism never accepted being considered as leftist, as the traditional left replicated the anti-Indian and colonialist criteria of the political right.

⁷ Bobbio, Norberto. *Derecha, izquierda*. Taurus, Spain, 1998.

to the city, evident already since the seventies. The neoliberal economic reforms would dramatically affect the price system of the urban-rural economic exchanges. With the stagnation of the traditional agrarian productivity and the opening to the free importation of goods, the terms of trade, for centuries unfavorable to the peasant economy, drastically worsened,⁸ reducing the purchasing, savings, and consumption capacity of peasant families. This situation was aggravated by a shrinking urban labor market and a drop in the income derived from the scarce urban job opportunities that periodically helped peasant families to complement their income, and limited the urban-rural labor complementariness based on which peasant families planned their collective production.

As the internal and external social mobility mechanisms were blocked to the communities, after an accelerated migration to the cities in recent years, simultaneously with an increase in the double residence of populations of the rural zones that had conditions for relative productive sustainability (later to become the zones of the greatest indigenous-peasant mobilization), the beginning of uprisings and the spreading of the Indianist ideology coincided with the moment the economic liberalization reforms affected the basic production conditions of the agrarian and semi-urban communities (water and land).

Differently from the situation studied by Bourdieu in Algeria,⁹ where the deterioration of the traditional society gave rise to a disorganized proletariat, caught up in patronizing networks and deprived of political autonomy, the increasing deterioration of the traditional economic structure of rural and urban society resulted in the strengthening of community ties as primary security and collective production mechanisms. This situation and the ideological vacuum produced by the lack of prospects of a modernizing future made possible the spreading of the Indianist ideology, which could provide a reason for the collective drama through the political coordination of precisely the quotidian experiences of social exclusion, ethnic discrimination, and the social community's memory of Indian-peasants left to their sort by an entrepreneurial State, bent exclusively on potentiating the minute enclaves of transnationalized modernity of the economy. Indianism's politicization of culture, language, history, and skin color, precisely the elements utilized by

⁸ Pérez, Mamerto. *Apertura comercial y sector agrícola campesino*. Cedla, La Paz, 2004.

⁹ Bourdieu, Pierre. *Algerie 60. Structures économiques et structures temporelles*. Les Editions de Minuit, Paris, 1977.

urban “modernity” to block and legitimate the contraction of the mechanisms of social inclusion and mobility, would be the tangible components of a community-oriented emancipation ideology that would rapidly erode the neoliberal ideology, which was then reaping frustrations owing to the profusion of promises it had made when it imposed itself. Simultaneously, Indianism had managed to gather a cohesive force of a mass susceptible to being mobilized, for both insurrection and elections, and to polarize the political-discursive area, taking hold as an ideology with State projection.

This *Indianism as power strategy* has today two currents: a more moderate one (MAS-Ipsp) and a radical one (MIP-Csutcb). The moderate one involves the Chapare peasant unions, opposed to the eradication of the coca plantations. Using a discourse more oriented to the peasants, which has become more ethnic in recent years, the *cocalero* unions have established a wide range of flexible, pluralist alliances as an electoral “political instrument,” which has permitted particularly the agrarian unions to hold positions in the local government and have a significant parliamentary representation. Advocating a project for the inclusion of indigenous peoples in the power structures and placing greater emphasis on an anti-imperialist posture, this current can be defined as leftist-Indianist in view of its capacity to incorporate the Marxist, national-popular memory formed in previous decades. This has won it greater urban, multisectoral, and pluri-regional acceptance, making it the main parliamentary political force of the left and the country’s major municipal electoral force.

The Indianist current, on the other hand, has a project tending to the thorough *indianization* of the political power structures, under which, according to its leaders, it is the “mestizos,” in their capacity of minorities integrated on an equalitarian political and cultural basis into the indigenous majorities, who should negotiate forms of inclusion in the State. Although the peasant issue is always a part of this Indianist discourse, all the demands are formulated and put forward in the interest of ethnic identity (the original Aymara-Qheswa nations). It is thus a political project that connects directly to the hard core of the Indianist thinking of the formative period (Reynaga) and is the heir of the criticism of and distance from the old Marxist left and its culture, which still exerts a passive influence in mestizo urban sectors. This is why this current has established itself only in the strictly Aymara, urban-rural world and can thus be considered as a kind of national-Aymara Indianism.

Notwithstanding their differences and confrontations, the two currents have had similar political trajectories: (a) they have their organizational basis in the agrarian indigenous unions and communities; (b) the “parties” or parliamentary “political instruments” are a result of negotiated coalitions of peasant unions and, in the case of MAS, urban-popular associations, that join together to gain access to parliamentary representation, and with this the binomial “union-masses/party” so typical of the old left is put aside owing to an interpretation of the “party” as a parliamentary extension of the union; (c) their leaders, intellectuals, and higher echelons (particularly in the MIP) are Aymara or Qheswa Indians and bona fide producers; accordingly, their incursion into politics takes the form of both class and ethnic self-representation; (d) ethnic identity, which is integrationist in some cases and self-defining in others, is the discursive basis of the political project through which they confront the State and challenge the rest of society, including the salaried workers’ world; (f) although democracy provides the conditions for the expression of their claims, there is an intention to make democracy broader and more complex, based on the application of forms of nonliberal organizational logic and on a pretended power project based on a type of joint government by nations and peoples.

What remains to be known about this diverse manifestation of the Indianist thinking is whether this is a worldview that will lead to a dominant concept of the State, which would require the conversion of the social forces and leaderships into forces of political sovereignty in the direction of the State, or whether, as it seems, owing to the organizational weaknesses, political mistakes, and internal factionalism of the claimant communities, it will be an ideology of some political players who will only moderate the excesses of a State sovereignty exercised by the political subjects and social classes that have always been in power. ■■■

Twenty years of democracy

José Sarney *

This year marks the twentieth anniversary of the redemocratization of Brazil. A number of ceremonies have been held to commemorate a milestone in the coming of age of Brazil's institutions. Twenty years ago, however, the sweeping changes under way were not confined to Brazil. At one of the commemorations I had the pleasure of renewing the acquaintance of former Presidents Raúl Alfonsín and Júlio Maria Sanguinetti, and together we recollected the shared experiences that altered the history of our region of the world.

The first feeling that surfaces is one of contentment at seeing that the dreams we sowed then – and it seems a long time ago now – have come to fruition and are still alive and flourishing in the souls of our peoples.

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The Chinese have a proverb about wisdom being age old. They say that “when you go to drink water from a well, you should always stop to remember the person who first dug it.”

One of the hallmarks of the times in which we live is doubtless the compression of time. Just as myriad events can be accumulated in something as small as a computer chip, all the events that reverberate in today’s communications society come to us in such manner and at such speed that we get a distinct impression they are already somewhat remote.

In 1985, however, we were still in the last throes of the Cold War. In South America history was in convulsion. Politicians rarely govern the time in which they govern. Some have the good fortune to govern in times of plenty. Others govern at junctures when all that can be done is correct the course. But times when history is in convulsion call for men who can rise to the challenge of taking decisions in murky environments fully aware that their acts, whose consequences are often dire, may engender a change of course or a serious setback.

In 1985, Brazil was making ready to end its military regime and transfer power to a civilian president. I was set to become Tancredo Neves’ Vice-President. I had prepared myself for the task by reading everything American literature had published about the Vice-Presidency. I was particularly drawn to a piece by Walter Mondale, who had told President Carter that in his opinion the Vice-President should be thoroughly discreet and be prepared simply to assist the President when and should crises arise.

In conversation with Tancredo Neves, who was by then President elect, I had expressed my desire to be a weak Vice-President to a strong President. I kept myself thoroughly discreet. I took no part in the forming of the Cabinet, I had no hand in shaping the Government’s programme, I did not personally witness any of the acts that led to the assembling of the new government, partly because I felt my presence might be interpreted as interference.

Suddenly, on the night of 14th March 1985, something utterly unexpected came to pass. Tancredo was taken ill and rushed to hospital. None of us Brazilian politicians had the slightest idea how to handle the situation, how to weather the crisis. Today it is hard to gauge just how beset with perils those moments actually were.

We had just three or four hours to overcome all the political, institutional and logistical problems that lay before us and somehow patch together a solution. It was on my shoulders that the solution eventually came to rest.

A sleepless night it was. When the legal conundrum of the succession arose, since it was me that was at issue, I asked to be excused saying that I did not wish to assume the Presidency other than as President Tancredo Neves' running mate. I went home. At three in the morning came a phone call from General Leônidas Pires Gonçalves, Minister designate for the Army and an old friend of mine. He said: "Sarney, all the constitutional and political snags have been overcome, the Supreme Court have met informally during the night and are of the opinion that the Vice-President must be sworn in. The politicians have come to an agreement, and you are to take office as President at 10 this morning."

That was not what I had wished. To my mind, there would be great nationwide frustration if, on the day the Nation was preparing to acclaim Tancredo Neves, the Vice-President were inaugurated in his place. In reply to the arguments I raised, General Gonçalves shot back: "Sarney, we've already got enough problems. Good night, Mr. President."

I was not even informed of the details of the inauguration ceremony ahead of me. I knew what the Vice-President was supposed to do, a peculiar protocol since President Figueiredo had made it clear he did not want at any point to come face to face with his own Vice-President, Aureliano Chaves. In its wisdom, Itamaraty (the Brazilian Foreign Office) had contrived things in such a way that the Vice-President would enter from one side, the President from the other, separated by the expanse of the entire Presidential Palace; one was to go round the back while the other went round the front, so their paths would never cross.

Two metres behind the incoming and outgoing Presidents, I was to occupy a solitary chair behind Aureliano Chaves.

All those intricate arrangements were shelved that night. Then and there, the feats of imagination and hard work that had gone into making them were lost for good.

Two phases must be distinguished in the transition period. First came the phase of Tancredo Neves' martyrdom. It never crossed anyone's mind that Tancredo might die. Within a week he would be ready to take up the reins

of government. Perhaps that was what kept me going through those difficult days. It should be said that on the evening of the day of the inauguration ceremony I had wanted to cancel the festivities Brazil had planned in celebration. Speaking on behalf of the family, Tancredo's wife, Risoleta Neves, said: "No way. We are not going to cancel a single thing. Let's have the party, and carry on as if Tancredo were presiding over the celebrations."

His family behaved with exceptional grace. It is not at all easy for a family to lose someone of the stature of Tancredo Neves at a time like that and to bear up with such dignity the way they did.

In the following days Tancredo Neves' condition worsened. The prospect of his death drew ever closer, and the burden of responsibility that weighed upon me increased exponentially.

When Tancredo Neves' death brought the tragedy to its height, I was obliged to face the reality of taking on the Presidency of a country as complex as Brazil was at that time, without detailed knowledge of the plan of government, without knowing what pledges Tancredo had made to whom, and without even being acquainted with half the Cabinet.

I hailed from a small state, a poor state, one with scant access to the country's intelligentsia. I took my son-in-law to assist me in the humdrum business of administration.

I was perfectly aware what it had taken to forge the transition to democracy, and I understood full well the import of the years that lay ahead.

The preliminary process of the transition can be divided in two parts: the first consisted in preaching the need to restore democracy, of awakening the nation's conscience. That phase owed most to the luminary experience of Ulysses Guimarães. Spearheading the movement, he succeeded in mobilising public opinion, stoking up national conscience, convincing politicians of the need to raise the democratic banner, and rallying forces around that ideal.

The other part was the political engineering of the transition, along the lines Brazil had traditionally followed in moments of crisis. I refer to the capacity to find common ground where consensus can be forged and sudden breaks with the past or violent remedies avoided.

That is how Brazil's Independence was made: the Brazilian temperament took a Portuguese king and transformed him into a Brazilian monarch. Dom

Pedro I abdicated. We took his son, kept him in Brazil and gave him Brazilian tutors. Then came the Republic, conceived without the people. Republicans and monarchists joined forces and the country proceeded in its determination to promote conciliation. That was the temperament Tancredo Neves embodied. He himself had declared: “My role model is Honório Hermeto Carneiro Leão, the Marquis of Paraná,” who had been the President of the Conciliation Cabinet in the days of the Empire.

Tancredo Neves, then, was the man History had honed for that juncture. He was a born conciliator. He inspired trust in all the forces on the chessboard. He inspired trust among those to right and left of the political divide as well as among the military. He had, in brief, a capacity for forging loyalties.

It was that exceptional skill that enabled him to build towards victory in the Electoral College. He mustered forces around him, myself included, and plotted the tricky course from authoritarian regime to democratic regime, avoiding sudden severances *en route*. He was the master architect of the entire process.

History had steeled Tancredo Neves for the task. He knew how to tackle crises. This can be gleaned from two exemplary incidents. When President Getúlio Vargas committed suicide, Tancredo Neves, his Minister of Justice, travelled to Vargas’ hometown São Borja in the deep south and spoke at his graveside. At that moment of national commotion his words were as follows: “Let not Getúlio’s blood, let not Getúlio’s martyrdom serve to divide the country.” Rather than inciting the rabble, he appealed to national reconciliation.

When President Jânio Quadros suddenly resigned and a crisis ensued over Vice-President João Goulart taking his place, it was Tancredo Neves who, with his habitual skill, managed to persuade the military to back down, assuring them that a political solution would be found. The military lost the initiative, and Tancredo Neves set about negotiating Goulart’s return to power under what was then labelled a parliamentary regime. It was not a proper parliamentary regime but rather a stop-gap remedy Tancredo Neves had devised.

This was the man who bowed out now, leaving no clear roadmap to guide us.

Brazil has had Presidents chosen and branded for ousting. Some have actually been deposed. Others have had the capacity to survive and acquire legitimacy.

Arthur Bernardes struggled against military revolts and underhand moves but saw his way through with a strong hand. He kept the country under a State

of Siege and introduced many harsh measures but he did not let Democracy in the fledgling republic languish in his hands. He postponed the rift. The 1930 Revolution first raised its head in 1922 during his administration, but Bernardes held out and the revolution erupted after he had left office.

Another President on the verge of being deposed was Getúlio Vargas in his second mandate. Carlos Lacerda's UDN party and the Armed Forces waged an unrelenting campaign against him. Vargas, who had shown considerable dexterity in the 15 years in which he ruled as a dictator, proved incapable of governing in an open political system. He committed a string of errors that forced his back against the wall and then, in a stroke of political genius, he redeemed himself by putting a bullet through his chest. Had he not committed suicide at that point, Vargas would have gone down in history as one of Brazil's most unpopular rulers. That moment *in extremis* altered the course of history and he rose from the ashes. It is there in the testimonial letter he left behind him: "I depart this life to take my place in History." He knew he was not then a part of History. He gave his life to secure himself a place in it.

João Goulart was likewise billed for ousting. He had flimsy support. His party was fragile. Various left-wing factions were squabbling to provide their backing. The military were ranked against him. The political temperature reached boiling point with the Sergeants' Revolt followed by the Corporals' Revolt, and Goulart was eventually deposed.

In my case, I had no political party, no cabinet, no popular backing. My fate was apparently sealed. I had to work out a strategy, and the course I took was to seek legitimacy. That meant immediately pressing ahead with unequivocal opening up of the democratic regime. Tancredo Neves might have been able to procrastinate, put off convening the Constituent Assembly or legalising hitherto clandestine political parties. He could delay whatever he wanted. I did not have that choice.

I decided instead to open wide the doors of the democratic regime to prevent opposition forces mustering to depose the President, thus obliging them to occupy their rightful place in society.

We did away with indirect elections and embarked on sweeping away what was called the "authoritarian refuse". Direct elections were called for the state capitals that very year. It was a bold but unavoidable move, allowing political forces repressed for twenty years to manifest themselves openly.

The most daunting problem was securing Democracy. I could not let the democratic process languish in my hands.

President Juscelino Kubitschek, whose administration accomplished virtually everything it could in Brazil, confesses: “The greatest challenge I had to face was preventing democracy from languishing in my hands.” He was another of those destined for ousting who managed to survive. He had nothing. The Armed Forces were against him. In Congress, Carlos Lacerda clamoured for a coup d’état. Resorting to his political acumen and democratic determination, Kubitschek followed the example of Dom João VII, who departed Portugal as General Junot’s troops swept through Portugal: he left Rio de Janeiro and moved his government to the new capital, Brasília. Kubitschek went on to face down two military rebellions (at Aragarças and Jacareacanga), won the day, and transmitted the Presidency to his elected successor.

I too was determined that the democratic process should not succumb on my watch.

Shortly after I took office, the “Elections now” and “He must be removed” campaigns took to the streets, with backing from political parties. I knew that if they prospered, it would be a serious setback because the country’s political organisation was not robust enough to resist such a blow.

In my dealings with the military, I established two ground rules that proved invaluable. I informed the Armed Forces ministers in the cabinet that I had set two guidelines for my administration. Firstly, the transition would be made in collaboration with the Armed Forces, not against them. This was a way of fulfilling Tancredo Neves’ pledge that there would be no retaliation. Secondly, as Commander-in-Chief of the Armed Forces it was my duty to look to those under my command. So, if the troops had any demands to voice, there was no need for public demonstrations because the President himself would be the first to take them up.

These ground rules immediately put the country at ease. The Armed Forces retired to their barracks, relinquished militarist ambitions, and submitted to regular professional relations. That effectively dispelled a phantom Latin America has known all too well: the compounding of political power and military might.

Social policy was another pressing issue. I immediately introduced travel vouchers, food vouchers and basic pharmacies. I extended to civil service

employees the bonus wage (known as the 13th salary) paid to workers in the private sector. These measures began to make in-roads on pockets of poverty in Brazil.

Meanwhile, there was an urgent need to recover and legitimise Brazil's and the Brazilian President's standing in the international arena by launching a plan that was to prove of major importance to the country.

I was fully aware that our relations with Argentina had been marked by contention. We had inherited from the Iberian Peninsula the antagonism between Portugal and Spain. Both countries felt that gaining control of the Plata basin meant gaining the upper hand in South America. That was the origin of a rivalry fuelled by History, which was, nonetheless, basically groundless. Instead, our approach to Argentina was inspired by a comment made by Argentine President Sáenz Peña: "Nothing sets us apart, everything binds us together."

Our economies were patently complementary. So, in July 1985, I summoned Foreign Minister Olavo Setúbal and dispatched him to Buenos Aires to negotiate with the Argentine Foreign Ministry an immediate change to the tone and form of relations between our countries. We had to build something new. We set a meeting with President Alfonsín at the Iguassú Falls on the border between the two countries for November. The record of this encounter is the historic photograph of the Presidents of Argentina and Brazil standing in front of the spillway of the Itaipu hydroelectric plant. The Itaipu hydroelectric scheme was a highly sensitive issue in Argentina but Alfonsín, as a true statesman, had the courage to face it full square. At that point we made an agreement that was to change the status and history of relations between the countries in the Southern Cone of South America.

In August I had already visited Montevideo at the invitation of President Júlio Sanguinetti, who proved to be an exceptional partner. Geographically speaking, Uruguay is a small country but it grows substantially in stature with a man like Sanguinetti at the helm.

In the imagination of our countries, Alfonsín, Sanguinetti and I have gone down as the "Three Musketeers" of the grand cause of regional integration.

Initially, we set about abrogating and smoothing over the sources of friction between our countries.

The first was mutual distrust in the nuclear arena. Truth be told, the Argentine military were planning to develop an atomic bomb, and the Brazilian military had their sights set on the same dream.

Our first move was to include in the Iguassú Minutes an agreement to settle the nuclear dispute in its entirety. That gives the full measure of Raul Alfonsín, a great statesman of the Americas.

He invited me to visit the Pilcaniyeu atomic plant. Not alone, but accompanied by a team of our nuclear technicians, to see first hand what was being developed there. Nowhere in the world had that been done. My mention of this in a speech before the United Nations met with looks of amazement and disbelief. But that is precisely what had taken place in South America.

In return, I invited President Alfonsín to visit the Brazilian Navy's nuclear installations at Aramar, where we were secretly developing a centrifuge technique for uranium enrichment. A commemorative plaque is there to this day. It reads: "This Plant was inaugurated by the President of Argentina, Raul Alfonsín." By then it was clear that any stumbling blocks between our countries in that sphere had been removed.

We then turned our attention to bringing about our ideal of a Common Market. We dreamt of forging a Common Market on European lines, envisaging not just a free trade area but a much more far-reaching project through which we would work toward the ultimate objective of political, economic, physical and cultural integration.

The creation of a regional clearing bank and a single currency were objectives included in the Buenos Aires Treaty. We summoned a commission of congressmen to oversee the integration processes. Our dream was now beginning to be fleshed out.

The problems currently besetting Mercosur make one wonder from whence such difficulties stem. The original plan was to progress towards integration by sectors. A time frame was set for eliminating disparities and developing the overall process in a secure, steady fashion. Subsequent administrations, however, decided to abandon this strategy and instead to concentrate exclusively on implementing the free trade area. The grand project was reduced to plain commercial competition. "Zero tariff" became the buzzword. The resulting disorganisation engendered today's deadlocks.

Presidents Lula and Kirchner have agreed to revive the initial idea. That does at least kindle the hope that the integration process will revert to its former conception and thus ensure that trade differences will be no more than passing conjunctural snags.

The integration of our region is such a grand, generous and compelling idea that it will progress regardless of us all and whatever the hurdles. We are bound for the same destiny as Europe. In some years' time, we will have forged a similar common space in South America.

The Brazilian media have blazoned the perception of the eighties as a lost decade. The political, institutional and social progress achieved then, though, irrefutably demonstrate that such a view derives from a blinkered, misguided outlook. If economic indicators are examined with a more open mind, certain facts will come to the fore.

When my term in office came to a close, the unemployment rate stood at 2.36%. That was the lowest level ever recorded in Brazilian history. Indeed, the average rate for the duration of my five-year administration was 3.25%.

In dollar terms, Brazil's GDP expanded 119% over that five-year period, with average annual growth of 17%. The country did not experience recession. That was something I had insisted on: the government would falter if we slid into recession. It was an arduous task entailing considerable costs, but recession was averted in Brazil at that time.

We bequeathed the country a trade surplus of 67.2 billion dollars. Only in recent years has the trade balance recorded a surplus again.

Per capita income increased 99%. This is a figure that deserves to be highlighted: at the end of my mandate in 1989, per capita income was 2,923 dollars. Today it stands at 2,789 dollars.

These are the figures for that period, the statistics compiled by the Getúlio Vargas Foundation, readily available on the Internet.

How, then, can it be claimed that the decade in which Democracy was restored, that witnessed the birth of regional integration and whose economic figures have yet to be repeated was a lost decade?

No doubt, I made plenty of mistakes but anyone who has been in government knows the circumstances under which one governs. You can only seek to do your best.

Twenty years ago I came to office with my eyes trained on the future, endeavouring to make out what lay ahead. Today I look back and survey what has happened over the past two decades. Democracy is consolidated. Mercosur is a reality and a hope for the future. Latin America is emerging as a region where peace prevails. ■■■

Version: Mark Ridd.

Election prospects in Chile. Are we heading to a fourth ‘Concertación’ government?

Carlos Huneeus *

For the fourth time since the opposition’s victory in the 1988 plebiscite, which paved the way for the end of general Augusto Pinochet’s military regime (1973-1990) and the transition to democracy, Chileans will elect a new president next December. In the three presidential elections and four parliamentary elections since 1990, the *Concertación de Partidos por la Democracia* (Coalition of Parties for Democracy) won the majority of votes and elected Patricio Aylwin (PDC) for the 1990-1994 term, Eduardo Frei Ruiz-Tagle (PDC) for the 1994-2000 term, and Ricardo Lagos (PS/PPD) for the 2000-2006 term. However, it failed to win a majority in the Senate, as the latter has a mixed

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composition imposed by the previous regime—its membership includes appointed senators, most of whom have acted as a bloc with the opposition.

Presidential elections will be held simultaneously with parliamentary elections, as was the case in 1989 and 1993, when the entire Chamber of Deputies was renewed, as was half the Senate. This simultaneity is a peculiarity that forces the political parties to co-ordinate their campaigns for the two branches of government, and their greatest challenge is the nomination of the presidential candidates. The opposition has nominated Joaquín Lavín, as in the previous elections, in which the candidate did very well, coming in 30,000 votes shy of defeating the *Concertación* candidate; this made a runoff election necessary, which was won by Lagos. The *Concertación* has two female pre-candidates: Michelle Bachellet (PS) and Soledad Alvear (PDC), former Minister of Defence and Foreign Minister, respectively, one of which will carry the nomination. There will be a third candidate, nominated by the communists and the ecologist and humanist movements, which have been encouraged to present a candidate in view of their good results at the municipal elections of October 31, 2004, when they carried 9.4 percent of the votes.

This article reviews Chilean elections in the context of the country's political development. It has three parts. The first part briefly presents the party and electoral systems; the second reviews the peculiarities of the political process, focusing on the advantages and challenges of a coalition that has been in power for three consecutive presidential terms, promoting policies that have had continuity, such as its human rights policy; the third examines prospects for the upcoming electoral contest.

A moderate pluralist party system

When democracy was re-established in 1990, the parties that joined the National Congress represented both continuity and change in relation to the system that existed up to the 1973 military coup.¹ Three of them were historical parties—the Christian Democratic Party-PDC, founded in 1938 as the “Falange

¹ Timothy R. Scully. “Reconstituting Party Politics in Chile”. In: Scully, T. R. and Mainwaring, S. *Building Democratic Institutions*. Stanford: University Press, 1995, pp. 100-137. For a historical review of the parties, see Samuel J. Valenzuela: “Orígenes y transformaciones del sistema de partidos en Chile.” In: *Estudios Públicos*, no. 58, Fall 1995, pp. 5-77. On the continuities of voters’ preferences and of the parties, see Valenzuela, S. J., and Scully, T. R. “Electoral Choices and the Party System in Chile: Continuities and Changes at the Recovery of Democracy.” *Comparative Politics*, 29:4, July 1997, pp. 511-527.

Nacional"; the Radical Party, founded in the late 19th century and soon thereafter renamed Radical Social-Democratic Party-PRSD; and the Socialist Party-PS, founded in 1933. In addition, new agglomerates emerged: the centre-left Party for Democracy-PPD, established in 1987 specifically for the plebiscite, and two on the right—the Independent Democratic Union-UDI and the National Renovation Party-RN, founded in 1983.

A notable change was the fact that the Communist Party-PC won no seats. It had had considerable voter support before the coup and carried 16.2 percent of the votes in the March 1973 parliamentary elections. It also had a major participation in the political process that allowed the left to win the presidency with Salvador Allende.² It was at the time the third largest Communist party in the West, after the Italian and the French PCs.

The historical parties' continuity was a result of major programmatic strategic, and leadership changes. The PDC put aside its "own way" policy, which allowed it to arrive at the Moneda Palace but isolated it from the other parties, as it did not seek alliances that might have permitted it to govern in coalition with the Eduardo Frei Montalva Administration (1964-1970). Since its opposition to authoritarianism, it has opted for a strategy of co-operation with other centre-left and leftist parties, a stance it has maintained since democracy was re-established.³

The PS underwent a major programmatic renewal, discarding Marxism and adopting a new social democratic orientation, close to Spanish socialism. Some of its most prominent figures, who have been parliament or cabinet members, were leaders of small leftist groupings that emerged from the PDC-PR split in the 1960s.

The right, although through different parties, resumed the historical bipartisanship, which lasted from the mid-19th century until 1965,⁴ when liberals and conservatives dissolved after their defeat in the 1964 presidential and in the 1965 parliamentary elections. The following year, they founded the National Party, which dissolved immediately after the military coup.

² The PC lost popular support because, in opposing authoritarianism, it chose violence, which was rejected by the democratic opposition as it served Pinochet's ends, and also because at the 1988 plebiscite it called upon the people to vote "NO." No party invited the PC to join the *Concertación*. The PC is excluded from parliament, as well as from the binominal system, which raises strong barriers against its winning a seat.

³ Huneus, Carlos. "A Highly Institutionalized Political Party: Christian Democracy in Chile." *In*: Scott Mainwaring and Timothy S. Scully, Editors. *Christian Democracy in Latin America*. Stanford University Press, 2003, p. 121-161.

⁴ Valenzuela. "Orígenes y transformaciones del sistema de partidos en Chile."

The UDI was founded by the leaders of the “*Gremial Movement*” (known as the *Gremialists*), founded in 1965 at the Catholic University through the initiative of Jaime Guzmán, a law student, and which managed to win a large following within the student movement. This movement carried out an intense activity in opposition to the Allende government and supported the new 1973 rulers, holding leading positions in various agencies of the central government and in the mayorship of numerous municipalities. Guzmán was general Pinochet’s main civilian official and had active participation in the drafting of the 1980 Constitution.⁵ These power factors made the *gremialists* the most powerful civilian group in the authoritarian regime and provided a basis for the construction of a party that had leaders and militants throughout the country. In democratic times, it defended the military regime and the maintenance of Pinochet as Army Chief and waged fierce opposition until halfway through the third Administration. Since the late 1990s, it has adopted a policy of confrontation vis-à-vis the PDC, in an effort to take away votes from it. It is the only Chilean political party that has managed to raise its voter support from 14.5 percent in 1989 to 25.1 percent in 2001, which made it the country’s winning party in the 2001 parliamentary elections, thereby displacing the PDC. It was not able to repeat this success in the 2004 municipal elections, when the PDC managed to weaken it and reassert itself as the leading party, which it had been since the 1963 municipal elections.

⁵ For an analysis of Guzmán and the *gremialists*’s role, see: Huneeus, C. *El régimen de Pinochet*. Santiago: Editorial Sudamericana, 2000, chap. 7.

Table 1 - Returns of the parliamentary elections: votes for Deputies, 1989-2001, in percentages

Party/Year	1989	1993	1997	2001
PDC	26.6	27.1	23	18.9
PPD	11.5	11.8	12.9	12.7
PS	9.1	12.5	11.9	10
PRSD	3.9	3.0	3.1	4.1
RN	19.5	17.5	17.6	13.8
UDI	14.5	15.0	17.2	25.1
Independent Right	0.2	0.7	1.1	5.3
UCC	--	3.2	1.2	--
Greens	0.2	--	--	--
Humanists	0.8	1.01	2.9	1.1
PC	5.3	5.0	6.9	5.2
Other	7.1	1.5	1.6	3.7

Source: Based on data provided by the Electoral Registry Directorate, supplemented by press records to identify the party of the independent candidates in the 1989 elections.

The RN was founded by leaders who had belonged to the PN and who had a less active participation in the military regime, many of whom had taken part in the semi-opposition.⁶ Although it supported the “SI” in the 1988 plebiscite, it distinguished itself from the UDI, as it promptly acknowledged the victory of the “NO” on the dramatic night of October 5, even before government authorities did so and while the UDI kept silent. Since the reestablishment of democracy, it has adopted a policy of firm support for democratic consolidation, condemned the violation of human rights, and supported the government in some important legal initiatives, such as the 1991 tax reform, which generated resources to finance an active social policy to combat extreme poverty. Although it joined the UDI in the Alliance for Chile, the competition between the two has been quite intense, owing to their political differences and the personal trajectories of their respective leaders.

⁶ Linz, Juan J. “Opposition to and under an Authoritarian Regime: Spain.” In: Dahl, Robert A, Editor. *Regimes and Oppositions*. New Haven: Yale University Press, 1973, p. 171-260.

The UDI and the RN did better than did the PN before the fall of democracy: in 1989, the two won 34.2 percent of the vote, a figure much higher than the PN's 21.1 percent.

The existence of five and a half parties represented in the parliament, an electoral competition that tends toward the centre, the discarding of maximalist programmatic stances, and the leaders' willingness to negotiate and compromise have created the conditions for endowing the party system with moderate pluralist features.⁷

The electoral system and its implications for the political system

The political system is dominated by two political alliances—the *Concertación* and the Alliance for Chile [*Alianza*],⁸ which compete in the presidential, parliamentary, and local elections, accounting for 85 percent of the votes in the municipal elections and for more than 90 percent of the votes in the parliamentary elections. In the parliamentary and municipal elections, the PS and the PPD agreed not to allow competition between their candidates, while the PDC has gone a separate way, with its candidates running against those of the PS/PPD.

The existence of the two coalitions is not the outcome simply of the electoral system. It is due also to Chile's political development conditions since before the authoritarian regime. These featured extreme polarisation and confrontation that, in turn, led to the collapse of democracy, and to the conditions in which the military regime held sway, dividing the country into friends and enemies, the latter group encompassing all opposition forces.

Concertación has a long common history. It began with the defence of political detainees just a few days after the military coup and continued through the work of various organisations, which allowed the leaders to establish political bonds of confidence that were useful in overcoming differences.⁹

⁷ Sartori, Giovanni. *Partidos y sistemas de partidos*. Madrid: Alianza Editorial, 1980.

⁸ The name Alliance for Chile was adopted at the 1999 presidential elections. In the two previous elections, the right had run under other names.

⁹ The main organisations were the Constitutional Studies Group, known as the "Group of 24," in 1978; the Democratic Alliance, in 1983; and the *Concertación de Partidos por la Democracia* [Coalition of Parties for Democracy], in early 1988.

The presidency grants major institutional incentives to the coalition, so that presidents often enjoy a larger support than does the government itself.

The *Alianza* also has historical roots. Its leaders and parliamentarians participated in the military regime. Indeed, 93 percent of UDI deputies and 68 percent of RN deputies elected in 1989 had held governmental positions during that period. Although the two parties have different views about the regime's human rights violations, which the RN condemned, they both defended its economic reforms. They also have a long experience of confrontation with the PDC and the leftist parties, supported by a long anticommunist tradition on the right.

Thus, binominalism facilitates government and opposition coalitions but is not their root cause.

The Chilean Congress is bicameral. The Chamber of Deputies has 120 members, elected for four years, two for each of the 60 electoral districts. The Senate's composition is mixed. Only 38 senators are elected, two for each of the 19 districts (there were 13 under the 1980 Constitution but their number was raised by the 1989 constitutional reform). Nine senators, dubbed "institutional" are appointed (four by the National Security Council, three by the Supreme Court in separate elections, and two by the President of the Republic). Furthermore, there is one senator-for-life, former President Frei Ruiz-Tagle.¹⁰ Senators are elected for eight-year terms, and half the Senate is renewed every four years, at elections that are held simultaneously with elections for the Chamber.

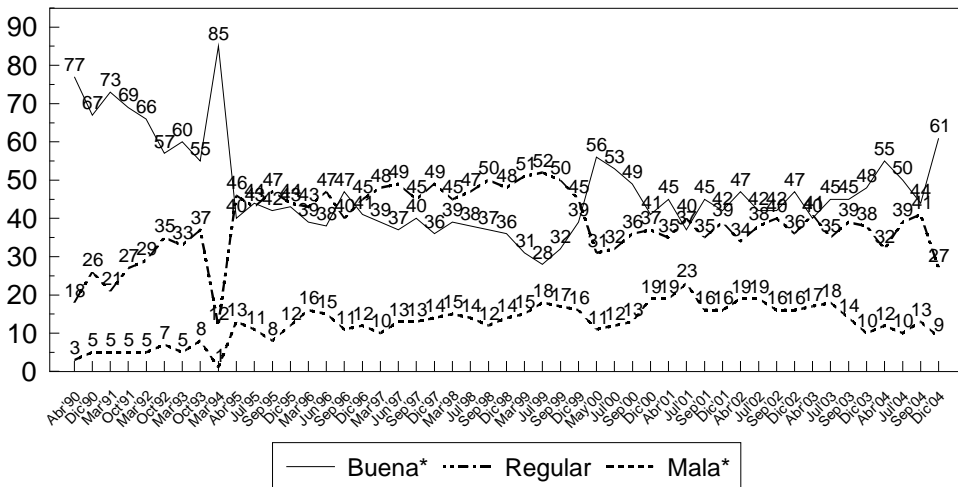
The 1925 Chilean Constitution permitted the election of a president with a minority of votes if the full Congress ratified such an electoral result.¹¹ Instead, the current, 1980 Constitution requires the winner to achieve the absolute majority of votes, and runoff elections to be held if such an absolute

¹⁰ A constitutional reform bill is under negotiation between *Concertación* and the *Alianza* to do away with appointed and for-life senators, so that all members of the senate will be elected. (Editor's note: the constitutional amendment was approved by the Chilean Congress on 16 August 2005, and is expected to be signed by President Lagos on 17 September.)

¹¹ This has occurred in four of the nine presidential elections since the 1931 fall of the Ibáñez dictatorship: in 1946, 1952, 1958, and 1970, when Salvador Allende (PS), the Popular Unity candidate, became President. Allende was elected with PDC votes, after he signed on to a "Democratic Guarantees Statute", which entailed a constitutional reform to strengthen the autonomy of the political and military institutions.

majority is not achieved in the first round. In its first elections, *Concertación* won in 1989 with Patricio Aylwin (PDC), who received 53.8 percent of the vote, and in 1993, with Eduardo Frei Ruiz-Tagle (PDC), with 54.8 percent of the vote. The third time, in 1999, Ricardo Lagos won the runoff elections with 50.27 percent of the vote. All three presidents have enjoyed a high approval rate, which is extraordinary, as the coalition has been in power for fifteen years. The support enjoyed by Lagos is exceptional, in that the citizens' support is rising at the end of his term, breaking away from the natural tendency governments have of receiving increasingly less support as they approach the end of their term.

Graph 1 - Opinion regarding presidents Patricio Aylwin, Eduardo Frei, and Ricardo Lagos*, 1990-2004



Question: What is your opinion regarding President Patricio Aylwin/Eduardo Frei Ruiz-Tagle/Ricardo Lagos? *Sum of good and very good; poor and very poor.

Source: Barómetro CERC. December, 2004

At the 1990 presidential elections, the opposition was divided and only in 1999 did it manage to run with a single candidate, which gave a great impetus to the election campaign at a particularly adverse moment for the coalition in power.

The electoral system is binominal, with two seats for each district, and was established by the authoritarian regime, which did away with the proportional representation system that had existed until the military coup and that best fitted the Chilean society's cleavages, as well as a multiparty system. In the 1960s, there were six relevant parties, and centrifugal tendencies made the system a case in polarised pluralism, according to Sartori's typology.¹²

Binominalism was regulated after the 1988 plebiscite, when it became clear that the right would be in a minority in the 1989 presidential and parliamentary elections, with a view to alleviating its electoral weakening. It thus favours the first minority, which can secure half the seats with 33.5 percent of the vote. To secure a majority of seats, a slate must capture 67 percent of vote.¹³ Accordingly, the system cannot be classified as a majoritarian system, not so much because it does not favour the majority but because it actually hurts it, as even 66 percent of the vote will secure only 50 percent of the seats. Nor can it be considered a proportional system, as it distorts representation, although not fatally, because the effects of electoral systems are preferentially determined by political system factors and the country's cleavages.¹⁴

The binominal system is defended by the opposition as a major factor that has contributed to the country's governability because it gave rise to two major coalitions—one in the government and the other in the opposition—and facilitated decision-making. Such an assertion is mistaken, as *Concertación* dates from before the establishment of this electoral system. Governability has been possible despite binominalism.

Binominalism is severely criticised for several reasons. First, because it forces parties to compete by forming excessively broadly based coalitions to secure a seat. This has prevented the Communist Party, which was important until 1973, from winning seats; by winning only between 5 percent and 7 percent of votes, it has been excluded from parliamentary life. Furthermore, binomialism restricts the entry of new parties, which could bring into the

¹² Sartori. *Partidos y sistemas de partidos: marco para un análisis*. Madrid: Alianza, 1980.

¹³ At the 2001 elections, the right elected the two candidates in each of the most affluent districts of Santiago (Las Condes, Vitacura, and Barnechea), while the Concertación elected the two in four districts. As regards senators, at these senate elections, *Concertación* managed to elect the two candidates in only one district in the 8th Region.

¹⁴ Nohlen, Dieter. *Sistemas electorales y partidos políticos*. México: Fondo de Cultura Económica, 1994.

political system voters who do not feel represented by the existing parties and thus do not take part in the elections.

Secondly, since each slate can obtain only one seat, competition occurs not only between coalitions and opposition parties, but also within parties for a slot in the slate. This competition creates huge tensions in each alliance and has caused incidents that have jeopardised unity. At the 1997 elections, the UDI implemented a spectacular electoral strategy to defeat the RN candidate. It constitutionally accused the president of the Supreme Court of drug abuse, thereby creating a political fact that caused great commotion in the country. The opposing candidate became a minor issue. The strategy achieved its objective but it severely strained relations with the RN and caused major damage to the Court, which citizens already mistrust.

To prevent such dire incidents at the 2001 Senate elections, the parties on the right decided not to field candidates in seven of the new districts holding elections. They achieved this result either by nominating only one candidate, or by choosing as his running mate a weak competitor, not included in the agreement. This decision will probably be repeated in several districts for the upcoming elections, so as to ensure the coalition's unity and to enable it to be in good shape for the presidential elections.

This is a very negative solution for the political system, as it implies bypassing the electoral contest, thereby hurting confidence in the democratic system and transforming elections into a mere ratification of individuals already chosen to join Congress.

Thirdly, the binominal system gives excessive power to party leaders, who can determine the names of those to be elected as they make up the slate. As there is no genuine competition, citizens in many districts have little interest in voting as the outcome is known beforehand and, in many cases, voters favour a coalition candidate other than the one of their own party's.

This system should not be allowed to last indefinitely as it damages the parties and hurts sound electoral competition. However, getting rid of it is very difficult, as this would imply an electoral reform that would have huge repercussions. It would force the parties to hold a genuine contest, and this in turn would cause uncertainty in the leadership, thereby precluding innovation in this regard. The implementation of such a reform would be complex, as it would require an amendment to the Constitution's provisions pertaining to the Senate.

The problems of electoral participation

In the previous democratic regime, voter registration was made obligatory after the 1962 electoral reform. Voting was also compulsory, although the penalty for non-compliance was not strictly imposed. Electoral participation on the part of those old enough to vote was low, as illiterates were granted citizenship rights only in 1970, and voted for the first time in the 1971 municipal elections. Therefore, the transition to mass democracy took place only very recently, differently from the case of Argentina and Uruguay. This led Dahl not to include Chile among the fully inclusive polyarchies, considering it “a special case,” together with Switzerland and the United States.¹⁵

The military regime changed those mechanisms. Registration is now voluntary. Voter registration closes three months before each election and reopens thirty days after the electoral tribunal has ratified the election results.

Table 2 - Voting in the previous democratic regime, 1952-1973

Year	Elections	Potential Voters	Registered	Not registered	% registered
1952		3,372,158 ^b	1,105,029	2,267,129	32.8
1958	Presidential	4,184,089 ^c	1,497,902	2,686,187	35.8
1964		5,143,248 ¹⁶	2,915,220	2,228,028	56.7
1970		5,771,050 ¹⁷	3,539,757	2,231,293	61.3
1973	Parliamentary	6,527,962 ¹⁸	4,510,060	2,017,902	69

Notes:

^a Potential voters are those aged 18 and above. These data are from the 1952 Census.

^c Estimates for potential voters in the 1958 elections were estimated on the basis of the total population over 15 in 1955. Source: CHILE, *Estimaciones y Proyecciones de Población por Sexo y Edad, Total País: 1955 – 2050*, INE.

^d Potential voters for the 1964 elections were estimated on the basis of the total population over 15 in 1965. Source: INE. *Op. cit.* Potential voters for the 1970 elections were estimated on the basis of the total population over 15 in 1970. Source: INE. *Op. cit.*

^f Potential voters for the 1973 elections were estimated on the basis of the total population over 15 in 1975. Source: INE. *Op. Cit.*

Source: Marta Lagos, *La participación electoral en Chile, 1952-2000*. CSES project thesis. 2004, unpublished.

¹⁵ Dahl, Robert A. *Polyarchy*. New Haven: Yale University Press, 1971, Appendix B, Table A-3.

The authoritarian regime ordered a new voters' register because the one from the previous democratic regime had been burnt after the 1973 coup, as the new rulers suspected that it had been manipulated by the Popular Unity parties. Registration started in February 1987 with a view to the forthcoming plebiscite on the succession. The government launched a registration campaign, as it thought that its advocates would work with much greater interest and a large number of registered voters would benefit the opposition. It was the democratic opposition parties that carried out an intense registration campaign, having had to overcome the mistrust of those that believed that the plebiscite on the succession would be meaningless, as the results would certainly be manipulated by the military. The campaign was extremely successful: 92.2 percent of the potential voters did register—a much higher percentage than did so at the end of the old democratic regime.

Table 3 - Citizens of the new democracy, 1988-2001

Year	Elections	Potential Voters (1)	Registered (2)	Not registered	Percentage of registered voters
1988	Plebiscite	8,062,384	7,435,913	626,471	92.2
1989	Presidential and Parliamentary	8,242,761	7,557,537	685,224	90.6
1992	Municipal	8,773,663	7,840,008	933,655	89.3
1993	Presidential and Parliamentary	8,951,320	8,085,439	865,881	90.3
1996	Municipal	9,463,723	8,073,368	1,390,355	85.3
1997	Parliamentary	9,627,200	8,069,624	1,557,576	83.8
1999	Presidential	9,944,860	8,084,476	1,860,384	81.2
2000	Municipal	10,100,354	8,089,363	2,010,991	80
2001	Parliamentary	10,100,354	8,064,629	2,035,725	79.8
2004	Municipal	10,400,000	8,012,065	2,387,935	77.03

(1) CHILE. *Estadísticas Demográficas*. INE, 2001. Potential voters are those over 18; www.ine.cl/chile_cifras/f_chhile_cifras.htm.

(2) CHILE. *Estadísticas de inscripciones hábiles y mesas receptoras de sufragios*. Servicio Electoral, October 29, 2000.

Source: Marta Lagos.

Since the great electoral mobilisation of the 1988 plebiscite, registration has stagnated because the young have stayed away. The registration procedure is an anachronistic requirement that is unfair to the young, as the enlistment for military service is obligatory but not registration to exercise a citizen's right.

The marginalisation of the young has pushed downward the percentage of registered voters as compared with the potential voters. In the 1999 presidential elections, registered voters accounted for 81.2 percent of potential voters, while in the 2004 municipal elections only 77 percent of the 10.5 million Chileans exercised their citizenship's voting rights.

The participation of registered voters in all the elections has been very high, always upwards of 85 percent, except in the 1997 parliamentary elections. The increasing ageing of the voters' register gives rise to problems that must be solved so that the elections may discharge the functions they should perform in a democracy.¹⁹

¹⁹ In 2004, President Lagos's government sent a bill to Congress establishing automatic registration and keeping voting voluntary. There is no consensus among the Concertación parties about the voluntary vote, for fear that it would reduce participation and benefit the right, as this would lead to increasing influence of the money factor on campaigning, as is shown by similar experiences. The opposition rejects automatic registration and supports voluntary voting. The arguments against voluntary voting have been recently addressed in Lijphart, Arend. "Unequal Participation: Democracy's Unresolved Dilemma." Presidential Address, American Political Science Association, 1996, *American Political Science Review*, vol. 91, No. 1, March 1997, pp. 1-14.

Table 4 - Electoral participation, 1988-2004

Year	Elections	Votes cast	Valid votes	Percentage of valid votes
1988	Plebiscite	7,251,943	7,086,689	97.7
1989	Presidential	7,157,725	6,978,892	97.5
1992	Municipal	7,040,859	6,408,052	91.0
1993	Parliamentary (Deputies)	7,385,016	6,738,859	91.3
1996	Municipal	7,092,182	6,110,996	86.2
1997	Parliamentary (Deputies)	7,046,361	5,795,783	82.3
1999	Presidential	7,271,572	7,055,116	97.0
2000		7,326,753	7,178,697	98.0
2000	Municipal	7,089,886	6,515,574	91.9
2001	Deputies	7,034,202	6,144,003	87.3
	Senators	1,975,017	1,732,415	87.7
2004	Municipal	6,546,214	5,835,031	89.1

Advantages of governmental continuity

Political development since 1990 has meant ending the government instability that characterised political life between 1946 and 1973, when, after each election, a president of a different breed arrived at the La Moneda Palace, with new plans to improve economic and social conditions, introducing policy changes that were not always in the right direction.²⁰

The continuity of three presidents from the same coalition has been favourable to political and economic development, lending stability to the economic modernisation policies implemented by *Concertación*, which have implied important institutional changes.

²⁰ For a good presentation of Chilean political and economic development see Collier, Simon, and Sater, William F. *Historia de Chile, 1808-1994*. Cambridge: Cambridge University Press, 1998; and Angell, Alan. *Chile de Alessandri a Pinochet: en busca de la utopía*. Santiago: Editorial Andrés Bello, 1993.

Three administrations by the same parties have not hampered policy renewal nor created an ossified, inbred ruling elite, as this would have weakened the coalition's political drive and innovation capacity. Such negative effects did not occur because each president has appointed new ministers, under-secretaries, ambassadors, mayors and governors. No one has retained the same portfolio in two consecutive governments – and those who have held two different portfolios in two administrations are an exception.²¹

There has been continuity in the orientation of the market economy, of which private enterprise and economic openness have been two of the most important features. This permitted laying the foundations of an economy that experienced considerable growth, at an annual average of 7 percent between 1985 and 1997. This pace slowed seriously as a result of the 1997-1998 Asian crisis and of the measures adopted by the Central Bank to counteract its effects. Only a few years later did the economy resume its previous pace, growing at a 5 percent annual rate in 2004, while an annual growth rate between 5 percent and 6 percent is predicted for 2005. The opening up of the economy received considerable thrust from various free trade agreements signed with several countries. These began with Mexico, and were followed by agreements with the United States and the European Union, something that would have been impossible under a military regime.

The *Concertación* governments adopted strict measures against the high inflation that characterised the military regime and that in its final years was motivated by populist measures aimed at the 1988 succession plebiscite and the 1989 presidential elections. In 1989, inflation ran at 27 percent. It declined gradually to one digit in 1994 and stabilised itself at around 2 percent thereafter. There followed a determined policy to combat poverty, which has halved the numbers of the poor since Pinochet's tenure.²²

A policy to address the human rights violations perpetrated under the authoritarian regime has been adopted by all three *Concertación* administrations,

²¹ The most notable case is that of José Miguel Insulza, who was Foreign Minister and Secretary-General of the President's Office under Frei, as well as Minister of the Interior under President Lagos. Alvaro García was also a member of the Frei and the Lagos Administrations.

²² The best study on the economic policies of the transition governments is French-Davis, Ricardo. *Entre el neoliberalismo y el crecimiento con equidad. Tres décadas de política económica en Chile*. Santiago: J.C.Sáez Ed., 2003 (third, updated edition).

given the extent of coercion exerted by general Pinochet's regime, which he himself vividly personified. As the Army's Commander-in-Chief until March 10, 1998, Pinochet did not contribute to the consolidation of democracy but rather hampered it. This helped to keep alive the memories of his regime. Thus, when he left the command, various criminal charges were brought against him. General Pinochet helped keep alive the memories of the past and his trip to England in October of that year led to his humiliating detention in London under a Spanish judge order that was efficiently complied with by the British police. After 18 months of home detention in London,²³ Pinochet was allowed to return to Chile to be prosecuted for the crimes of which he was charged at home and was stripped of his rights by the Supreme Court in August, 2000. The truth is that the Courts did not condemn him because his lawyers resorted to an extreme legal recourse, declaring that he was not mentally fit. Later, Pinochet's image received further damage owing to the accusation by the United States Senate, in June 2004, that he kept a multimillion-dollar account with a Washington bank. The image of a statesman who had been concerned only with the well-being of his country fell apart with a crash and he will end his life dogged by the Internal Revenue Service for having failed to pay income tax on those amounts.

President Aylwin stressed the importance of the human rights issue since the beginning of his administration. He thought it ethically and politically necessary to learn the truth about the abuses committed and to bring to justice any crimes – “to the extent possible”. This was very difficult to accomplish as it depended on the legal system harking back to the military regime, including a 1978 amnesty law covering all the excesses committed since the military coup, and because cooperation could not be expected from the Courts, which had tolerated them.

Human rights and the development of democracy

The report of the Truth and Reconciliation commission appointed by President Aylwin as soon as he took office, is one of the main accomplishments of the policy to expose the abuses committed by the military regime. The

²³ For its effects on Chilean politics see Huneeus, Carlos. “The consequences of the Pinochet case for Chilean Politics”. In: Madeleine Davis, Editor. *The Pinochet Case. Origins, Progress, and Implications*. London: Institute of Latin American Studies, 2003, p. 169-188.

commission included human rights lawyers and scholars.²⁴ Based on the documentation gathered by the Solidarity Vicarage of the Santiago Archbishopric, set up by Cardinal-Archbishop Raúl Henríquez to defend convicts, the Commission established the facts concerning 2,279 deaths that were caused by political repression acts.²⁵ This was rejected by the military, particularly by general Pinochet, then Commander-in-Chief of the Army, who alleged that the facts that were being unearthed were the handiwork of agitators on the extreme left.

Another major accomplishment of the policy was the Dialogue Table, established by Defence Minister Edmundo Pérez (PDC) toward the end of Frei's term, when Pinochet was in detention in London, under Spanish Court charges for crimes against Spanish nationals. The dialogue participants were representatives of the commanders-in-chief of the three branches of the Armed Forces, outstanding human rights advocates, and members of civil society. The Dialogue Table completed its work during president Lagos's administration. After concluding their work, the participants signed a document in which the military acknowledged and admitted that they had got rid of corpses by throwing them into the sea.

The third major accomplishment was the National Commission on Political Detention and Torture set up by President Lagos in 2003, consisting of human rights and civil society personalities. It became known as the Valech Commission, after its President, Monsignor Sergio Valech, who headed the Solidarity Vicariat. Its mission was to investigate cases of torture under the authoritarian regime, to receive complaints from torture victims, and to suggest a reparations policy to the president. The report of its findings, released in late December,²⁶ exposed a dramatic reality, based on the statements of thousands of men and women who brought their cases to the Commission. According to estimates, more than 30,000 people were detained in the numerous centres adapted for the purpose and a large portion of them was tortured.

²⁴ Its president was Raúl Rettig, a distinguished Radical politician, who was elected both a deputy and a senator, and was Allende's Ambassador to Brazil.

²⁵ According to the estimates of the National Reparation and Reconciliation Corporation set up by the Rettig Commission, that number is higher, totaling 3,197 dead. The State considers the higher figure in implementing political and economic claims policy. More than half the deaths occurred in 1973, but a great many people died in the three following years. See Huneeus, Carlos. *El régimen de Pinochet*. Chap. 1 and 2.

²⁶ See Huneeus, Carlos. "El Informe Valech y su aporte al fortalecimiento de la democracia." *Mensaje*, January 2005.

In recent years, the Courts have handled various cases against members of the military who participated in human rights violations. It has taken the Courts a long time to try them but the prosecution has helped to bring to light the relevant facts. The first successfully prosecuted case was against retired general Manuel Contreras, former head of the National Intelligence Directorate-DINA, the main political repression agency, which carried out terrorist acts in Chile and abroad.²⁷ He was tried for his responsibility for the bombing that killed Orlando Letelier, former ambassador of the Allende government to the United States and Minister of Defence for a few months in 1973, and of an American citizen in Washington in 1976. This was the only case not covered by the 1978 amnesty law. Contreras was sentenced to eight years in prison.²⁸

The poor image of the Courts resulting from their lax defence of individual rights during the military regime weighed on the approval of judiciary reform and of an ambitious procedural reform that radically changed the judiciary inquiry system, which dated back to the 19th century. The reform was a major advance toward a pluralist order.²⁹ It implied numerous initiatives, from the establishment of the Judiciary Academy to train judges and to recycle clerks, judges, and Appellate Court judges, to changing the way Supreme Court Justices are appointed. After the reform, a Justice is nominated by the President from a list of five candidates submitted by the Supreme Court, and must be approved by the Senate with a two-thirds vote to ensure the opposition's concurrence. This prevents Court inbreeding. The number of Justices was increased from 16 to 21, not only to enable the Court to better discharge its functions but also to make it possible to nominate professionals from outside the judiciary career — e.g., distinguished lawyers or academics, who would bring a different outlook to

²⁷ Other notorious cases were the Buenos Aires bombing of 30 September, 1974, which killed the Army's former Commander-in-Chief Carlos Prats, who had also been President Allende's Minister of the Interior, and of his wife; and the attack against Bernardo Leighton and his wife, in September 1975, which left them seriously injured. Leighton was a founder of the Democratic Party in 1938 and one of its most prestigious figures, as well as Minister of the Interior under Eduardo Frei Montalva (1964-1970). He also served as a Deputy and as Minister of Labour (1937-1938) and of Education (1950-1952).

²⁸ Later, while serving his sentence, Contreras was tried and sentenced for other crimes and is currently in prison, after being sentenced for one of those other crimes.

²⁹ On judiciary reform, see Correa, Jorge. "Cenicienta se queda en la fiesta. El poder judicial chileno en la década de los 90." In: Drake and Jaksic, Editors. *El modelo chileno*. p. 281-315; and Blanco, Rafael. "El programa de justicia del Gobierno de Eduardo Frei." In: Muñoz and Stefani, Editors. *El Periodo del Presidente Frei Ruiz-Tagle*. p. 187-220.

the Court. The age limit for serving in the Supreme Court was set at 75 years, the same age limit applicable to Appellate Court judges.

The penal procedure reform discarded the inquiry system that had existed in the country since the promulgation of the penal procedural code in the 19th century, under which a judge had a dual function—to investigate a case and to pass judgement on it. The reform introduced a penal procedure that should be completed in reasonable time, with guarantees for all, “in the context of public... oral proceedings.”³⁰ The reform created a new institution, the General-Attorney’s Office, staffed by independent investigators, thereby allowing judges to devote themselves to their role, namely, to pass judgement on cases brought before the Court. The penal procedure was further simplified by means of introducing oral proceedings, which expedite the Court’s decisions, thus helping overcome the slow pace that had characterised the old system.

Thus, the human rights policy has also contributed to the modernisation of one of the powers of the State, whose action is crucial for a modern democracy and a dynamic economy.

Historical memory and civic culture

To understand electoral prospects for 2006, it is necessary to consider the impact the historical memory of the military regime has had on Chileans, which is very strong despite the passing of time. Voters from the different parties do not show major differences regarding support for major public policies, in part because the parties have come closer together in relation to economic modernisation. But they do differ in their opinion of the military regime, general Pinochet’s actions, and human rights violations. In response to popular interest regarding the events surrounding the military coup that changed the country’s history, the media covered the thirtieth anniversary of the event. Such coverage brought information about those painful events to those who did not experience them, thus allowing them to form their own opinion about them.³¹

³⁰ For the best review of Chile’s judiciary reform, see Blanco, Rafael. “El programa de justicia del Gobierno de Eduardo Frei.” In: Muñoz, Oscar and Stefoni, Carolina, Editors. *El Periodo del Presidente Frei Ruiz-Tagle*. Santiago, FLACSO-Editorial Universitaria, 2003, p. 187-220. The quotation is from page 202.

³¹ For the impact of the past see Huneus, Carlos. *Chile, a divided country*. Santiago: Catalonia, 2003.

Opinions on the 1973 coup vary: a third of the population believes that it “saved the country from Communism;” the percentage rises to 76 percent among those affiliated to the UDI and to 52 percent of the RN ranks. Some 52 percent think that it “destroyed democracy;” this percentage climbs to 80 percent among voters of the *Concertación* parties.³² Young people have a more critical opinion than the general population: 62 percent believe that the coup destroyed democracy, as compared with 44 percent of those over 60.

Some 35 percent of Chileans think that the military were right in staging the coup; this percentage climbs to 68 percent and 67 percent in the UDI and in the RN ranks, respectively, while this view is shared by only 21 percent of PDC affiliates and 22 percent of Socialists. While 20 percent of the population have a positive assessment of the 17 years of the military regime, this view is shared by 68 percent of UDI voters and by only 22 percent of RN voters. This shows a clear difference between the two parties’ views on human rights, as we have indicated. Only 4 percent of PDC voters and 3 percent of the socialists make a positive assessment of the Pinochet years, but their numbers are barely relevant.

Opinions about general Pinochet also vary. In the numerous surveys conducted by CERC since the reestablishment of democracy he has received support that is both relatively high and stable. Approximately 23 percent of those interviewed think that his government will be seen by history as one of the best Chile had in the 20th century, and a similar percentage rejects the opinion that he will go into history as a dictator. Some 24 percent think that history will see him as “a well-intentioned man who did not know what his associates were doing” (63 percent reject this view), and 51 percent believe that he will be seen as “the man who energised the economy” (a view rejected by 35 percent).

The endurance of these opinions about the past is due to their having been transmitted by parents to the young at home and by colleagues at schools and at the workplace. The media also plays a role in a society that was highly politicised in the 1960s as a result of a belated social and political modernisation, associated with structural reforms that were traumatic for landholders and for the right. Chilean society took very long to make the transition to mass democracy, as the illiterate were disenfranchised as late as 1970.

³² Results of nationwide urban surveys, 1200 respondents. Barómetro CERC, December 2004.

Electoral prospects

In the upcoming presidential elections, the opposition is fielding the same candidate — Joaquín Lavín — as in the previous election. The Concertación may nominate as its candidate either Michelle Bachellet of the PS, who is supported by PPD, or the PDC's Soledad Alvear. Alvear, a lawyer, has been a Cabinet member since 1990. She organised the National Women's Service — Sernam in the first democratic government, was Minister of Justice under Frei, pushed through drastic judicial and penal procedural reforms, and was Foreign Minister under Lagos.³³ Bachellet, a medical doctor by training, held positions at the Ministry of Health under Aylwin, was Advisor to the Minister of Defence under Frei, Minister of Health in the two first years of the Lagos administration, and then became Minister of Defence. Her life reflects the persistence of Chile's dramatic past. Her father was an Air Force general, who held a high position in the Allende government when the latter called on the military's support in the face of the dire economic situation. After the 1973 coup, he was arrested and died as a result of torture. This fact gave Bachellet her great visibility as Minister of Defence, particularly on the occasion of the thirtieth anniversary of the coup. In the September 2004 survey, Bachellet surpassed Alvear as one of the "five female politicians most likely to succeed". She later consolidated her position.³⁴

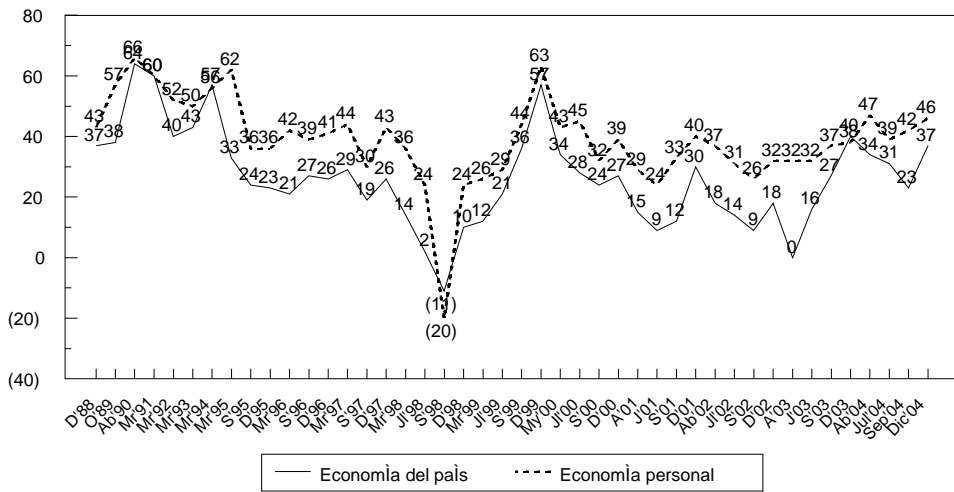
Differently from 1999, the government coalition has a good chance of winning the elections, but this will depend on whether the candidate's nomination minimises frictions. In 1999, the *Concertación* had a bad experience with the experience of organising open primaries to pick a common candidate between the PDC's Andrés Zaldívar, a Senator, and the PS/PPR's Ricardo Lagos. The former, who was lagging behind in the polls waged a tough campaign against his opponent, warning voters about the uncertainties associated with a leftist candidate. This campaign hurt the *Concertación*, as it led a number of PDC supporters to vote for Lavín.

³³ Her prestige was such that she was entrusted with running the Lagos campaign toward a surprising second term.

³⁴ Barómetro CERC, September 2003.

The previous campaign had taken place when general Pinochet was under home detention in London. The Chilean government, in a decision criticised by some of the PS leadership, rejected the British and Spanish claims to hold on to Pinochet, alleging that it hurt national sovereignty. It then demanded Pinochet's return to Chile to face the charges against him. This led some exponents of the human rights movement and of the extra-parliamentary left to criticise³⁵ the government, accusing it of helping Pinochet.

Graph 2 - Survey: the economic future of the country and the people, 1988-2004
Better or Worse?



Question: Do you think that in the next few years the country's economic situation will be better, the same as now, or worse?
Question: Do you think that in the next few years your economic situation and that of your family will be better, the same as now, or worse?

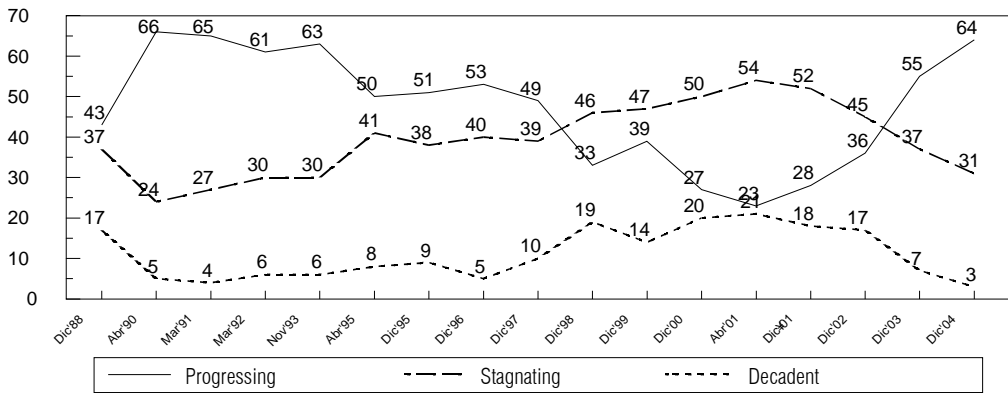
Source: Barómetro CERC, December 2004.

The general picture of the country in the previous presidential contest was unfavourable, with a steadily increasing number of people saying that Chile was in decadence, and a steady decline in the number of people who

³⁵ See Davis, Madeleine (ed.). *The Pinochet Case. Origins, Progress, and Implications*. London: Institute of Latin American Studies, 2003; Piom-Berlin, David. "The Pinochet Case and Human Rights Progress in Chile: Was Europe a Catalyst, Cause or Inconsequential?" *Journal of Latin American Studies*. Vol 36, No. 3, August 2004, p. 481-505.

said it was making progress. Since 2001, the situation has reversed, with a steadily increasing number of those who think that the country is making progress—they are now the majority, at 64 percent, according to the December 2004 survey.

Graph 3 - Perception of the country's overall development, 1988-2004
Progressing? Stagnating? Decadent?



Question: *Would you say that the country is progressing, has stagnated, or is in decadence?*

Source: *Barómetro Cerec*, December 2004.

The Lagos government enters the elections enjoying a high approval rate – 64 percent of Chileans –, and a political and economic situation far better than in the previous presidential elections. Expectations about both the national and personal economic situation have improved. In 1998/1999, those expectations pointed downward, and were revived only in the heat of the presidential campaign, as the opposition believed that with Lavín both the national and the personal economic situation would improve. Now, the presidential campaign is starting at a point at which those subjective indicators are very positive.

The opposition candidate, Joaquín Lavín, who was mayor of Santiago from 2000 to 2004, does not enjoy the aura had in 1999. His administration was not a good one, he has not renovated his platform, and the parties that support him have been experiencing conflicts that have not helped him. Lavín made a strategic mistake in trying to transform the municipal elections of

2004 into a presidential primary for 2005. This implied the politicisation of a contest that is traditionally defined by local issues and to which Lavín gave a national character, which goes against the grain of the coming elections. He encouraged a marked growth of the opposition, allowing him to reduce his 10-point lag in the polls, and even to bring the competition to a dry heat. He waged an active support campaign for mayoral candidates throughout the country, harshly criticising the administration, which led President Lagos to come to the aid of the *Concertación* candidates.³⁶ His ministers participated in some *Concertación* candidate's campaign events. The enthusiasm generated by Ministers Alvear and Bachellet, in particular, is worth mentioning. A month before the elections, the President changed his Cabinet, leaving the two Ministers free to devote themselves full-time to the *Concertación* campaign.

The opposition did not achieve its objective, as the *Concertación* kept 10 points ahead of the right, obtaining 47.91 percent of the ballots in the municipal council elections, to the *Alianza's* 37.66 percent. The leftist coalition *Juntos Podemos*, formed by candidates of the Communist Party and ecological groups, placed third, with 9.14 percent. In the *Alianza*, the UDI asserted itself by a wide margin as the leading opposition party, with 18.8 percent of the ballots, to the RN's 15.09 percent.

The election results hurt Lavín, who lost the population's backing. In a survey taken in late November and early December, for the first time since May 2000, Lavín ceased to be the politician "most likely to succeed," having fallen 16 points to 42 percent, as compared with September, while the PS's Bachellet rose only 3 percent, to 51 percent. In the responses to the survey's open-ended question about who would be the most likely to win the presidential elections,³⁷ Lavín experienced a 12-point drop in comparison with September 2004, receiving only 32 percent of preferences, to Bachellet's 30 percent—a significant increase of 13 points—and Alvear's 8 percent—the same result she had in the previous opinion poll. In the two closed questions, Lavín lost against any of his two potential opponents. If the candidate were Soledad

³⁶ Mayors were elected separately, based on a common list of candidates, while the municipal council members were elected on the basis of separate party slates. For the purposes of supporting coalitions, the council members' votes were considered.

³⁷ The open-ended question was: *Who will be the next president of the Republic?*

Alvear, Lavín would get 37 percent of ballots, a significant drop of 13 points as compared with a poll taken in September 2003, while Alvear would win with 49 percent of the vote, a 10-point increase. A Concertación Bachellet, who would receive 53 percent of ballots – a 10-percent raise – to his 39 percent – a 12-percent drop, would roundly defeat Lavín.

It is quite possible that the two women candidates will avoid a head-to-head dispute against each other, as the two maintain very good personal relations. If the coalition in office should nominate the candidate through a procedure that is not traumatic for the party that will have to give up its candidacy, any of the two should win the presidential elections. The novelty would be not only the fact that for the first time a woman would get to be President in Chile and in South America but also that for the fourth consecutive time a coalition would keep itself in power, something unprecedented in the region. ■■■■

The real challenge of the current peace process in Colombia: the implementation of the law of truth, justice, and reparation

*Marta Lucía Ramírez de Rincón **

Colombia's major objective today is to achieve peace. The delicate internal public order situation prevailing in the country owing to the violent, terrorist actions perpetrated by unlawful armed groups is well known worldwide, as is the Colombian State's effort to eradicate this scourge once and for all. The strategy to accomplish this is aimed at strengthening the

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State and protecting the population and at opening a way for a political solution to the conflict.

Since early on in his Administration, President Uribe has opened the doors to negotiation with all the unlawful armed groups wishing to reintegrate themselves into civilian life, provided they declare a cease-fire to reduce violence and to ensure respect for human rights throughout the national territory. The objective is to achieve the longed-for peace through the disbanding of these illegal armed groups, the dismantling of the illegal authority they wield in some regions of the country, and the eradication of the drug traffic, which is their main funding source. As Minister of Defense, I had the opportunity of presiding over the formulation and drafting of the Democratic Security Policy according to the lineaments and guidelines defined by the President. This policy's main objective is to guarantee the constitutional right to security and peace for all Colombians, either through dialogue or through the legitimate use of force in reinforcing the State, both at the local and the national levels, strengthening the democratic institutions and authorities, as well as effectively enforcing the law.

The Democratic Security Policy, coupled with the will to achieve peace, has obtained unquestionable success: it has not only substantially reduced the criminality and violence indicators and made progress regarding respect for human rights but has also managed to demobilize 5,230 individual members of unlawful armed groups and a further 5,895 through massive demobilizations accomplished by the United Self-defenses, something unprecedented in the history of demobilizations in Colombia.

The success achieved in dealing with the M-19, the Quintin Lame, and the EPL, and the Socialist Renovation Current as well as in individual demobilizations so far is due to the pardon and amnesty legislation in force, which provides for the granting of pardon by the State to those guilty of having belonged to illegal armed groups. Law 789 of 2002 in particular has provided the legal framework for the demobilization, under the current Administration, of those charged with the crime of belonging to such groups intent on acting against the constitutional regime in place.

Nevertheless, international advances in penal law, which preclude the granting of amnesty and pardon to those guilty of serious crimes, other than

rebellion, sedition, mutiny, or criminal conspiracy,¹ have exposed the loopholes in Law 782 of 2002 and thus the need to establish a legal framework to regulate future individual or collective demobilization of unlawful armed group members guilty of crimes not eligible for pardon or amnesty.

To this end, the National Government sent a bill to Congress providing for the investigation, trial, and sentencing of those guilty of crimes of this nature and the granting of penalty suspension to those that, meeting the requirements spelled out in the bill, have contributed to the consolidation of peace.

As it was to be expected, the government bill gave rise to an intense debate, both internally and internationally, and led to the introduction of several bills in Congress, each one contemplating different penalties and conditions. Given the lack of consensus about the treatment to be accorded people guilty of crimes ineligible for pardon or amnesty, the Government headed the discussion in Congress and managed to bring the political forces and the entire country to agree on the search for a formula balancing justice and peace, capable of serving the interests of the former and allowing the latter to make real progress in overcoming the violence and terrorism problems that have inflicted so much suffering on the country.

Thus, after a prolonged debate in Congress and harsh criticism at home and abroad, the truth, justice, and reparation bill that complements Law 789 of 2002 (under which only those guilty of crimes eligible for pardon or amnesty can benefit), was finally enacted by the National Congress on June 21, 2005.

As intended, the Law represents an acceptable, particularly realistic balance between the need to do justice, as behooves the rule of law, and the need for peace, as it provides that members of unlawful armed groups to whom Law 789 of 2002 does not apply must answer before the courts for their actions, but are eligible for certain benefits as a reward for their effort toward the consolidation of peaceful coexistence.

¹ Political and related crimes classified in the Colombian Penal Code and considered under international law as crimes susceptible to pardon or amnesty.

Content of the law

The law enacted by the Congress of the Republic of Colombia provides a legal and institutional framework for the demobilization² of persons linked to unlawful armed groups, who have decided to contribute in a decisive manner to national reconciliation.³ The actual purpose of this law is to facilitate the peace process, through the individual or collective reintegration into civilian life of members of unlawful armed groups, while guaranteeing the rights of the victims to the truth, justice, and reparation.⁴

Scope of application and interpretation

This Law regulates the investigation, trial, sentencing of, and the legal benefits that can be granted to individuals linked to unlawful armed groups who decide to demobilize. However, it applies solely to crimes the authors or co-authors committed while they belonged to such groups, not including crimes committed before they joined such groups or crimes committed while they belonged to such groups, which are not contemplated by this Law.

Intent on recognizing the international treaties ratified by Colombia, the Law expressly provides that both its enforcement and its interpretation must be in conformity with such treaties.⁵ In particular, it incorporates the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

Beneficiaries

The law does not specify the possible beneficiaries; it thus applies to all those that demobilize and meet its requirements. Accordingly, the benefits

² According to article 9 of the Truth, Justice, and Reparation Law, by demobilization is meant the individual or collective act of depositing weapons and leaving the organized, unlawful armed group, performed before the competent authority.

³ Art. 2 of the Truth, Justice, and Reparation Law.

⁴ Art. 1 of the Truth, Justice, and Reparation Law.

⁵ International treaties related to Human Rights,

will apply both to members of guerrilla groups, such as FARC and ELN, and to members of paramilitary groups, namely, the United Self-Defenses of Colombia.

Alternative sentence

The alternative sentence benefit provided by the law consists in suspending the enforcement of the sentence imposed by a judge and its replacement by a sentence that varies from five to eight years,⁶ in favor of an unlawful armed group member who meets the following requirements:

- Contribution to the achievement of national peace;
- Cooperation with the Courts;
- Reparation of victims;
- Adequate reintegration into society through work, study, or teaching while deprived of liberty; and
- Promotion of the demobilization of the unlawful armed group to which he used to belong.⁷

Once the beneficiary has served his sentence, he will be paroled for half the time of the sentence imposed, during which he commits himself not to become a repeat offender, to report periodically to the pertinent Superior District Court, and to report any change of address. After this, the main sentence will be declared fully served. If, however, he fails to meet these obligations, his parole will be recalled, and he will have to serve the full original sentence.⁸

⁶ Art. 30 of the Truth, Justice, and Reparation Law provides that the sentence shall be weighed according to the seriousness of the crimes committed by the demobilized individual and to his real cooperation in their clarification. Moreover, it provides that this sentence cannot be reduced on grounds of good behavior, work, or studies.

⁷ Art. 3 of the Truth, Justice, and Reparation Law.

⁸ Art. 10 of the Truth, Justice, and Reparation Law.

As to the establishment at which the sentence will be served, the Law provides that it is up to the Government to determine the establishment, which must meet the appropriate security and strictness conditions required from institutions managed by the National Penal and Prisons Institute. It also provides that sentences may be served abroad, thereby leaving the door open for the extradition of any subjects under this law.

Possibilities for benefiting from alternative sentencing and eligibility criteria

Collective Demobilization ⁹	Individual Demobilization ¹⁰	Humanitarian Agreement ¹¹
The requirement for collective demobilization is the demobilization and dismantling of the illegal armed group under an agreement with the National Government; ceasing from all criminal activity and all interference with the free exercise of political rights and public freedoms; the group has not been formed to the traffic of narcotic drugs or illicit enrichment delivery of all illicit goods; release of all hostages and all recruited minors. ¹²	For individual demobilization, the subject must provide information and effectively cooperate toward the dismantling of the group to which he belonged; must sign a commitment before the National Government; must depose arms in the terms established by the Government and hand over the goods acquired from any illicit activity; and must not have been involved in the traffic in narcotic drugs or in illicit enrichment.	Given the Government's obligation to guarantee the constitutional right to peace, the Law provides for the possibility of entering Humanitarian Agreements with these groups. As to members of unlawful armed groups with whom Humanitarian Agreements are entered, the President may set the conditions he may deem appropriate for the application of the benefit.

Victims' rights

In addition to the victims' right to access to the administration of justice and the rights under the penal procedure, particularly the right to protection of their safety, physical and psychological well-being, dignity, and private life,¹³ the Law further provides as follows:

⁹ Art. 10 of the Truth, Justice, and Reparation Law.

¹⁰ Art. 11 of the Truth, Justice, and Reparation Law.

¹¹ Art.(s) 60, 61, and 62 of the Truth, Justice, and Reparation Law.

¹² Minors in the ranks of unlawful groups must be released to the Colombian Family Welfare Institute, which will be responsible for their reintegration into and re-adaptation to society.

¹³ Art.(s). 38 and 39 of the Truth, Justice, and Reparation Law.

- *Truth*: the Law recognizes society's, and particularly the victims' inalienable, full, and effective right to know the truth about the crimes committed by unlawful armed groups and the whereabouts of the victims of kidnapping and forced disappearance. The Law expressly requires that the investigations and legal procedures must promote the investigation of what has happened to the victims and inform their relatives accordingly.

In conformity with the preceding, the enforcement of the law does not preclude the recourse to other extra-legal mechanisms for reconstructing the truth, such as investigation commissions and truth commissions.¹⁴

Lastly, to guarantee society's and the victims' right to the truth, the Law charges the State with preserving the historical memory¹⁵ by maintaining the knowledge of history, including the causes, unfolding, and consequences of the action of unlawfully organized armed groups, keeping archives¹⁶ and, in general, ensuring free access to the latter.¹⁷

- *Justice*: the State has the obligation to undertake an effective investigation leading to the identification, capture, and sentencing of people responsible for the crimes committed by members of unlawful armed groups, and this entails guaranteeing that victims will have access to adequate resources for repairing the damages incurred, as well as adopting measures to prevent the recurrence of violations.¹⁸
- *Reparation*. In addition to material reparation or indemnity, the Law establishes the need to undertake actions aimed at restitution, rehabilitation, satisfaction, and to guarantee that the unlawful behavior in question will not reoccur.¹⁹ Art. 8 of the Truth, Justice, and Reparation Law.

¹⁴ Art. 7 of the Truth, Justice, and Reparation Law.

¹⁵ Art. 57 of the Truth, Justice, and Reparation Law.

¹⁶ Art. 58 of the Truth, Justice, and Reparation Law requires the preservation of archives and to this end charges the justice departments that have them in their custody and the General Attorney's Office with adopting the requisite measures to prevent the unauthorized removal and the destruction or the falsification of archives with a view to ensuring impunity.

¹⁷ Although Art. 59 of the Truth, Justice, and Reparation Law provides free access to archives as a general rule, access may be restricted for reasons of custody or maintenance and to safeguard the privacy of the victims of sexual violence and of children and adolescents who are victims of unlawful armed groups, so as not to cause additional, unnecessary damage to victims, witnesses, and other people and not to jeopardize their safety.

¹⁸ Art. 6 of the Truth, Justice, and Reparation Law.

¹⁹ Art(s). 8 of the Truth, Justice, and Reparation Law.

During the penal procedure, the claim for reparation will be treated as a case, with the participation of the victim or the victim's legal representative or court appointed counsel, who shall clearly specify the form of the pretended reparation and produce the evidence in support of the claim.²⁰

As anticipated, members of unlawful armed groups who are eligible as possible beneficiaries of the Law must make reparation to the victims by:

- Handing over to the State illicitly acquired goods for reparation;
- Issuing a Public Declaration to redress the victims' dignity;
- Making public admission of having caused damage to the victims, a public statement of repentance, requesting forgiveness from the victims, and promising not to relapse into the same behavior;
- Effectively cooperating in determining the whereabouts of kidnapped or disappeared persons and in locating the bodies of slain victims; and
- Searching for the disappeared and for remnants of slain victims, helping to identify them and burying them according to family and community traditions.²¹

To guarantee adequate reparation to victims, the Law introduces a legal innovation, namely, the possibility of collective reparation, which consists in the psychosocial reconstruction of villages affected by violence and in the implementation of a program that should include actions aimed at restoring institutions, particularly in zones affected by violence, the recovery and promotion of the rights of the citizens affected by violence, and the recognition of victims and restoration of their dignity.²²

In addition, the Law introduces the concept of symbolic reparation, which consists in any benefit rendered the victims or the community in general,

²⁰ Art.23 of the Truth, Justice, and Reparation Law.

²¹ Art. 45 of the Truth, Justice, and Reparation Law.

²² Art. 8 and 50 of the Truth, Justice, and Reparation Law.

conducive to the preservation of the historical memory, to the assurance that those crimes will not reoccur, as well as ensuring public acceptance of the facts, the public pardon, and the reestablishment of the victims' dignity.²³

In principle, both individual and collective reparation is the obligation of the member of the unlawful armed group who is benefited by an alternative sentence. However, in case the investigation is not able to individualize the active subject of the crime but damage and a connection of the damage with the group's activities have been identified, the victim shall receive reparation from the Victims' Reparation Fund, established for this purpose under this Law.²⁴

Moreover, the Law establishes the National Reparation and Reconciliation Commission, charged with guaranteeing the victims' participation in legal proceedings to clarify the facts; providing public reports on the emergence and development of the unlawful armed groups; monitoring and supervising the reintegration processes; monitoring reparation; recommending reparation criteria; coordinating the activity of the regional Commissions for Property Restitution; and promoting national reconciliation actions aimed at preventing the reoccurrence of violent acts likely to disturb national peace.²⁵

Procedural principles

The Law establishes orality and celerity as principles that should guide the entire proceedings.²⁶ It also recognizes the defendant's right of defense by a defense attorney of his confidence, freely appointed by him or, in the lack thereof, by a public defender appointed by the National Public Defense Office.²⁷

²³ Art(s). 8 of the Truth, Justice, and Reparation Law.

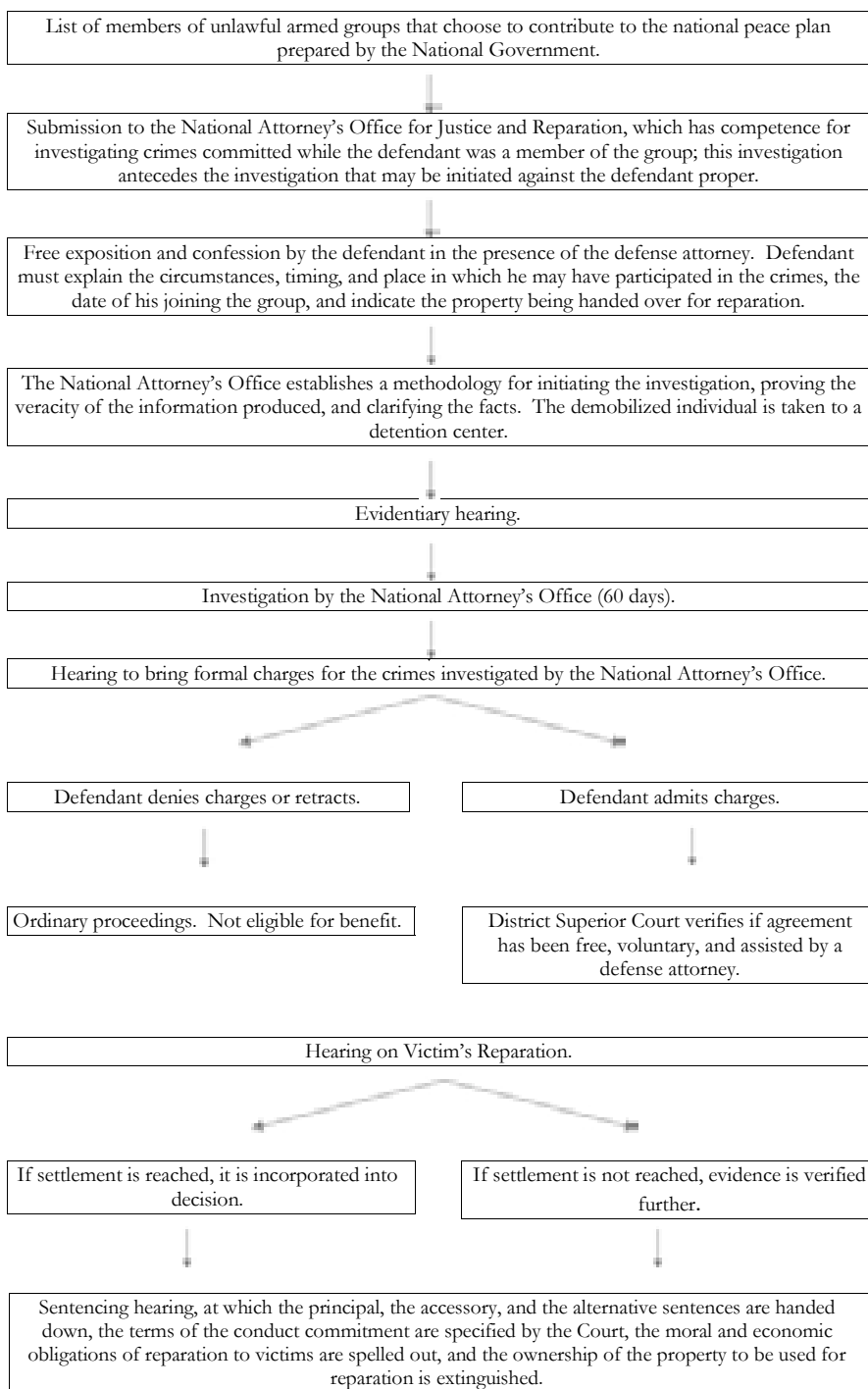
²⁴ Art(s). 43 and 55 of the Truth, Justice, and Reparation Law.

²⁵ Art. 51 of the Truth, Justice, and Reparation Law.

²⁶ Art(s). 12 and 13 of the Truth, Justice, and Reparation Law.

²⁷ Art. 14 of the Truth, Justice, and Reparation Law.

Investigation and Trial Procedures



Facts disclosed after sentencing

Crimes committed while the defendant was a member of the group, before demobilization, or before this Law entered into force, that have come to light after the defendant has served an alternative sentence and that had not been confessed by the beneficiary shall be investigated by the competent authority according to the legislation in force at the time the crimes were committed and no benefit shall be granted the defendant. However, should the defendant effectively cooperate with the disclosure of the crimes and, orally or in writing, freely, expressly, and spontaneously admit having participated in the commitment of the crimes, provided his omission was not intentional, the defendant will be benefited by an alternative sentence; the alternative sentences shall be cumulative but shall not exceed the maximum limit established under this Law. Depending on the seriousness of the newly-judged crimes, the Court shall extend the alternative sentence and the probation period by 20 percent.²⁸

Sentence reduction

As regards individuals who were already serving sentence when it entered into force, the Law grants them the right to have their sentence reduced by a tenth, except in the case of individuals condemned for crimes against sexual freedom, integrity, and education, lese humanity crimes, and traffic in narcotic drugs.²⁹

Sedition

To provide a legal basis for the demobilization of individuals linked to unlawful armed groups who have not committed heinous crimes, their behavior is classified as a form of sedition, which means that by their actions they have interfered with the normal functioning of the constitutional and juridical order.³⁰ The purpose is to act in conformity with the Colombian penal system,

²⁸ Art. 25 of the Truth, Justice, and Reparation Law.

²⁹ Art. 71 of the Truth, Justice, and Reparation Law.

³⁰ Art. 72 of the Truth, Justice, and Reparation Law.

which allows the extension of pardon only to those guilty of political crimes. In accordance with the Vienna Convention and the International Treaties, the Law makes no allowance for connectedness of political crimes and heinous crimes or traffic in narcotic drugs.

Conclusions

Although the law enacted by Congress is not perfect and its loopholes will become evident during its implementation, there is no denying that it is a highly valuable instrument that will certainly lead to the demobilization of a greater number of members of unlawful armed groups, who, being involved in crimes not eligible for pardon, show a legitimate intention of entering the path of peace.

Nevertheless, the recently enacted Law has been the target of all sorts of criticism from international organizations, but especially from NGOs,³¹ which argue that it fosters impunity and grants extremely generous benefits to members of armed groups at the expense of justice. Much of the criticism shows a profound lack of knowledge on the part of the international community, as a careful analysis of the Law reveals that this is the first time in Colombia that justice and reparation are incorporated into the peace legislation and that it is much harsher than the legislation applied in other peace processes not only in Colombia but also worldwide. Contrary to the allegations, it does not lead to impunity, as it does not admit pardon for heinous crimes nor does it contradict the commitments undertaken by Colombia on the international plane. Moreover, it does permit extradition and makes no allowance for the connectedness of political crimes and heinous crimes or drug trafficking.

Notwithstanding the criticism directed at the legal framework that will guide the peace process the Government is currently undertaking with the Self-defenses, as well as future processes involving guerrilla groups, the truth is that the law is viable and permits the Colombian State to preserve its power to mete out justice, to honor its extradition commitments under international agreements, to guarantee that reparation to victims will go beyond mere indemnity, and more important, its purpose is to achieve the peace for which all

³¹ The sharpest criticism leveled at the Law has come from Amnesty International and from Human Rights Watch.

Colombians so ardently desire. The real challenge, then, begins now and consists in implementing the Law to ensure that further mobilizations take place according to this legal framework, and in reintegrating into civilian life all the demobilized persons, by means of sustainable productive projects.

The international debate about this law is welcome, but what is required from the international community is objectivity, prudence, and above all, cooperation and solidarity with the Colombian state and its institutions, which have consistently honored their international obligations. Today, instead of putting in doubt the results of the process, the international community should contribute with its knowledge and experience to the implementation of the Law and to the achievement of the results Colombia's true friends want to see at the end of the process, such as the consolidation of peace and of the rule of law in Colombia. Of utmost importance was the initiative of the President of the Republic in proposing, on his recent visit to Europe, that the international community follow the process of implementation of the Law through an inspection commission to ensure the transparency and effectiveness of the norm as it begins to be applied. ■■■

Ecuadorian democracy's governability problems

Oswaldo Hurtado *

Anyone visiting Ecuador will be surprised at nature's prodigious diversity in this small geographical space. Its numerous, beautiful snow-capped peaks have no equal in Latin America. The Galapagos Islands' geology and astonishing fauna are unique on the planet. It is one of the twelve countries in the world with the largest number of plant and animal species. Quito, the colonial capital, boasts one of the continent's major art treasures. In just four hours by car or thirty minutes by plane one can reach tropical beaches, mountains capped by eternal snow, or the humid Amazon jungle. The country produces an extraordinary variety of foodstuffs twelve months of the year, having to import only wheat. The waterfalls cascading down the Andean mountains would be enough to provide cheap energy to the entire population. With such wealth, coupled with abundant natural resources and a climate free of extreme

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temperatures, one would think that the country lacks nothing to ensure the overall well-being of its inhabitants.

Although Ecuador has suffered under many dictatorships, it has never been ruled by sanguinary tyrants; some dictatorships in this century have actually been progressive and tolerant. Early on, at the onset of the 20th century, the Liberal Revolution brought about freedom of conscience, the lay State, and put an end to the cloistered isolation in which the country had lived, a change that was helped by the opening of the Panama Canal in 1914. Ecuadorians have not known the scourges of guerrilla warfare and drug trafficking that have plagued its neighbors, and could thus be said to be an island of peace in the convulsive Latin America of the eighties. It was the first country in the region to restore democracy (1977-1979), owing to a civilian-military agreement, a model of peaceful transition soon to be followed by other Latin American countries.

Why could a country with such great wealth and potential be one of the most backward in Latin America, a condition it began to overcome only as recently as 1972 – and this not through its own efforts but because of the miraculous discovery of oil?

Why could a democracy introduced only two years after the establishment of Spanish democracy have treaded water for a long quarter century, while Spain has achieved a prodigious economic, social, and political progress?

The answer is always the same for the 19th century, for the period prior to 1979, and for the last twenty-five years. The country has made no progress and the Ecuadorians' living conditions have not improved to the extent that could have been possible and the reasons for this lie in the field of politics.

From the establishment of the Republic in 1830 till 1979, the number of dictatorships exceeded the number of democratic governments and all of them lasted an average of less than two years. Since then, the country has had no dictatorships but governments headed by autocrats that have trampled on the Constitution or by presidents that have taken power through “constitutional” coups and have lasted an average of a little more than two years.

Under such conditions of utter political instability stemming from chronic, insoluble conflicts of the most varied kind, Ecuador's development was impossible. While the countries that have made progress had governments that steadily pursued certain objectives over decades, particularly in the areas

of economy and education, not a few of the Ecuadorian presidents began their terms with the promise of “re-founding” the Republic, a delusion that led them to change even some good things their predecessors had accomplished. Differently from the most affluent country in the world, which in over two hundred years has maintained its only constitution that is respected by both presidents and congressmen, Ecuador has had so many constitutions – 19 in all – that a library shelf could be filled with their volumes, constitutions that had little effect on the daily life of Ecuadorian democracy – whenever it did exist.

Results of democracy

In 2004 Ecuadorian democracy marked its twenty-fifth anniversary – twenty-five years that were the longest constitutional period of its history. In this quarter century it has made major contributions to the country's progress and to the improvement of the collective welfare, owing in part to the resources generated by oil.

Illiteracy was brought down to 8 percent, infant mortality declined significantly as well as mortality in general, life expectancy rose to 70 years, education and health services coverage has been extended to nearly the entire population, the indigenous people recovered their identity and achieved major participation in public life, in classrooms at elementary and secondary schools and universities, the number of women matched the number of men, cities achieved notable progress owing to decentralization, and a solution was found for the atavistic territorial problem that kept under permanent risk Ecuador's security and that was so costly to the economy and national development.

Under democracy, human rights have been protected and people have been able to enjoy a climate of tolerance and freedom, participate in the election of authorities through their vote, and express their views through the media, public manifestations, political parties, and civil society organizations. But as an institution, democracy has suffered from extreme frailty, particularly in the last ten years, during which it has managed to survive by accepting as a *fait accompli* power abuses, violations of the constitution, and rupture of the rule of law by Government and Congress.

Despite the progress achieved, democracy has failed in its mission to develop Ecuador and build an equitable society that would provide equal

opportunities to all. Economic growth has barely exceeded demographic growth, poverty indicators have remained high, nay, have worsened in the years of recurrent economic crises. The quality of services provided by the State have deteriorated, particularly public education for children and youths from less privileged social strata. The unjust distribution of the country's riches has not changed, but rather, as the pursuit of stability and economic growth has not proceeded, has lagged behind as compared with other Latin American countries that were at the same level as Ecuador twenty-five years ago.

These negative results reflected the influence of causes foreign to our country, such as the deterioration of export prices, the world crises, armed conflicts along the southern border, earthquakes, floods, droughts, and plagues that entailed huge economic losses. These are unfortunate events whose consequences have to be properly weighed, as the international disasters and confrontations were only occasional and transitory, and the border conflict was solved in 1998, and there were years when the country gained by the high prices of its exports, as was the case of oil.

The major cause lay in the domain of politics and became evident in the fact that the governments were not capable of sticking to policies that would ensure macroeconomic stability and sufficient, sustained economic growth, on which depended poverty reduction and improved living conditions. Governmental management limitations caused by governability problems that affected Ecuadorian democracy in these twenty-five years could not be corrected, although a referendum in 1979 and a Constituent Assembly in 1998 accomplished major political reforms embodied in the constitutions drafted on those two occasions.

Being structural, the governability problems of Ecuadorian democracy have conspired against all governments, whatever their ideology or political orientation. Those problems were the root cause of the failure of costly macroeconomic stabilization programs, the interruption of promising growth processes, the wasted opportunities provided by the international economy, the deficient response to the world crises, the little attention devoted to programs aimed at improving the quality of education, the persistence of poverty and social injustice, the country's backwardness as compared to other countries of the continent, the vulnerability of democratic institutions, and the Ecuadorian people's frustration in the fateful final years of the century.

Ecuadorian democracy's governability faces eight problems, which account for the fact that *good government* has been an exception in the years under review here.

Political fragmentation

In the last twenty-five years there have been about a dozen parties represented in the National Congress; those that disappeared or became weak were replaced by new forces founded by politicians bent on competing in the presidential elections. Of the eleven presidents the country has had, only two have belonged to the same political organization (the Democratic Party) and none has been elected more than once. During all legislatures, "independent" parliamentary blocs have been formed by deputies that had left the political parties under which they were originally elected to put themselves at the utilitarian service of the Government, in exchange for advantages. The majority parties in many years never won fifty percent of the national ballots.

The constitutional charters drafted in 1979 and 1998, which sought to correct the fragmentation of the party system by requiring that a party had to win at least 5 percent of the votes to remain in existence, did not accomplish the intended result, as the parties on the verge of being extinguished managed on different occasions to have Congress waver this provision, the Supreme Court declare it unconstitutional, or the Supreme Electoral Tribunal not to enforce it. Something similar happened to the 1979 provision of the Elections Law aimed at curbing electoral expenditures, which was declared unconstitutional in 1983 at the insistence of the media and of a presidential candidate, and reinstated by the 1998 Constitution.

This encouraged political fragmentation and the volatile voting behavior of the citizens and their tendency to disperse their votes over many candidates at presidential and legislative elections. To this was added a self-interested discourse that favored the "minorities", including those lacking representativeness, heedless of the fact that stable, successful democracies rest on solid majority parties.

These are the reasons for the ineffectiveness of the constitutional and legislative reforms aimed at promoting a simple, representative party system that would strengthen the democratic system, ensure political and economic stability, as well as juridical security, enlighten State policies, and introduce the

changes the country needed to adapt itself to the new realities and the challenges of a globalized world. Moreover, governments were never able to rely on a majority in Congress to support their initiatives and tame the destabilizing opposition presidents consistently faced at the National Congress.

Tendency toward conflict

Democracy is a political system in which dialogue and negotiation permit the approximation of positions and the establishment of agreements, as well as facilitating decisions and giving impetus to initiatives of national interest, practices usually inherent to a democratic society and sorely needed in a politically fragmented country without majority parties. A political system's capacity to promote consensus depends not only on the soundness of institutions and on the incentives to ensure their soundness, but also on the way political players act – a behavior not always consistent in Ecuador. The doors to constructive dialogue were closed and all sorts of obstacles to political negotiation were raised by the influential presence in public life of dogmatic, inflamed leaders, obstinate in imposing their views, reluctant to admit the validity of their adversaries' opinion, and inclined to verbal violence. Public life has been so conflict-ridden and so small-minded that politicians and political parties that criticized and fought against the Government's policy when they were in the opposition applied the same policy, unchanged or only with minor changes, after they won the elections.

These conflictive political relations have hurt the institutional aspects of democracy and the country's development. It has not been possible to form enduring alliances that would permit the adoption of public policies and facilitate their implementation in the long run by successive administrations. Those aspiring to assuming power have waged an intransigent, unfair opposition, without taking into account the fact that the country's progress depends on the President of the Republic's success. The debate on public affairs has not sought to clarify them through a reasoned exchange of views and the technical support of differences; instead, the aim has been to end the dialogue and invalidate initiatives by directing personal attacks against opponents.

So conflict-ridden have political relations in the last twenty-five years that, with two exceptions, presidents have left behind a destabilized economy.

One of them even said that he saw no reason why he should “leave the house in order” and another made malicious decisions with the deliberate purpose of aggravating the economic problems and thus making things difficult for his successor. Insoluble conflicts caused by civilians made the military take things in hand, as has been the case of three presidents that have been thrown out not by Congressional decision but by a notification from the armed forces informing him that they had “withdrawn their support.” As recently as two months ago, in response to an unconstitutional motion by Congress to prosecute the President of the Republic, two former presidents unleashed a conflict that led the Supreme Court arbitrarily to unseat the President, making this the third time a Head of State has not finished his term.

Illegality

Governments, congress, parties, social organizations, economic sectors, and many citizens, instead of keeping their daily activities and functions within the prescribed legal boundaries, tend to give the law a biased interpretation or simply to ignore it. Owing to this and not to the lack of norms, Ecuador does not know the rule of law, on which depends the proper working of democratic institutions, the possibility of equal opportunities for the citizens, the juridical security so important to the economic agents, and the confidence that is the foundation of the progress of contemporary societies.

Three presidents have been thrown out of office without the observance of the constitutionally established procedures. To preserve fiscal stability, an article was introduced into the 1998 Constitution, attributing exclusively to the President of the Republic the initiative of originating bills involving the creation of public expenditure. On numerous occasions, the National Congress has violated this provision, a noncompliance paradoxically endorsed by the last three Presidents of the Republic, fearful of losing the goodwill of those that had benefited from the new budgetary appropriations. In recent months, Congress dismissed the Supreme Court and replaced it with another, which soon thereafter was replaced by a third one appointed by civil society organizations – four instances in which the legislature had no constitutional authority to act.

The population's behavior is no different. Noncompliance with laws and contracts is frequent, as are the ignorance of formal agreements and the elusion

of debts, as well as the daily violation of transit laws by both drivers and pedestrians on streets and roads, and the habit of cribbing by students. To this is added a little reliable judiciary, at the level of both the juries and the courts as well as of the State's administrative instances, so that not always the rights of individuals and society or established obligations are recognized.

Populism

It is possible that there is in Latin America no country with a more deeply rooted populist culture than Ecuador. This can be seen in the fact that the most influential political leaders in the second half of the 20th century were populists. Populism's power is such that its rhetoric and practices are a trait not only of the avowed populist parties (PSC, PRE, PRIAN and MPD) but also of other political groupings and of great many contemporary Ecuadorian political leaders. An obvious conclusion is that the politicians' populist proclivity is a response to voters' feelings and demands, evidenced by the fact that the parties mentioned and others that preceded them in the current democratic period have consistently won around fifty percent of the votes in the elections.

The exorbitant public spending of populist governments, congress, and municipalities, particularly at election time, their reticence in the face of "unpopular" but necessary decisions aimed at restoring fiscal stability, their opposition to laws and measures conducive to preserving the economy's health and to growth, coupled with the waste of resources on welfare programs, have stood in the way of an orderly administration of the economy and, in the long run, have led to devastating economic and social crises, the greatest losers of which were precisely the poor, whose interests populist leaders claimed to defend. Their lack of interest in long-term programs aimed at improving health care and ensuring quality education has prevented the country from reducing poverty and achieving greater social equality.

Two recent events illustrate Ecuadorian society's populist character. Deputies, political leaders, journalists, and civil society organizations debated about a pension increase retirees were claiming for. The increase was approved by Congress and the Government, exclusively on the basis of the retirees' justified needs, without taking account of the resources required and the effect

of the measure on Social Security's economic future. The same players enthusiastically supported a bill that was unanimously approved by Congress, ordering the refund of reserve funds deposited with Social Security by workers and employees, even though this meant elimination of medical insurance for the employee, the spouse and children under six, reducing to half the pension of future retirees, and ending unemployment insurance, under the allegation that what mattered was meeting the needs of the people now, as tomorrow's needs could wait and a solution would somehow be found in the future.

The populist parties are also responsible for the steady degradation of democratic institutions. Their favoritism-biased exercise of power has led them to make public institutions serve their own interest, expand an unnecessary bureaucracy, and lower the competence level, thereby creating the conditions for the flourishing of corruption. Lastly, their paternalistic preaching and unbridled demagoguery kept the people from developing an awareness of their responsibilities and thus from achieving full citizenship, a pre-requirement for the proper operation of the institutions of democracy and the progress of nations.

Social exclusion

The high rates of poverty and indigence, the glaring social injustices, the abusive prevalence of privilege, and the lack of equal opportunities, particularly for those that need them most, have nourished a feeling of social exclusion, leading some segments to feel that they have been passed over, to question the democratic system, and to berate the economic policy aimed at stability and growth. Feelings are exacerbated by the modest results achieved by democratic governments, particularly at the close of the century, when devaluations and high inflation rates followed painful adjustments – a vicious circle the country has not been able to break and which is about to begin again owing to the Government's fiscal decisions and the social security measures approved by Congress.

The feelings of social exclusion and the social claims in the eighties were championed by labor organizations grouped together under the Workers United Front-FUT, which had the governments of that time in checkmate through nationwide strikes. Owing to the labor movement's loss of members and representativeness, its role has been assumed in the last fifteen years by indigenous groups under the Confederation of Indigenous Nationalities of Ecuador-Conaie

and the Pachakutik Party, whose protests took the form of *levantamientos* [uprisings] that paralyzed whole provinces and to which were added the *tomas* [seizures] in the capital. These mobilizations managed to prevent or distort governments decisions aimed at preserving macroeconomic stability, reactivating growth, modernizing the State, opening the economy to competition, and regaining international credibility. They often berated democracy and conspired against it, as was the case in 2000, when Conaie, together with insubordinate military ranks, ignored the constitutional government and proclaimed a dictatorship.

Patrimonialism

There is a permissive attitude in vast sectors of society toward public property and this not only among politicians and government employees, as citizens, businesses, social organizations and civil society groups tend to subordinate the common interest to their personal interests when there are benefits to be gained. As the line separating the public from the private is often unclear, State and authority are seen not as the instances responsible for protecting the national weal, impose obligations, and ensure legitimate rights, but as tools to be used by people and groups to obtain favor, receive perks, defend privilege, and even become rich. Not a few have different attitudes toward private money and goods and public property, based on the premise that private money and goods have an owner, while the State's belong to nobody.

This lack of a virtuous ethical culture in ample segments of the population explains why it has not been possible to get rid of corruption despite legislation passed to this end, bodies set up to control it, the punitive action by some authorities, and the promises to eliminate it – promises made in its time by each of the ten parties that have succeeded each other in power. This frail culture of honesty explains why Ecuador has been listed for years by Transparency International as one of the world's most corrupt countries.

One of the many examples that could be cited is the collusion of private citizens, politicians, and civil servants to engage in the contraband of all sorts of goods and in stealing, through fraudulent connections, electricity, telephone time, drinking water, and oil – crimes that have proven impossible to eliminate, owing to the dense network of interests that has been woven around them. Similarly, for a vast majority paying taxes is a childish naiveté; few see this duty

as one of a citizen's most important obligations to the country. There are political parties that not only are at the service of private interests but also operate as true mafias (PSC and PRE), a behavior that does not seem to matter to their numerous followers, who, election after election, generously give them their vote instead of punishing them. The degradation the *public interest* concept has reached such a point that its defense has often required intervention by the IMF, the World Bank, and the Iadb with their conditionality to check damaging decisions the governments and congress were about to make.

Leftism

While in Europe and other Latin American countries the traditional thinking of the left has lost its hold and influence, as well as voters, and the Communist Parties that rule China, Vietnam, and Cuba have changed to adapt to the world's new economic and political realities that have emerged since the fall of the Berlin Wall, in Ecuador it remains a source of inspiration for political parties, social organizations, civil servants unions, and the indigenous movement. Although the political system and economic model devised by Lenin, Mao, and their followers have ceased to exist in the countries that had adopted them, the Third World liberation movements have discarded their revolutionary ideas, and the left parties in power in Chile, Brazil, and Uruguay have adhered to the market economy and redefined the role of the State, the Ecuadorian parties and organizations, including the center-leftist ones, disdain economic stability, oppose foreign investment, raise objections to the international opening, have contempt for the market, and endeavor to preserve the responsibilities the State used to have in the exploitation of natural resources and in the administration of public services.

Owing to these rigid ideological positions that are influential in Government, in Congress, or on the streets, the aforementioned political and social organizations have rejected or hampered the implementation of economic policies aimed at maintaining fiscal balance, reforming inefficient, subsidized, and corrupt public enterprises, and supplementing the low national savings with foreign capital. If implemented, those policies would have resulted in lower inflation, higher economic growth rates, more jobs, and poverty reduction. Not even the fact that during this democratic period one of those parties (ID) showed the worst social results (in terms of real salary, social expenditure, and poverty), given the economic imbalances it has not been able

to redress during its administration, has convinced the conservative Ecuadorian left of its mistaken positions. The Conaie indigenous people have fought those policies, even though they have benefited from the poverty reduction that stability and economic growth have brought about in recent years.

Regionalism

The century-old rivalry between Quito and Guayaquil has been exploited by the PSC leaders and the production chambers, as well as by columnists and journalists, to foster the economic interests of individuals or groups of their relations. Alleging a supposed affectation on the part of Guayaquil, they have prevented Congress from approving legal reforms of national interest and governments from taking steps to protect the public interest and the country's welfare, or managed to get legislation passed and resolutions adopted to favor the private economic interests of their protégés. Had it not been for this, the country would have been able to count on the requisite legal instruments to promote national development and the State would not have been forced to incur heavy tax expenditures that have eroded public finances, entailed economic crises, and laid the burden on the taxpayers.

Reforms aimed at moralizing Customs and deter contraband were dropped under the allegation, raised by political leaders connected with those interests, that "they wanted to move Customs to Quito." During the 1998-1999 financial crisis that bankrupted 70 percent of the banking system, those sectors, based on regionalist allegations, neutralized the Government's action and the initiatives of anyone who sought to push measures against insolvent banks whose managers had committed serious fraud, thereby aggravating the costs of the banking costs. Claiming that the "Quito centralists" wanted to "finish with the Guayaquil banking system," they managed to stop bankrupt banks from being closed and to allow corrupt bankers to keep their positions and have time to culminate their frauds and destroy the evidence of their crime. All this multiplied the number of losing depositors and inflicted on the State a cost of approximately four billion dollars, or twenty-five percent of the 2000 GDP.

By way of conclusion

This frank exposure of the political weaknesses and limitations ascribed to the citizens' ideas and behavior seeks to call attention to the pressing need

for Ecuadorians – the well-off, the poor, and the rich alike – to face up to their errors and omissions, mend their untoward ways, and assume their responsibilities.

Ecuadorians cannot go on seeking “in others” or beyond the national boundaries scapegoats for their individual and collective guilt, as the once-influential dependence theory is no longer supported, not even by its own proponents. The countries that have achieved the greatest progress are those integrated into the international system, and it has been shown that a country's development is the outcome of its citizens' continuous efforts.

The problems of Ecuadorian politics just pointed out, except for the endless fragmentation into parties, cannot be resolved by reforming the political institutions unless reforms are accompanied by changes in the citizens' ways of thinking and acting, i.e., in their costumes, ideas, attitudes, and behavior.

As long as national cultural values remain unchanged – and changing them will depend on what the authorities, educators, leaders, and communicators will do to that end – reforms of the political institutions will continue to yield meager results and the country's development will continue to be postponed.

The parties' responsibility for the failure of Ecuadorian democracy and its role in effectively managing the country's development and steadily improving the people's welfare is shared by the economic, social, and media sectors as well as by the citizens of every social segment.

In Ecuador, as in other Latin American countries, it is common to ascribe to the parties all the national evils, without regard for the fact that politicians are but a mirror that reflects their people, with their virtues and defects.

Although the views here expressed refer to Ecuador, some considerations may apply to other Latin American countries, in which *mutatis mutandi*, the same political and structural problems, ideological constraints, and cultural habits are also to be found. ■■■

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Version: João Coelho.

Guyana – between history and reality

Christopher Ram *

Guyana is perched at the northern tip of South America with its northern shores washed by the Atlantic Ocean and looking towards the British West Indies with which it shares common ties of history, culture, law, language, sports and all the other ingredients that create a bond among peoples separated by space. On the other hand and by an accident of history however, the countries of Guyana, Brazil, French Guyana, Suriname and Venezuela all situated in northern South America represent the five European powers to have left their colonial imprint on the continent. Its direct and contiguous borders are shared with Brazil with which it settled a border dispute in 1904, and Suriname and Venezuela with which long-standing and troubling border disputes erupt - sometimes quite dramatically - from time to time.

Not only is Guyana the third-smallest country in South America after Suriname and Uruguay, but it also has one of the lowest population densities

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as well – 3.5 persons per hectare. Its population is concentrated almost entirely on its Atlantic coastline making its borders with Brazil (1,119 km), Suriname (600 km), and Venezuela (743 km) to the south, east and west respectively open and vulnerable. It is the only country in the South America and indeed the hemisphere where the majority of the population (52%) can trace their roots to India with the African-Guyanese making up some (36%). The rest are a mix of indigenous Amerindians (10%) who account for the majority in the hinterland regions and descendants of Portuguese, other Europeans and Chinese and - hence the label a nation of six peoples.

Being the only English-speaking country in the region no doubt explains why even before Independence in 1966 the efforts of successive administrations at cross-border alliances have largely been to look north towards the former British colonies in the Caribbean Sea rather than to the countries of the South America. Communities in border towns such as Lethem and Corriverton do however have a far more practical approach and cross-border contacts and activities are frequent and substantial. Occasionally Guyana's politicians and academics speak of a continental destiny and the need to develop closer economic and cultural ties to the countries of the South American continent. More recently the country has joined in a number of the many regional initiatives and groupings including the Rio Group and the South American Community of Nations (CSN). With no common history, a language barrier, insignificant trade and at best weak cultural contacts the prospect of a destiny southward with large markets for goods and services, sharing of resources, and the development of infrastructure is both attractive as well as challenging.

Guyana is well endowed with natural resources, fertile agricultural land, diversified mineral deposits, and a large acreage of tropical forests. The economy is heavily reliant on primary agriculture with sugar and rice, bauxite, gold and timber accounting for most of the output in the productive sectors. Hydroelectric potential is immense but still far from nascent. Despite its abundant resources, Guyana is the second poorest countries in the Western Hemisphere with a per capita income of US\$850 in 2004.

Guyana also shares with its continental counterparts common challenges and threats including the narco-trade, environmental degradation such as deforestation and water pollution, new trading patterns and rules and the world's only superpower nervous of its southern neighbours who are less than enthusiastic about its leadership and agenda. For all its relative newness, Guyana shares with

many countries of the continent the experience of USA interference and the regime change of the government of radical leftist Dr. Cheddi Jagan in the sixties.

History

Christopher Columbus sailed off the coast of Guyana on his 3rd voyage in 1498 but it was almost a century later that Guyana achieved any prominence with its association with “El Dorado”, the fabled city of gold, sought by Sir Walter Raleigh in 1595. In 1616, the Dutch established the first European Settlement in 1616 and soon the Dutch settlers turned to sugar which was accompanied by their most lasting legacy in Guyana – the reclamation of coastal lands and the construction of dams and drainage systems to keep out the mighty Atlantic.

The Dutch opened the area near the Demerara River to British immigrants in 1746 who soon constituted a majority of the population. In 1781, war broke out between the Netherlands and Britain, resulting in the British occupation of Berbice, Essequibo and Demerara. The French, together with the Dutch, regained control of the colonies a few months later. The colonies changed hands several times until in 1814, when they were formally ceded to Britain. Berbice and the united colony of Demerara and Essequibo were unified as British Guiana in 1831.

In 1953, British granted internal self-government to the colony but that constitution was soon suspended because of the Communist leanings of its Premier Dr. Cheddi Jagan. It was granted Independence in 1966 and in 1971 the country became a Republic within the British Commonwealth.

Government

Guyana has a mix of the British Westminster parliamentary model but with a written constitution and the American Presidential system without the strict separation of powers. The President has considerable executive powers under the constitution but is not a member of the National Assembly. He is elected in General Elections coinciding with national and regional elections and may serve a maximum of two terms of five years each. There is a single chamber legislature of sixty-five members elected by a combination of proportional representation and direct regional elections on the party list system.

Legal system

With control of Guyana having been shared by three European powers from 1616 to 1814 it is no surprise that the country's legal system cannot be easily placed in one legal tradition. Understandably, the European powers took their legal system with them to the West Indian colonies. Roman – Dutch, itself a mixture of other laws was transplanted in the colony when the Dutch set up the first settlement in 1616 and the English common law was introduced in phases. Over the centuries English common law has replaced Dutch law and between the period 1846 and 1924 almost all branches of law with the exception of real property has followed the tradition of the common law.

Accordingly the current state of Guyana law is that with certain exceptions in relation to the law of property, matrimonial causes and the law of succession English common law is the dominant legal system and tradition. Despite this the system is still described by legal theorists and academicians as a hybrid system.

The economy

At Independence in 1966, Guyana was among the most developed countries of the Caribbean. The economy continued to grow for about a decade thereafter but a mixture of state capitalism, socialist policies and increasingly dictatorial administration had a devastating impact on the country with dramatic declines in living standards, social services and infrastructure exacerbating a pattern of emigration that began in the sixties and continues to the present day.

In 1998 an Economic Recovery Programme (ERP) under the direction of the International Monetary Fund (IMF) marked the beginning of Guyana's transition from a socialist regime to a market economy and a democratic system. From the low economic base at its commencement, the ERP delivered impressive growth rates averaging 7.1 percent per annum during 1991 – 1997 but since 1998 the performance of the economy has slackened considerably despite wholesale privatisation, liberalisation of the economy and the Guyana dollar and very generous debt relief.

The economy of the country is often regarded as one of the most open in the Caricom region following the complete liberalisation of trade, the

financial market and the Guyana Dollar. Such openness however creates its own risks and in 2004 the value of merchandise exports was less than 50 % of imports. Attempts and policies to encourage manufacture for exports outside of the traditional area have not had the desired results. In a recent business survey only three of forty companies exported any of their products to South or Central America.

Major constraints include irregular and costly transportation facilities, language barriers, unfamiliarity with the market place and its processes, the low volumes available for export to continental countries, and inadequate information available to the business communities or in the respective embassies.

While trade is a two way process the same reasons that inhibit Guyana's exports to the continental markets militate against continental exports to Guyana. The few products from South American countries seen on the supermarket shelves in the capital city Guyana are generally the result of cross-border smuggling or are imported from Miami!

At the same time there are major limitations to the development of external trade relations with Caricom with a population of less than 5 Million and a combined real GDP of approximately US\$32 billion.

The question for Guyana is how then does it pursue a continental destiny and what are the major hurdles it must overcome. Can it and should it go it alone or must it be done as part of a wider Caricom initiative? Although the country did not participate in the ill-fated West Indian Federation, it was instrumental in the setting up of the successor Caribbean Free Trade Area (Carifta) which is soon to evolve in the Caribbean Single Market and Economy. It is therefore an integral part of Caricom and its decision to join the CSN which is itself a continent-wide free trade area uniting two existing free-trade organizations, has raised questions about compatibility with its role in Caricom.

Guyana became a member of the Organisation of American States (OAS) only in 1990 following an amendment eliminating exclusionary provision in the OAS constitution and its experiences with the region have been mixed. But Caricom itself has expressed its desire for stronger relationships with the area and indeed, the Association of Caribbean States (ACS) which is headquartered in Port-of-Spain, Trinidad. The ACS had its origin in the Caricom Document "Time for Action" while the Report of the West Indies Commission

recommended that Caricom ‘bridge that divide between its member states and the rest of the Caribbean and Latin America’.

Continental Destiny

If it chooses to pursue a continental destiny outside of the Caricom framework it may find that it may be competing with other Caricom countries that have similar aspirations. In fact the much wealthier Trinidad & Tobago has declared its vision of becoming a bilingual society and the bridge to South America. It is true as Guyanese and former Secretary General of the Commonwealth Sir Shridath Ramphal wrote Guyana has done well on the international stage, attributing this to be the “memory of what our ancestors survived and overcame.’ It actively supported the liberation struggle in Africa, was twice a member of the Security Council of the United Nations and hosted major meetings of the Non Aligned Movement and the headquarters of the Caricom.

It is not however without major problems and as a small, multi-ethnic state Guyana faces several threats both from internal as well as external sources. Indeed there is an oft-expresses fear that the difficult economic and social conditions and ethnic and political divisions add to the vulnerability to external threats.

The external threats are perhaps less visible but even more dangerous and include incursions into the country by illegal miners, foreign forces, loggers and narco-traffickers for which its response is at best inadequate owing to the absence of resources. But it is the claims to its territory by Venezuela and Suriname which deserve special consideration.

Border threats

Venezuela

Ever since its Independence, Guyana has been plagued by border disputes and controversies which have threatened its very existence. The country had thought that its borders had been settled since the end of the last century but it is widely believed that the fear of a left-wing Government in Guyana

prompted the rekindling of earlier controversies. The major dispute is with Venezuela which is claiming two-thirds of Guyana despite the award by an International Tribunal in which Venezuela did not participate directly but was represented by the USA.

Reluctantly Guyana has agreed to this controversy being referred to the United Nations and a process began in November 1989 guided by Article 33 of the UN Charter charged with helping the two sides settle the controversy peacefully. Meanwhile Guyana's attempt to pursue economic development of the controverted area has not found favour with Venezuela which in 2000, objected to an agreement between the Government of Guyana and Beal Aerospace to establish a satellite launch station on the banks of the Waini River and to the presence of two US oil exploration firms in Guyana's territorial waters.

Venezuelan President Chavez has publicly stated that there would be no objections to infrastructural developments such as roads, water and electricity directly designed to enhance the lives of residents but that sensitive projects should be discussed within the framework of the Guyana – Venezuela High Level Bilateral Commission (Hlbc), a suggestion rejected by the Guyanese Administration.

Suriname

Suriname has two separate claims to the Guyana territory. Guyana's maritime space arose originally out of informal agreements between the Governors of the then adjacent Dutch colonies of Berbice and Suriname. Controversy first arose between Guyana and Suriname in 1962 following a proposal by the Netherlands for the redrawing of the boundary which would have resulted in the transfer of a large area of land to Suriname, a proposal rejected by Britain.

A second area of controversy is the lower Corentyne River area where the Netherlands sought to secure acceptance of the Guyana bank as the territorial boundary which would have meant that the river would effectively belong to Suriname. Guyana moved to the UN's International Tribunal on the Law of the Sea (ITLOS) after Suriname's Navy forcibly evicted the Canadian CGX petroleum platform from Guyana's waters in June 2000 and after the failure of extensive consultations on several fronts.

Guyana's President has expressed the hope that the disputes and controversy with its neighbours will soon be settled since they bear on the country's development and its 'capacity for raising living standards for all our people'. In a wider context these disputes severely hamper the pursuit of aspirations of any continental destiny which Guyana may harbour.



Map of Guyana showing areas claimed by Venezuela and Suriname.

Brazil – threat or opportunity?

Unlike Suriname and Venezuela, the relationship with Brazil has been developing over the years and was further strengthened with the recent signing

of the Guyana/Brazil Trade Agreement allowing for preferential access of the two countries products in each other's markets. Brazil's interest in the development of its relationship with Guyana however goes well beyond the free movement of goods or the interest of Guyana. It includes a proposed road link from the state of Roraima, through Guyana, joining the northern states of Brazil in a great loop through the Guianas, facilitating access for Brazil to the North Atlantic, the Caribbean, North and Central America and Europe. Indeed a report in 2004 in the *Graceta Mercantil*, an influential Brazilian Newspaper, outlined this ambitious scheme and pointed out that, by way of the Panama Canal, the road link through Guyana could easily connect Brazil with the Pacific."

The challenge which Guyana faces therefore is whether in any go-it-alone policy it can negotiate on equal terms with an emerging world power, a perpetual and real concern of all small states. The Brazilians have been on a charm offensive in its relationship with Guyana and have benefited from Guyanese admiration of and identification with President Lula. The Brazilian Government has displayed keen interest in the construction of a highway between Guyana's capital Georgetown and Lethem, just across from Bon Fim on the border with Guyana. While Brazilians have been no strangers in the hinterland communities and more especially in the important border town Lethem, there is now increasing concern about Brazilians miners operating illegally and openly in the country.

Guyanese should not be unmindful that Brazil's history is not without its own hegemonic tendencies and the danger of its becoming just an outpost of Brazil Nor should it ignore the reported violations of its human rights of ethnic minorities and the masses of landless peasants and the disparity in the income and wealth distribution in that country. It is not a society which Guyanese would embrace without at least some reservations.

Prospects

Tempting as it might seem, a continental destiny for Guyana even if at some point inevitable, has a number of risks. Separated by the Caribbean Sea from its traditional neighbours and political and comparatively miniscule trading partners in Caricom, it might find the size of Brazil irresistible. It would be a mistake however for the strengthening of Guyana's ties to South America

being done at the expense of its relationships with its partners in Caricom. Indeed while Guyana must never give up its right to enter into bilateral relationships, multilateral relationships offer advantages and security.

In the final analysis Guyana has to look after its own interest as Brazil did in its recent joint challenge with two other countries against the EU Sugar Regime of which Guyana is a major beneficiary. Brazil could not be unaware of the harsh consequences which that ruling would have for Guyana but clearly put its national interest ahead of any concern for Guyana. Indeed, the jeopardy facing the sugar industry in Guyana as a result of the action by Brazil ought not to lead to searches for quick fixes at the expense of its long term interest. Brazil on the other hand needs to recognize that at almost every opportunity Guyana supports it in various international fora and that Guyana would expect some reciprocity and that it would be more sensitive to the interest of smaller and poorer countries.

It must be extremely discomfoting to operate in the atmosphere generated by what it considers to be unjust claims on its territory by two of its neighbours. While it has no such dispute with Brazil, the relation is clearly not one between equals and Guyana will have to ensure not only that its territorial integrity and political, social and economic interests are not jeopardised but that it is puts arrangements in place to ensure that it derives just benefits from the relationship. ■■■

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Objetives and challenges of the paraguayan economy

*Ernst Ferdinand Bergen Schmidt **

In recent years Paraguay has gone through a complex political and economic crisis of which it is just recovering. Governability problems during the previous administration aggravated the fiscal problems and the drop in production intensified the deterioration of social conditions. The country was headed toward an imminent suspension of payments, a course that was reversed by the current government through timely measures aimed at balancing public finances, including a tax system reform.

Having overcome the fiscal crisis, the Government is concentrating its efforts on promoting the development of the economy through clear policies that can decisively help ensure the population's welfare by raising the level of investment, employment, and people's income. Although macroeconomic stability has been achieved, creating a favorable business environment, social conditions will significantly improve only when sustainable development is also ensured.

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The Government's intention is to maintain closer ties with the private sector. We are conscious that working together is essential for achieving development. To this end we are endeavoring to create conditions for domestic investments, as this would provide an example and arouse the interest of foreign investors.

Development strategies

The Paraguayan Government succinctly defines its development strategy in the form of the following goals:

- Restoration of confidence in public institutions by unceasingly combating corruption and modernizing public administration;
- Sustainable economic development based, in turn, on the development of agroindustry and of value-added exports; and
- Enhancement of the human capital through more investments in health and education services and policies to ensure grater equality and wider access to these services.

In this connection, it is of fundamental importance to take advantage of the beneficial effects of globalization, such as free trade and the access to investment capital.

Current economic policy

A major step taken by the Government was to improve governability and to make sure that public policies are predictable, owing to an agenda of legal reform and bills aimed at fiscal sustainability, the productive sector's access to credit, and modernization of public management and the financial sector.

A political agreement was reached by the Executive Branch, the Congress, the political parties, and the private sector to approve a reform agenda to achieve these objectives. Five of the seven bills sent by the Executive Branch to Congress in 2003 have already been approved: Reform of the Retirement and the Public Pension Funds; Tax Reform; a new Customs Code; the Deposit

Guarantee Law; and Foreign Debt Reprogramming. The reform of the official banking, which is fundamental for credit to small and medium enterprises, is under consideration by the Congress, as is also the bill on the reform of the private banking sector.

Other bills sent by the Executive Branch to Congress are related to economic reforms with a view to establishing clearer market rules. Thus, the following legislation has been enacted: the Bio-fuel, the Competitiveness Defense, and the Fuel Laws, the latter geared to the liberalization of this product on the market.

With respect to public enterprises, the Paraguayan Government is engaged in a process of substantially improving their efficiency, and to this end it has undertaken a series of financial and management audits with a view to establishing a business plan for each one.

Society's participation in development

The current Administration is in continuous dialogue and coordination with the political forces and civil society to carry out the necessary economic reforms and to formulate medium- and long-term public policies. Together, the government, entrepreneurs, and representatives of civil society have recently drawn up a 2005-2011 Plan for Economic Growth with Equality, supported on four development pillars:

- (i) Improvement of the business and competitiveness environment;
- (ii) Greater diversification of production and exports;
- (iii) Better land distribution to raise agricultural and livestock production;
and
- (iv) Reduction of poverty and social inequity.

The Paraguayan Government is convinced of the need to include the social factor in all its activities. The specific social programs under way will significantly help reduce poverty and inequities, so that the entire population may have greater access to adequate food and health care, as well as creating and protecting jobs.

We are conscious that development has to do with individuals and with equal opportunities for them to develop their capacities.

Macroeconomic stability policy

Another major step has been the recovery of macroeconomic stability to restore the confidence of economic agents. After six years of recession, GDP started growing again and inflation has been contained at the lowest level in thirty years.

After a historic 3-percent GDP deficit in 2002, the Paraguayan State managed to reduce this gap to 0.6 percent in 2003. By late 2004, the Government had managed to reverse this deficit and achieve a 1.5-percent of GDP, the first positive result after ten years of deteriorating public finances. Interest rates on credit in national currency were reduced and a monetary policy consistent with economic reactivation was implemented. There are no overdue payments of the domestic and foreign public debt and international reserves nearly doubled in 2004 as compared with the previous year.

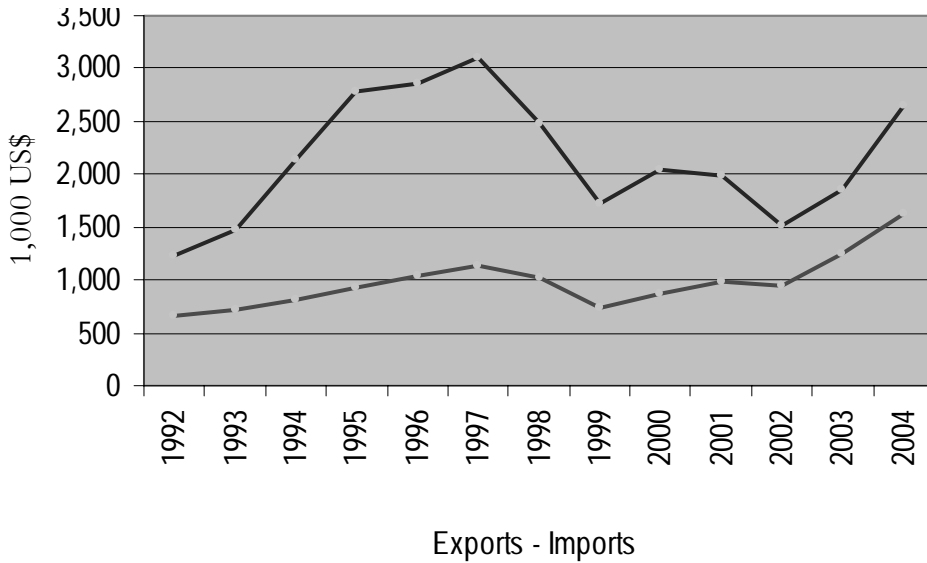
Still more important was preventing the suspension of payments in 2003 by reprogramming the foreign debt with private banks and the payment of foreign debt arrears. These results were part of the standby agreement with the IMF, which, in turn, allowed the Government to obtain structural adjustment loans from the IADB and the World Bank.

Favorable international economic conditions contributed to the results pointed out and also allowed the economy of the Mercosur countries to grow more than 5 percent in 2004.

Paraguay's commodities exports found adequate prices and international interest rates remained low. The world financial scenario was propitious to the flow of capitals into the region, which, among other factors, permitted the strengthening of international reserves.

Economic reactivation had a favorable impact on the country's trade balance. In 2003, Paraguay's exportable supply broke away from its historical stagnation levels. Exports increased 32 percent and rose further in 2004, with a 55-percent accumulated increase over the historical average. All these factors contributed to a steady reduction of Paraguay's trade balance deficit, without any loss in the exports' dynamics.

Chart 1. Paraguay's commercial exchanges

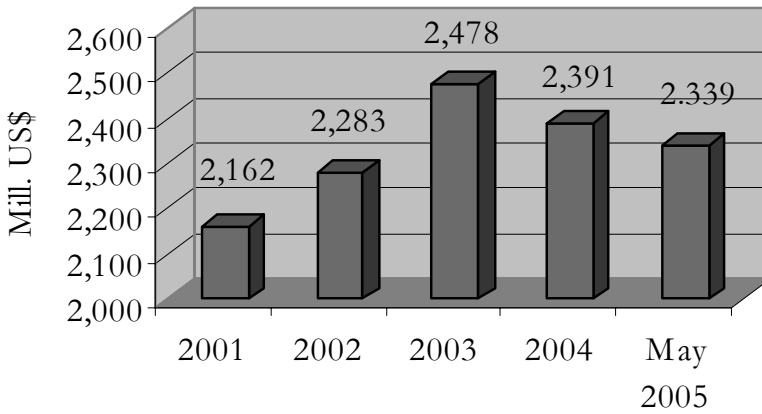


For 2005, GDP is expected to grow, accompanied by a fiscal surplus, low inflation, and stable interest rates, continued reduction of the trade deficit, and higher international reserves.

Public debt reduction

The Government does not discard the possibility of new loans under its 2003-2008 Plan. However, it stresses the importance of carefully analyzing the convenience and pertinence of such loans. At the same time, it maintains a policy of consistently reducing its outstanding external obligations, and this earns Paraguay greater confidence on the international scene and helps the country's economic stability. Since the end of 2003, the public foreign debt has declined by 4 percent, or nearly 100 million dollars.

Chart 2. Paraguay's public foreign debt



Reliability of public institutions

Preventing and combating corruption is essential to a business environment conducive to private investment and economic development. Thus convinced, the Government has promptly acted against this scourge that plagues both the public and the private sectors.

As regards public administration, one of the major results of combating corruption to restore confidence in and the reliability of public institutions has been a substantial increase in tax revenue—over 40 percent—between 2003 and 2004. Another significant result has been a 30-percent savings in government procurement, attributable to the establishment and operations of the new Public Contracting General Directorate.

Foreign recognition

Impartial evaluations of Paraguay's economic situation and of the progress it has made include those of private analysis entities, such as Standard & Poor's and the PRS Group, which continuously monitor the country. Without dismissing the challenges still confronting Paraguay, both have made reference in their periodically published rankings to some improvement in matters of credit and investment risk.

In July 2004, Standard & Poor's gave Paraguay a "B" rating for long-term credit in both local and foreign currency. This represents a major advance from previous classifications ("SD" for foreign exchange credit and "CCC" for domestic loans).

As regards investment risk, in two years Paraguay improved its position on the ranking list published by the PRS Group, from 60.3 to 66.0 (100 being the highest ranking). This has placed Paraguay among the twenty countries of greatest relative development worldwide.

Priority sector plans and programs

Agriculture and livestock sector

Paraguay has a wide range of agricultural products—such as fruit, vegetables, legumes, oleaginous seeds. Today, though, agricultural activity is concentrated on soybean and cotton production.

Under the current Administration, the Ministry of Agriculture and Livestock –MAG has thus defined its mission: *To promote the competitiveness of the agricultural, livestock, and forestry productive chain in Paraguay, under free market, social equity, and environmental sustainability conditions and within the political framework of a democratic, representative, participative, and pluralist government system.*

To diversify agricultural production and heighten income-generation possibilities in rural areas, MAG is implementing a series of specific projects geared to certain products, such as stevia, sesame seeds, castor beans, cassava, and vegetables and fruit.

Organic products and their promotion are gaining increasing importance in the country's agricultural policy. In 2004, Paraguay was the leading world exporter of organic sugar.

MAG is also aiming at the reactivation of family farming with a view to reduce poverty among rural and low-income population segments.

Under its 2004/5-2008/9 National Cotton Program, MAG is implementing projects to improve cotton yield and quality countrywide.

The Paraguayan livestock sector is highly productive. The country exports beef to Brazil, Russia, Chile, and the Middle East. Since 2004, Paraguay has

been free of bovine hoof-and-mouth disease with vaccination and this significantly raises the prospects of winning new markets. Currently, Paraguay raises approximately two head of cattle per inhabitant. As the climate and vegetation are conducive to the year-round natural feeding and maintenance of the herd, the quality of beef is high and much appreciated. To diversify meat production, MAG also implements national poultry, pisciculture, and hog programs. There is a growing foreign demand for Paraguayan products, such as frozen chicken.

All government animal health services have been brought under the National Animal Quality and Safety Service-Senacsa, responsible for all matters related to animal health, the quality and safety of food of animal origin, and the international trade in animals and animal products. Thus, supervision and control of all phases of the productive chain are ensured.

Industrial sector

Paraguay's development strategy aims at economic growth based on agroindustry and valued-added exports. To achieve this, the government intends to create the conditions conducive to the development of industries, through a series of instruments and incentives to production and exports (See Chapter 6).

In the agroindustrial sector, competitiveness forums are carrying out sector studies of the cotton-textile-apparel, timber-furniture, feed, and dairy productive chains.

In addition, the metallurgical sector is gaining increasing importance. Paraguay is provided with a large supply of electricity and the pertinent qualified labor, propitious to all activities related to metal processing. The "Metal-Mechanic" and "Automotive-Two Wheels" Competitiveness Forums are devising strategies to optimize the inter-linking of the different participants in the productive sector.

A major industrial achievement is the production of *Made in Paraguay* bicycles. In 2004, over 35,000 bicycles were produced.

Trade policy

With respect to customs policy, Paraguay applies low, uniform customs tariffs. The weighted average of import duties levied on goods originating

outside the Mercosur zone has declined from 5.9 percent in 1995 to 4.1 percent in 2003. The country is thus staying the course as an economy open to the international community. Exception agreements signed within Mercosur, which permit the maintenance of tariffs different from those agreed under Mercosur's Common External Tariff, have been essential for this policy.

Improvements in the tariff structure have in turn led to improvements in customs procedures. The computerized cross-checking with the countries of origin is an important tool, as Paraguay is an inland country. As regards trade regulations and procedures, transparency has improved and the complexity of the trade regime has been reduced. Indeed, Paraguay has intensified its efforts to expedite the clearance of merchandise through Customs, including the adoption of electronic procedures, and to modernize the risk analysis techniques pursuant to international rules. Also, sanitary measures and technical regulations have been more widely disseminated. Currently, a Single Exporters' Window is being implemented, to reform and simplify procedures and other bureaucratic requirements. This will mean lower transaction costs of foreign trade operations.

Nevertheless, unfair trade and economic distortions continue to harm the interests of Paraguayan exporters, particularly in the agricultural sector. Such practices have forced Paraguay to defend its interests through the multilateral mechanisms established under the WTO agreements.

With respect to agriculture and livestock, the major production and export sources, the Government is introducing changes in the organizational and operational structure of the pertinent Ministry. As part of this process, a National Animal Quality and Animal Safety Service-Senacsa and a National Plant Quality and Health Service-Senave have been established as legal entities under public law, autarchic and provided with their own resources. Their mission is to improve efficiency in performing their basic roles and to face the current and future realities of the agricultural and livestock sector.

Instruments and incentives for production and exports

Investment promotion mechanisms

Pursuant to a policy to strengthen the competitiveness of the national productive sector, some major decisions have been made in respect of trade

opening in relation to goods essential to the development of the country's productive activity. Protective tariffs have been considerably reduced for capital goods and for computer and telecommunications items, to cite the most important ones.

As regards meat production, exports have recently showed their greatest growth and Paraguay has been internationally recognized as a Hoof-and-Mouth Disease-Free Country with Vaccination. This has allowed it to recover major traditional markets and win new markets for this product.

Paraguay encourages foreign direct investment through different laws and mechanisms, such as Law 60/90, which grants tax breaks for investment projects, and the Maquila Law.

The Maquila Law grants generous tax breaks to production for export, as long the exported product has a minimum of 40 percent of domestic inputs. These inputs may be figured on the basis of their material value as well as by the value determined by the labor cost of production.

In technical terms, the Paraguayan State offers an advisory service to investors, which is provided mainly by two institutions:

- ProParaguay, under the Ministry of Foreign Affairs, whose primary function is to represent the country abroad; and
- Rediex (Investment and export network), under the Ministry of Industry and Commerce, whose foremost role is to provide advisory assistance to investors in the country.

These institutions provide useful information about investment opportunities and guidance about governmental requirements and incentives.

Export support

As the growth of the Paraguayan economy depends in large measure from increased exports—both in terms of specific value and of volume—their promotion is a key instrument of the country's economic policy. The government is intent on ensuring the prompt competitiveness of the productive

activity and for this reason direct subsidies have no place in this promotion policy. Rather, the public administration's focus is on the following:

- Facilitation of export procedures. With the establishment of the Single Exporters Window-VUE, bureaucratic procedures have been simplified for exporters, so that, once the system is fully in place, exporters will have to present themselves only to a public counter for each export transaction. VUE will start functioning in a modular way. The first module is already fully operational.
- Assistance for the marketing of Paraguayan products abroad. To this end, institutions such as the Ministry of Industry and Commerce, Rediex, and ProParaguay program visits to major foreign markets. Often a general or selective invitation is issued to entrepreneurs, to give them an opportunity to promote their products.
- Political-diplomatic negotiations to open up new markets for Paraguayan products and facilitate access to already known markets. This includes, for instance, the negotiation of Bilateral Preferential Agreements or intervention at the World Trade Organization to ensure fuller compliance with free trade criteria by certain industrial countries.

Assistance to micro-, small, and medium-enterprises

Micro-, small, and medium-enterprises-Mpymes provide the vast majority of jobs in Paraguay. Here is the key to solving the unemployment problem. Often a small entrepreneur has great potential for manufacturing an item or providing a service but stumbles against certain requirements, such as those pertaining to professional marketing, accounting, or formalization of his business. The government intends to support these Mpymes the best way possible, keeping always in mind that they must be self-sustainable.

To this end, the Paraguayan Center of Assistance to Enterprises-Cepae advises entrepreneurs individually and through training courses. The PR100 Program is aimed at increasing the competitiveness of domestic production. The Competitiveness Forums work interactively in identifying obstacles, challenges, and threats facing a product or a productive chain. The objective is to integrate the different stages of a productive chain so as to ensure the greatest efficiency and effectiveness in the making of a product.

Intellectual property, registration of trademarks and patents

Combating piracy, faking, and contraband has been intensified by the setting up of a specialized technical unit by the Ministries of Industry and Commerce, Finance, Interior, Defense, and other official institutions, in coordination with the Public Attorney's office. This unit's function is to create intelligence for combating the scourge of informality and illegality.

In this context of transparence and coordination, activities have increased sixfold, through suasion, prevention, repression, and maintenance mechanisms and action on several fronts, such as importation, production, marketing, and the criminal organizations themselves.

Our work has been recognized by the US Congress and the International Federation of the Phonographic Industry-IFPI and we have received an Imaging Supplies Coalition award for our efforts in combating faking.

With respect to intellectual property, the Patents Law created the possibility of issuing invention patents to sectors that previously lacked any protection, such as pharmaceutical products. As regards commercial defense, the Paraguayan legislation on antidumping measures, subsidies, and countervailing measures homologates multilateral commitments. Since its joining the WTO, Paraguay has found it necessary to improve the pertinent rules, so as to prevent them from being used for protectionist purposes.

In sum, the Paraguayan government is committed to and engaged in the construction of a new development model based on a market economy with social and fiscal responsibility, and on macroeconomic stability, through the appropriate combination of market and State. Through the strengthening of institutions, good government, and the formalization of the informal sector, it will be possible to achieve a more productive, competitive, and diversified economy, so as to realize the objective of having a country that is pleasing to God and that provides for the well-being of its entire population. ■■■

The peruvian economy: overview, prospects, and proposals

*Enrique Cornejo Ramírez**

The Peruvian economy has developed favourably in recent years, as shown by several economic indicators. Positive GDP growth rates over a relatively long period (more than forty consecutive months) and an annual inflation of less than 10 percent have endowed the Peruvian economy with great stability and predictability for decision-making.

Peru has a considerable stock of liquid international reserves for the size of its economy. Reserves equivalent to more than fifteen months of regular imports give the exchange market great tranquillity, along with rising exports of goods and services, and a significantly positive current accounts balance. The management of a declining public sector deficit and some recent measures aimed at transparency and fiscal accountability, such as the constitutional reform of the national pension system, also provide international analysts and potential investors with positive indications.

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This notwithstanding, the main problem faced by the Peruvian economy is the fact that the fruits of this growth and the good indicators do not as yet translate into tangible improvement of the standards of living of the population, 54 percent of which live in poverty, according to World Bank indicators. In other words, the economy seems to go well but people feel otherwise, and this causes deep concern and great scepticism in the population, which in turn creates social conflicts and problems for democratic governance. As Ambassador Allan Wagner, secretary-general of the Andean Community, has rightly pointed out, the strategic project the subregion has adopted should promote “globalisation with integration, integration with social inclusion, and social inclusion with democratic governance¹”

In Peru, only 40 percent of the labour force have adequate jobs. The country’s major problem is growing underemployment (the unemployment rate is about 10 percent). This is associated with the phenomenon of informal economic activities, which is growing apace (it is now estimated at about 65 percent of productive activity). Under these circumstances, the economic growth achieved is insufficient to create an adequate number of productive jobs and the economic policy measures adopted have not yielded the expected results, as they have been designed for a formal economy, which is shrinking in Peru.

Moreover, economy and politics seem to go their separate ways. Economic stability contrasts with the difficulties encountered by President Toledo and, in general, the entire political class (Congress, political parties, etc.) in being attuned to the population’s major concerns. Daily the media devote considerable space to a series of political attacks and scandals, while the major issues on the development agenda do not seem to have the same importance. As an analyst who had arrived recently in Peru put it, “*the Peruvian economy seems to be on automatic pilot*”,² despite a quite hot political environment (general presidential and congressional elections are scheduled for April 2006, and the electoral campaign is already starting).

¹See pertinent documents on the Andean Community website: www.comunidadandina.org.

²This comment was made by a high-ranking officer of the Inter-American Development Bank-IADB on the occasion of the Bank’s Board of Governors’ meeting held in Lima in the summer of 2004.

In our view, the explanation of what happens to the Peruvian economy requires a more thorough analysis, which this article will attempt to do.

The peruvian economy's situation and prospects according to the main macroeconomic indicators: 2004 and 2005

As was mentioned previously, the main macroeconomic indicators show a considerably favourable development, which is conducive to stability and helps create an appropriate climate for investments. Table 1 shows estimates at the close of 2004 and the forecasts for 2005 concerning some of these indicators, according to official sources, such as the Ministry of Economy and Finance and Peru's Central Reserve Bank, as well as our own estimates.

Table 1 - Major macroeconomic indicators: 2005 projections

<u>Indicator/Institution</u>	BCR	MEF	New Economy ³
GDP (growth rate %)	4.5	4.5	3.5-4.0
Inflation (annual rate %)	2.3	2.5	3.0
Exchange rate (S\$/ per US\$1)	3.40	3.48	3.35
Goods exports (US\$ million)	12,000	11,912	12,000
Goods imports (US\$ million)	10,500	9,898	10,000
Public Sector Deficit (GDP %)	1.0	1.0	1.1

Source: Author's data based on official projections for February 2005 by Peru's Central Bank (BCR), by the Ministry of Economy and Finance (MEF – see www.mef.gob.pe), and estimates by *Nueva Economía* (see www.nueva-economía.org).

³Enrique Cornejo is President of the *Nueva Economía* Association, a Peruvian nonprofit institution devoted to studying development with social justice in developing countries, particularly of Latin America. It gives special emphasis to the analysis of the characteristics of the various economies that coexist in our countries.

Peru's GDP at the end of 2004 was estimated at 248.3 billion new soles or US\$ 70 billion). It has been growing at an annual rate of approximately 4.5 percent, which, although quite positive, is insufficient, as it should grow at 7 percent to absorb the incoming labour force and to give a definitive solution to underemployment. To achieve this, the current investment levels should be at least doubled; this does not sound like a simple task in the context described above but the potential is there.

At the close of 2004, inflation was 3.4 percent (higher than the initial 2.4 percent official target) and the national currency had appreciated by 5 percent. This phenomenon of the strengthening of Peru's new sol is due to three factors: (a) the considerable increase in revenue from goods and services exports and remittances from Peruvians abroad; (b) the structural US-dollar surplus on the local market (reinforced by US dollars from the drug traffic); and (c) the weakening of the US dollar vis-à-vis the euro and other hard currencies.

A few factors explain the growth of foreign trade (exports plus imports), which exceeded US\$ 20 billion in goods exports alone. There are the advantages provided by the Andean Trade Promotion and Drug Eradication Agreement-Aptdea, particularly as regards textiles and apparel, as well as agro-industrial products. Moreover, high international prices for the main export commodities (particularly metals) have been stable, owing to the performance of the industrial economies, and especially of China's.

The Peruvian population in 2004 is estimated at 28 million and the average per capita income at US\$ 2,400. But this figure should be taken with caution, as it does not reflect the sharp disparities that exist in the country, where income distribution is the region's most unequal after Haiti.

Despite an ongoing process of regionalisation that seeks to enhance the management capacity of regions and municipalities, there is great economic concentration in Lima and a few major cities. Lima, the capital, concentrates over 80 percent of active and passive financial transactions. It is also home to 70 percent of registered industrial establishments in the country and it is where a third of the Peruvian population lives. Nine out of ten cardiologists work in Lima and the inflation in the country is measured by the behaviour of consumer prices in Greater Lima.

The State handles an annual budget of about US\$12 billion, but owing to the lack of an appropriate State reform, these resources are spent inefficiently

and with little transparency. The State is the country's major purchaser of goods and services but does not make full use of its procurement capacity, with the consequent negative effects. The country's low tax revenue is associated with the extensive informal economy. Only 1.8 percent of major taxpaying firms account for 84 percent of tax collections and there is much tax evasion and many tax breaks. The tax burden barely reaches 13 percent.

To meet public financing requirements, the various administrations have increasingly resorted to increasing public indebtedness, which already totals about US\$ 30 billion (equivalent to 42 percent of GDP). The foreign public debt is slightly over US\$ 24 billion (34 percent of GDP), and over the last four years the domestic public debt has grown considerably (basically through the issuing of sovereign bonds) and now approaches US\$ 6 billion (about 8 percent of GDP).

The public foreign debt is contracted mainly with multilateral organisations and foreign governments, while one fifth of it is owed to holders of Brady bonds and other types of bonds. The problem of the public debt in the next few years will be not so much stock but flow. It will be necessary to restructure debt servicing through various market mechanisms, so as to make it more manageable, particularly as concerns the public sector budget.

In 2005, as Table 1 shows, a 3.5-4.5 percent growth is expected, as well as lower inflation as compared with 2004. No major changes are expected in the rate of exchange so that, in our view, the US dollar's weakening trend should continue and the Peruvian currency should appreciate further. As regards the management of public finances—although we are now in an election period—, it is expected that the objective of reducing the public sector deficit to one percent of GDP will be achieved.

With respect to the foreign sector, an equally favourable behaviour of international prices is expected. Moreover, the ratification of several free trade agreements — especially with the United States — could give a considerable boost to investments and exports, particularly as regards textile and agro-industrial products. It is estimated that the exports and imports of goods will exceed US\$ 22 billion. An extremely important project slated to begin in 2005 is the third phase of construction of distribution infrastructure for the exploitation of the Camisea natural gas field, which will make it possible to export gas to markets in North America.

Accordingly, it seems that 2005 will be another year of good economic indicators and of a “political heating-up,” while the social issues will continue to be on hold, awaiting the next Administration, to be elected in 2006. Whoever assumes the helm will face a mighty challenge, have little elbowroom, and meet great social expectations. Statesmanship, great prudence, and fiscal transparency will thus be necessary.

As previously mentioned, there are no reliable data on poverty but every indication suggests that poverty has increased, particularly in towns other than Lima and around the countryside. What we see daily on the streets and around the country shows that there is greater inequality and that economic concentration has increased. Informal economic activity, which has also increased, is a decisive factor in explaining what is happening in the Peruvian economy.

We will try to explain what is happening by resorting to two working hypotheses: according to the first, the economic policy prescribed the country assumes that there is only one economy, whereas in practice different types of economy coexist, each one with its own dynamics. The second hypothesis asserts that there is one formal, legal State, which nevertheless reaches only a minority of the population, whereas an informal State or perhaps other States exist, which work in parallel to the formal State and in which there is indeed a sense of popular empowerment and recognised duties and rights.

The peruvian economy or the economy of diversity and its implications for economic policy

The effectiveness of the economic policies that are usually implemented in our countries is often questioned. Economic growth, when it occurs, is not adequately accompanied by productive employment growth. Stabilisation policies favour combating inflation but neglect productive growth and the promotion of investment. The pursuit of competitiveness is usually based on reducing labour costs and benefits but neglects to increase the productivity of capital or to improve basic infrastructure. The economy is usually evaluated on the basis of the performance of a few macroeconomic indicators but no consideration is given to social indicators, which would reflect the population’s living standards and which, after all, are the *raison d’être* of economic policy.

This is an old discussion. Given the scarcity of resources and the growing needs to be met, economic policy decisions always imply high opportunity costs. Achieving growth with stability; reaching a competitive integration into the world economy; pursuing development with social justice; achieving social inclusion through democratic governance: these are some of the objectives which, though in principle conflictive, we should challenge economic policy to achieve.

The situation just described is not peculiar to poor, small countries. This problem also exists in industrial economies, although on a different scale and for different reasons. In our view, in poor countries such as Peru the problem is not that the proposed economic policies are not applicable (Milton Friedman had already discussed this issue in the last century, making a distinction between the “realism of assumptions” and the “predictive power of hypotheses”); rather, they are applied under the mistaken assumption that the economy has already attained an advanced stage of development or that it at least shows a “normal” pattern of competitiveness, transparency, and free mobility of factors.

This problem has been studied from different angles. Víctor Raúl Haya de la Torre asserted that economies such as the Peruvian economy “have two speeds,”⁴ a high speed associated with the modern sectors of the economy, and a slower speed, associated with the poor, technologically backward sectors; and a car with different simultaneous speeds cannot run normally.

In the 1970s, authors such as McKinnon, Shaw, and Galbis introduced the “financial repression”⁵ thesis as an attempt to explain the performance of small enterprises as a function of their means of access to formal credit channels. Development theories have also raised hypotheses such as structural dualism. Some authors, including Adolfo Figueroa,⁶ criticise the neo-classic growth model (the foundation of the so-called neoliberal policies) for not taking into consideration either the “starting point” of the various countries at the time policies were applied or noneconomic factors, such as culture, that could be extremely useful to explain the relative effectiveness of such policies.

⁴See Haya de la Torre, Víctor Raúl. “El Plan Económico del Aprismo”, speech given in Lima on October 9, 1945. In: *Obras Completas*. Tome V, p. 369.

⁵ See Ramírez Cornejo; Enrique. *Tasas de Interés: teoría y política*. Lima: Universidad de Lima, 1978.

⁶See Figueroa, Adolfo. “Sobre la Desigualdad de las Naciones”. In: *Libro Memoria de la XIV Conferencia de la Asociación de Facultades, Escuelas e Institutos de Economía de América Latina - AFEIEAL 2000*. Tegucigalpa, Honduras, 2000, p. 255-272.

As we see it, at least four types of economy coexist in Peru: (a) a subsistence economy, associated mainly with the extremely poor rural sectors, nearly non-existent technological development, and the prevalence of a barter system; (b) an informal, urban economy, with low productivity levels but heavy absorption of labour, which pays no taxes; (c) a modern, industrial economy, basically connected to agro-industry and other manufacturing sectors geared to exports, which understands international markets and employs competitive strategies; and (d) a post-modern economy of knowledge and services, in which transnational information and sundry services companies coexist, which adopts state-of-the-art technologies and maintains thousands of public Internet cabins – a Peruvian invention – as well as some small software exporting enterprises.

Table 2 - The four coexisting types of economy in Peru

(a) Subsistence economy: it includes extremely poor rural sectors, the majority of which have no access to the market; rudimentary technologies; low educational and nutritional levels; barter system.
(b) Informal, urban economy: encompasses about 70 percent of productive activity; intense absorption of labour with low productivity levels; subject to high financing costs on the parallel market; as a rule, it does not pay direct taxes and is oriented to the domestic market.
(c) Modern, industrial economy: agro-industry, manufacturing sectors geared to exports such as apparel or metal-mechanic items; understands international markets; has modern organisation, adopts competitive strategies, and pays attention to productivity; pays taxes and is normally subject to higher costs because of its formalised legal standing.
(d) Knowledge and services economy: although still relatively small, it is growing fast. It comprises transnational IT companies, thousands of public Internet cabins — a Peruvian invention —, and some small software exporting enterprises. New knowledge is being created, such as in the area of biodiversity, and the tourist sector shows great dynamism in different segments (nature, adventure, history, culture, gastronomy, etc.)

The problem is that the four types coexist. In terms of the population involved and poverty levels, (a) and (b) constitute the majority; in terms of contribution to GDP, tax collection, and contact with the modern world, (c) and (d) are more important, although they involve far less people. Given this picture, the following questions may be posed: Which economic policy should be applied? How to incorporate the mestizo or to include compensatory elements when policy decisions are made? Which priorities should be adopted and when?

These are essential questions that should be seriously and thoroughly discussed. The economic policies that are usually proposed do not take into consideration the coexistence of different economic — and social — realities. However, to begin with it is necessary to create the conditions for the economy to become more homogenous and for reducing social inequality.

The legal State and the parallel State

Is the Peruvian State large or small? A State whose public sector budget is US\$ 12 billion (or 17 percent of GDP) does not seem to be overly large (it is actually average for Latin America), but resources are spent poorly and in an excessively centralised fashion, with little transparency. Resources thus do not always adequately benefit the target population.

A drastic reform of the State is needed so that it can reach out to the people, increasing its representative character and its legitimacy. This reform should also aim at the modernising public management, increasing the transparency of government action and its accountability – including its monitoring by organised sectors of society –, and decentralising government activities, all of which would result in greater efficiency and less corruption. Also needed is a restructuring of the public sector's budget, 64 percent of which are spent on payroll, pensions, goods and services, 25 percent on paying the public debt, and only 11 percent on public investment projects. Restructuring should also transfer resources from current expenditure to social programs and investment expenditures, particularly on basic infrastructure.

As we speak of reforming the State and its institutions, questions arise. Which State do we want to reform? The first question, though, is: Is it necessary to reform the State? The answer is yes. Various circumstances show that the

current State has collapsed and must be drastically changed. The State's absence or lack of capabilities is seen, for instance, in areas such as security, citizenship, intelligence, health, social security, basic education, tax collection, infrastructure, territorial management, corruption, etc.

But the problem is much more serious than it seems. It is not a question, as some neoliberal thinkers pretend, of downsizing the State and transferring the greatest number of functions and institutions to the private sector. In a country such as Peru, with so much poverty and inequality, the size of the State is really a relative matter. Even though some sectors may be somewhat oversized or have an excess of bureaucracy, the main problem are the scarce public resources, which are spent poorly, ineffectively, without transparency, and in a centralised manner. But even if we could correct all of that, it would still be too little.

The biggest problem we must acknowledge and understand is that what we recognise as the State, with its institutions, laws, and public servants, represents only 10 percent of Peruvians. In other words, *nine out of ten Peruvians do not feel that they are represented by the current State, and those feelings are not unwarranted, for the Current State does not take them into consideration!*

A few simple observations and questions that may explain this “exclusion situation” are the following:

- (a) Upwards of 80 percent of economic units in the country are micro or small businesses (MYPEs) and most of them are informal. Who in the State apparatus bothers about understanding and assisting microbusinesses with their main needs and concerns?
- (b) About 90 percent of agricultural producers in Peru are small farmers with less than 10 hectares each. Who or which institution in the agricultural sector worries about the particular reality of these small producers?
- (c) Thousands of boys and youths in Peru have quit school and those who do attend have serious problems in learning the educational contents that are of no use to them; there is a lack of teachers in the villages of the interior; our university students do no research and thousands of young people spend hours chatting on the Internet,

wasting precious time and even “unlearning” the proper use of their own language. Given this situation, what does the State do in the area of education?

- (d) Owing to increasing corruption, inefficiency and impunity are the only features one notices in the administration of justice. What is the State doing instead of promoting a real reform of the Judiciary?
- (e) Lack of security on city streets and in the country is on the rise. In many city districts and in villages in the interior, the people, tired of the abuse and inaction on the part of the State, has decided to make justice with their own hands and to provide themselves with the security the State fails to provide. Are not the recent events in Andahuaylas a demonstration of the absolute ineffectiveness of the State?
- (f) Microbusinesses need the credit and technical assistance provided by Edpymes, Cajas Rurales, and Cajas Municipales financial institutions, but the State, represented by the Banking and Insurance Superintendence, seems to be prepared only to regulate and support the activity of the big banks (the banking sector and other financial institutions).

We could go on citing examples of the State’s absence or poor management. The main objective of a thorough reform of the State should be such that it would include and represent most or all citizens. In Peru today there is a *legal, formal, Constitutional State* that is inefficient and that, unfortunately, is only concerned with or has influence over 10 percent of Peruvians. At the same time, there is also a *parallel, informal State* that works and which encompasses 90 percent of Peruvians. It is in this parallel State that millions of microenterprises, small producers, self-employed, informal workers, taxi drivers, communities, nongovernmental organisations, different associations, and so on, work and establish their own rules of the game.

This parallel State does work; its participants define their own rules and procedures and abide by them, have values, goals, objectives, and commitments. They feel they belong to this informal State; there is trust in their leaders, so that there is participation, commitment, and even sacrifices. In the meantime, we that find ourselves in the legal, formal State do not understand what is happening and go on talking to and legislating for 10 percent of the population.

Ten proposals for a consensual agenda

To approximate the parallel State to the formal State, we propose an agenda with ten items to be made into consensus objectives:

- (1) Investing to promote employment and dignity. This requires efforts to raise the levels of investment to generate growth and create productive jobs. A priority should be to grow at a yearly rate of 7-8 percent during an extended period in labour-intensive sectors.
- (2) Social justice with fiscal responsibility. There is no development without social justice. The State's foremost responsibility is to ensure social justice and this should be achieved through the transparent, responsible use of the public sector's scarce resources.
- (3) Social engineering to achieve consensus. This requires multidisciplinary efforts to bring closer together the interests of investors and those of the population living in the area of influence of the investment project. It requires a search for co-ordination mechanisms and an effort to understand the concerns of the communities and to ensure a socially responsible management on the part of the enterprises.
- (4) Decentralisation of production. This requires moving from the current regionalisation based on the official bureaucracy to decentralising production, so as to establish macro-regions and create the conditions to make investment and the generation of local jobs in the interior more attractive.
- (5) Profitable agriculture with food security. This requires transforming and modernising the agricultural sector, organising producers, providing credit and technical assistance, facilitating the establishment of productive chains, developing the irrigation infrastructure, and opening marketing channels. It also implies ensuring food and proper nutrition, particularly for mothers and children.
- (6) Quality education and education for work. This is needed to raise the schooling level from the sixth grade to higher education and the quality of educational contents to instil in students the values of solidarity, productivity, and competitiveness.

- (7) Science and technology for change. It is recognised that without scientific research and technological change there is no development or adequate participation in the global, competitive context.
- (8) Associating for exporting. This is required so that thousands of micro- and small businesses may achieve economies of scale, obtain access to credit, and benefit from technical and financial co-operation, directing their efforts to both the domestic and the foreign market.
- (9) Managing to promote social justice. This requires the training of civil servants for the different tasks of the State so that they may attain a level of excellence and dedication to the job, keeping always in mind that the final objective is to meet the requirements of the citizens and to be efficient and transparent in their work.
- (10) Competitive integration. This presupposes the reaffirmation of our integrationist calling in its various forms: subregional, regional, and hemispheric, seeking in integration a way of working together to achieve competitiveness and the attendant improvement of the living standards of the population.

Is it possible to achieve social justice with fiscal responsibility?

In our view, the human being should be the fundamental priority of a development strategy. We should thus pay attention both to the economic indicators that help stability and to the social indicators that ensure social inclusion and democratic governance.

In this connection, the State's main task should be to promote development with social justice. This requires the understanding that job creation and the reduction of poverty and inequality can be ensured by sustained economic development, which in turn requires private and public investment. How to invest at the required, sustainable rate? How to ensure that such investment and the ensuing growth are sustainable? How to ensure that growth is accompanied by the generation of productive employment? How to ensure that growth is equitable? How to improve the effectiveness of public investment so as to take better advantage of the scarce budgetary resources?

These are some of the questions that must be answered in a straightforward and responsible way.

Job creation will then come basically from the participation of private investment in new development projects. The State's task will be to create the appropriate climate so that this investment may have the proper conditions to ensure profitability and stability. The State should also provide a basic infrastructure that is conducive to the country's integration and the achievement of competitiveness.

Important sectors for job creation and the fight against poverty, such as agriculture, must be given priority. The agricultural sector must be profitable and this requires the management of costs and prices. The compensation of agricultural producers for subsidised food imports through price bands is an appropriate measure. Another important task is the planning and zoning of crops to prevent overproduction. Also important is an ad hoc tax policy for agriculture as well as reducing the excessive costs that affect farmers. The agricultural sector thus needs promotion and technical assistance, credit, and support for the organisation of producers, among other measures. Just as for the agricultural sector, it is also necessary to establish sectoral policies for manufacturing, construction, tourism, etc.

But growth is not enough, even if it generates employment. The task of furthering social justice implies working for quality education that favours scientific research and the development of new technologies as well as striving for universal social security coverage and for the entire population's access to basic health services. Social justice also implies fighting poverty and inequality and pursuing the decentralisation of production.

This effort to achieve social justice requires sound financing, which will not come from further indebtedness and still less from merely printing money or increasing the public deficit. Resources must come from the restructuring of public expenditure so that, in a modern, transparent, and decentralised manner, they are redirected from the current expenditure on the bureaucracy to investment and the funding of social programs. This will require a genuine tax reform based on few taxes which all must pay to ensure an effective broadening of the tax base.

The tax reform we need: citizenship and taxation

If it is the State's main task to ensure social justice, then public expenditure should be responsibly financed. In recent decades, successive Administrations have covered up the fiscal deficit by borrowing. This is no longer an option. The public debt already takes up more than half the annual GDP.

Servicing such debt gobbles up four of each ten dollars earned from exports, or 25 percent of the public sector's budget and this situation will worsen unless debt servicing is restructured or reprogrammed. During President Toledo's administration alone the public debt (domestic and foreign) has risen by about US\$5 billion.

The only way of financing public expenditure (which is fundamental for ensuring social justice) is by raising tax collections or by cutting public expenditure. This must be understood and accepted. The era of debt is over.

Revenue from various types of tax in Peru totals about US\$70 billion a year. This is not sufficient for the requirements of the public sector budget (which, as mentioned, requires about US\$12 billion a year) nor is this revenue very high, if one considers the high levels of tax evasion and tax avoidance, contraband, undervaluation, piracy, and tax breaks. How, then, should one go about increasing tax collection?

A *genuine tax reform* is imperative. The expression "tax reform" has lost prestige lately owing to the haphazard creation of new taxes such as the tax on financial transactions – ITF, pre-emptive tax collection, and the emphasis on auditing those who already pay their taxes instead of identifying and punishing those that do not.

A serious tax reform should aim at four fundamental objectives: (a) broadening of the tax base; (b) adoption of a progressive tax structure; (c) simplification and neutrality of taxation; and (d) arousing the Peruvian citizenry's awareness of taxes.

Table 3 -The four objectives of tax reform

1.	Broadening the tax base;
2.	Adopting a progressive tax structure
3.	Simplifying the tax system and making it neutral
4.	Arousing Peruvians' awareness of taxes

What must be done to broaden the tax base is exactly the opposite of what the government is currently doing, i.e., those who do not pay—both small and big—should be identified and audited, instead of raising taxes or creating new taxes. It is not admissible that 84 percent of tax revenue should come from only 0.6 percent of taxpayers, called *PRICOS* [major taxpayers]. Nor is it admissible that the income tax should yield so little revenue.

The current tax structure is very regressive. Seventy-five percent of collections come from indirect taxes (all of us pay these taxes on what we consume, regardless of our income or of whether we are employed), while only 25 percent come from income or property taxes. This is unfair and must change. Our goal should be to raise direct taxes so that they will account for at least 50 percent of collections.

Taxation should be simplified. Three or four taxes should remain (income, IGV [sales tax], ISC [excise tax], and customs duties), while the other taxes should be gradually eliminated. Moreover, taxation should be neutral, i.e., it should not give rise to exceptions or privilege or curtail the enterprises' competitiveness. The current tax breaks of a sectoral or regional nature should be gradually and co-ordinately reduced. Lastly, we must make all Peruvians aware of the importance of paying their taxes properly and punctually; in this respect, schools have a key role to play.

If we handle expenditures in a responsible, transparent way, we shall regain credibility before Peruvians and be in a position to encourage them to comply with their tax obligations. In these globalisation times, when States cannot abandon their objective of ensuring social justice, the only way of obtaining sound revenue is through taxation. In a sense, to be able to fully realise their role as citizens, Peruvians must pay their taxes.

Pursuing a gradual, common-sense productive integration into the world

How should we interpret the major changes that are taking place in the world economy? How should we incorporate ourselves productively into the global, competitive economy? Does being modern imply giving up national objectives and lose our identity as a country? Which strategies should we adopt?

Some answers frequently given to these questions suggest that the most convenient thing to do is to throw open our national economies, even if unilaterally, without any negotiation, as the benefits will flow naturally and quickly. In our view, this is a simplistic interpretation of what is happening and the neoliberal ideological burden that normally accompanies it usually has a fundamentalist tone.

It is obvious that the changes that are occurring are substantial, but it is necessary to understand their nature to be able to adopt the appropriate strategies. From a strictly theoretical standpoint, a small economy such as the Peruvian must actively participate in the world economy precisely to offset the disadvantages of such a small share of the “world pie.”

With respect to tariffs, both industrialised and developing countries have substantially opened their economies in the last fifty years. In the case of the industrialised countries, the customs tariff dropped from 25 percent to less than 5 percent over that period. In addition, the proliferation of free trade agreements between countries or regional blocs has reduced a goodly portion of the tariff universe to zero, to the point that many think that tariffs will in time disappear.

Nevertheless, although there has been greater opening with respect to tariffs, there is also greater protectionism through the so-called “nontariff barriers” and the industrial countries are the ones that resort the most to unfair competition policies in international trade.

Thus, for instance, Europeans and Americans openly subsidise their farm exports, just as Australians and New Zealanders subsidise their dairy products or cattle exports. Also well-known are the “quotas” or “tariff quotas” allocated by the United States to its textile and apparel imports or the severe “administrative exigencies” established by industrialised countries for the entry of developing-country exports into their markets. Tied bids complete the picture with respect to services. In the case of developing countries, particularly Asian countries, subsidies, dumping (exports priced below cost), and undervaluation are consistently practised.

The argument so far indicates that although trade opening has advanced considerably with respect to tariffs, there has been marked back-pedalling as regards nontariff barriers. Free trade as such does not yet exist. This is a problem recognised world-wide, which is permanently under discussion at

the World Trade Organisation-WTO; developing countries led by India and Brazil have even formed the so-called Group of 21 to add to the negotiation agenda the need to dismantle nontariff barriers against exports from poor countries.

In the Peruvian case, the average nominal tariff is about 10 percent; raw material imports are subject to a 4 percent tariff, while a zero tariff holds for imports of capital goods. This means that we have made a significant effort toward trade opening—to a considerable extent without bargaining for anything in return. In our view, trade negotiations henceforth should aim at gradual opening and achieve a proper balance between the objectives of market access for our exports, investment promotion, and the requisite attention to our national production, when it is affected by subsidies or dumping. If subsidies are imposed against us, we must compensate our producers. As long as unfair competition practices prevail in international trade, we have to adopt trade defence policies as allowed by the WTO, i.e., we must act with much pragmatism and common sense.

Peru: a country of sharp contradictions but also of great opportunities

At times we have asked ourselves how to define Peru. Various authors have attempted an answer. In our view, it is a country of marked contradictions but also of immense opportunities. This ambivalence explains in great part what we have accomplished with respect to economic and social development.

Contradictions

We could write a whole book on Peru's contradictions, but we shall limit ourselves to only a few. It has abundant natural resources but low growth rates, with more than half the population living in poverty. In contrast, a country such as Japan, which has practically no natural resources, is a world power. Peru has one of the greatest water resources potential in the world but we only utilise 3 percent of it; in contrast, in the coastal valleys, which have little water, crops are still cultivated under extensive irrigation systems and to this day there has been no water legislation to regulate this scarce resource there.

Ancient Peruvians organised themselves territorially along the river valleys. Our current territorial organisation is chaotic. There are provinces of the same Department that cannot communicate with one another; their inhabitants must go down to the coast and climb the mountains again to reach the sister province. The ancient Peruvians bequeathed to mankind, among other things, the organisation and technology of agriculture on inclined terrain through the use of *andenes* or farming terraces; currently we no longer use this technology, while the *andenes* lay abandoned or merely provide a tourist attraction in some areas.

Maize and potatoes are produced, but the Peruvians' staple consists of bread and pasta made from imported wheat. In contrast, the Mexicans and Central-Americans of every social class consume tortilla made from maize produced on their lands. Peru is the world's top producer of fishmeal, but the per capita fish consumption in our population is extremely low. We have protein (fishmeal) and fibre (sugar cane) to produce good, balanced feed for animals, but have no cattle. In contrast, Cuba has no protein (it imports fishmeal from Peru) but sells us cattle.

The productivity of the best soils on the Peruvian coast is low. In contrast, Chile, with a territory no larger than Piura (a Department on Peru's northern coast) exports ten times more agricultural products. Taiwan, with a territory no larger than the Ica Department on the southern coast, exports 60 times more than Peru. Resources are available but are wasted for lack of planning. It is not a matter of land and natural or even financial resources; it is a matter of strategy, organisation, and mentality.

Opportunities

Nevertheless, while we experience such obvious contradictions, we have great opportunities, which present equally formidable challenges. The variety of microclimates and ecosystems should place us at the vanguard of the world with respect to fruit, natural dyes, and vegetable exports. Our country's geographical, social, and cultural diversity should mean strength instead of weakness. The United States, for instance, base their strength not on the uniformity of its territory but on the diversity of its population, mostly of immigrant origin.

Peruvians are used to living under scarcity situations, are ingenious, and have an enviable biological capacity to adapt themselves quickly to different

ecosystems. Instead of taking advantage of these capabilities, we export Peruvians, who go away and develop their abilities in other countries.

As we have seen, most of our firms, both in the countryside and in the cities, are micro- and small businesses. There is a great potential to organise producers into associations, get them together, and improve productivity levels. Although we are so small in the world context (we account for less than 0.2 percent of world trade), we can significantly grow through our exports, if we want. With the raw materials, the land, and the human resources we have, we can build very competitive productive chains.

Agreements similar to a Free Trade Agreement with the United States or the European Union could provide good opportunities. Andean integration and association with Mercosur can be quite beneficial; a closer economic relation with China and other Asian countries may be very profitable. To translate these opportunities into employment and income for our population, we must come to an agreement on what is basic, on a development strategy that is also geared to promote social justice. This is an issue we Peruvians must solve, the sooner the better.

Concluding thoughts

In this article we have pointed out the major characteristics of our economy toward the end of 2004 and the projections for 2005 in the face of the approaching electoral period, which will end in April 2006, when we Peruvians choose a new National Government and a new Congress. The most outstanding feature brought to light by this analysis is the existing contradiction between some economic indicators that point to stability and some worsening social indicators that hamper democratic governance. Also evident is a significant, uninterrupted growth for forty months, which however does not translate into sufficient productive employment, so that the people do not “feel” that their families’ economic situation is improving.

We have attempted to explain the reasons for this contradiction owing to which “the economy is doing well but the people are doing poorly”. We posited two main observations: (a) economic policies that have been implemented make the mistake of assuming that the measures they prescribe are going to be applied to a homogenous economy, whereas we assert that

four different types of economy coexist in the country; and (b) there is a legal, formal State that nevertheless represents, understands, and affects only a minority of the population, and a parallel, informal State that, although it does function, goes its separate way, impervious to the shifting economic policy and to politics in general.

On the basis of these two assertions, we have proposed a ten-point agenda we consider fundamental for achieving consensus-based development; we have affirmed that ensuring social justice is the State's main task and that, to accomplish it, the State must act with fiscal responsibility. We have outlined the main features that, in our view, should characterise a thorough tax reform, and have insisted that one of the features of citizenship is compliance with the obligation to pay taxes.

In the 1970s and 1980s, Peru adopted an import substitution model through which it established an incipient industrial base; in the 1990s, under the neoliberal economic opening model, Peru became competitive in modern sectors and exports, while poverty, inequality, and informality increased; and in the following years, growth has not generated sufficient productive employment.

In the early years of the 21st century, we face simultaneous challenges: to achieve sustained growth with employment; to promote investment, diversify exports, decentralise production, increase productivity and competitiveness, and reduce poverty and inequality. The main challenge, though, is to understand that fundamental solutions are not going to come from "outside", much less spontaneously: strategic planning and a minimum of consensus are needed. Accordingly, this article has put forth varied economic policy suggestions and proposals, which, we hope, will contribute to the debate. ■■■

Brasil-Suriname relations: a businessman's view

Robert J. Bromet *

Mr. Ricardo L. Viana de Carvalho, Ambassador of the Federative Republic of Brazil in Suriname has invited me to present my views on relations between Brazil and Suriname. Mindful of long-time efforts my father made to intensify the relations between the two countries, I am honoured and pleased to accept this invitation. Following my father's footsteps, I dedicate myself to this cause in every possible field.

1. A historical review

Until my father's efforts, relations between Brazil and Suriname were non-existent, even though the two nations share a common geographic border.

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This void was a direct consequence of the policies of European colonial powers that did not have any interest in the integration of countries in this Hemisphere.

The first contacts between the two nations came about when the Dutch were expelled from north-eastern Brazil. They kept almost completely apart, and Suriname, then a colony of the Netherlands, was isolated from the rest of South America up to the Second World War.

Suriname has always turned away from South America and looked to Europe, the Netherlands in particular, and the United States of America for trade and cultural relations and development in general.

The influence of the Netherlands as the colonial power has been predominant in every respect, and it was due to the blockade of the Netherlands in World War II, that Suriname's relations with the United States of America started to develop strongly. These relations actually lifted Suriname from the condition of a fully dependent colony to a meaningful ally, supplying the war effort with bauxite for aluminium production.

Because of that fundamental and sudden change, my father, William J. Bromet, was obliged to discover the potential of Brazil as an excellent supplier of consumer goods to Suriname, since war requirements and the realities of war suddenly cut off the supply of those necessities to Suriname.

It is with pride that I state that he can be considered the real pioneer in establishing relations between these two South American nations, not only commercial relations as outlined above, but also cultural relations.

The Surinamese remember him not only as a good football player, but also as the man who managed for many years to bring about the exchange of football teams from both countries.

Developing commercial relations during the war was no simple or easy task. No basic transport infrastructure existed between the two nations except for limited airline connection, maintained by Pan American World Airways.

Freight services by sea either did not exist or were very limited. Furthermore, there were German submarine patrols in the coastal waters of this part of South America, attacking vessels under Dutch or United States flags.

All these difficulties notwithstanding, he managed to place in the Surinamese market well-known Brazilian consumer goods such as Brahma

Beer, Aymoré cookies, glassware, etc., which he sold in his “CASA BRAZIL”, located in the main building of the family business.

Brazilian wooden schooners from north-eastern Brazil navigating in the shallow coastal waters, to avoid submarine patrols, were used to transport these goods to Suriname.

Commercial relations between Brazil and Suriname thus started during the II World War, but exchange levels were significantly reduced after the war.

It was only in the fifties that an upswing in trade came about as the port of Paramaribo, a free-trade zone, saw Brazilian trade activities. However, no Brazilian manufactured goods were marketed, a fact which was a result of the renewed manufacturing capabilities of Europe, the United States of America and Japan.

Brazil's industrial machinery and consumer goods supply capabilities lagged behind that of those countries. It was only in the sixties that modern Brazilian industrial capabilities enabled us to build up commercial relations again.

My efforts to get the Brazilian Cruzeiro/Varig airline and the Lloyd Brasileiro interested in bringing Suriname into the fold of their network, thus creating the transport infrastructure required for the resurgence of commercial relations were rewarded. However, the political changes of the eighties in Suriname ultimately eliminated the infrastructure, which had proven itself so important to maintain trade relations.

The resurgence of commercial relations resulted in a substantial increase in the supply of manufactured goods from Brazil in the sixties and seventies. These were imported by various established importers in Suriname, among which the Bromet family business can be considered the catalyst and leader.

Building strong relations, what does this actually mean?

Strong relations are normally maintained by exchanges between nations, which are not limited to trade, but also take on cultural, scientific and other characters.

For a country like Brazil, the most important economic power and the largest country in South America, small countries like Suriname, even if we include the Caricom island nations, shall always be of limited economic interest.

Trade relations shall mostly consist of the supply of manufactured goods and of some agricultural products from Brazil to such small markets.

Countries like Suriname can benefit, inter alia, from Brazil's higher education system, its applied agricultural research and development, energy generation solutions, minerals mining and prospecting, which have been implemented so well in very recent times, adapting all these developments to the specific levels and capabilities of its people.

I would like to commend Brazil, in this respect, for the opportunity that it created for Suriname students to be educated at federal universities throughout the country, at a time when such possibilities were either very limited or did not exist at all. Not only did Brazil help Suriname in training an important share of today's professionals, who can be considered leaders in their fields, but this was also the most effective way to create awareness and cultural knowledge of Brazil and its people. It was very conducive to building the best and strongest bonds between the two nations.

Creating strong relations between Brazil and Suriname also results in benefits to both nations at regional and international forums, where it is especially important to join forces in order to safeguard our specific interests in today's world of globalization and economic block formation.

It is also important that the integration of Suriname into South America, be it as a Caricom member or otherwise, be accomplished in close cooperation with and assistance from Brazil.

Except for size, similarities between the two nations go further than one would think or expect.

The multi-ethnic composition of their populations, their way of life and their exuberant nature are similarities that are separated only by two different official languages.

The Surinamese, however, have a gift to learn foreign languages easily, a fact that certainly improves the possibility of better personal relations with Brazilians.

A very positive contribution made by Brazil in this field is the establishment of a Cultural Centre for Brazilian Studies (C.E.B.) in Paramaribo, where Surinamese are offered the opportunity to study Brazilian Portuguese at various levels. Such efforts must be strengthened in order to create stronger ties.

To build strong relations between Brazil and Suriname, it is most important that Brazil reach out, assist, cooperate with and guide these smaller nations, as the leading, strongest nation on the South American continent.

Such a leadership role on the part of Brazil shall automatically create loyal and trusted relations in all respects.

Current relations

The political leadership of both nations has shown renewed interest in placing bilateral relations high on their agendas at recent meetings.

Brazil is interested in the integration of Suriname into the family of South American nations. This point was made by President Lula, when he took time to visit and address the meeting of Caricom leaders in Paramaribo, at the invitation of President Venetiaan.

Relations are also being intensified through cooperation in regional and international forums, and a number of agreements have been signed in various fields of cooperation and assistance.

Some renewed commercial activities are being carried out. However, the lack of an efficient transport and communication infrastructure in place between the two countries is a barrier to developing these relations to their fullest potential.

Contributing to this shortcoming is of course caused by the disparity in size of the economies of the two nations. The mere size of Brazil and its potential as a supplier of manufactured goods and raw materials prevents Suriname from ever being an interesting trading partner, and we shall have to work jointly to strengthen the bonds and relations between the two nations in other fields as well.

Integration of Suriname into the South American family of nations will receive a boost if the two nations decide to integrate their road networks. Building such an interconnection should also help in solving the constraints in other areas, like cultural relations, created by the lack of adequate transportation infrastructure both by air and sea, due the small size of Suriname's economy.

Developing stronger relations in the future

As said before, the integration of Suriname into South America will certainly create stronger relations between the two nations. An efficient transport infrastructure would give this a major push, and Brazil is already showing the way, by assisting countries like Venezuela, Guyana and others with funding for roads and bridges in order to connect northern Brazil and its industrial and agricultural heartland further south, with ports in the Caribbean Sea.

I take this opportunity to point out here a number of areas in which, in my opinion, relations between the two nations can be strengthened and intensified, in a very short period of time.

Helping to educate and train Surinamese, in order to create future professional cadres, is the most important area to develop. We see today the results of an earlier decision to create access to federal universities throughout Brazil for young Suriname secondary-school graduates. It was thus that these Surinamese first learned about Brazil, its population, its potential and culture. There is no better way to build lasting relations.

Furthermore, the serious lack of institutional capabilities that prevails today in Suriname would be reduced in the future and certainly create stronger ties between the two nations and their peoples. Suriname must also benefit from Brazil's experience to create professional cadres among its population in so many fields.

Commercial relations must be developed by the private sectors of both nations.

It is the task of both governments to vigorously support, facilitate, and promote stronger commercial relations developed by the private sector and based on sound business principles. The productive sector, preferably export-oriented, requires a very high priority. Governments and their institutions must only act in a catalyst role for implementation of such activities.

The ensuing, long-lasting improvement in relations between the two nations, the stronger bonds between its peoples, as well as the associated economic development of the smaller partner will have positive results on an unprecedented scale – and, most importantly, of a permanent nature.

I list here a few areas which have significant potential in the short run, which may be developed for the mutual benefit of Brazil and Suriname.

a) Development of Energy resources

I am certain that a commercial, public-private sector development partnership between the Government of Suriname and the Brazilian private sector is possible in the short-term in the hydro-electric sector in West Suriname. All required preliminary studies already have been done by the Government of Suriname. Such development would lay the foundations for further economic development in production activities. The Brazilian private sector is in the best position to participate in this development, which meets all the criteria mentioned before, for strengthening relations between the two countries.

b) Exploration for oil and natural gas is at this time taking place off-shore by multinational oil companies that are partnering with the state-owned National Oil Company. Survey data published by the U.S. Geological Service state that there are still undeveloped resources in this area, toward the west.

Petrobras, with its vast and high quality experience in the field of off-shore exploration and production is an ideal partner for a public-private sector joint development of this potential.

Both of the prospective energy-sector partnerships proposed would have positive effects on the development of small- and medium-size enterprises, with an enormous multiplying effect for job creation and development of skills in Suriname. The resulting modern and up to date industrial complex would be a driving force to create benefits for Brazil as well.

c) Co-operation with a view to expand the coverage of Sivam, the Brazilian Amazon river basin surveillance system for patrolling and policing against illegal activities, to the Surinamese territory.

Combating drug trafficking activities, unauthorized forest clearing and protecting the national forest, are areas in which Suriname requires all the help and cooperation that is available. Brazil already has the basic system in place, and an expansion thereof is an area in which permanent relations can be established.

d) Brazil has become a major force on a global scale in the area of agricultural production. At the base of this achievement lies high-quality, applied research and development adapted to conditions very similar to those in Suriname. Strong and permanent relations can be established in this field, concentrating on just a few areas which can be developed in Suriname. Support

for private-sector exchanges and investments in agriculture would be very beneficial to Suriname and its population.

This summary covers just a few of the areas in which relations can be strengthened. Nevertheless, serious efforts by the entities mentioned here in both Brazil and Suriname will certainly lead to excellent results in building better relations. ■■■■

Uruguay: basic criteria for a left project

*Alberto Couriel**

The establishment of a government of the Left in 2005 makes it imperative to define the basic criteria to be met by the proposals to be implemented.

This paper is organized into five sections to facilitate the formulation and comprehension of these basic criteria, as follows: main problems to be addressed; project's criteria; main instruments; basis for a new form of international interaction; and review of some specific issues.

I. Main problems to be addressed

A. Major difficulties of a national character

Owing to the grave crisis it has experienced in recent years, our country faces great difficulties—social, financial, economic-productive, and institutional.

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In the social area, problems include high poverty levels, particularly among children; high levels of open unemployment, underemployment, and precarious and informal jobs; social fragmentation factors associated with new employment problems; a pronounced increase in inequality; and new feelings in Uruguayan society, such as hopelessness and frustration, which, coupled with the lack of jobs, trigger major emigration waves, thereby compromising future development possibilities. This situation is compounded by demographic problems: *Uruguay's current demographic dynamics is characterized by slow population growth; intensification of the ageing process; changes in the family structure; spatial redistribution of the population; persistent emigration; and the growing importance of the poorer segments in populational reproduction (...)* Demographic description is poignant, as it indicates that children and adolescents are the most affected (Calvo, 2003).

Financial difficulties are evidenced by an extremely high level of foreign and domestic indebtedness in foreign currency, which affects the balance of payments and account for a highly significant share of public spending. To this is added a high level of dollarization, a huge fiscal deficit that has persisted since 1999, and the agreement with the IMF, which requires a high level of primary surplus (before interest payments) that considerably limits social expenditure, public investment, and civil servants' salaries. This is further compounded by a high proportion of heavy portfolios at financial institutions, which hamper the resumption of credit. In this context, certain circumstances intensify concerns about the financial system—the situation of the official banks, particularly the Bank of the Republic, becomes worrisome in a context in which transnational enterprises predominate in the country's banking system.

Economic-productive difficulties are evident in the low investment level, lower than depreciation levels; a cumulative 20-percent drop in the GDP since 1998; a high incidence of idle capacity; great structural heterogeneity, with sharp differences in technological and productive development among the various production activities; and the low degree of productive integration as a result of the high level of imports.

As regards institutional problems, the excessive number of civil servants—an outcome of the patronizing policy of traditional parties—and the precarious management of State institutions stand out, followed by the difficult access to information about the real situation of some of these institutions, such as the Bank of the Republic and the National Fuel, Alcohol, and Portland Cement Administration-Ancap, and the loss of qualified technical

personnel at major State institutions. In the political sphere, there prevails the belligerent attitude of some sectors and political leaders that cannot accept the possibility of a left government.

B. The new regional scenario

The new regional scenario seems favorable to the *Frente Amplio* [Broad Front], given the latter's ideological and political affinity with the governments of Argentina and Brazil. This makes possible a new impetus to regional integration, particularly as regards Mercosur and its expansion through new agreements within the region. Moreover, joint actions and common proposals become more feasible in negotiations with developed countries and with some institutions connected with trade and international finance.

C. International difficulties

The world scenario is characterized by the United States' hegemony in the military, financial, communications, and ideological areas. To this is added the strong presence of international financial organizations, which, owing to the conditionalities attached to their loans, have enormous influence over the economic models and the implementation of the economic policy of every country in the region. The United States, in turn, exerts great influence over these organizations' orientation and policies. Into this panorama is injected the powerful presence of transnational enterprises involved in productive and commercial activities and in international finance.

D. Hierarchization of the problems to be addressed

A left government should attach the highest priority to solving the problems related to the conditions and quality of life of the Uruguayan society, such as poverty, unemployment, social fragmentation, and inequality.

The greatest obstacle to solving these problems is the foreign and the domestic debt in foreign currency and the attendant agreement in force with the IMF.

Priorities should be geared to growth with social justice. Some of the obstacles to be overcome are the low investment level and the poor qualification of state agencies for effectively performing their main functions. Social pacts and a broad social alliance are essential to the achievement of these objectives.

II. The project's basic criteria: objectives and strategy

The main objectives of a left government are defined on the basis of the left's identity, grounded on equality and social justice, the *sine qua non* for human development. The achievement of these objectives requires changes in the prevailing economic and social model, so as to ensure democracy's basic principles. The main objective should thus be growth with social justice, based on Uruguay's specificity in a capitalist regime and as a participant in Latin America's integration process.

A. Growth

1. The growth strategy depends on the dynamic force of exports, complemented by effective import substitution and increased internal demand. This also means that in the medium term, production and social issues have higher priority than financial ones.

Proper management of natural resources as a source of competitiveness and active negotiations for greater opening of markets for our products will sustain exports growth during the process's first phase. Natural resources, associated with the tourist sector, should be also a source of dynamism.

In the medium term, it is essential to maximize the aggregate value of current export items and to begin introducing new items, based on the qualification of human resources and on current technological advances. These new items, which can also be associated with services and are—differently from those based on natural resources—capable of boosting exports, require government support and incentives as well as taking advantage of regional integration processes. New export items can improve the terms of trade.

2. Regional integration and emphasis on productive complementariness agreements are key elements for exporting manufactures and services. As a

medium-term strategy, the exportation of products derived from natural resources to the developed world could be maintained while new products, which are more dynamic, begin to form part of the productive chains that may emerge from regional integration, so as to achieve the requisite competitiveness on the international plane.

The increase in these exports is based on the concept of dynamic and acquired comparative advantages; in this connection, State support will be vital, as the starting point is the concept that competitiveness is systemic and that, accordingly, education and technology play a central role.

3. The medium-term strategy should consider the possibilities for effective import substitution, supported by the protection provided by an exchange policy centered on competitiveness, on the productive complementariness derived from regional integration, as well as on systemic competitiveness. In this connection, consideration should be given to the positive experience of Southeast Asia countries and there should be no relapse into the mistakes made in Latin America at the height of the import-substitution process, when there was recourse to high, indiscriminate tariff protection.

4. Although the dynamism of internal demand is a complementary factor in the strategy, it is crucial to solving the unemployment problems. In this connection, the following factors are influential:

- (i) The need to define strategic lineaments conducive to a dynamic productive structure capable of ensuring both competitiveness and employment. This requires a special study of the productive sectors with a view to granting tax and credit incentives to sectors with highest priority. The nature of the growth stemming from this new productive structure is a key element in the conception of employment programs, including incentives to items and sectors capable of generating direct and indirect productive employment. Improvement in employment is a key element.
- (ii) The wage policy, based on collective agreements, should ensure the purchasing power of workers, who should have access, on an equal basis, to the benefits from increased productivity. Better wages are another key factor of the dynamism of internal demand.

- (iii) Public investment, particularly in the physical and social structure, is a relevant factor for reactivating the construction sector, which is a key sector for jobs generation.
- (iv) Social and income redistribution policies, aimed particularly at addressing poverty, help boost the internal demand also. These social policies and the emphasis on public investment depend, in the short run, on the solution of the problems related to the debt in foreign currency and the attendant fiscal deficit.
- (v) Credit is another central factor in the achievement of this objective. To this end, it is essential that the monetary policy meet the demands of growth and not only stabilization objectives.

5. The current model assigns priority to financial instead of productive and social issues. In the short run, given the seriousness of the financial problems, the strategy to be followed could assign equal priority to productive and social issues. In the medium run, though, it is essential that financial matters be subordinated to productive and social requirements, which are intertwined and should enjoy the same priority. No growth is possible without competitiveness and since the latter is systemic, there is no competitiveness without education and technological development. Moreover, employment depends on growth and on the nature of growth; unless employment difficulties are solved, it would be very difficult to address the social problems and needs that affect our society. In essence, employment is at the same time an economic and a social issue.

6. A left government's general strategy does not contemplate nationalizations, statism, expropriations, or privatizations. This does not mean that decisions of this nature could not be required in inevitable, punctual situations.

In the case of natural monopolies pertaining to strategic sectors or items, it is much more convenient having a State monopoly than a private one. The strategy should be based on respect for free competition, which applies to both of the communication media and the different public services.

B. Social justice

1. The equity and social justice strategy should address the major social problems, such as those related to employment, poverty, social fragmentation, and inequalities.

2. Addressing the employment problems—open unemployment, underemployment, precariousness, and informality—is vital to a left government's strategy, as this is the basic mechanism to solve the problems of poverty, structural heterogeneity, social fragmentation, and inequalities. The gravity of these problems is such that their solution in a short time is impossible. It is necessary to establish a medium-term strategy that should identify the most pressing problems requiring emergency measures in the shortest time.

- (a) Employment problems stem basically from labor limitations and weaknesses and often from technological advances as well. Accordingly, economic growth and its nature, as regards the makeup of the productive structure, are a *sine qua non* for addressing this situation. Job programs are fundamental as the market is not in condition to solve this problem. These programs should be geared to the items and sectors of economic activity most capable of generating direct and indirect employment, which should receive the greatest incentives; these sectors should include small and medium enterprises. They should also include forms of complementariness between formal and informal activities, so that these could modernize themselves and raise their productivity and income levels. Fiscal, credit, and technological instruments are fundamental for achieving these results.
- (b) The solution of employment problems requires actions aimed at the labor supply. The current poverty situation gives rise to vicious circles, as the less favored do not get the necessary education to work in the modern sectors of the economy. The training of human resources must be improved, particularly in the neediest sectors, and continuing education mechanisms should be created to adapt labor to the requirements imposed by the speed of the technological revolution.

3. Equity requires substantial answers to poverty problems, which have both causes and consequences of an economic, social, political, and geographical nature.

- (a) Poverty's economic reality derives from the employment question. Unless the latter is solved, poverty's structural characteristics will

persist. In the short run, welfare-style solutions are needed to begin to meet the food, educational, health, and housing needs. The joint action of the State and social organizations, complemented by Uruguayan society's solidarity, can help improve this situation.

- (b) The social problems require immediate attention so as to meet the most basic need, namely, food. At the same time, mechanisms should be devised to ensure the children's education—an area which has seen some progress in recent years—and the proper training of young people so they can successfully enter the labor market.
- (c) Health care coverage is another basic need to be met and new proposals are required to assist the less privileged.
- (d) Housing and relocation demand very special attention. Today's Uruguay is becoming more "Latin American" in terms of "poor ghettos" and "rich ghettos." The elementary school, a primary social integration and equality factor among Uruguayans in the past, no longer plays this role as the poorest segments interact almost exclusively amongst themselves and attend the same educational centers established according to the new relocation pattern. The "ghettos" intensify social fragmentation and the inequalities that preclude relations that in the past promoted greater integration and social mobility among people of different backgrounds. To address this situation, housing policies are absolutely necessary (Cecilio M. and Couriel, J., 2004).

Social policies are extremely important for left project. Proposals related to education at different levels, health, and housing are crucial, but they are not covered by this paper.

- (e) The political problems associated with poverty originate in the latter's power bases. Accordingly, the organization and participation of the less favored segments is fundamental for the solution of their problems. These segments must achieve the power inherent in citizenship and see how they can affirm their identity, shape their view of the world, realize their rights, and understand the importance of participation, as well formulating proposals and strategies (Undp, 2004). To address these issues, the participation of various civil society organizations, acting in a complementary, coordinated manner with official agencies, is essential to improve the prevailing poverty conditions.

4. The formulation of an equity strategy must necessarily begin with income redistribution policies, which include employment programs, wage policies, and combating poverty. Uruguayan history shows equity elements derived from public schools and the educational system in general, the early social protection mechanisms—social security in particular—and, in essence, the redistributive effect of public spending. The fiscal policy is thus vital for an equity strategy, through a tax reform based on the establishment of a personal income tax and especially through changes in the structure of public spending in favor of social expenditures. This is an indispensable instrument, hampered today by the service of the public debt and by the patronizing attitude of the traditional parties, which swell public spending for electoral purposes. This is one of the major challenges for a progressive government.

5. An equity strategy should aim simultaneously at growth and at the improvement of income distribution; it should not wait for growth to happen and only then distribute it. This means that the social sphere should have a priority similar to that enjoyed by production. In this connection, consideration should be given to the establishment of a Social Development Ministry just as relevant as the ministry of Economy and Finance.

C. Short-term analysis

1. In a short-term strategy, financial problems—including inflation, the foreign debt, and the fiscal debt—have great weight, together with possible balance of payment difficulties.

2. As regards inflation—except for possible influences of the electoral campaign—it can be considered relatively under control. It is very important to take into consideration cost elements, such as the exchange rate, interests, and public service tariffs (no significant changes in respect of taxes and wages are expected in 2004). Moreover, the expectations and belief of the economic agents about the situation should also be taken into account as factors that can give rise to inflationary processes. In the Uruguayan economy, costs and expectations tend to be more relevant than demand factors. If inflation is brought under control, a short-term strategy could simultaneously lead to stabilization, growth, and income distribution.

3. It is to be expected that the electoral process will not influence the balance of payments variables and above all that no capital flight will occur.

The other variables will be affected by the problems related to the debt in foreign currency.

4. The foreign and the domestic debts in foreign currency and the negotiations with the IMF are the most relevant political and economic problems in the short run for a progressive government. The United States government and the US Department of the Treasury have a strong influence over IMF decisions. The course of the Argentine and Brazilian negotiations in 2004 and early 2005 will be very important for the negotiations to be undertaken by the Uruguayan government. To ensure an equitable negotiation that meets the interests of both parties, the Broad Front government should—in view of the notorious asymmetry of the forces—be accompanied by Brazil and Argentina and, if possible, by representatives of other countries of the region. It is also important to take into consideration the results of the 2004 elections in the United States. It might likewise be useful to initiate joint negotiations between the Latin American countries and the United States, an issue we shall presently look into.

The key issues of a negotiation with the IMF should encompass the following topics:

- (i) Renegotiation of the debt with multilateral organizations;
- (ii) The fiscal deficit and the primary surplus should not affect growth rates nor limit social policies and harm equity. Moreover, they should leave sufficient elbow room for addressing the social problems that affect the country at the outset of a new government, in view of the social demands that will arise;
- (iii) International financial institutions—and particularly the IMF in this case—should accept the alternate proposals formulated with the highest degree of realism by the countries themselves, emphasizing growth, jobs generation, and priority attention to social problems; and
- (iv) It is important to achieve macroeconomic equilibrium but not only in the financial area. Equilibrium should also encompass real or productive variables, so as to be consistent with the requirements of production investment, competitiveness, and employment.

III. Main instruments

A. Economic

1. One of the major problems lies in the market-State relationship. The market is irreplaceable as a results indicator, as well as defining the quantity and quality of goods and services. However, the market does not have a social, temporal, or environmental perspective. This makes necessary the intervention of the State in the allocation of resources as necessary. The strategic lineaments and the flexible definition of the productive structure will have influence on what is to be produced, for what, how, where, and when, just as the currently developed countries have done throughout the 20th century.

The most adequate formula could be *as much market as possible and as much State as necessary*, which combines market logic and State logic (Ecla, 2000 a).

2. The State is necessary to lead society, to resolve conflicts in a democratic way, and to ensure social protection, integration and the attendant income redistribution, so that democracy may prevail over the economy. The performance of these basic tasks requires the indispensable transformation of the State with qualified personnel, thereby ensuring an effective management. Such an efficient State is necessary for:

- (i) Improving equity levels;
- (ii) Undertaking negotiations on a regional level, having in view the national interests in the integration process, as well as negotiations with the developed world and international organizations;
- (iii) Undertaking the strategic conduct of a new development model, which requires the definition of strategic lineaments and the establishment of the productive structure, according to competitiveness and employment criteria, to serve as a basis for the use of the different economic policy instruments;
- (iv) Correcting the negative effects of globalization and of the actions of the market on national development;
- (v) Giving impetus to incorporation into the international scene;

- (vi) Adapting, incorporating, and developing technology essential to systemic competitiveness;
- (vii) Implementing productive employment programs;
- (viii) Implementing social policies; and
- (ix) Undertaking social agreements with a view to implementing active and selective sectoral policies, with the pertinent counterparts.

3. The basic criteria for using the different economic policy instruments are as follows:

- (a) The exchange policy should give priority to the competitiveness objective so that exporters will have a sufficient time horizon to plan carry out their investments and business. Competitiveness should rely on the use of the anchor exchange for anti-inflationary purposes and to encourage capital inflows. This a fundamental variable for the productive country contemplated by the Broad Front.
- (b) The monetary policy should aim at both price stability and growth, as is done, for example, by the US Federal Reserve. European-style Central Bank autonomy, giving exclusive priority to anti-inflationary objectives, is not deemed convenient for this alternative proposal (Stiglitz, 2004). It is important to channel credit in accordance with the strategic lineaments and to regulate interest rates so that they are consistent with the need for capital inflows and the requirements of the productive sector. Regulation of the Central Bank is also indispensable for promoting national savings and less dependence on capital inflows.
- (c) It is important to have a financial system capable of improving the medium- and long-term capital market to meet the productive sectors' credit requirements; equally important is speeding up the *desdollarization* process. State banking must be reinforced and the Central Bank must actively regulate, orient, and control the financial system.
- (d) As regards fiscal policy, after negotiation of the debt in foreign currency, it is essential to adopt an anticyclical policy to help the

productive and social sectors. It is essential to have a tax reform based on personal income tax and on changing the spending structure so as to give priority to social expenditures.

- (e) The public services tariff policy can be included in the strategic lineaments to encourage higher-priority productive sectors and to grant subsidies strictly limited to the neediest social segments. Efficient management of public enterprises is a key objective, which will permit lower costs and consequently lower tariffs. This is used today solely for fiscal purposes.
- (f) The tariff policy falls within the domain of Mercosur negotiations and may undergo changes on the basis of productive complementariness criteria that may be negotiated in this sphere.
- (g) The salary policy should be based on collective bargaining, on attention to the workers' purchasing power, and on the equitable distribution of productivity gains.

B. Social and political

1. Social and political agreements are indispensable elements for better economic and social functioning. It is essential that the entrepreneurial sectors participate in social agreements with the State—particularly those sectors with possibility of permanent agreements, such as exporters, rural producers, industrialists, and the construction and tourism sectors. Equally essential is the participation of social organizations associated with the workers and other popular sectors (Courier, 1989 b).

Social agreements are extremely important for a left government, which has the necessary instruments to implement them. Since the democratic opening, the traditional parties have come up with social agreements they never managed to implement. Social agreements can facilitate the emergence of new, dynamic social players, which are so necessary in every development process.

2. The active participation of social organizations originating in civil society, some of which are already in existence and others that should be promoted and supported, is a key element for the implementation of social policies. Its encouragement early on in the new government will be particularly

important, as the financial resources available to the State will be insufficient to meet the profound needs aggravated in recent years. It should be kept in mind that the very social fragmentation caused by precarious conditions, underemployment, and informality reflects the volatility of interests, which affects participation in social organizations and movements (Faletto and Baño, 1992). Complementary participation mechanisms should be found for reinforcing the necessary State action in these fields. Social organizations play a fundamental role in identifying society's problems and in formulating collective demands, but owing to their specific character and autonomy, they cannot replace the political parties or the State, as often transpires from the neoliberal ideology. Civil society should not be opposed to democracy's basic institutions. A left government should implement participation forms to allow civil society to broaden its public space and to become more aware of its rights.

It should be observed that the key objectives of a left government include the consolidation of the democratic processes and this implies the expansion of the citizens' civil, political, and social rights.

3. Given the changes necessary for Uruguay to overcome the crisis, the broadest social alliances are indispensable, and these will require equally indispensable political agreements to ensure the proper functioning of the model. This implies opening space for the incorporation of the most qualified technical individuals into the administration, regardless of their political affiliation. It is essential to create democratic power to make feasible the alternative model. This is also the purpose of the necessary agreements with the Armed Forces, the owners of the media, and the transnational banks operating in the country.

4. Together, these changes seek to operate a significant modification in Uruguayan society's consciousness, generating favorable expectations and greater hope in the country's future, an indispensable requirement for the new model to work. Economic improvements, State actions prioritizing social aspects, democratization of the media imposing free competition, and the strengthening of civil society organizations will provide the support for these changes.

IV. A new form of international interaction

1. As reviewed, the left's alternative proposal requires political changes, changes in the economic model, as well as social and institutional changes. In

addition, it is necessary to establish new forms of international interaction. The developed world's protection and subsidies policy, particularly the United States's—in the form of tariffs, nontariff barriers, subsidies, and preferential access to their markets—determines the specialization of the peripheral countries' participation in international trade. This productive specialization, determined by trade relations, in turn determines the very productive structure that the new model intends to correct. To the inadequacy of this productive structure also contribute the conditionality imposed by international institutions on the basis of the Washington Consensus, as they define their medium- and long term policies. In addition, short-term policies are determined to a considerable extent by the IMF-imposed adjustments, which are recessive and give priority to financial objectives, aggravating social and economic problems. Thus, a new mode of international relations is essential for a more effective implementation of the alternative model.

2. On the regional plane, trade, financial, production, technological, and social integration agreements are essential. It is necessary to ensure the coordination and compatibility of the strategic lineaments of the different countries as forms of active integration to supersede passive integration based solely on the market (Couriel, 1991 b). Productive complementariness is also necessary, and it is ensured by specialization in certain items or parts of productive processes.

Economic integration should facilitate the transition from participation in the international economy on the basis of static comparative advantages (natural resources and cheap, unskilled labor, as is the case of maquilas) to active participation based on dynamic or acquired comparative advantages, through items that are more dynamic on the international market, as a result of their technological content, higher aggregate value—in respect of natural resources also—and a freer up-and-down movement of export items.

3. In a world made up of blocs, it is essential to advance toward unity and political cooperation among the countries of the region, so that they can be in a better position to face the developed countries' blocs, to gain negotiation power based on joint, common proposals, and to promote their own regional development. It is necessary to look for new allies with which to negotiate in the developed world, including—with respect to certain issues—China, India, and South Africa. Above all, it is necessary to take advantage of the differences and disputes among developed world blocs to establish new alliances for each negotiation, without disregarding agreements with the United States to counter

the European Union's subsidies, or with the European Union and Southeast Asia to negotiate with the United States about the need to regulate short-term capital flows.

Advancing toward unity among the countries of the region requires a keener awareness and consciousness of regional identity on the part of their societies and major players; this should be encouraged by each country's media and educational system.

4. The international scene shows the clear predominance of the United States and its hegemony in the military, financial, and communications domains, and its enormous political predominance as well. Under the Bush Administration, a real revolutionary power of the far right has been installed. Meanwhile, Europe has lost military, economic, and political power and the emerging powers, such as China, are seeking to agree to the extent possible with the hegemonic power.

In this international environment, the international financial institutions, which have implemented the neoliberal model in the region, wield great power. The United States have much influence over these institutions and over the IMF in particular. In this context, the Latin American countries need to negotiate as a bloc with the developed world and especially with the United States.

5. Greater unity and closer political cooperation is essential in the region. Today, this process is led by the current Lula and Kirchner governments, which a future Broad Front government could join. To negotiate as a bloc, the countries of the region should pursue common proposals. It is necessary to govern globalization. Basic negotiation items would be as follows:

- (a) In the political area
 - (i) Redefinition of the role of the United Nations, reformulation of the Security Council, and greater participation of the countries of the region;
 - (ii) Establishment of power platforms with other regions, so as to ensure greater participation in international decisions, including participation in the G-8;
 - (iii) Definition of a new role for the Armed Forces in the region and their connection with the United States;

- (iv) Rejection of the United States's unilateral certificates related to drugs and drug trafficking;
- (v) Search for ways to democratize globalized communications so as to ensure equal opportunities;
- (vi) Tackling of the specific problems of some of the region's countries with the United States, such as Cuba and Chavez's Venezuela; and
- (vii) Attention to the migration problems, as the developed countries preach the free movement of capitals and goods but there is no free movement of people, which affects the countries of the region.

(b) In the trade area

- (i) Unity and common proposals at negotiations with the World Trade Organization, the Ftaa, and the European Union;
- (ii) Redressing current trade asymmetries and confronting the developed countries' protection and subsidies; and
- (iii) Promoting manufacture exports to the developed world, based on negotiations conducive to a special, differentiated treatment, and attempt to improve the terms of trade, as the countries of the region are affected by the developed countries' policies.

(c) In the financial area

- (i) Substantially change the conditionalities imposed by international financial institutions;
- (ii) Negotiate the foreign debt with the ensemble of countries of the region; and
- (iii) Regulate short-term capital flows.

(d) In the area of production

- (i) Negotiate with transnational enterprises to have them conciliate their profitability and security objectives with the national objectives related to development models and to building the production infrastructure; and

- (ii) Address a possible Multilateral Agreement on Investment, which will affect the economic policy's autonomy of the countries that receive foreign direct investments.

V. Specific issues

A. Some thoughts on the State

1. The predominance of the model of the right, implemented by the traditional parties since the democratic opening, has aggravated the crisis of the State. The basic functions the State discharged through much of the 20th century as an agent of social integration, development, and income distribution, have been affected by the politicization and *particization* of the State. Patronizing policies, promotions, and ascension to top positions on the basis of political affiliation, exacerbated bureaucracy, and low salaries contribute to the ineptitude and inadequate mentality of civil servants, who fail to perform their duties as true public servants. This generalization must be qualified by the fact that in many government agencies there are capable, dedicated workers, who have made possible their functioning.

The crisis of the State is aggravated by the application of the neoliberal model, which seeks to transfer several State functions to the private sector and the free working of the market. According to the neoliberal ideology, all State actions are vitiated, while all the actions of the market and the private sector are virtuous. Of course, this black-and-white world does not exist. There is a great deal of grey in the world. There are things the State should not do, but there are areas in which its presence is indispensable. There are things that the private sector does very well and others that it does very poorly, as shown by the Uruguayan financial system. This also affects the credibility of the political system and the political parties. But if everything the State does is vitiated—and this is explicitly or implicitly expressed by the media—the State loses credibility and, consequently, so do politics and the parties, whose function is to use the State apparatus to meet the population's social demands.

The anti-State ideology contributes to the population's disbelief in politics. The parties win elections with a program and govern with another. Corruption cases also affect the credibility of politics. As this model was applied by the government of traditional parties, the State revealed itself as strong in certain

functions and very weak in others. It was strong in privatizing, liberalizing, deregulating, defending the banking sector, and making structural adjustments, and weak in meeting social demands and the requirements of the productive sectors.

The 2004 Undp report argues that with weak, minimal States only electoral democracy can be preserved. The central role of the State as a privileged coordination and social representation instance has weakened. What kind of a State will the new government find? Will it find solid institutions or great imbalances in them? Will they have the requisite, sufficient capacity to perform its new roles?

There are no ideal States. States are a reflection of the power structure, the different relations of force, an environment in which international relations play an ever bigger role and international financial institutions exert an influence that often takes vital instruments away from the States, while demanding that the latter resolve the issue of social cohesion. The transformation of the State implies changes in the relations of force, in power relations, necessarily beginning with a political change, with a left government's rise to power. This should lead to a State with some degree of relative autonomy, but basically representative of new, broad social alliances conducive to the indispensable changes needed for achieving dynamic, equitable societies (Couriel, 1991 a).

2. Under a left government, the State must be capable of leading society, resolving conflicts in a democratic way, discharging functions related to social integration and income redistribution, and guaranteeing the requisite social protection and the preeminence of democracy over the economy as a principle of social organization. There is no democracy without the State or democratic development without a State capable of guaranteeing and universally promoting citizenship and its principal rights—particularly a State able to undertake a strategic management (Ilpes, 1998).

Such States should allow the necessary space for the participation of civil society, for expanding the public space of its rights and its social consciousness. For a left government, this participation and the requisite social agreements are essential to improve the functioning of the alternative model. The State's participation is pivotal for improving equity and equality, for negotiations within the region and with the developed world, for the strategic lineaments that should guide the economic process and facilitate a dynamic

incorporation into the international scene, for the establishment of a production structure that meets the competitiveness and employment requirements, and for the incorporation, adaptation, and creation of technology to ensure social integration and cohesion. Democracy conducive to citizenship requires a State capable of guaranteeing the universality of rights, a State that observes the electoral process and is representative of cultural, religious, ethnic, and gender diversity. The State must be transformed so as to become transparent, responsible, and have the necessary institutional quality and accountability (Undp, 2004).

State intervention should be selective and efficient, of known cost and duration, and periodically evaluated and publicized (Ilpes, 1998).

Substantial changes are needed in the State apparatus to improve management standards. This implies improving technical and administrative efficiency through the ongoing training of human resources, admissions and promotions by means of selective tests so as to put an end to patronizing policies and creating the proper mentality in civil servants. It also implies economic and financial capacity to effectively discharge functions as well as political capacity to direct according to democratic principles. To this end, transparency, training, decentralization, and participation are necessary.

The management of public enterprises is one of the great challenges a left government has to face. In addition to applying the already outlined general principles, the political direction of these enterprises must be consistent with the technical knowledge that is indispensable for the task. This requires significant changes in the current management based on political quotas, with the admission of directors without the minimum qualifications to discharge their functions. Public enterprises must prepare themselves to compete, reduce the costs entailed by the bureaucracy associated with the patronizing policy of the traditional parties, and provide the public goods and services in an adequate manner. Management positions must be held by those most capable and most qualified, regardless of their political affiliation. The proper functioning of public enterprises will help recover the indispensable credibility in the State's action. The State's regulatory function deserves special consideration. It should aim at monitoring the competitiveness rules, controlling the distorting action of the natural monopolies, promoting the protection, information, and participation of the users, and guaranteeing the quality of services (Ilpes, 1980).

B. Some thoughts on tax reform¹

1. Previous proposals set forth the basic features of a tax reform. A brief review notices the following peculiarities:

- (a) In comparison with other countries, the tax burden in Uruguay is not heavy. It reaches 29 percent, not including the municipalities, while in developed countries it is 32.3 percent. It exceeds 40 percent in nine West European countries: Sweden, 50 percent; Denmark, 49.3 percent; Belgium, 45.4 percent; France, 43.6 percent; Austria, 43.5 percent; the Netherlands and Italy, 42.9 percent; and Norway, 41.5 percent. High social protection explains the heavy tax burden in these countries.
- (b) The Uruguayan tax structure shows that the central government collects 65 percent of total revenue, while social security accounts for 27 percent and the municipalities account for 18 percent.
- (c) The value-added tax (VAT), the specific internal tax (Imesi), and the personal income tax (IRP) account for 70 percent of central government collections. The consumption tax on goods and services amounts to 63 percent.
- (d) A comparison with other countries shows the regressive character of the tax structure. In Uruguay, the capital gains tax is 20 percent, while it reaches 67.5 in developed countries and 90.1 percent in the United States. On the other hand, consumption tax on goods and service is 62 percent in Uruguay, while it is only 26.7 percent in developed countries (Lagomarsino and Grau, 2002).
- (e) Tax on personal income from salaries and pensions applies to a maximum of 70 percent of a household's income. This points to the possibility of broadening the tax base, not forgetting the higher-income sectors and reporting problems (Lagomarsino and Grau, 2002).

¹ This is a brief summary of a lecture given during the 16th Accounting and Public Budget Encounter held in Montevideo, November 20-21, 2002 by the Uruguayan Accounting and Public Budget Association-ASUCYP, for which C PA Gustavo Samacoitz has contributed.

- (f) A look at the VAT shows its regressive character. The exempted goods do not show great consumption differences among the various income brackets. It is quite significant that those in the lower brackets pay 9.1 percent of their income as VAT, while those in the higher brackets pay only 6.7 percent (Lagomarsino and Grau, 2002).
- (g) From a structural standpoint, it is almost impossible to reduce tax evasion and thus to collect the needed revenues to meet the objectives of the fiscal policy. The main difficulties are the lack of political will; patronizing practices; insufficient professionalism; and lack of coordination among the various tax collection instances. To this must be added bank secrecy, which prevents doing away with tax secrecy.

2. The State's role in giving impetus to economic growth with social justice requires a serious fiscal effort to increase public revenues, make the tax system more progressive, and redirecting public spending (Ilpes, 1998).

The tax policy objectives aim at improving income redistribution to achieve social justice. To meet this objective, the redistributive effects of public spending are more relevant than those of a tax reform. The welfare State of Batlle's government early in the century was based essentially on the equity effects of public spending. Productive jobs generation and the effects of public spending are the key elements that help achieve the income redistribution objective.

The tax policy should correct the regressive character of the current tax structure and strike a balance between fiscal objectives and ultimate objectives.

The fiscal objectives seek to improve and increase collections to meet public spending requirements. International comparison does not show a high tax pressure, but it is essential to get rid of patronizing policies and to ensure full implementation of programs. It is important to stress the need of an anticyclical tax policy to counter recessive processes.

As already seen in previous sections, the consequences attributed to the fiscal deficit should be demystified, particularly on the part of the international financial institutions, the proponents of the neoliberal model, and the country risk rating agencies.

3. The main tax reform proposals are as follows:

- (a) Creation of the personal income tax, which must encompass all income brackets, be progressive, and aim at broadening the tax base by incorporating the 30 percent of household income that do not pay tax now. The 2002 banking crisis weakened the banking system, one of the banners of the model implemented by the traditional parties, which hindered the creation of this tax for fear that this would scare foreign depositors away.
- (b) The corporate income tax must serve ultimate objectives, particularly of a social character, in accordance with the criteria derived from the strategic lineaments, as already reviewed.
- (c) With respect to the value-added tax (VAT), the changes proposed obey the following criteria:
 - (i) Attenuation of its regressive nature by modifying tax breaks;
 - (ii) Broadening of the tax base with a statistic rate that does not affect prices, for the purpose of general incidence of the tax and of tax control, permitting the deduction of the VAT from purchases;
 - (iii) Reduction of the tax burden by lowering the basic, minimal rate; and
 - (iv) Reduction of the VAT according to a general criterion for improving competitiveness by not exporting taxes.
- (d) It is important to eliminate a series of taxes that have very low yield and hamper a better administration. There are over twenty taxes whose yield does not exceed 6 percent of collections.
- (e) With respect to customs duties, they will depend on the progress achieved under Mercosur agreements. Lowering customs duties for the rest of the world, as was done in the early nineties, is not justified, particularly as the developed countries continue to maintain strong protectionist measures against exports from the countries of the region.
- (f) The State, enterprises, and workers should maintain their share of social security contributions. Feasible exemptions should serve ultimate objectives, as required by the strategic lineaments. It should be recalled that social security funding ultimately depends on the generation of productive jobs in formal or modern sectors.

In essence, the tax reform should serve fiscal objectives, so as to finance the redistribution achieved through public spending; and should also serve ultimate objectives, together with other economic policy instruments, so as to comply with productive sector priorities. An effective tax administration is essential to improve collections.

Lastly, it should be noted that the purpose of creating the personal income tax is to ensure equity. Together with the VAT reduction, it attenuates the current tax system's regressive character, even though this does not mean major changes in the tax structure.

C. Some thoughts about the media²

The presence and extraordinary expansion of the media are related to the computer revolution. The media have come to stay and can only develop further. Everybody knows that if something does not appear in the media, it does not exist. This is known by advisers, publishers, artists, journalists, and politicians as well.

The media also perform cultural, educational, and opinion-making tasks that reinforce national identity and basic national and democratic values.

The media have links to the political parties and to economic power. At the international level, they not only associate themselves with economic power—they are a major economic power, enhanced by mergers and a heavy concentration of property.

These economic groups on a global scale encompass all the traditional means of communication (press, radio, television) and also all activities of what we might call the sectors of mass culture (for mercantile, commercial ends), communications (marketing and advertising), and information (news agencies, the press, radio and television news programs) (Ramonet, 2003).

The 2004 Undp report reviews a survey of eighteen countries of the region on the power of the different sectors in Latin American societies. The survey showed that the economic and entrepreneurial power—particularly all

² This passage is a summary of a lecture given at the 1815 Strategic Studies Center in 2003.

financial power—accounts for the highest perception of power by society, followed by the media—65 percent—while political parties account for 30 percent of the power perception. The report shows that the media have more power than the political parties, the Armed Forces, and in many cases even than democratically elected presidents. Although they hold enormous power, the media do not assume the corresponding responsibility. They are a power subject to no control, whether on the domestic or the international front (Ramonet, 2003).

Internally, given the acute economic crisis our country experiences, which affects vast sectors of society, the media are also hit, owing to less private advertising and a considerable drop in official advertising, on which they have survived in recent years, and thus their profitability is jeopardized.

Moreover, the way permits and concessions are granted for radio and for cable and open television does not follow objective criteria that would ensure equal opportunities. Often the beneficiaries are fellow political party members and electoral campaign financiers, which makes for a disproportionate number of concessions—as is the case in some cities in the interior of the country—granted without regard for the appropriate criteria, which, in addition, makes their maintenance difficult. Concessions are precarious, free of charge, and revocable and the question of who should grant them is debatable.

Another aspect to point out is the existence of monopolies and oligopolies, which affects competitiveness and equal opportunities. There is a heavy concentration of awardees or distributionists as well as a centralization of producers of content, which creates great power.

The risk posed by the monopolies is addressed by the Inter-American Human Rights Commission's Declaration of Principles on Freedom of Expression, which states that *monopolies or oligopolies in the ownership and control of the communication media must be subject to anti-trust laws, as they conspire against democracy by limiting the plurality and diversity which ensure the full exercise of people's right to information.* Confronting these monopolies and oligopolies and ensuring free competitiveness is essential to democratization of and access to the communication media by the various segments of Uruguayan society on an equal basis.

Lack of competitiveness affects the quality, the production of new content, and the veracity of information, which are basic citizen's rights. Competitiveness would help improve content and lead to a higher percentage

of domestic production and permit greater participation of Uruguayan artists and technicians.

The communication media establish their agenda and have so much power that political debates become more relevant on television than in Congress itself. Today it is more important for a politician to appear for one minute on television than to make a one-hour speech in Congress.

The political parties and the communication media compete for public opinion. The media can create or destroy political leaders and influence the image of a given political regime. Journalists often become true political operators, ceasing to be objective and thereby violating society's right to information.

The communication media must be democratized. This implies equal opportunities, cultural diversity, and free competition. Equal political and social opportunities can be achieved by changing the form of frequency and wave band concession, award, and permit.

Freedom of the press is extremely valuable—but it requires competition and for this regulation by the State is indispensable.

Public sector action is vital to achieve these objectives pertaining to the media. The public sector acts as owner and regulates media operations through active policies. It is necessary to strengthen the public sector in respect of quality, content, and resources to allow it to compete—efficiently and on an equal footing—with the private sector, to which it should not be subordinate or complementary. Moreover, transmission mechanisms should be devised without fear of economic, political, legal, entrepreneurial, or State sanctions.

Active policies should take the following into consideration:

- (i) The need to establish a systematic, coordinated, legal framework for media operations;
- (ii) The need to defend the national production and cultural identity by setting the percentages of national and foreign production;
- (iii) Although media ownership cannot be in foreign hands, use is made of straw men in violation of legal provisions. The contradiction is that programs can be foreign.

- (v) The need to defend free competition, one of the vital principles for the democratization of the media. This requires confronting the monopolies and oligopolies of awardees and content producers.

The regulatory action should be based on authorization and concession criteria, ensuring fair, transparent access so as to guarantee equal opportunity. The necessary incentive should be extended to new content producers to allow them to participate in fair competition. Another regulatory condition for awarding concessions is the requirement of community service programs. ■■■

Can democracy be imposed?

Alfredo Toro Hardy *

I share my role as a diplomat with that of a scholar, in a coexistence that is not always easy, as diplomatic discretion is sometimes bound to clash with the need to express academic ideas. It is thus worth clarifying that the following statements are entirely personal and expressed from an academic perspective.

The answer to the question I pose in the title of this essay involves both Washington and the foreign policy of the Bush Administration. Thus, we need to place ourselves in the right context.

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George W. Bush decided to abandon the two most important pillars of the foreign policy that emerged during the Truman Administration. The doctrines of containment and deterrence were formally left aside to give way to a new doctrine, which affirms the undeniable military superiority of the United States and its willingness to act pre-emptively and unilaterally against any real or potential threat. This leaves alliance policies without any real sound foundations. Alliances now tend to be shaped on “ad hoc” and circumstantial basis.

On the other hand, the current Republican Administration tends to disregard or dissociate itself from any multilateral commitment that limits U.S. sovereignty or the freedom of action demanded by its hegemony. Even the United Nations Security Council is bound to validate decisions previously made by the hegemonic power. As John Bolton, U.S. Representative-designate to the UN bluntly put it: “The Security Council should have a single member, the United States, in order to reflect the real international balance of power”.¹

The heirs of the Establishment

The so-called neoconservatives are the intellectual authors of this process. They see themselves as heirs of the old Establishment. Heirs of the men who, gathered around the Council on Foreign Affairs of New York, defined both the conceptual and instrumental basis for post-war U.S. foreign policy. This policy had a long life and even survived for a decade the end of the Cold War. Indeed, around the end of World War II, men like George Kennan, Dean Acheson, James Forrestal, Averell Harriman, Robert Lovett, John McCloy, Charles Bohlen and Paul Nitze set the guidelines that would define American foreign actions in decades to come. No wonder Truman’s Secretary of State, Dean Acheson, referred to this period of policy gestation as “the creation”.²

Considering the principles that gave meaning to post-war foreign policy to be worn out, the neoconservatives see themselves as the authors of a “second creation”. According to William Kristol and Robert Kagan, two of their most vocal exponents: “Our country, in other words, was...present at another creation

¹ See *L'Express*, Paris, 28 March/3 April, 2005

² See *The Wise Men*, New York: Simon and Schuster, 1986.

similar to the one Dean Acheson saw emerge after World War II. For the first time in its history, the United States had the chance to shape the international system in ways that would enhance its security and advance its principles without opposition from a powerful, determined adversary”³. They posit the undeniable military superiority of the country and its willingness to act disregarding any limits to its freedom of action. Equally significant, they champion the spread of American conceptions of freedom and democracy around the world, implicitly promoting regime changes in governments of a different nature. That is why neoconservatives are called “democratic imperialists”.

Who are the neoconservatives?

In essence, neoconservatives emphasize the importance of wilful politics, based on three main factors. First, what neoconservative political analyst Charles Krauthammer calls the “unipolar moment”, which is based on the United States’ unlimited strength and capability to define the international environment in its own terms. Secondly, a “new Wilsonianism”, which is a manifestation of the messianic role of American foreign policy. Thirdly, American “Exceptionalism”, a concept that implies the superiority of the American social model and of the principles on which it is based. The last two ideas are undeniably connected.

As we can logically infer from the prefix “neo”, we are in the presence of “new” conservatives. In other words, these are liberals who resented the rebellious excesses of the sixties and seventies, and thenceforth went on to adopt right wing attitudes. In contrast with classic conservatives, they are not interested in preserving lifestyle models and traditional patterns, but in shaking structures and provoking change.

Neoconservatives gravitate around a group of think-tanks and media outlets. Among the former are the “American Enterprise Institute” and the “Project for the New American Century”. Among the latter, the *Weekly Standard*, *The Public Interest* and *Commentary*. Neoconservatism’s most important figures would include Irving Kristol, Robert Kagan, Richard Perle, Paul Wolfowitz, Eliot Cohen, Elliott Abrams, Norman Podhoretz, James Wilson, and Charles Krauthammer⁴.

³ Stelzer, Irving, editor, “National Interest and Global Responsibility”, *Neoconservatism*, London: Atlantic Books, 2004, p. 57.

⁴ See Stelzer, cit.

The only group inside the Bush Administration that competes with the neoconservatives' influence is the Christian Right, supported by its huge electoral power. Neoconservatives, by comparison, are a small group of intellectuals whose strength is the power of ideas. Time will tell if the new conceptual baggage they have imprinted on American foreign policy is irreversible or whether it will have been just a political vogue. The only thing that is known with certainty is that never before in its history have the United States reached such high levels of international unpopularity, as a consequence of its policies.

Many people around the world agree with George Soros's view that: "[t]he underlying principles of this agenda can be summed as follows: International relations are relations of power, not law; power prevails and law legitimizes what prevails. The United States is unquestionably the dominant power in the post-Cold War world; it is therefore in a position to impose its views, interests, and values on the world...This view on foreign policy is part of a comprehensive ideology customarily referred to as neoconservatism, but I prefer to describe it as a crude form of social Darwinism. I call it crude because it ignores the role of cooperation in the survival of the fittest and puts all emphasis on competition...in international relations, it leads to the pursuit of American supremacy."⁵

In fact, neoconservatives have never been popular because of the fanatic nature deriving from their condition of converts. They were never prepared for public scrutiny by their intellectual mentor, Leo Strauss, an immigrant from Nazi Germany who distinguished himself as professor of politics at the University of Chicago. He taught them that the meaning of commitment in politics depended on the search for absolute values, rejecting every manifestation of relativism or pragmatism. He instilled in them the idea that in order to overcome moral decadence, Americans needed to grasp unifying national myths. Little did it matter whether or not those myths had some basis in fact. Kenneth R. Weinstein quoted the editor of the *Spectator*, Mary Wakefield, when she said "Strauss was a champion of the 'noble lie' –the idea that is practically a duty to lie to the masses because only a small elite is intellectually fit to know the truth...Politicians must conceal their views, said Strauss, for two reasons: to spare the people's feelings and to protect the elite from possible reprisals"⁶. For an elitist par excellence like Strauss, the main goal was to control the less intelligent majority.

⁵ *The Bubble of American Supremacy*, New York: Public Affairs, 2004, p. 3-4.

⁶ "Philosophical roots, the role of Leo Strauss and the war on Iraq", *Neoconservatism*, London: Atlantic Books, 2004, p. 203.

Since the beginning, neoconservatives have displayed Machiavellian ways in which aims justify all means. Being unquestionable followers of Strauss, they seem to consider intellectual dishonesty as proof of their profound convictions. This has been evident in the manipulation of facts time and again. This chapter was very clearly shown on the documentary series “The Power of Nightmares” transmitted by British BBC 2 on 18, 19 and 20 January, 2005.

Roosevelt versus Wilson

One of the key aspects of the neoconservative agenda is to spread democracy, which implicitly implies a process of regime change. George W. Bush’s second term inauguration speech was in itself a manifest of the neo conservative movement. No wonder the word freedom was repeated forty-nine times in the speech, and that the spreading of universal American values around the world was its main theme.

In order to understand the origins of this missionary spirit we have to look back in history. In his work *Diplomacy*, Henry Kissinger shows how the United States appeared on the international scene at the beginning of the 20th century, motivated by two opposite ideas⁷. On one hand, Theodore Roosevelt’s conceptions, based on political realism, balance of power and national interest. On the other hand, Woodrow Wilson’s ideas, based on the messianic dissemination of the democratic values that made the United States an exceptional nation. In other words, the implicit historical responsibilities of being the “New Jerusalem”, the “City on the Hill”. Roosevelt’s views prevailed during most of the Cold War, and were particularly noticeable during Richard Nixon’s presidency. “Wilsonianism” prevailed during some periods of the Cold War and clearly prevails under the Bush Administration.

From an intellectual perspective, it was Kissinger who incarnated the most accomplished manifestation of political realism, while neoconservatives best represent messianism. Not surprisingly, we see a profound rivalry between both tendencies. The current tenant at the White House has submerged himself in the “Wilsonian” orientation of neoconservatives, which in no small way

⁷ New York: Simon & Schuster 1994, p. 29-55.

derives from a providential perception of his role as President. This makes him diametrically different to his father, who was a notable exponent of realism in foreign policy. Their handling of the Iraqi issue is a clear demonstration of these differences.

Commenting on George Bush Sr. and Bill Clinton's policies towards Iraq, Nicholas Guyatt wrote: "U.S. policymakers are rather more scared of Shia fundamentalism or Kurdish nationalism, and so they have chosen to keep Saddam in power even as they remind him, with military strikes and sanctions, that they have him surrounded. State Department spokespeople like to boast of how U.S. 'containment' keeps Iraq from bullying its neighbours; in fact, the U.S. fears that Iraq's internal tensions will change the make-up of the Middle East, and so U.S. policy is intended to deter not Iraqi expansion but Iraqi implosion"⁸. This last statement clearly reflects the realistic ideas inherited from Roosevelt. George Bush junior, influenced by the "Wilsonian" streak of neoconservative thinking, decided to embark on a democratic crusade in the Middle East, choosing Iraq as the starting point.

Democracy and regime change

The current Administration went on with an ambitious regime change plan. It launched an operation that pursued democratisation in Iraq, as a showcase to the Arab and Muslim world. From a neoconservative perspective, this would provoke a powerful chain reaction in the region as a whole. On top of the Weapons of Mass Destruction issue, which they contaminated from the beginning, their main goal was to promote an ideological confrontation with Islamism through the spreading of democracy. No wonder Wolfowitz and Perle insisted on this point, within the Bush Administration debate that preceded the invasion of Iraq. Neoconservatives, as we all know, won this debate and defined the course of action.

Neoconservatives chose Iraq to confront Islamism in the same way Kennedy chose Vietnam to confront communism. Instead of a long, systematic and low-profile struggle using police and intelligence forces to defeat Islamic

⁸ *Another American Century*. London: Zed Books, 2000, p. 143

terrorism, they chose to attack the core of the problem aggressively. The attractiveness of Islamic fundamentalism was to be confronted in the streets of the Moslem world through the healing power of democracy. In other words, instead of fighting patiently against mosquitoes, they chose to implement a large-scale operation to destroy the habitat in which mosquitoes breed. In terms of ambition, this goal is only comparable to the international rearrangement efforts made by Wilson and Truman after the two World Wars. But theirs was the product of unwanted wars and devastated countries, not an expression of cold-blooded and calculated willingness, as in this case.

The Lexington column of *The Economist* stated that, together with neoconservatives, the most influential intellectual figure inside the White House is the Israeli Natan Sharansky: “Mr. Sharansky’s message comes down to three points. First, ‘realpolitik’ is bankrupt. America cannot go on coddling tyrannical regimes like Saudi Arabia because those regimes invariably try to buy stability at home by exporting hatred abroad. Second, democracy is the best insurance against aggression. Third, the world really is divided between good and evil...Mr. Sharansky only sees the world in black and white terms –good versus evil and free societies versus ‘fear societies’, with a bunch of ‘realists’ dithering in the middle”⁹

In spite of the messianic streak in which neoconservatives take pride, political realism (despised by them and their disciple Sharansky), demands specific answers to multiple questions, such as:

1- What about cultural differences?

The iceberg underwater

According to American internationalist Michael Mandelbaum, “[b]oth the Islamic political culture of the Middle East and the Confucian political culture of East Asia included non-liberal elements. They emphasized group cohesion and solidarity rather than individual liberty, and they favoured the enforcement of orthodoxy over free inquiry and discussion. Moreover, the ruler was more like an authoritarian parent presiding over a family than a

⁹ 5 February, 2005.

fellow citizen chosen to perform certain limited duties by a sovereign public. The ruled could petition the rulers in both Islamic and Confucian traditions but did not elect them. The rulers were constrained by a moral commitment to proper conduct but not by constitutional limits on their power. In the modern era, moreover, both the Islamic Middle East and China experienced the Western liberal countries as dangerous, aggressive, intrusive adversaries and were therefore inclined to resist Western political values as part of their struggle against Western domination”¹⁰. In other words, we are in presence of the “clash of civilizations” described by Samuel Huntington. An area filled with profound political and historical implications that cannot be handled carelessly.

Michelle LeBaron and Jarle Croker have metaphorically compared culture with an iceberg underwater: an invisible web of meanings, beliefs and convictions¹¹. Therefore, the interconnectiveness between people from different latitudes deriving from globalisation would only be the tip of the iceberg. This visible tip is made of symbols and values projected worldwide: from McDonald’s to Nike, from the English language to Microsoft and Harry Potter, from financial multilateral institutions to Wall Street, from market economy to democracy. In other words, the “homogenised” kingdom once proclaimed by Fukuyama. However, underneath it all, there is a huge submerged iceberg made of rooted identities where the irreconcilable cultures described by Huntington appear. Trying to unite the world under the same paradigms will always be a shallow and fragile task. Even Fukuyama has admitted it. Denying the resilience of ancient identities by seeing only the tip of the iceberg is like choosing the Titanic’s course of action.

2 - When pursuing angels, how can we avoid falling into demon land?

Between angels and demons

Iraq has demonstrated how, while pursuing democracy, we can incur in violence, social chaos and potential state dismemberment. It is a good example of what could happen on a large scale in a region dominated by artificial

¹⁰ *The Ideas That Conquered the World*, New York: Public Affairs, 2003, p. 254-255.

¹¹ *Harvard International Review*, Autumn, 2000.

borders, territorial disputes and unredeemed populations and ethnic groups – a region where militant, ideological and radical Islam is present. Roula Khalaf and Steve Negus wrote in the *Financial Times*: “The results suggested Iraqis voted largely on sectarian and ethnic lines, flocking to Shia religious parties and Kurdish groups leaving mixed-ethnicity nationalist parties trailing..The marginalisation of the Sunni minority is the main dilemma facing the new national assembly, which must choose the next government and draft Iraq’s permanent constitution”¹². An editorial of that same newspaper said: “The constituent assembly elected on January 30 has been sworn in, but the two largest blocks within it –the victorious ‘Shia list’ and the Kurds- have so far been unable to agree on the formation of a provisional government. The main reason for that is Kirkuk, a microcosm of nearly all the ethnic, religious, tribal and resource-linked tensions that threaten to combine and combust to wreck Iraq’s future”¹³. Neoconservatives are trustingly basing the complex process of Iraqi reconstruction and democratic strengthening in the alleged open-minded spirit of a sick and octogenarian Ayatollah. They seem to be taking for granted the lethal combination of Sunni resentfulness, Shiite Islamist vindictiveness and Kurd independence aspirations. All of that amidst the explosive situation in Kirkuk, the interaction of powerful regional forces, an insurgency that is not controllable by military means, and generalised hatred of American troops.

The Middle East is the focal point for the neoconservative democratisation crusade, notwithstanding the fact that this is the toughest region in the world to carry on a large-scale experiment like this. The huge complexities faced in Iraq around this purpose should sound an alarm of risk awareness. These risks demand prudence, as well as an understanding of the sense of the limits and of the maturation of this experiment, before the experiment is replicated elsewhere. Since ideology, not common sense, is the force behind this wheel, neoconservatives want to keep putting pressure on the region’s governments, instead of slowing down. They obviously chose for this endeavour the region that shelters the largest amount of the world economy’s vital fluid: oil.

¹² 14 February, 2005.

¹³ 21 March, 2005.

Political balancing in the Middle East resembles the various equilibrium points in an ecosystem. When secular options are weakened, Islamism gets stronger; when centralism and multiethnic parties are weakened, state dismemberment becomes an option; modifying the correlation between secular and religious forces, and threatening to provoke a regional chain reaction. And so on. The Bush Administration, however, has placed itself in the middle of this fragile balance, with the delicacy of an elephant walking on eggshells.

3 - Is there any guarantee that democracy will provide answers acceptable to the United States?

Democracy and Islamism

Neoconservatives seem to confuse their economical and military power with the power to implant democracy in an alien culture while altering complex regional balances, and in spite of their vast unpopularity. This confusion threatens to lead to unwanted results.

The Economist published the Pew Research Centre's latest survey of United States' popularity around the world. The result showed that "anti-Americanism is deeper and broader now than at any time in modern history"¹⁴. However, according to the same survey, American unpopularity levels are higher in the Middle East than in any other part of the globe. The United States is associated there with Israel, and is also portrayed as an enemy of the Palestinians and of Islam. Again, common sense would advise not to use these credentials to carry on an ambitious regime change operation. Harvey Morris, correspondent of the *Financial Times* in Jerusalem, wrote in one of his articles that people would vote "for whichever option best challenges the status quo"¹⁵. If that status quo is related to its core with the United States, there can be no surprises as to the poll results.

According to Morris, in a large portion of the Middle East the preferences of the streets are clear: Islamism. In Egypt, the only opposition party with political standing is the Moslem Brotherhood, as is Hezbollah in Lebanon or

¹⁴ 19 March, 2005.

¹⁵ 5/6 March, 2005.

Hamas in Palestine. In other words, movements labelled by the United States as terrorists. The *Financial Times* editorial on the subject said: “Democracy is untidy anywhere, but will be very messy in the Arab world. Iraq, for instance, has set in train tectonic shifts by empowering the Shia majority, and emboldening Shi’ism across a startled region. Some quarters in Washington are already beginning to reflect the panic of their Sunni Arab clients. Already, in Palestine and Lebanon as well as in Iraq, elections are favouring Islamist parties such as Hamas, Hezbollah and the Da’wa. Varieties of Islamist will do well elsewhere too; the tyrants left their opponents no other rallying point but the mosque”.¹⁶

What would happen if Islamism threatened to take power through general elections anywhere in the region? Would it result in a coup d’état like the one in Algeria in 1992? From a national interest perspective, is it worth for the United States to weaken reliable regional alliances, in order to enter uncharted seas with inauspicious omens?

4-On which basis can a desirable democracy be judged?

What kind of democracy?

According to Raymond Aron, “we keep repeating that power is in the people and sovereignty belongs to the people. Therefore, what matters most is the institutional way that better translates this democratic principle”¹⁷. This means we cannot use democracy in singular terms, because it shelters as many different modalities as ways there are to “translate the democratic principle”. Democracy, like capitalism, accepts multiple varieties. So, just as in capitalism varieties may run the gamut from the Anglo-Saxon market economy to the Rhenish, French or Asian economic models, democracy may vary across different alternatives and degrees of representation and participation, offering a wide spectrum to choose from. The problem is that, when referring to democracy, the United States refers to a very specific type of democracy, that is, the one that emerges from their particular historical experience. The plurality proposed by Aron does not relate to American political ideas, still less to its neoconservatives’.

¹⁶ 5/6 March, 2005.

¹⁷ *Démocratie et totalitarisme*, Paris, Gallimard, 1975, p. 98.

The Founding Fathers of the United States always warned about the “tyranny of the masses”. This vision had its origins in Locke and the British liberals of the time. From the beginnings of the American independent life there was an alternative view, different from the rule of the majority, based on the idea of a society made of competing groups and interests. This “anti-majority” perception of democracy was consolidated during the mid-20th century, through the “elites” theory developed by Joseph Schumpeter and others. Representatives of this school of thought set a clear distinction between “mass democracy” and “liberal democracy”, with the first type being seen as a threat to real democracy. That is why in the United States democracy is seen today as the proliferation of minorities, represented by powerful interests and pressure groups that the State must protect from the impulse of the masses¹⁸.

In the same way that foreign countries are hard pressed to understand the “tyranny of the minorities” that results when pressure groups and “iron triangles” are able to control huge parcels of political power in the United States, it would only be fair for Americans to try and understand the legitimacy of alternatives to their own model of democracy. But that is not the case. Even less for neoconservatives, who have always despised the “less intelligent majority”. The risk here is that Washington will not only try to implant democracy in the Middle East, but that it will try to implant “its” kind of democracy in an environment characterised by charismatic leadership and militant mass forces.

Be careful what you wish for

The strange thing about neo-Wilsonians is that they overlook two of the main ideas raised by Wilson: the importance of cooperative multilateralism as naturally issuing from democratic governments, and the contradiction between the principle of national self-determination and imperial reality. Neoconservatives not only mock cooperative multilateralism, but seek to impose democratic self-determination through imperial means. It is not by accident that they are known as “democratic imperialists”. But no matter how

¹⁸ See Toro Hardy, Alfredo, *The Age of Villages: The Small Village vs. The Global Village*, Bogota: Villegas Editores, 2002, p. 86-89.

inconsistent they may be regarding some of Wilson's main ideas, their biggest flaw is their estrangement from the political realism of Roosevelt's tradition. That places them in some kind of meta-political dimension designed to fulfil their world of fantasy. Under other set of circumstances, they might not have been taken seriously. Unfortunately, their extraordinary power makes them an essential reference point in world geopolitics.

By the end of the 20th century, the United States had reached an unprecedented position. Never before had an imperial power transcended the limits of coercion, generating a great degree of international consensus around its values and projecting these values as universal symbols. By the end of the nineties, the United States had achieved a global coalition of markets, multilateral institutions and alliance systems. More importantly, they had utilised their "soft power" in order to transform globalisation into the vehicle for their beliefs, lifestyle and popular culture. In a nutshell, the new millennium began within the framework of a governable world, with the United States acting as an unquestionable but discrete and peaceful hegemon. It took the neoconservatives just a few years to destroy this framework, generating unprecedented levels of rejection towards their country and all it stands for. They have shattered alliances and bankrupted international organisations. They also have fuelled paranoia that is leading to renewed interest in developing nuclear weapons and have radicalised regimes that were willing to offer their friendship to Washington. America's main critic of the United Nations was designated as its Permanent Representative to that organisation and the country's most vocal unilateralist has been imposed as President of the World Bank. What a curious way of contributing to international stability and promoting American values around the world. ■■■■

Documents:

Letter of the Presidents Hugo Chávez and Tabaré Vázquez to the Presidents of South America

Montevideo, August 2005

Dear Mr. President, esteemed friend,

We, the *pro tempore* Presidents of the Andean Community (CAN) and of Mercosur have met in Montevideo, on 10 August 2005, motivated by an inescapable commitment and a concrete hope.

We are bound to the history that our peoples have forged. Furthermore, we are committed to keeping the spirit and the letter of the unification mandate that were established by our respective regional integration mechanisms as well as by the Cuzco Declaration of 8 December 2004. We base our hope on the cogent historical opportunity we now have to make unification a reality, in response to the aspirations, the needs, and the rights of Latin American peoples.

Now more than ever we are being urgently summoned by the urgent task of building our own destiny. Such an urgency has been historically determined by the overwhelming weight of the social debt; we must act, and move from words to

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deeds. Social inequality, exclusion, and neglect are unacceptable. We cannot postpone settling such debt any longer. In an integration agenda set upon achieving unity, this settlement must be a first-order priority. If we are to be faithful to the legacy of our Liberators, this is the utmost responsibility we must call upon ourselves as leaders of the nations of Latin America.

South American unity is a historical task yet to be fulfilled by our nations and our peoples. It is thus necessary to look back to the saga of the struggle for emancipation in order to find our way back to the road that it carved out for us. In order to take this path once again, we must strengthen our remembrance of that struggle, and to forestall any forgetfulness of it.

We achieved independence after victory on the field of Ayacucho, which was achieved by the patriotic forces on the glorious 9 December 1824. However, powerful domestic and foreign interests thwarted the grand unification project that was indissolubly linked to emancipation. “I have tilled the sea”, were Liberator Simon Bolivar haunting words, uttered shortly before his death in Santa Marta. It was a tragic prophesy on the approaching times, which would bring with them the sign of Balkanization. Nevertheless, throughout the 19th century, the forces that vied for unification did not relinquish their struggle, and they left themselves be felt.

We believe, dear friend, that the time has come for those efforts to become a coherent whole. The bells of continental unification are ringing everywhere; we must unflinchingly set out our own course. The shining words of General Jose Artigas still reverberate: “Expect nothing from others, but much from ourselves”. It is apparent that nothing has come from models that have been either imposed or reproduced in an acritical fashion. Therefore, we are also responsible for whatever those alien models have brought upon ourselves.

We must hasten the pace of the regional integration process to respond to the needs and to guarantee the rights of the peoples of the South. This is why, Mr. President, we are making this call to thoughtfulness and to action – which we consider to be just as pertinent as it is urgent –, with a view to jointly promoting the newly-established South American Community of Nations.

What we intend to propose to you, President and friend, is to take the irreversible step toward a truly real breakthrough in our integration process. We believe that a historical, innovative proposal is within our reach. We therefore submit to you the idea of establishing a Southern Commission, which would

be entrusted with the task of studying and proposing a Strategic Plan to pursue a true South American integration over the 2005-2010 period.

Such a Commission would be formally established in Brasilia, on 29 and 30 September 2005, on the occasion of the South American Summit. The purview of the Commission would be to conduct studies and to elaborate plans concerning the following issues:

1. The Commission would propose a title for our integration process. The acronym “Conasur” could be useful as a starting point. It emphasizes the idea of a community and symbolizes the brotherly neighborliness of the peoples that make it up. It is a union of nations, that is, of peoples that acknowledge their common identity and that have taken the sovereign decision to walk together.
2. The Commission would be entrusted with the responsibility of considering and assessing the type of organization which should anchor South American unification. In a world that is based on nation-states, Mr. President, regional integration is one of the most pressing and relevant political challenges. We have one key advantage: our peoples’ longstanding collective political memory, which amply predates the still on-going process of political and economic unification. Thus, as a way to facilitate the quest to identify the structure that Conasur should adopt, the Commission would be charged with studying mechanisms that incorporate adequate institutional features for the integration of sovereign states, one based on the principle of the equality of nations. In undertaking this task, the Commission should adopt the premise that the task of transformation also necessarily entails a creative effort.
3. The Commission we propose would be a shared space to consider the substance of South American integration in terms of short-, medium-, and long-term goals, encompassing the attribution of relevant responsibilities, the allocation of means to achieve those goals, and the werewithal to assess their achievement. Within such a framework, the Southern Commission, which would fully recognize the existence of on-going subregional integration processes, would set about to study the harmonization of extant economic and political arrangements, the

integration of strategic sectors, and cooperation and unification involving other countries and groups of countries. A shared respect for our identities, and a deep concern with the protection of our ecological riches would undergird those efforts.

4. The integration process must play a central role. It must be democratic, open to participation, and promote citizenship. In order to create a harmoniously integrated Community, it is of the essence to free ourselves from all the forms of exclusion which afflict our peoples.
5. The Commission would strive to combat poverty by means of a Social Emergency Plan to be anchored on a specific Fund that would contribute to the promotion of an authentic South American citizenship.
6. The proposed Commission would explore the possibility of establishing a strategic alliance with a view to harnessing every available resource. Petrosur is an auspicious first step in that direction.

South America is to be integrated around the concept of an organized community. We must contribute to this process with all the will and the wisdom that such a goal requires, and for which it is necessary that democratic institutions thrive.

We wish to emphatically assert that our proposal is not the product of any particular situation: it simply strives to harness the lessons of history and to project them into the future. It recognizes the need to overcome structural asymmetry in the region by fielding a strategy of cooperation and complementation of our various countries' capabilities, which is a necessary condition for economic relations to be beneficial to all.

We are not starting from scratch. We have a wealth of experience and knowledge that we should share. From this point of view, the Southern Commission would also be a common space to organize initiatives such as Social Programs, Scientific and Technological Development and Transfer, a University of the South, Telesur, a Southern Radio Station Network, and so on.

Lastly, though we are far from covering every issue there is to consider, the Commission would consider the steps to establish a Bank of the South to fund social and economic investment projects under the most advantageous

conditions. These would particularly cater to the needs of small- and medium-size firms and of cooperatives.

Humbly as one should always be, but also just as certain that in doing it we are responding to the challenge of unification that our Liberators left us, we hereby take up the words of Bolívar. In his call for a Treaty of Perpetual Union, League, and Confederation, he asked for a Continent-wide, perpetual pact of faithful and unwaivering friendship, and of close and intimate union between each and every one of its Parties. Such is the spirit that is voiced today by millions of South American compatriots.

It is as a result of such considerations that we hereby ask the Presidents of the South American countries – that we ask you – to please associate themselves with the creative and constructive movement that this letter represents. We ask you to support the creation of the Southern Commission, so that the work of sowing our impending unification may continue – a unity that our Peoples are calling out for, with the force of centuries. ■■■■

With brotherly greetings,

Hugo Chávez

Tabaré Vázquez

Customs Alley



Reinventing reality

*Ferreira Gullar**

João Câmara is a singular example of a painter for whom reality is comprised of, works and manifests itself through an endless series of images. This is particularly evident in his album entitled “Originals, models, replicas” in which he uses the computer to violate forms extensively and explore the virtual aspect of images.

Much earlier, though, he had already resorted to the same fictional device – albeit on another level – in works conceived in series, like “Scenes of Brazilian

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life” and “Ten love scenes and a Câmara painting.”¹ He employs these series to explore a variety of themes, using them in turn to frame a universe of unexpected motifs and pictorial facts. The first series is inspired by the period under Vargas’ rule (1930 to 1945), the focus being primarily on personalities of Brazilian political life at the time, whereas the second, more intimate in style, takes no interest in representing or portraying people but rather in exploring erotic innuendo pictorially. The fact that they are series as opposed to individual works lends them an atmosphere peculiar to Câmara’s painting besides other resources such as the juxtaposition in the first series of household objects like lavatories, sinks and irons with historical characters. This patently sarcastic, demystifying ploy is absent in the other series (“Ten love scenes and a Câmara painting”) in which, far from demystifying, the artist is intent on mythologizing, i.e. drawing the spectator into an ambiance of involvement and complicity.

Nonetheless, it is worth trying to account for the presence of those household objects in João Câmara’s historical series. I pore over the fascinating metallic “reality” of the realia represented: details of the coffee grinder, the press, the sewing machine. They reveal the fascination of the objects themselves and their undoubtedly deliberate oddity for, if you observe closely, João Câmara is a master at revealing the strangeness of forms, especially human forms. The objectivist realism of his pictorial language is merely apparent – a lesson learnt from the surrealists to make illusion, the destruction of objectivity all the more convincing.

The picture reproduced on the cover of this issue of DEP (“Customs Alley”) belongs to a third series (*Two Towns*) inspired by Recife and Olinda. The figure of the man with a walking stick and straw hat is infused with nostalgia and times past. The same holds for the other elements (churches, bridges, landscapes, squares and streets) that comprise this series, which is clearly distinguished from the preceding ones. The distinction is essentially thematic, manifest also in the psychological atmosphere and the various devices the artist employs here.

To my mind, two basic features are the hallmarks of João Câmara’s work: a technically sophisticated figurative language, and an intense intellectual

¹ This title uses wordplay on the painter’s own name, Câmara, which means chamber. It can thus be read either as “Ten love scenes and a painting by Câmara” or as “Ten love scenes and a Chamber painting.”

elaboration that suffuses the entire process of creation. Together they lend his painting its distinctive quality, securing it a unique place in the context of Brazilian art. He does indeed share certain characteristics with the generation that emerged in the 1960s. Nevertheless, those shared traits acquire an utterly singular purpose and meaning in his work: the return to figurative language, for example, has facets and consequences in his art that I fail to perceive in any of his contemporaries.

Painters can be classified in a variety of ways, each of them surely associated with features peculiar to them. In general terms, we divide them into figurative and abstract painters. Needless to say, abstract pictorial language fails to meet João Câmara's imaginative needs. To him, painting means expressing oneself through figures, i.e. through images of things, objects, animals, people but also of fictitious beings such as angels and demons. In fact, in João Camara's case, the distinction is beside the point since the reality of painting consists of images. So it makes little difference whether they be of real or imaginary beings. This brings us to the focal point for understanding Câmara's art: he is a painter of painting, a metapainter who engages in dialogue with the world not through real things themselves but through images that represent them, not merely their outward appearance but their essence. Clearly, Câmara acts not only as a sort of magician, conjuring up images, but also as a prestidigitator (and prestidigitaliser) whose juggling produces disconcerting apparitions that catch us off our guard. That inevitably raises the question of whether he actually shows us the essence of reality or arbitrarily invents it. ■■■

Version: Mark Ridd.

Construtora

Norberto Odebrecht

Engineering service exports and the South American integration

The ability to manage an engineering construction project qualifies a firm as a *business builder*. To better understand this activity let's take as an example an international bidding for the construction of a hydroelectric power plant. To be eligible and fit to compete, engineering companies must be able to deliver a hydroelectric plant ready to enter operation. This goes further beyond construction for this comprises not only civil works such as the dam, but also procurement, installation and erection of energy generation and transmission equipments, the various designs – architecture, consulting engineering – and support studies, among them feasibility and inventory, just to mention a few.

In the case that the project economical-financial feasibility – which may get to billions of dollars – be a part in the bidding process, the company will also have to negotiate the best financing conditions and ensure guarantees in the financial market and submit them to the bidder.

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Because of their activities, engineering services export companies must be in touch with the private and public sectors of the countries where the enterprises are to be carried. Thus, due to their association to activities aimed at improving infrastructure conditions, they contribute to bring the countries together and consolidate alliances. It is plain to see then that this bi-lateral or multi-lateral integration is something strategic since it promotes a flow of information and cultural exchange due to the necessity of understanding the regions social, political and economical contexts before and during the project execution, the peak of such exchange being hit as the project is fully operative.

Engineering services all over the world set in motion a market valued at 400 billion dollars annually and exports contribute a share of 30% in this deal. South American companies, on their hand, have a participation of only 1% in the world market and, following the same reasoning, only 5% of its own marketplace. As a comparison: European and American companies take 58% and 21% of the market share respectively. In Latin America, European companies snap 48% of the market share while North-American firms keep some 38% of the services available. Asian firms come in third with 18% of the world market and 9% of the Latin American market.



Pichi Picún Leufú Hydroelectric Plant

In the period from 1980 to 2002, for instance, between 30 to 40 countries had their companies listed in the American magazine *Engineering News Record* ranking of the 225 largest engineering services exporters, a major world reference in this sector. In 2002 specifically there were 34 countries. This market, however, is highly concentrated. In that year American, French and German companies alone responded for 43% of total exports. Adding that to the exports by Swedish, Japanese and British firms we'll get to 70% of total. The situation is not different in the architecture and consulting engineering sectors: American, British and Canadian firms kept 67% of total exports.

The high proportions found among European, American and Asian companies could be partially explained through the fact that engineering services market is highly regionalized. European companies have in Europe their chief export market; Asian firms are strongly present in Asia itself and so forth. Nevertheless Latin American companies concentrate their focus in their own region, the penetration is nonetheless very shy.

On top of having a small base, South America keeps on losing participation in the engineering services export market. In 1991, six of the 225 largest exporters were South American. In 2002 they have shrank to only four firms, being two Brazilians, one Venezuelan and one Ecuadorian. Together they have exported one billion dollars in services. We must however highlight the sector's role in developing the Initiative to Integrate the Regional Infrastructure in South America (known locally as Irsa) – a program under the operational coordination of IDB, CAF, Bndes and Fonplata aimed at physically integrating the twelve countries in the South American continent through projects in the areas of transport, energy and communications.

To compete for contracts, foreign companies offer the client countries, where they develop investments in infrastructure, credit to export. Such credit line is destined to financing goods and services exported to supply the project, thus totally complementing the financial resources needed to carry it out. As far as guarantees are concerned – and due to the fact that the developed countries own a much vigorous financial system with a higher credit capacity – the Reciprocal Credits Agreement (RCC) come forth as a regional strategic tool to level competition circumstances favoring South American countries.

The RCC functions as a combination of clearing house mechanism added to a procedure of reciprocated guarantees. In this Agreement, the twelve

participating countries' (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Dominican Republic, Uruguay, Venezuela) central banks have compromised to irrevocably accept debts arising from import and export operations exchanged between member countries. All debts and credits from those countries are multilaterally cleared at every four-month period so that only the resulting balances are transferred thus bearing as a direct consequence a smaller interchange of foreign currency. In 1966, the year the Agreement was shaped, export trade inside the region wouldn't reach one billion dollars; today that figure is around 45 billion dollars. A figure that could be much higher were the constraints to RCC be reviewed and the system's advantages adequately explored.

This system peak occurred in the 1980s. In 1989, 91% of South American total imports were done through the RCC, reaching a movement of 10 billion dollars. Now in 1996 – the beginning of a large international liquidity period – , after the increase in the flow of capital toward South American countries, operations rate plummeted drastically, influenced by the end of its



Roadway System and Rail-and-Road Bridge spanning the Orinoco River

obligatoriness. The almost insignificant 1.4 billion dollar volume of business throughout 2003 largely confirms the sudden drop. To accomplish the scopes related to regional integration, RCC needs to resume the permanent adhesion of Aladi's twelve countries. Once it gets under a transparent operation it will be eligible to attract more and more resources from the market thus becoming again a great, useful strategic financial system.

Finally we must emphasize that the Agreement importance enters a broader perspective as the international financing markets crosses retraction periods for it strengthens multilateral cooperation between central banks. To better understand RCC's function it's worth to apply a comparison with the former European system. In 1950, before the European Community, the European Payments Union was created. Both systems are quite alike in shape and arrangement. As they correspond to a means of payment for intra-block foreign trade operations they fulfill their functioning as a common currency. As it contributes to the stability of different countries currencies, the Agreement trims down its vulnerability before the dollar valorization. This way the RCC favors South American countries capability to compete with the developed nations through the strengthening of member States financial systems, the expansion of regional trade and the accomplishment of infrastructure projects comprising South America physical integration. This is a vital strengthening particularly in a moment the world paces toward the formation of large economical blocks. ■■■

Grupo Andrade Gutierrez

An epic adventure in the edge of the world

The history of the highway which was built over
water in the middle of the jungle

A

work of epic contours, built under the most terrible environmental and logistic conditions, and which has certified the maturity of Brazilian engineering face to handling adverse situations. This could be the brief summary of what the construction of the Manaus-Porto Velho highway has been, a monumental work made by Andrade Gutierrez Building Co. in the middle of the Amazon jungle, from July 1968 to December 1975. Much more than a work of engineering, considering how diverse this one has been, the execution of BR-319 carries the sign of the greatest human adventure which is to transform the land in order to make it appropriate to our dreams and projects.

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It is difficult to imagine a more challenging scenario: the heart of the Amazon jungle, unknown and inaccessible, completely flooded by daily rains, battered by suffocating heat and filled up with plenty of diseases such as malaria and yellow fever. There, the gigantic trees made the men smaller, stuck in the mud up to their knees, abandoned by the civilized world, far from friends, with no television, radio or any immediate access to the life they once knew. It was under those conditions that the highway was built, cutting through swamps and forests in order to connect the capitals of the states of Amazonas and Rondônia.

The 60's and 70's were the set point to the Brazilian project of opening new frontiers. In the effort of promoting the conquest of the inner country and the integration of the Amazon, which meant building highways and occupying large spaces of national territory, Andrade Gutierrez managed to come ahead and become a pioneer in works in the area. The company took part in the building of the Belém-Brasília highway, with campsites in the cities of Estrela do Norte and Vista Alegre, in Pará.

But there was a huge difference among the Amazon states. In Pará, one could still see by the road the signs of the human settlements, such as sawmills and inns. In Amazonas, there was only loneliness and isolation. The emptiness and the immeasurable.

A Life lesson

The figures involved in the building of BR-319 are impressive. Starting from the 874km of paved roads build practically over water, on an invariably plane land, with areas of swamp and floods. The project involved 17 works of special arts, 20.8 million m³ of road plaining, 18.1 million m³ of controlled compacting, 1.1 million m² of sub-base stabilized soil and 855 thousand m³ of stabilized base of lateritic soil.



BR-319 building at Porto Velho - Manaus

In order to do all this, being a good constructing company with certified performance in complex engineering works wasn't enough. The execution of such project demanded much more, men prepared to face the worst adversities, experience in the management of teams, creativity to find technical and

operational solutions for the daily challenges, perfect organization and absolute control of the logistic aspects.

Under so many conditionings, the Manaus-Porto Velho became an unprecedented school, a lesson of both engineering and administrative structuring. The logistic question presented itself as the most delicate. As there was no such support structure along the way, it was necessary to worry not only about the engineering aspects but also about the supplies to hundreds of employees and their families, isolated in the biggest jungle in the world.

All provisions, food, machine spare parts, equipment, were taken by boat or plane. It would take up to eight days for the heavier equipment to reach its destiny, transported along the rivers by big ferries. “This work was the most complete translation of our ambitions and of our ability to accomplish”, remembers one engineer that lived the daily routine of the building.

The difficulties seemed not to have an end and it was necessary to gather varied knowledge. To those men who were stuck in the middle of the jungle and even to those who stayed in the support offices, that was one of the most difficult jobs ever made by the Brazilian engineering industry. Accomplishing it demanded technology, logistics, management abilities and a lot of courage to face the unknown and the brutal force of Nature. On one hand lay the jungle portraying itself as the end of the world, a mystery and a danger. On the other, the adaptation of the team to the hostile environment and to different customs, such as the food, almost exclusively based on fish and flour.

The invention of the land

The most worrying aspect in the building of the BR-319 was the amount of rain. The road plaining work, in the area that registers the highest rain rates in the world, was slow and dragged itself through constant and very expensive interruptions. The real ultimate test for engineers, foremen, tractor operators and especially for the men in the front line who had to open trails, cut down trees, create clear spaces where the settlements could be put up. Whatever was built on one day would be destroyed by the rain the next morning.

The job was organized in two fronts: one left from Porto Velho towards Manaus. The other came on the opposite way. Both went through tough times, due to the areas of full flood. From km number 40 to 100, the flooded lands came and went.

Face to so much water, it was necessary to literally invent firm land on which the highway could be built. That being so, during the dry season, the sides of the road were dug and the earth was thrown on the road. In the rain season, these holes ended up filled up with water and turned themselves into huge pools which were up to 10m deep. Accidents were common then, with cars falling out of the road and into those side pools.

In the oral memory entries collected during the construction, a maintenance chief described the situation as such: “in the rain season, we didn’t walk on the road...on top of it, no! We took the boat on the side of the road, because the water covered both sides over a stretch of 80km. So, instead of driving on the road, we took the boat...”

The creativity of the working teams was essential to overcome the problems. Technical solutions and new pieces of equipment were developed, such as adapted vehicles with big low pressure tires made to float on the mud and diesel driers that eliminated the excess humidity of the soil right before its mix with cement. Or even a machine that unrolled enormous sheets of plastic used to cover the road at the first sign of rain, which was announced by an employee positioned 30m above, on top of a tree.

To intensify even more this picture of difficulties, even the stones, essential to make the sub-base of the pavement, had to be brought in from a stone pit located 420km away and that stayed submersed for a good part of the year.

During the dry season, the stones were collected, put in ferries and transported to the site, a job that would take several days.

Solidarity and courage

The precarious life conditions and the responsibility to overtake - in this adverse context - a project with such strategic importance to the country helped to shape exemplary behaviour in the whole team, from which companionship and solidarity arose. Bit by bit, the certainty that they had fought for something more than survival was spread around. They fought against their own boundaries to leave an undoubtful mark of human excellence.

The beginning of the works was terrible. The houses were actually barracks made of coconut tree husk, built with the help of the natives. The

floor was made of thumped earth. The settlement looked more like an Indian village. Some trucks were adapted to function as apartments for engineers and as the kitchen and administration office.

It's difficult to imagine life this way, with yet one more complication: the absence of electricity which made it impossible to use a fridge and that also made storage a serious problem, impairing the supply of food for the team. They would go through a series of days when the food consisted of just sausages and canned heart of palm.

Beef was brought in by plane and thrown out over the campsite to be immediately cooked, lasting two or three days. The locals started doing business with the company, bringing beef and fish to the campsite in their small boats. In that isolated area it was no surprise that it took some people a long time to find out that Brazil had conquered the third World Championship in Soccer.

As time went by, the dimensions of the road imposed their way among the endless waterways, and as it moved away from the flooded lands the job became much easier, went back to normal. The subsequent teams found much more adequate life conditions. The husk houses were substituted by others made of Metalon. Electricity came and it was then possible to install showers, a fridge and a TV.

Even so, the isolation was still big and the environmental, emotional and technical difficulties remained. These pressures were only neutralized with a lot of energy, faith and disposition from all of those involved in the job.

A complete education

The inclusion of Andrade Gutierrez in the select group of the biggest building companies in the world is due mainly to this job. The pioneer characteristic of the project, the oversized dimensions of everything that had to be done, the structural changes that the company was forced to incorporate and the shaping of the psychological and professional profile of the people involved, turned this into



Road concluded: built by Andrade at Congo

a life lesson. The Manaus-Porto Velho was the big laboratory that shaped the experienced and capable company in the following years.

The combination of determination and professionalism, characteristic of the company since its birth, was severely put to test. Maybe the most important one of its history. Thanks to this energy and to this extraordinary job, Andrade Gutierrez became not only specialized in works in the Amazon jungle, but turned also into the company of the big challenges.

It was strongly present in the North of Brazil through the 70's, especially in Amazonas, Pará and Rondônia. Jobs such as the Porto Trombetas, Perimetral Norte and several others in the Amazon capital build up a menu of accomplishments unparalleled in the country, creating the know-how and excellence features that secured the company's passport to works abroad.

It was precisely this experience that certified the company to work in Africa, in the construction of the strategic highway Epena-Impfondo-Dongou in Congo.

Authorities and technicians from that country inspected the Manaus-Porto Velho in the beginning of the 80's and confirmed the similar adverse working conditions and the capability of Andrade Gutierrez to overcome them. The contract with the Congolese government was signed in 1983, under an atmosphere of great expectation. After all, until then this job had been attempted without success by several European companies.

The challenge was immense. It was necessary to overcome the dense jungle and the swamps, in an isolated area, 900km away from the capital and only accessible by boat or plane. Intense rains and tropical diseases were constant threats. 2,000 people worked in this inhospitable territory, developing yet another epic adventure. Opened in 1988, the 134km highway is still essential to transport goods and propagate the development of Northern Congo.

This is Andrade Gutierrez. The courage to take over jobs once considered impossible, the learning from diverse cultures, the ability to adapt to adverse conditions and the trust and experience to overcome technical, operational, logistic and human obstacles have consolidated the profile of a company with something else and specially able to turn into reality projects once considered impossible. ■■■

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