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Ideas, ideologies, and foreign policy in Argentina

José Paradiso *

In recent times, international relations scholars seem to have realized the importance of ideas and beliefs in the formulation of foreign policy. Constructivists, who openly challenge more traditional theories, have played a significant role in this regard. There is also a considerable wealth of research and analytical models that seek to dissect this connection and find evidence of influence or causality.¹ In any public policy sphere, decision makers are often guided by a set of ideas that indicate how problems should be addressed. This premise served as the starting point for a famous essay showing how the Keynesian ideas were replaced by other models in England in the seventies. Curiously enough, it was Keynes himself who said that underlying every decision-making structure one can always find a trace of the ideas of economists and political thinkers. Of course, the question lies in their entity, the distance between the ideational time and the decisional time, and the consciousness the players have of this connection.

Strictly speaking, nothing is simple with respect to ideas and ideologies, as witness the many definitions of ideology – Terry Eagleton mentions sixteen –

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¹ Yee, Albert S. *The causal effects of ideas on policies*. International Organization 50/1, Winter 1996.

and new contributions and discussions about the issue are constantly coming to the fore.² This may explain why, to a large extent, the histories of ideas proceed directly to their description, sequential order, and interconnections before addressing their definition. The oft heterogeneous, complex nature of these representations of reality, which are constructed for learning about things and for guiding action in their midst, makes them refractory to excessively rigid boundaries; they overcome barriers, follow different channels, and blend together in multiple combinations that often lose sight of their origin.

For easier exposition, we have adopted a quite common criterion, which distinguishes two main components in the complex field of ideation: on the one hand, thought systems that offer a wide, moderately consistent ensemble intended to answer most questions about man and the world, as is the case of conservatism, liberalism, socialism, etc. Each tradition holds to a *weltanschauung* that integrates into a common denominator a variety of unified manifestations and one or more than one philosophical referents. On the other hand, specific representations circumscribed to a given area of reality, such as the idea of progress, national interest, development, etc. or which reflect the thinking in a given institutional environment. Of course, there are many connections between ideological systems and individual ideational subjects, as the latter refer to one another in relation to the former. We can do without theories, although we know that these conceptual structures constructed in accordance with epistemological and methodological premises relate to one another through different idea and ideology channels.

In this essay, conceived as a first approach to the influence of ideas and ideologies on the formulation of Argentina's foreign policy, we adopt a historical perspective, distinguishing four major phases: from the stage of national organization to World War I; the period between wars to the end of World War II; the cycle from 1945 to 1990; and the period from the end of the Cold War onwards.

An Argentina seduced by free exchange

The so-called oligarchic republic reconciled the conservative inclination of most of its leaders with liberal beliefs that had deep historical roots and were the source in which the great leaders after the battle of Caseros (1862) drank.

² Eagleton, Terry. *Ideología: una introducción*. Paidós, Barcelona, 1997.

The national organization – the three constitutional administrations that succeeded each other between 1862 and 1880 – and its heirs cultivated a liberalism tinged with positivist tones, whose hard nucleus consisted of constitutionalism, the free market, and a limited, albeit not absent State. These ideas formed part of the prevailing thinking, shared, in different degrees, by most leaders and even by much of the Catholic wing, which, although in fierce opposition to lay legislation that was interpreted as instruments of a de-Christianization policy, rejected the absolutist forms of government and sincerely believed in the virtues of free exchange, values that were also shared by most of the emerging socialist wave and the rising radical party. In sum, *laissez faire* was an idea shared by both government supporters and its opponents, and was the cornerstone of a form of integration into the international scene that, through agricultural exports, ensured a generous inflow of capital, finished products, immigrants, and ideas. True, there were those who held to protectionist policies but even they abjured economic orthodoxy.

When foreign policy issues were addressed, they related mostly to territorial boundaries and border conflicts – there was no hesitation in asserting the “country’s just rights,” whether they were such or not, although there were divergences about the way these rights should be defended and preserved. Some believed in power politics and war readiness, while others held to peaceful solutions, dialogue, and arbitration. Both camps referred to the concept of national interest but each interpreted this concept in its own way. The predominance of the inclination toward the peaceful settlement of interstate conflicts served the convenience of both internal and external economic agents but also found strong support in deep-rooted ideas about the role of international law as an expression of the civilizing progress desired by all. “Peace and administration” was the government formula that reflected a set of priorities and a cause-and-effect relation between order and material progress, which should be achieved both internally and in the conduct of diplomacy.

The adherents of *realpolitik* saw things differently. The language of power, alliances, and equilibrium was best suited to their propositions and, although they did not prevail, they were quite successful in projecting the idea that the country had a cavalier attitude towards foreign affairs, adopting an erratic, vacillating diplomacy. Their interpretation of national interest was influenced by circumstances peculiar to the period: the arms race, the alliance and counter-alliance games, and the apex of geopolitical constructions, beginning with Rear-

Admiral Mahan's theory of naval power. Be as it may, after the century's first decade, the divergences that had fueled discussions had been overcome or were on the way to being solved. Although some were still claiming for territorial value and a more aggressive diplomacy, among politicians and intellectuals other ideas involving relations with the world were gaining favor.

A prevailing feeling among the leading elites that had two consequences on the direction of foreign policy and of many diplomatic initiatives was the fear of the United States of America. That feeling has been oft interpreted as an accommodation to the dictates of the market or as a necessary consequence of the *special relation* with London, but much more than this was involved. From those that led a country whose modernization and economic growth earned increasing world recognition, no one could expect less than a zealous defense of formal expressions of the country's self-determination, proud self-perception, and inclination to express its own mind.

Strictly speaking, the perception of the Northern power blended undisguised admiration and an emulation desire with a mistrust that grew with Washington's expansionist incursions into Hispanic America's territories. It reflected a set of reactions oft grounded on an attitude against utilitarianism, reminiscent of José Enrique Rodó's *Ariel* (1900), on Hispanism, or on a stance contrary to the Monroe Doctrine. One of the most eloquent testimonies about the Monroe Doctrine is a work by Roque Saenz Peña. A stalwart defender of the principle of nonintervention that he considered the "great achievement of the law of peoples, which safeguards the integrity and inviolability of nations," the future president asserted that "the United States is not much inclined to believe in the political equality of nations... its actions and its relations with weak governments suffer from a certain intemperance, show at all times its proximity to force... What current, real, positive meaning does the famous doctrine have today? Simply North American instead of European influence."³ Over time, at least as regards a segment of the leadership and consistently with what was happening in other countries of the region, this anti-Monroe Doctrine attitude gave way to a Latin Americanism tinged with an anti-imperialism critical of the United States' actions in Central America and the Caribbean.

One of the ideas that could not fail to influence the way the Argentines related to the world was the certainty that a great future was reserved for the

³ Saenz Peña, Roque. *Estados Unidos en Sudamérica*. La Biblioteca, Buenos Aires, 1897.

country. Corroborated by remarkable economic performance and fueled by comments by personalities the world over who came to ascertain with their own eyes the miracle that was happening on the far-away banks of the River Plate, this very image reinforced attitudes toward others, which blended pride and haughtiness and demand for recognition, excessive self-valorization and a tendency toward emulation and mistaken identifications.⁴

As economic growth and modernization changed the country's social and political makeup at a fast pace, the necessary spaces for new belief systems were created. While in the economic domain – as a result of a model of adequateness to the division of labor, which produced undeniable results – *laissez faire* continued to enjoy the widest acceptance, and society and politics expanded, left and right, systems that reflected the ideological novelties of the time in the world, particularly socialism and nationalism.

Through literature, the press, and immigrants arrived socialist news and discourses that would shortly reproduce the reformist and revolutionary nuances and currents prevailing in Europe. In foreign policy, socialists did not deviate from their universal referents: they subscribed to the ideas of “mandatory arbitration, elimination of diplomacy's secret dealings, and the free movement of people, ideas, and goods.”⁵ Moreover, in Argentina, as an echo of the European process whereby the liberal trend that had nourished the “era of nationalities” gave way to an authoritarian current that reacted against modernity's social and cultural manifestations, there thrived a kind of nationalism after Charles Maurras – intolerant, aggressive, and an unshakeable adversary of democratic trends. Even when major attention was directed at domestic affairs, its ideological premises favored those that supported a power and war readiness policy.

Nevertheless, the popular will was heavily inclined toward the democratic republicanism that would find expression in the demand for universal suffrage and, consequently, in a decisive turnabout in Argentina's political life. Notwithstanding this objective, expounded in emphatic tones and in a vigorous, expressly calculated discourse, the victorious party in 1916 did not rely on a really consistent program, even though, owing to Hipólito Yrigoyen's weight, it

⁴ It should be said in passing that one of the most fertile assumptions with respect to the interpretation of what many call “the Argentine case” seems to refer back to this mentality, which was deeply rooted in society and whose “constitutive” effects were felt at the time of prosperity and even more when the effect of the factors that fed it declined.

⁵ Repetto, Nicolas. *Política Internacional*. La Vanguardia, Buenos Aires, 1943.

would allow the influence of the idealist, principle-based thinking of German philosopher Friedrich Krause and his followers in Spain. It is appropriate to observe that in foreign policy matters, the program of the conservative faction that competed for the president's office in 1916 did not stray from the traditional lineaments of Argentine diplomacy.

The egalitarian component of Yrigoyen's thinking prompted him to denounce one of the most important initiatives under that policy, namely, the Argentina-Brazil-Chile Agreement. The radical leader thus seemed to echo the concern of relatively weak South American countries that saw with suspicion an entente among the three big countries to rule over the entire subcontinent, although other reasons should not be ignored, such as the wish to differentiate himself from his predecessors or to make some concession to those that distrusted good relations with Santiago and Rio de Janeiro.

The fact is that with respect to the most sensitive issue that prevailed over a large portion of its Administration, the Radical Civic Union did not stray from the diplomatic lineaments of what it would disdainfully call "*the regime*."⁶ Conservatives, liberals, radicals, socialists, and nationalists were in agreement, not always for the same reasons, as they supported the decision to maintain neutrality during World War I. This was the expression of a pacifist sentiment shared by most political forces. Apart from commercial convenience, one could detect in this consensus nuanced by domestic political rivalries the perception that that was a foreign issue, a struggle for power that confirmed the bellicosity of the European sovereigns and the imperialistic ambitions that were the cause of serious antagonism among nations.⁷ On the other hand, it had in its favor a similar position adopted by President Woodrow Wilson before the U.S. Congress, according to whom that was a conflict with which his country had nothing to do.

Initially, radicalism maintained its neutrality without many upheavals; in the first quarter of 1917, though, things turned upside down. In reaction to the intensification of the submarine war waged by Berlin, the United States became belligerent, in which it was followed by various Latin American countries. Parallel to this, the events taking place in Moscow, which culminated in the defeat of

⁶ According to the symbolism of the time, "*the regime*" meant the embodiment of the prevailing political immorality, which "*the cause*," represented by the radicals, would eradicate.

⁷ Imberlucea, Enrique del Valle. *La Guerra Europea y la Política Internacional*. Buenos Aires, 1914.

czarism and the separate peace negotiated by the revolutionaries removed from the conflict one of the major contenders. These developments redefined the political and ideological profile of the war, giving reason to those that saw it as a shock between liberal democracies and authoritarian governments. Under these circumstances, although the government maintained its stance to the end, the consensus about neutrality increasingly dwindled, giving rise to sharp political controversies. In response to assertions such as those by Joaquín V. González – “In the face of a fight to death between autocracy and democracy, one wonders if the Argentine Republic, one of the best exponents of democracy in the Americas, should remain impassive, with crossed arms, in an attitude of indifference” – the government would say that “Our race, owing to its ethnic makeup, is solidly European, but our nation is far removed from the spatial orbit where the war is being waged. In its social composition, our people descend from Europe, but in its political organization and in spirit, it is different: a new culture has been born; we are moved by the war but do not want to get involved in it.”⁸

One of the most eloquent examples of the dilemmas posed by the war to the different political forces was the controversies within the Socialist Party. True, in this case elements exclusive to this camp were at play and were connected with its internationalist character and the traumatic experience of its European counterparts, which saw the collapse of the concepts of pacifism and proletarian solidarity before the onslaught of patriotic nationalism. What is certain is that when a group of parliamentarians in the party, backed by some members of the National Committee, advocated the rupture with Germany, it had to face strong opposition, which demanded the convening of an Extraordinary Congress of the party, at which a small majority defeated the rupture advocates, thus causing an internal split.

Idealist concepts rather than pragmatic criteria were uppermost in the Argentine government’s attitude toward the establishment of the Society of Nations. Invited to the constituting conference held in Geneva, it instructed its delegates to staunchly defend the Society’s universality principles and the equality of all sovereign states, and when the consideration of these tenets was postponed, it ordered the Argentine delegates to withdraw from the Assembly. This attitude revealed many things, including the fact that the popular caudillo shared the idea

⁸ Snow, Peter G. *Radicalismo Argentino*. Francisco de Aguirre, Buenos Aires, 1972.

of the elites, according to which “Providence had reserved for Argentina a place above the international scene.” As years later he attempted to explain those decisions, Yrigoyen said: “No one has gone farther or applied with more fervor the Gospel doctrines or projected onto the universal horizon nobler, more fraternal ideals in interpretation of Providence in the most difficult hours of trial.”⁹

When directions become confusing and all becomes less encouraging

As in most of the region, the crisis that introduced the century’s fourth decade brought with it a rupture, except that in Argentina – and here lies its greatest peculiarity – in addition to the military coup that broke the institutional continuity and brought down the majority party, the picture of a country with assured, steadily growing prosperity began to dissolve. Of course, this was not a clear perception but vague feelings that in time would become more intense and require explanations as to origins and responsibilities, which would contribute to a readjustment of prospects and to a new convergence of the main political-ideological currents.

In this search, many focused their attention on the form of integration into the Atlantic economy,¹⁰ and particularly on British imperialism, accused of being the causer of an “unrealized nation.” It was to be expected that this interpretation would flourish among the various quarters of a nationalism that was taking center-stage, abetted by the retreat of democratic liberal ideals that were besieged left and right as in the rest of the world.

The trend was universal, but in each region it blended with specific local circumstances. In the decade that preceded World War II, the way political life unfolded in Argentina did not do much to prevent the discredit of the political parties and the parliamentary institution. Their practices and the weakening of their capacity to reflect the citizen’s interest eroded the credibility of and the confidence in the ideological matrix that sustained them and added adherents to

⁹ Yrigoyen, Hipólito. *Pueblo y Gobierno*, Tomo IV, in *La función Argentina en el mundo*. Raigal, Buenos Aires, 1953.

¹⁰ Donghi, T. Halperin. *La Argentina y la Tormenta del Mundo. Idea y ideologías entre 1930 y 1945*. Siglo XXI, Buenos Aires, 2003.

the critical factions of the radical left or to the different versions of nationalism, to which it would become relatively easy to define the shades and content of the ideological debate.

Be as it may, it is somewhat paradoxical that during those same years when domestic policy seemed to lose direction amidst proscriptions, frauds, swindles, party splits, and questionable agreements and nationalism at its apex reflected disenchantment and rejection, Argentine diplomacy obtained the most noteworthy achievements of its history, made somewhat emblematic by the awarding of the Nobel Peace Prize to Carlos Saavedra Lamas, who was foreign minister from 1932 through 1938. The Swedish Academy's recognition was the crowning of a high-profile career that, in addition to the intervention in the Chaco War, earned credit for other remarkable achievements at both the regional and the global level. Saavedra Lamas was a highly respected man of ideas with broad interests and firm convictions about the value of legality in the international domain and about cooperation among Latin American countries.¹¹

Let us return to the expressions of nationalism. The vast literature devoted to the description or explanation of the phenomenon emphatically details the wide variety of nationalism's manifestations, each one based on a different combination of national interests and international referents. The fact that the latter were Spanish, Italian, or German was not a merely formal question; they reflected ideological identities that were differentiated but that had common denominators and that found an outlet in similar political decisions.

Such was the case of neutrality. It must be admitted that the judgments of the consequences of this Argentine "relapse" in connection with an event that would shake the world have led to too simplistic notions about the ideas and ideologies that gave support to such a stance. In general, mention is made of the opportunist interest in keeping open the trade channel to Great Britain. But there was much more to it. Obviously, the antiliberal right's authoritarian nationalism adhered to the Axis and saw Argentina as part of the new order envisaged by the German military power. Another segment of nationalism, antiliberal rather than antidemocratic, and suspicious of British imperialism, was less inclined to ideological identification and did not see adversely the prospect of an Axis victory, pursuant to the maxim "the enemy of my enemy is my friend."

¹¹ Saavedra Lamas, Carlos. *Por la paz de las Américas*. Gleizer, Buenos Aires, 1937.

Lastly, mention should also be made of the neutralism that had to do with a kind of “sovereignty zeal”, the idea of diplomatic continuity and consistency, or respect for party tradition.¹² In all these cases, the war was certainly interpreted from the angle of conventional political realism, which did not notice the perverse nature of the Nazi regime.

For a couple of years, neutralism found an ally on the extreme left of the political spectrum. Faithful to their pro-soviet affiliation as long as the nonaggression pact between Berlin and Moscow was in force, its exponents held to the notion that that was a war between imperialistic powers, from which the country should keep away; but as soon as Germany denounced the agreement and launched its divisions toward the East, they directed all their efforts in favor of Buenos Aires’s alignment with the United Nations.

Curiously enough, in World War II there was a repetition of the circumstances observed in 1914: at first, the United States favored the American continent’s neutrality but, in the course of hostilities, the German attack against the Soviet Union and the Japanese attack on Pearl Harbor changed the composition of the alliances and the ideological expression of what was at stake. Washington’s isolationism was accompanied by efforts – begun before the conflict – to harmonize continental positions and to set up a common defense system, but they met with Buenos Aires’s ever reticent attitudes. The divergence became sharper after the Rio de Janeiro Conference in early 1942. Already in war, the United States exerted pressure for a rupture with the Axis, while Argentine diplomacy resisted, proving its “independent criteria, sovereignty, and self-determination.”

There are two instances of ideological expressions of the time that have not received sufficient attention. On the one hand, the Latin Americanist referent of most political forces that vied with each other to set the country’s internal and external direction. This was as present in the popular nationalism that followed the Yrigoyenist tradition as it was in authoritarian nationalism, although in the latter case it was combined with a pro-Spain current of Madrilenian inspiration or distorted by an inclination toward power politics, reliance in force, and reservations vis-à-vis Brazil and Chile. But it was also a major component of the

¹² This was the kind of neutralism backed by the segment of the Radical Civic Union led by the Cordovan caudillo Amadeo Sabattini.

proposals of the democratic liberal sectors, including reformist socialism, particularly when practically the entire continent made common cause with the United Nations against the Axis. In this case, Latin Americanism emerged as an expression of democratic solidarity.¹³

On the other hand, an ideological perspective that has not been sufficiently considered, despite its continuity in the discourse of the political movement which, gestated in those years, would widely prevail in the second half of the century and become known as the “*third position*.” Strictly speaking, this current had reputable antecedents in the world, at least in many decades, represented by four major currents – social democracy, social liberalism, social Christianity, and doctrinaire corporatism. It had embraced the search for an intermediate alternative to laissez faire capitalism and Soviet collectivism. Of those four currents, it was the latter two that most influenced the Argentine third position, and this ensured its political projection.

The most noteworthy expression of this third position was the Renovation Movement begun in 1941, inspired by a group of young university students. Its members defended neutrality in the context of a “national recovery” doctrine and program. Its theme was: “Neither liberalism nor totalitarianism. Authentic, true democracy. Argentine solutions for Argentine problems.” In foreign policy, it pretended also to maintain an equidistant stance: “Neither anglophiles nor germanophiles. Nor circumstantial neutralists. Argentines who only think of their homeland’s greatness.” Of all advocates of neutrality, it was this group that based its positions on the latest literature on world policy. Employing all the conceptual scaffolding typical of the realist school that places interests above moral and ideology, it developed the thesis according to which what mandated neutrality was the necessary defense of democracy, and sought to show the inconsistency of considering as a democracy a coalition that had in its ranks the Soviet Union, or even China, for that matter. One of the Movement’s main leaders proclaimed: “Painful as it may be to say it, this war is not a struggle between National Socialism and communism, or between Nazism and liberalism. A war is always fought by countries, each one acting in accordance with what serves its interests... it is a mother battle for the predominance of Anglo-American imperialism on one side and of German imperialism with its Italian and Japanese allies on the other...

¹³ Repetto, Nicolas. Op. cit.

the world hecatomb that takes place in this war of imperialisms and of countries that move around on the world's huge chessboard seeking the position and the best opportunity for their own interests.”¹⁴ No further commentary is needed to show the influence this perspective would have on the ideas of the young army officer that was getting ready to usher in a new stage in Argentine political history.

The Peronist restoration

Certainly there is not much to say in addition to what has already been said about the makeup of the coalition that hoisted Juan Domingo Perón to power in February 1946: the armed forces, party factions, some of which had split off from traditional parties, while others were new on the Argentine political scene, and entrepreneurial and labor sectors strengthened by the decade-long industrialization wave. There was also an supposed convergence, which some did not find quite coherent, of different belief systems, including, other than the version of the already mentioned third position, Keynesianism and welfare state, protectionist industrialism, neocorporatism, social Christianity, popular democracy, etc. Naturally, under the “Movement” as a whole, each tendency would be reflected in practice and would interpret the process as the realization of its values and expectations.

Juan Peron's pragmatism and shrewdness played down the weight of ideas in his political action. The creator of *Justicialismo* drew nourishment from different ideological traditions without dogmatically sticking to any, although what fit him best was a form of nationalism devoid of aristocratic tones, and very little appreciation for liberal democracy and its institutions. When he had to seek a clearer profile, he found it in a particular form of third position. Professional training and intellectual habits predisposed him to careful consideration of international circumstances and to interpret them in the light of realpolitik codes. Throughout his life, Perón claimed that every political action should take into consideration a proper appreciation of the relations of force in the world. It was precisely this realist matrix that supported his conviction that the war that ended as he rose to power would not be the last world war of the century. This idea of a foreseeable shock between the current victors would guide his steps

¹⁴ del Carril, Bonifacio. *Movimiento de Renovación*. Buenos Aires, 1943.

through much of his first term as president, as he thought that another intensification of the food demand would benefit Argentina.

On the other hand, it should be noted that Perón was getting involved in that current of realism that tends to potentiate the value of politics, rather than reduce it with passive adaptations or more or less automatic alignments. This would have special connotations that would develop both internally and on the international scene. He saw politics as the most appropriate tool for constructing new realities and for ensuring that one's own interests would prevail, particularly vis-à-vis the stronger. It could be said that this was a variation of power politics proper to less capable states, aimed at balancing forces and improving their chances vis-à-vis the greater powers.

His experience of Washington's attitudes in the war years and its hostility toward him and his political project certainly helped him to develop this autonomist stance, which was nevertheless in line with the ideas prevailing in the social body. After all, the electoral effect of his presentation as the national choice against the wishes of an American functionary more than proved this disposition. Although affected by circumstances, the self-esteem of the Argentines had not lessened nor had they lost the confidence in a grand future, which had taken root in the first part of the century. Not even those that had the inner intuition that the times of prosperity were past were willing to give up old aspirations. Practically no one among conservatives or radicals, socialists or nationalists, academics or entrepreneurs, or the simple man on the street looked favorably at the leaders that led the people as if they were the inhabitants of an irrelevant peripheral entity. In this sense, Peronism meant a fleeting restoration of confidence in prosperity and greatness, although conditioned by the feeling of a society socially and politically divided as it had never been in the recent past.

As he entered the decisive stage of his march to power, Perón was convinced that the world was entering a "social era," which he would seek to lead on a different path from that envisaged by revolutionary Marxism. Although he made reference to a "national revolution," what he was following was a reformist course. The issue was not his intentions but the consequences of his decisions. His natural inclination toward order and national unity would push him toward a profound division of society, facilitated by the reaction of the dominant classes and of a large part of the middle segments of society toward the irruption of the masses.

As mentioned, Perón would find the “third position” formula – to which he adhered owing to his ability to realize the ideological trends of the moment in their ecumenical or vernacular garb – an appropriate tool for both domestic policy and diplomatic action. In the period 1946-47, this formula was declared the Movement’s doctrinaire fundament. In addition to reflecting an “idiosyncratic” disposition to believe in a providential destiny reserved for a country eager for greatness, the third position formula that “Argentina’s tutelary genius offers the world as a solution to its most perplexing problems” served many purposes. Some of the main purposes were to provide a doctrinaire framework for the emerging political force that was strengthening, both internally and externally, the image of its founder and to restore the prestige of the country, showing it as a society ruled by lofty universal values.

Strictly speaking, the essential element of the Argentine variety of third position, which Peronism purported to express, was its alternative economic and social organization program different from individualist capitalism and from collectivism, which in practice translated into a much less radical social economy than originally proposed. Obviously, this could not fail to have international repercussions at a time when the two extremes from which it meant to diverge were represented and led by two superpowers engaged in a Cold War that seemed dangerously to escalate. According to an interpretation not too far removed from reality, both superpowers embodied a form of imperialism – one characterized by economic penetration and the other bent on political and ideological penetration. The “Argentine solution,” which, according to official propaganda, had the merit of having proved its feasibility and effectiveness, was presented as an ecumenical alternative: “Our field of action is the world because great movements, such as Peronism, are not national, but universal movements.” It should thus be admitted that such a positive doctrine could not be construed as an isolationist or neutralist position.

The third position aspired to being more than the instrument of a realism that sought to reinforce the country’s relative position, so as to improve performance conditions in a context under the hegemony of the United States, and to this end it resorted to normative precepts and to reference to values. The same direction was followed by the Latin-Americanist assertion, consistent with economic demands and political strategies, but its objectives could be seen as negatively affected by the attitudes in which the offer of that “Argentine solution”

was wrapped up and which the neighboring countries could easily interpret as unacceptable intervention in their internal affairs.

While from the beginning the government's macroeconomic policies were firmly grounded on Keynesian ideas and practices, its industrial policy was driven by old protectionist practices and the pressure of interests grown more powerful during the war years. Only halfway in Peron's administration did the lineaments of a consistent industrial development model began to find echo throughout Latin America. The ideas of the Economic Commission for Latin America and the Caribbean-Eclac, spelled out by its director in his famous "1949 Manifesto," began also to find echo in all Latin America and did not fail to catch the interest of Peronist functionaries and technicians, although their assimilation could not occur in the context of formal relations with Eclac owing to a special political reason – Raul Prebisch, the Commission's Director, was an Argentine exile that had left the country, persecuted by the authorities.

In addition to this particular circumstance, and similarly to what occurred in the rest of the region, the "new economic orthodoxy" would combat the "old classic orthodoxy," and this contention, which served specific interests of the two currents, would endure as an ideological substratum of political and economic life for at least a quarter century.¹⁵ Of course, Eclac's thinking could not fail to influence the formulation and implementation of the peripheral countries' foreign policy. It exerted this influence directly or indirectly, either by encouraging autonomous stances – independent foreign policy – or by defining criteria of integration into the world market and by sponsoring integration.

It was precisely during the transition period that followed Perón's overthrow that the principles of liberal orthodoxy once again served as a guide for the conduct of Argentine authorities, both in the domestic political and economic sphere and in respect of a foreign policy rid of any trace of third position or neutralism vis-à-vis the world conflict. However, as the rise of the intransigent Radical Civic Union headed by Arturo Frondizi would show, these intentions could not be imposed merely because they represented exactly the opposite of the deposed government.

¹⁵ Hirschman, Albert (comp.). *Controversia sobre Latinoamérica*. Editorial del Instituto Di Tella. Buenos Aires, 1963.

Between developmentism and economic orthodoxy

Surely no other Argentine political cycle rested on such a body of coherent, well-articulated ideas as did the one led by Arturo Frondizi. Even his profile suggested that he was the politician with the greatest intellectual heft, to the point that this was one of the favorite arguments evoked in his favor or against him. But that characteristic was not his alone. Many of his closest collaborators, several of whom came from different positions on the ideological and political spectrum (nationalists, socialists, etc.) had a solid political and ideological background. All of them closed ranks behind the idea of development turned into a program, a goal, and a theme of political action. It was an idea supported by modern, theoretically-based economic models combined with elements from various origins.

Similarly to Perón, developmentists presumed that they were the ones that paid the greatest attention to the world situation and had the best knowledge of it. On this premise they built their policies. In their view, the scientific and technological revolution, the end of the Cold War, the beginning of peaceful coexistence, and the awakening of the colonial peoples shifted the axes of world conflicts. The East-West rift was eclipsed by the hierarchization of North-South relations and by a new phase of cooperation between the superpowers and between them and the peripheral world. As one observer has put it, what became fundamental instead of the division of the world between capitalism and socialism was the division between the developed and the developing world. A key assumption was that the end of the Cold War owing to the nuclear tie-up would free up enormous resources from the arms race and that these resources should be applied solely in the promotion of the more backward areas of the major countries and of the most undeveloped regions. As Frondizi said, “Forced into peaceful coexistence, the great capitalist and socialist powers should shift their contention to the field of economic and political competence.” Trade flows and capital movements would be thereby affected to the benefit of the South.¹⁶

Frondizism represented a variation of the developmentist structuralism that in large measure fitted the Eclac diagnostic but differed from its model and recommendations. Its exponents recognized the contributions of what was becoming consolidated as a new development economy, particularly from

¹⁶ Paradiso, José. *La Política Exterior Durante el Gobierno de Arturo Frondizi*. Unpublished.

perspectives such as the one adopted by Albert Hirschman in his influential 1958 work *The strategy of economic development*. One chapter showed that his divergence from the Commission of which Prebisch was president lay in his resistance to the idea of economic integration favored by it. *Frondizist* developmentism did not deviate from Latin American rhetoric that was part of the radical tradition, but tended to circumscribe it to the political sphere, avoiding committing itself to the regional complementation process.¹⁷

From Frondizi's removal from office to the late-eighties, the life of the country was strongly conditioned by the contention between two systems of ideas: structuralism and developmentism/independent foreign policy vs. economic orthodoxy/pro-West alignment. All this occurred in an extremely complex political context dominated by the "Peronist question" and the institutional alternatives – civilian/military alternation – associated with it.

As has been repeatedly said, the "party governments" were programmatically inclined toward the first system of ideas, while military governments, owing to the interests that participated in them, tended toward the second system. But even in the case of regimes marked by fierce struggle between factions, it was difficult to ignore the primacy of nationalist ideas in the peripheral world. Such was the case, for instance, of the period of the so-called Argentine Revolution (1966-1973), during which political orientation changed owing to the change in the interrelation among ideologies in favor of the developmentist/autonomist concepts.

A manifestation of the supremacy of nationalist expressions, particularly in the late sixties and early seventies was the primacy of the so-called theory of dependence and "third-world" formulations. These interpretations of the causes of the Southern countries' economic backwardness and the ways to overcome it exerted strong influence on the decision-making systems of Latin American governments. Juan Domingo Perón came back into power precisely at the culminating moment of this "system of beliefs." His historical credentials – having favored the third position and neutrality in the forties – were enhanced by the decision to join the movement of nonaligned countries, which enjoyed the highest prestige then, owing to the timeliness of its political and economic claims.

¹⁷ Frigerio, Rogelio. *Estatuto del Subdesarrollo: las corrientes del pensamiento económico argentino*. M. Guemes, Buenos Aires, 1974.

An idea underlying the assertions of the so-called Third World but which transcended it was that of the establishment of a new international economic order. It moved many political leaders and government officials and found its best expressions in the work of several research centers both in central and in peripheral countries. All manifested a sincere concern about the growing tensions caused by the gap between the rich and the poor countries or about the likely consequences of the increasing deterioration of circumstances. But the alert sounded about the tempests that were brewing was not heeded and the new order that actually came into being as of the eighties was quite the opposite of what had been envisaged. By heeding the lessons learned from the statist models, the crisis of social realism, the rupture of the Third World front following the oil crises, and the “unexpected” course of some Asian countries, economic orthodoxy recovered positions and took the ideological center stage, led by Thatcher’s England.

In a way, the Argentina of military rule and Pinochet’s Chile anticipated the neoliberal wave and the activation of the anti-communist Western stance, led by Washington. The rifts in the ideas and decisions of the military regime resulted from the internal disputes for mastering the regime’s succession or from the fierce contention with the White House or the State Department because of their stiff repressive measures.

Return to democracy after an unfortunate war against those that had in large measure inspired the Process’s economic and social policies was also the return of the developmentist structural and autonomist ideas that were part of the major parties’ programs. It took the Alfonsín administration some time to realize that the world was not the world of the seventies and that the hegemonic ideologies had also changed. Nevertheless, it did not easily cede to the pressure of circumstances: pressed by the foreign debt incurred by its predecessors, it sought unorthodox economic alternatives and firmly maintained an autonomous foreign policy in the midst of the reactivation of the Cold War by Reagan. That which had started with the certainty of at least a second term for the party ended with its premature closure and the return of Perón’s heirs to the seat of government.

Peronism’s “third incarnation” – the first two had been in the person of its own creator – took place in a radically different ideas environment. They had occurred when nationalist concepts and practices and reservations about the

virtues of the market and free entrepreneurship had reached a peak. Carlos Menem, however, arrived at Casa Rosada when the gales of liberalism were blowing at full force, pulling down the welfare State's debilitated structures. On top of this, the hyperinflation experience that had forced Raul Alfonsín to anticipate his exit predisposed society to orthodox formulas as they were put forth in the notorious Washington Consensus.

Menem was sufficiently clever to realize that the surest way to remain in office for as long as possible was by accommodating to the current and proving once again that what characterized Peronism was pragmatic accommodation to each set of circumstances. While this adaptation facilitated his permanence in power, his performance as the strictest adherent of the prevailing orthodox doctrine served him as a double insurance, as in few places in the world had the rules been so literally followed and the alignment with the great powers been so firm.

Some, seeing in the commitment to Mercosur a proof of the continuity of the integrating orientation started by Alfonsín, talked of "State policies." Without discarding the possibility that this idea was shared by some who participated in that initiative, it was not difficult to see that there was a clear incompatibility between the integration concept associated with the developmentist/autonomist model and the one implicit in neoliberalism. And in between, many difficulties sneaked in.

It must be pointed out that in Argentina, peculiar domestic circumstances were added to the global factors that drove the neoliberal counteroffensive and the change in ideological hegemonies: first, hyperinflation's traumatic effects on the economy, attitudes, and sociability patterns; secondly, but not unrelated to the preceding, the consequences of the "sense of decline" that weighed ever more heavily on the citizens' conscience and disposition. We have seen that this had occupied the citizens' mind since the thirties. For some decades, this feeling had competed with its opposite, i.e., the conviction of a greatness and a potential that needed restoring. This was clear in Perón, Frondizi, and during the Argentine Revolution. And yet, each institutional crisis pushed farther away such a delusion and heightened the sense of decadence. For the adherents of the new liberalism, restoration implied the opposite of what developmentist policies, state interventionism, and autonomous diplomacy had intended. As an economy open to the world and a special relationship with the hegemonic power at the time had been the successful formula in the early 20th century, this formula should be

repeated at the close of the century, even at the cost of undoing what had been done, by discarding the ideas that had supported those policies. Those were the terms of the discourse – disseminated by influential media communicators and many liberal intellectuals of long-standing or newly converted – that accompanied the repressive practices of the military regime installed in 1976 and supported Minister Martínez de Hoz's administration's characterized by "*abertura*."

In sum, this mix of ideas, sensations, and traumatic experiences influenced domestic and foreign policy for a decade and continued to exert its influence after the defeat of Peronism by a coalition that put in office a representative of radicalism. In reality, though, the formula of a "nineties' model with minor adjustments and control of corruption" could not ensure the consolidation of a new political cycle. It is true that the famous parity of the dollar and the peso, acting as a support reinforced by the memory of hyperinflation, did not leave much elbow room for a too hesitant government, unable even to maintain the cohesion of its political basis. The days that followed the traumatic conclusion of the Alianza's administration saw the return of the image of an ungovernable Argentina bent on advancing toward new abysses. If this was avoided, it was due in large measure to Eduardo Duhalde. Menem's supporter since the early nineties, he had gradually distanced himself and become the spokesman of values and practices of historical Peronism. Assisted by a minister of the economy alien to orthodox fundamentalism, he was sufficiently able to redress the situation and prevent the chaos predicted by many. Duhalde "completed his work" by blocking Menem's return and making possible the drawing of a new card of the Peronist game.

As much a "Peronist" as Menem in his concept of power, Nestor Kirchner began his term on a not too firm ground, undermined as it was by the "default" but benefited by a more propitious climate for developmentist formulas. Although one cannot speak of a new system of beliefs or a change in ideological hegemonies, a retrocession of liberal orthodoxy seems evident. The social and economic effects of policies inspired by it have brought to the fore the demand for social justice, productive development, and autonomy – a call to a resumption of the course interrupted thirty years ago, albeit in a quite different world, which, precisely because it is different, requires renewed, creative forms of adaptation. **DEP**

Infrastructure integration in South America: stimulating sustainable development and regional integration

*Enrique García**

Regional integration is a complex process that takes place in many different ways, taking advantage of opportunities and adapting pragmatically to the restrictions and hindrances that may arise. Accordingly, it is a process that places major demands on the regional leadership and has deep implications in the economic, social, political and cultural fields.

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This process should not be seen as a luxury but as a strong necessity of our region to face the huge challenges posed by the social realities of our countries. In fact, the current favorable macroeconomic conditions and the positive expectations should not make us conclude that South America has found the path to sustainable development. The economic growth achieved in the recent past was largely the result of extremely favorable conditions in the international environment (especially the recuperation of the U.S. economy and the high investment and growth in China). On the other hand, several among the critical structural problems that have hindered the achievement of an effective and socially equitable model have not yet been solved adequately.

Toward a new development agenda

Latin America must push forward a development agenda that aims at high and sustainable rates of growth and at the same time provides for the improvement of the living standards of the majority of the population. To reach this goal, the new development agenda must promote in an integrated way the elements of macroeconomic stability, efficacy and equanimity and solidarity, through the joint efforts of governments, the private sector, civil society and the international community.

To achieve effective economic growth, the region must harmonize the main macroeconomic balances: sustained expansion of the different forms of capital, that is, physical, financial, natural, human and especially social capital, a major effort leading to the evolution of productivity and the explicit adoption of criteria of social improvement and inclusion, as well as the fight against poverty.

One should also aim at: i) the search for an adequate balance between the State and the market in accordance with the realities, restrictions and relative competences of the public and the private sectors: ii) encouragement of a changeover from a strategy of comparative advantages based on natural resources and low wages to one that places increasing emphasis on competitive advantages stimulated by knowledge, innovation and generation of added value; iii) the recognition that success depends mainly on internal effort, and external support should not be seen as a substitute but as complementary to

one's own; iv) the decision to view regional integration not as an end in itself but rather as a tool for achieving a better and more equitable international insertion and a higher degree of social cohesion at the regional level.

The challenge of regional integration

South America experiences today a decisive stage of its history, inasmuch as the countries that make it up face the challenge of progressing towards regional convergence, having a clear understanding of the positive aspects of an integration that possesses a definite identity. National leaders are advancing towards the construction of this new reality, which results from the understanding – in all its dimensions – of the strategic importance of South American integration for the welfare and the prosperity of the region.

In this context, the question of the physical infrastructure of the region assumes particular relevance. Infrastructure is a key element of economic and commercial integration, for it affects market access in two ways: the transportation of raw materials to the production centers and subsequently the distribution of the products to the national and international consumption centers.

In Latin America, important geographical obstacles such as large areas and great distances with low population density, complex natural barriers and high vulnerability to natural disasters complicate the provision of infrastructure. Such obstacles and the inadequacy of the infrastructure and logistics services generate an increase in transaction costs and low competitiveness and productivity. Such costs may even be greater than the protectionist barriers in other trade partners.

For example, intra-regional trade in our region is considerably lower than in other parts of the world. Trade within the Andean Community is about 10% of its total trade, and in Mercosul around 25%, while intra-regional trade is 55% within Nafta, 60% within the European Union and 68% within Asia.

CAF and regional integration

Since its inception, one of CAF's priorities has been to strengthen regional integration schemes as provided for in its Constitution Act. This commitment,

which in the first few decades of CAF's operation covered mainly the Andean area, was extended since the beginning of the 1990's due to the expansion of the Corporation's membership, which today numbers 17 countries, including all members of the Andean Community of Nations (CAN) and the expanded Mercosul, plus an important group of Central American and Caribbean countries, as well as Spain.

A precious opportunity for the consolidation of the actions that we have been taking in the regional context came with the recent establishment of the South American Community of Nations which encompasses the members of CAN and those of Mercosul which are also members of CAF.

Although physical infrastructure has been one of our emphases as regards integration, ours is an integral and multidimensional vision, as it includes the objectives of commercial integration, social and cultural integration, the integration of capital markets, the integration of the labor markets, macroeconomic convergence and political integration. CAF actively promotes those objectives through its action in the field of credit, its several strategic programs and its special funds, including those for cooperation.

From the standpoint of financing, CAF's most significant effort in the last 15 years has targeted the trans-South American infrastructure – articulating territorial and regional integration – which reflects the important and steady growth of our portfolio of physical infrastructure projects throughout the region, for a total of US\$ 4 billion at the close of 2006. Such projects have been strategically selected in tandem with governments and the private sector, and their implementation has brought about the reduction of bottlenecks and missing links in the logistical platform of South America.

During the last 10 years, CAF has provided financial support to the execution of 49 projects of physical integration in South America, for a total investment of over US\$ 11 billion, of which CAF's share has been of about US\$ 3,5 billion. Such projects include land and river links, energy and telecommunications projects.

The experience acquired by CAF in infrastructure in the course of those years resulted from successful alliances with the public and private sectors and from the harmonization of national and regional interests. Innovative financial structures have been developed during several years, among which those of

Public-Private Associations (PPP's), Partial Assurance mechanisms, participation in domestic capital markets in the financing of the projects, concessions and other kinds of financial counseling.

It is also important to highlight the creation by CAF of several funds whose objective is to reduce some of the difficulties inherent to large infrastructure projects. The Fund for the Promotion of Sustainable Infrastructure Projects (Proinfra) aims at the financing of adequate preparation, financial structuring and evaluation of sustainable infrastructure projects that have high impact on regional, national or local economies and that contribute consistently to the integration of CAF's shareholders.

PROINFRA's resources finance the elaboration of sectorial infrastructure studies, investment options or pre-feasibility, feasibility and detailed engineering studies, as well as the social and environmental impact of infrastructure projects. It also finances counseling for the financial structuring of the projects or concession processes and calls for bidding of construction works, including technical assistance for the creation or strengthening of public investment planning systems and public-private participation (PPP).

Likewise, it is important to emphasize the careful analysis of the environmental and social impact of the infrastructure projects financed by the Corporation. CAF possesses innovative tools and methodologies that have evolved in the last few years and which have permitted the conservation and the better use of natural resources and ecosystems. CAF also contributes to the prevention and mitigation of the risks caused by natural disasters, by supporting investments aiming at reducing the geologic vulnerabilities in infrastructure projects. In this way we enhance and preserve the natural capital and the cultural diversity of the region so as to favor a sustainable and inclusive development.

The IIRSA initiative

IIRSA is a multinational, multisectorial and multidisciplinary initiative involving the 12 South American countries with the participation of the transportation, energy and telecommunications sectors and encompassing economic, legal, political, social, cultural and environmental aspects.

The main objective of the “Initiative” is to develop the regional infrastructure in a framework of increasing competitiveness and sustainability, in order to generate the necessary conditions to achieve, in each region, a pattern of stable, efficient and equitable development, by identifying the physical, normative and institutional needs and by searching for implementation mechanisms that promote physical integration at the continental level during the next 10 years.

IIRSA originated in the Meeting of South American Presidents held in August 2000 in the city of Brasilia, when the region’s leaders agreed to act jointly toward the modernization of the regional infrastructure and the adoption of specific actions to promote its integration and economic and social development.

This commitment was expressed in an Action Plan elaborated at the Meeting of South American Ministers of Transportation, Energy and Telecommunications held in Montevideo, in December 2000, which became the point of reference for the development of IIRSA’s activities. From then on, its objectives, scope and implementation mechanisms have been validated and strengthened in different sectorial meetings and meetings of the Presidents of the countries belonging to the “Initiative”.

IIRSA’s guiding principles

At the start of the 21st century, physical integration and the modernization-development of regional infrastructure are seen as central elements for stimulating the organization of the South American area and the sustainable economic growth of its countries. In fact, the loss of the relative importance of the region in the world’s economic context has resulted in an increased perception that the region needs the adoption of progressive integration policies which allow for the articulation of comparative and competitive advantages of our countries in order to achieve a strategic insertion in international trade.

Accordingly, there is currently a general understanding that a stronger, economic, social and physically cohesive region can move forward more effectively to overcome the obstacles to its development. In the presence of

several international asymmetries, integration becomes the key for the achievement of commercial and financial gains for South American countries, for the physical and economic articulation of the continent and for an adequate insertion in the international context.

The view of infrastructure as a key element of integration is based on the notion that the synergic development of transportation, energy and telecommunications can generate a definitive push to overcome geographic barriers, bring markets closer and promote new economic opportunities, as long as this takes place in a context of commercial and investment opening, of regulatory harmonization and convergence and of increasing political cohesion.

The question should not be seen, however, in an isolated and independent manner. It involves the improvement of the infrastructure in itself (roads, ports, airport, fluvial, etc.) but also to notion of an integrated logistic process which encompasses the improvement of the customs and telecommunications systems and regulations, energy markets, information technology, services and logistics markets (freight, insurance, warehousing and processing of licenses, among others), and sustainable development at the local level.

A quick review of some of the guiding principles provides a clear idea of the objectives and scope of the “Initiative”:

1. Open regionalism: it is necessary to reduce to a minimum the internal barriers to trade and the bottlenecks in the infrastructure and in the regulation-operational systems that support productive activities in a regional scale. While the commercial opening facilitates the identification of productive sectors with high global competitiveness, the vision of South America as a single economy permits the retention and distribution of a larger portion of the gains from the region's trade and the protection of the regional economy against the fluctuations in global markets.
2. Integration and development axes: they represent a territorial reference for the broad, sustainable development of the region. The ordering and harmonic development of the physical space will facilitate access to zones of high productive potential that may remain

today isolated or underutilized due to the inadequate provision of basic transportation, energy or telecommunication services. The Integration and Development Axes represent a territorial reference for the broad, sustainable development of the region.

3. Economic, social, environmental and political sustainability: the process of economic integration of the South American space will be sustainable if it achieves the objectives in the four areas mentioned here.
4. Increase in the added value of the production: to establish production chains in sectors of high global competitiveness, capitalizing on the comparative advantages of the countries and strengthening the complementariness of their economies.
5. Normative convergence: the achievement of normative convergence, including the convergence of visions and programs of the countries is another requirement to render viable the investments in regional infrastructure.
6. Public-private coordination: the challenges of the development of the region point to the need for shared coordination and leadership between governments (in their different levels) and the private business sector, including both the promotion of strategic public-private partnerships for the financing of investment projects and consultations and cooperation for the development of a regulatory environment geared to the significant participation of the private sector in the regional development and integration initiatives.

In sum, the integration of the physical infrastructure of South America aims at establishing mechanisms to overcome obstacles to growth and push forward the development and integration of the region through financial and methodological innovation in order to establish transportation, energy and telecommunication links between markets and areas with a high potential of growth or isolated zones that offer comparative advantages in the social, natural or cultural fields.

Physical intergration projects financed by CAF

	CAF share (Million US\$)	Total investment (Million US\$)
Andean Axis		
1. Colombia: Buenaventura Corridor – Bogotá (La Linea Tunnel)	32.0	278.6
2. Ecuador: Amazonian Link with Colombia and Peru (Continental Trunk Road)	93.8	152.7
3. Peru: Rehabilitation of the Huancayo-Hunacavelica railway	14.9	20.0
4. Venezuela: Railway link Caracas-National network	360.0	1.932.0
5. Venezuela: Support to commercial navigation in the river axis Orinoco-Apure	10.0	14.3
Guayana Shield Axis		
6. Brazil: Road link Venezuela-Brazil	86.0	168.0
7. Brazil: Electric link Venezuela-Brazil	86.0	210.9
8. Venezuela: Railway study Ciudad Guayana-Maturin (Sucre State)	2.6	2.6
9. Venezuela: Road study Ciudad Guayana (Ven.) – Georgetown (Guyana)	0.8	0.8
Amazon Axis		
10. Ecuador: Central Trans-andean link	33.7	54.5
11. Ecuador: South Trans-andean link	70.0	110.2
12. Peru: Road corridor Amazon North	110.0	328.0
13. Peru: Pre-investment region border with Ecuador	5.3	8.7
14. Peru: Central Amazon corridor (section Tingo Maria-Aguaytia-Pucallpa)	3.5	13.6
Peru-Brazil-Bolivia Axis		
15. Bolivia: Road Guayaramerin- Riberalta	42.0	45.5
16. Brazil: Road Integration Program (Rondônia State)	56.4	134.2
17. Peru: Road Interoceanic Corridor (sections 2, 3 and 4)	203.5	1.073.5
Central Interoceanic Axis		
18. Bolivia: Road Integration corridor Bolivia-Chile	138.9	246.0
19. Bolivia: Road Integration corridor Santa Cruz-Puerto Suarez (sections 3, 4 and 5)	280.0	585.5
20. Bolivia: Road Integration corridor Bolivia-Argentina	314.0	642.0
21. Bolivia: Road Integration corridor Bolivia-Paraguay	60.0	182.6
22. Bolivia-Brazil: Gas pipeline Bolivia-Brazil	215.0	2.055.0
23. Bolivia: Gas pipeline Transredes	88.0	262.8
24. Paraguay: Road Concepción-Puerto Vallemi	38.5	70.0
25. Peru: Road Integration corridor Bolivia-Peru	48.9	176.6
Mercosul-Chile Axis		
26. Argentina-Brazil: Border center Paso de los Libres-Uruguaiana	10.0	10.0
27. Argentina: corridor Buenos Aires-Santiago (variant Laguna La Picasa)	10.0	10.0
28. Argentina: corridor Buenos Aires-Santiago (railway variant Laguna La Picasa)	35.0	50.0
29. Argentina: corridor Buenos Aires-Santiago (access to Paso Pehuenche, RN40 and RN 145)	106.7	188.1
30. Argentina: Electric link Rincón Santa María	300.0	623.0
31. Argentina: Electric link Comahue-Cuyo	200.0	414.0
32. Argentina: Program Road Works for Argentina-Paraguay integration	110.0	182.0
33. Brazil: Regional Intergration Program – Phase I (Santa Catarina State)	32.0	50.0
34. Uruguay: Megaconcession in the main links with Argentina and Brazil	25.0	136.5
35. Uruguay: Road Infrastructure Program Phase II	70.0	295.4
Capricornio Axis		
36. Argentina: Paving of RN 81	90.2	126.2
37. Argentina: Access to Jama Pass (Argentina-Chile)	54.0	54.0
38. Argentina: Study for the rehabilitation of railway Jujuy-La Quiaca	1.0	1.0
39. Bolivia: Program Road Tarija-Bermejo	74.8	200.0
40. Paraguay: Rehabilitation and paving of Integration Corridors RN 10 and RN 11 and complementary works	19.5	41.9
Hydroway Paraguay-Paraná Axis		
41. Studies for improvement of navigation, institutional management and financial engineering for the Argentina, Bolivia, Brazil, Paraguay and Uruguay Hydroway)	0.9	1.1
Total	3.532.9	11.081.8

Physical and Integration Projects Financed
by CAF in the last decade.



Translation: Sérgio Duarte.

Elections and patience

*Antônio Delfim Netto**

Each one of us inhabits two different universes: one, the Economic Universe, where the individual expects to find a job, to make a living, to support a family, to count on a steady improvement in well-being, and, at the end of the day, to enjoy the fruits of honest retirement. Such a universe is basically controlled by the “market”, but the “market” only exists and operates adequately within certain conditions and by means of special institutions: respect for private property, the lawful enforcement of contracts, the freedom for setting prices, and so on. Furthermore, the market needs the State to guarantee certain public goods that only the State can provide: a reasonable and expedient judiciary, security, and a stable currency. The Economic Universe is defined and upheld by Constitutional provisions that society agreed to establish at some point in time. Obviously, the “market” does not emanate out of the Constitution. However, it only works as an efficient tool when the Constitution is market-friendly.

The Political Universe is established by the Constitution, but it is subject to the humors of “universal suffrage”. At regular, established intervals, each inhabitant of the “Economic Universe” is called upon to assess his/her life and

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what her/his expectations are about the future. If most people in the “Economic Universe” live out precarious existences and their prospects are dim, each citizen will seek out to change it by means of the ballot. How? By choosing an Executive Power and a Legislative Power which are more committed to the changes that are desired. Such a choice does not necessarily lead to the expected outcomes. It is important to understand that the result of universal suffrage depends upon how citizens perceive the situation to be. It may be “progressive”, if the previous administration brought about expected changes or generated the expectation that such changes would be forthcoming in the foreseeable future; it may be “regressive”, when the citizens’ patience is at an end. In this case, the citizenry will resort to choosing to support a leader who promises to create a “short-circuit”, a leader who incorporates society’s dissatisfaction, gives voice to its indignation, and, therefore, takes over power by means of the ballot box.

Historical experience shows us that the latter solution often leads to increasing frustration. After a while, and the initial enthusiasm wears down, society realizes that the “instant salvation” which was promised has brought about more harm than good. The reason for this is simple: shortcuts are offered to (a tired) society by enlightened, garrulous, or ignorant leaders who ignore their own ignorance. Such leaders are successful at the ballot box because society has lost any hope that their problems will be solved by current economic policy. Such policy suggests that, after monetary stability is achieved, the “market” will solve every social problem, which, obviously, is far from certain.

What is happening in most South American countries should be heeded as a warning by those who would impose an economic policy that only aims at efficiency and stability, in the belief that this will suffice for the market to generate an illusory social justice. An economy can be balanced and achieve a maximum of productive efficiency, even in the presence of the worst imaginable kind of income distribution. The role of universal suffrage is, precisely, to avoid endowing such search for economic efficiency through the “market” with an absolute aura. For the market does not have any moral qualm when it rents out the worker’s labor as if it were a disposable part or a lease on a parcel of land. It so happens that the “part” is a thinking being, who realizes the injustices of the world, has a family – and who votes! The ballot box evens out the relative power of capital and labor: it is the tool that may lead to achieving economic development which is relatively equitable.

On the market, everyone “votes” according to his or her income and personal wealth: someone who has got \$100, has 100 “votes” to buy goods; someone who has got \$1 million, has one million “votes” to do likewise. Everyone tries to use whatever income he/she has available in the best way possible. The hitch is to convince people at the ballot box that unemployment does not exist, for it is a result of “laziness” of some and that each person receives a “fair” return on his/her effort – just like “neoclassical” Economics would have us believe... In Brazil, once every four years (rather every eight years, beginning with the reelection of Fernando Henrique Cardoso), each one of us is worth the same at the ballot box: exactly one vote! This ballot erects the political power on which the workings of the market are to be based. Whenever political power wrongly (from a theoretical and a practical viewpoint) subjects everything to the market, as if the market were able to solve all of society’s problems (freedom, equality, efficiency), there is a risk that universal suffrage will come up with a problematic outcome: it will elect either a fake or a messianic leader!

Bolivia is a case in point. The country implemented a stabilization program in 1985, which was widely regarded as “successful”. Since then, Bolivians have been facing every kind of vicissitude. They waited for 20 years for well-known leaders to improve their living conditions. Evo Morales may be seen as a sorry outcome of the ballot box, but his legitimacy cannot be doubted. He is the product of the universal suffrage of a long-suffering people who lost its patience and the hope it placed on traditional policies.

The Brazilian case is different. Lula is a charismatic, quite pragmatic leader, but his rise to power is based on similar causes. After eight years of lackluster growth under President FHC (a sort of “stagflation”, the malignant combination of stagnation and a precarious stability), a tired, exhausted people began to realize that the same, tired promises to the effect that “growth with employment would come later”, were only so much hot wind. Voters demanded that the implementation of a “politics of solidarity” be accorded heightened priority, so that the poor could be better looked after: a kind of provisional policy to aid the poorest of the poor, while employment is still a promise.

We should not delude ourselves by thinking that we are so much more patient than other peoples. Beyond erecting support networks for the poor, we have to look after the development of the economy because if production does not grow faster, if businesspeople are not encouraged to become their old savage

capitalist selves and invest seriously in the export sector, we will not create that many jobs for our people. It is never idle to repeat that without stronger GDP growth, there will not be enough jobs for people who need to work. Nor will we get tired of repeating that working is still the most efficient way to improve our domestic income distribution. We need to dispose of the myth that Brazil cannot grow over 3.5 percent a year without fueling inflation once again. This is a big mistake that was cooked up by economists who think of themselves as “scientists” but who are nothing but indentured servants of financial markets who have never set foot on a factory floor, where common men work in order to realize their potential. Likewise, there is no contradiction between fiscal balance goals and larger public investment, which only needs to be well managed. If we insist on championing “neoliberal purity”, which throws men into the man-eating jaws of the market, one day the “Moraleses” who are already lurking around the corner will come out victorious at the ballot box.

Keynes once said that “the economy and economists are not the depositaries of civilisation, but the possibility of civilisation”. In other words, the knowledge of the way economics conditions reality and human behavior should help to build a society where citizens may devote their efforts to legal activities and be able to reap the benefits of it, a society where they may see the prospect of improving their well-being, within the framework of relative equality and justice, and growing GDP and employment levels.

The activity of the economist should be to help society to build mechanisms that allow for individual freedom, that reduce inequality, and that achieve a high level of productive efficiency, three goals that are not entirely compatible.

It is because of this that the “market” cannot be trusted to harmonize them, as neoliberal economists would have it. Either they introduce the ballot box as a conditioning factor that economic policy must heed, or they will risk harnessing a miserable defeat at the ballot box. As a Fabian slogan I heard when I was young had it: “jobs are closed, but the ballot box is open”! **DEP**

The outlook for Chile-Bolivia relations¹

Luis Maira*

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he climate surrounding conversations about Chilean-Bolivian relations seems to have improved lately. And yet, this does not arouse special expectations in me, as the history of the relations between the two countries is marked by brief periods of favorable climate and long periods of disagreement and conflict.

With respect to this particular moment, three circumstantial elements provide a good starting point.

Chilean elections have led to a fourth *Concertación* Administration and to the first post-transition Administration. The first three *Concertación* Administrations were tied to a too narrow, quite complicated agenda that sought to put an end to the legacy – as clear as it was perverse – of the authoritarian regime, which we Chileans call “the mooring period.” The Chilean democratic governments inherited a mined field full of traps and very effective juridical and political constructions that narrowed the margin for the people and the authorities to exercise their sovereignty – an impressive datum from political comparison with other Latin American countries that had also emerged from national security

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dictatorships. The 1980 Constitution placed at the summit of power entities of nondemocratic origin, endowed with prerogatives enjoyed by institutions that were closer to the military regime: The National Security Council, which personified the Armed Forces' democratic tutelage over the Parliament and the Government, which ensured the maintenance of Pinochet as the Army's Commander in Chief in the first eight years. This made Chilean transition more restricted, difficult and complex than any other in South America. With the August 2005 constitutional reforms, we finally came through this precipitous pass and, in general, arrived at the institutional condition of a democratic country.

Michelle Bachelet's is thus the first post-transition Administration. This means that hers is the first government that will not have to spend a significant portion of its energies in undoing all that was "tightly tied up," which was left by the military regime. It will be able to think differently about the use of its time, spaces, and greater freedom to define its own political designs. This is quite positive if we add that the December 11 parliamentary elections held together with the presidential elections substantially increased the room for maneuver the majority coalition has enjoyed within the bicameral system.

Secondly, the Bolivian presidential elections have put to rest many ghosts that pointed to the country's ungovernability. Backed by 54 percent of voters, President Evo Morales will be able to organize his government in a less fragmented political setting. Fragmentation had prevailed since the debilitation early in the current decade of the old party triad – MIR, ADN, MNR – that handled the situation after the 1985 crisis and permitted the alliances and agreements that led to stability in the two last decades of the 20th century.

A comparison of the two countries' situation shows, however, that the Chilean *Concertación's* fourth Administration comes out as enjoying greater programmatic certainty and wider political margins.

A third key element in my view is the fact that our bilateral relations are differently perceived by public opinion in our two countries. This is a decisive, emblematic issue for the people and public opinion in Bolivia, but is nearly nonexistent to Chileans, for two reasons: first, because maritime aspiration forces Bolivia into an active conduct while it obligates Chile to nothing – mere maintenance of the status quo thus seems reasonable to most Chileans who are not familiar with international issues. Secondly, it has not been possible to instill in the Chilean people the feeling that this is a priority question that must be

solved or that this is a subject that impinges on our international image and not just a demand imposed on us by another country. This poses a major challenge that we must meet in terms of political education and the construction of internal consensus in Chile. The many statements issued from time to time by Socialist Party leaders and parliamentarians so far have not succeeded in improving this distant attitude on the part of Chilean public opinion, which does not see the issue as part of our agenda.

In view of the preceding, I would like to concentrate the focus on some aspects of the different paths that might be open from now on.

As a starting point, I would like to point out that Chile has yet to formulate a coherent, detailed policy on our relations with Bolivia. There is no consensus, owing in large measure to the fact that the people responsible for our bilateral relations with that country do not see these relations as a complex issue but rather as a self-solving question. Thus, for example, the diplomats at the Ministry of Foreign Affairs most inured to the subject believe that one should not be overly concerned about Bolivia's maritime aspiration. Accordingly, they say that Bolivia is capable of strong, consistent policies only when it manages to solve its more serious political crises. At such times, when it is constructing governability schemes in respect of administrations that are beginning their work, these governments – for reasons diplomats associate with a concern over the legitimacy of their action – assign a much higher priority to the maritime demand at international forums and in bilateral relations. The diplomats' perception is that an active Chilean position gives a thrust to this process, while with the refusal to recognize it, the issue dies down in accordance with the avatars of Bolivia's own internal circumstances: ignoring the demand seems a clever policy for skirting the conflict. Obviously, this approach does not recognize the urgent need for a more stable, proactive policy in the medium- and the long run; it simply reiterates the already known tactical approach that usually works, given the way things have functioned in La Paz, at least in recent years.

In my view, it is of fundamental importance to insist on the need to have a consistent, stable Chilean policy that ascribes priority to defining issues of our neighbor policy, linking the policies we intend to apply to Bolivia to the policies we intend to apply to Peru and Argentina, two of our three territorial neighbors. Adopting this policy and moving forward with it is a major pending issue, although I think that the good relations cultivated in the last stage of President Lagos's

Administration have created favorable conditions for addressing this question during President Bachelet's term.

The first point that should be clearly made is that we must recognize that we, Bolivians and Chileans, have the possibly worst neighbor relations among Latin American countries. This is proven by the harsh, hard fact that only during ten of the last fifty years we have maintained diplomatic relations – the minimum two countries could have. Even now, prospects seem difficult for the reestablishment of the essential link between modern States – Embassies and regular bilateral relations channels.

At the same time, these two countries that have such a bad relationship that periodically exploits and nearly destabilizes the binational links – face one of the most enduring conflicts in Latin America, which has lasted for 121 years. This controversy centers on a single, major core, namely, Bolivia's aspiration to have a sovereign outlet to the Pacific. Apart from Argentina's claim of the Falkland Islands, very few issues dating from the 19th century still remain on the international agenda of Latin American countries in the 21st century. The other long-lasting conflict, namely the Guatemalan claim on Belize, was resolved many years ago by the existence of an independent country associated with the Caribbean Community. Thus, only two old issues remain: Bolivia's maritime aspiration and Argentina's claim on the Falklands. No other problem of the same magnitude exists. This is thus the oldest, thorniest pending issue between two Latin American countries. This is why this particular complicating factor must be urgently recognized.

As I see it, one of the major problems during the moments of fair weather in our relations is the belief in an instant solution. Suddenly, political leaders believe that in a very short time they can solve such an old, complicated dispute. This is usually a poor expectation that ends in disenchantment.

I should explain that I am part of a generation that believed that it would quickly resolve this issue. Before the 1973 coup, there were many Bolivian youth leaders studying at Chilean universities. Our human relations were excellent, we knew each other, discussed about Latin America, and had no doubt that we would be the ones to resolve with relative speed the pending issues of our history. But life has taught us that this is no easy task and history has also shown the same, as on four occasions since the Pacific War we have been close to a solution to Bolivia's need for a sovereign port on the Pacific: before the 1903 Treaty, namely,

in 1895, in the context of the Argentine-Chilean-Bolivian dispute over Punta de Atacama; in 1926, with the so-called Kellogg Proposition, put forth by the U.S. Secretary of State, who, as the Arica and Tacna situation with Peru was pending, invited the two countries to cede the port of Arica to Bolivia as a way of avoiding a referendum. Chile expressed its willingness to consider such possibility, although internal public opinion was very skeptical of this solution; but Peru rejected it outright and this put an end to the U.S. initiative.

In 1950, former Foreign Minister Alberto Ostria Gutiérrez, who was then Bolivia's Ambassador to Chile, and Chilean Foreign Minister Horacio Walker, under the administrations of Mamerto Urriolagoitia in Bolivia and Gabriel González Videla in Chile, went ahead with the design a more durable solution: a Bolivian corridor, a strip of land south of the Concordia Line and to the north of Arica. Ostria Gutiérrez (and this is also found in detail in González Videla's Memoirs), pursued a clear-sighted, extraordinary diplomatic course to arrive at such a possibility. It finally materialized in a technical formula devised by engineers and experts in border issues. While this was being worked out, an unfortunate circumstance undermined the negotiation: González Videla, who was not a popular ruler and who had outlawed the Communist Party, occasioning Pablo Neruda's exile and other well-known issues, visited President Truman in Washington in 1950 and held a private conversation with him about the issue. Weeks later, at the Foreign Relations Council in Chicago, Truman held talks with press people and U.S. foreign relations experts, who spoke to him about the futility of visits of Heads of State to Washington, saying that it was a waste of time to receive Asian, African, and Latin American Chiefs of Government in those Cold War years. Truman replied by pointing out the positive results that might come out of this process and told them of the negotiations González Videla was carrying out in private with the Bolivian Government. This elicited denunciations by the press in both Chile and Bolivia. In a question of weeks, the two Foreign Ministers had been ousted and the matter had fallen to pieces.

The fourth attempt – the embrace at the border town of Charaña – took place under Pinochet and Banzer. It would seem that owing to the fact that negotiations were being carried out by two dictators, that there was no public opinion to be taken into account, and that the Armed Forces of the two countries were directly involved, a solution was really possible. The technical design was the same as in 1950, and the corridor envisaged was nearly the same. The attempt failed for various reasons, but particularly because of the negative psychological

impact, in both Bolivia and Peru, of the Pacific War's centennial. The dialogue was resumed in 1986 and 1987 by Presidents Belisario Betancourt and Julio Sanguinetti, of Colombia and Uruguay, respectively, but conversations did not succeed either, owing to Admiral Merino's veto in Chile. A twofold attempt late in Pinochet's rule also fell to pieces.

In our sixteen years of transition, we have not come close to any of these four preceding attempts. The explanation given by those responsible for Chile's foreign policy, especially under President Lagos, was the succession of six governments with which they had to dialogue (first, President Banzer, replaced by Quiroga, owing to his illness; then Sánchez Lozada, followed by Mesa and Rodríguez, and lastly, by Evo Morales). This has hindered continuity and a conjugation of efforts. Another factor is the fact that conversations have been held in private and this is a point we should consider – whether it is convenient to hold private conversations or whether it would be more helpful to have a certain degree of publicity about them and the progress made so as to establish guideposts for the eventual resumption of conversations.

Henceforward we have to be aware of the times and of the complexities of this bilateral relationship and keep on working, while thinking of what the future might hold. In my view, as of 2006, processes should be explored and developed in a twofold setting: 1) multilateral integration, to which I attach extraordinary importance for the adoption of measures conducive to mutual trust, which in turn would allow progress on bilateral issues, and 2) the bilateral issue proper, which the Chilean Foreign Affairs Ministry calls the “Bolivian maritime aspiration.”

In this connection, it is worth thinking in terms of a time horizon of five years. Last year we talked about the Bicentennial time. Bolivia was a real precursor: its rebellion started in 1809, as it had manifested itself very early, preceding by one year the outbreaks that led to the independence of most Latin American countries. But looking forward to 2010 as the emblematic year of the bicentennial of Mexico, Colombia, Argentina, and Chile and the start of the processes leading to the emancipation of other countries of the region, we might take it as a chronological milestone of this effort, which moreover coincides with the beginning of new Administrations in Chile and Bolivia. We should ensure that this will be a fertile time for moving ahead on two fronts: multilateral integration and bilateral negotiations.

As regards South American integration, we have made significant progress under circumstances far better than were those as recently as 2003, for instance. This change is linked to the maturation of this new historical post-Cold War and globalization phase, heralded by the fall of the Berlin Wall in 1989 and the end of the Soviet Union in 1991. The integration process in Latin America, and particularly in South America, has made far more real progress and lost the rhetoric, somewhat utopian character it had since the birth of the Latin American countries. If we had to explain to someone from outside our region what has happened, we should point out that we have had some very bright national builders, fathers of our homelands, who understood that we had to counter the support of the United States of America with a political integration of the South American countries. This was the perception of Bolívar and San Martín, i.e., two of the greatest figures of the continent held this view that found its highest organic expression in the Panama Amphictyonic Congress in 1826, at which it became obvious that such a prospect was not feasible.

The Bolivarian dream, as we call it, became then a utopian construct, the ideal of a political association of South American States that would counterbalance the increasing impact and ascension of the North American hegemony in the northern hemisphere. This gave rise to some significant, generous initiatives that never materialized into a political project, not even today. And yet, we have moved through the 19th and the 20th centuries with this living aspiration shared by the elites and the more progressive groups.

To this first utopian vision of integration, a second one was added in the 20th century, oriented toward economic integration. This led, after World War II, to the idea of a Latin American Common Market, embodied in the thinking of the Economic Commission for Latin America and the Caribbean (Eclac) and in its 1959 document on a Latin American Common Market. We moved from a politically united Latin America to a Latin America economically bound together by productive projects and trade. But similarly to the Bolivarian dream of political union, the project of Raúl Prebisch and the Eclac founders encompassed the entire region, an area that extended from the Rio Bravo in northern Mexico to Tierra del Fuego. Just as the previous project, though, this one did not prosper and became a constantly shifting goal in a distant scenario, which Latin America was not able to reach.

Today's world and the new international system, though, have again raised the integration issue with more urgency and specificity, forcing us to skip stages

and really move forward toward Latin America's integration in the coming years – quite possibly independently from the will of governments.

Today we are faced with a multitude of economic, trade, as well as political agreements that must be interwoven and coordinated. Latin American reality today consists of subregions and large countries rather than a homogeneous space as in the 19th century and first half of the 20th century. The real Latin America of the early 21st century, with its two large countries in the north and in the south – Mexico and Brazil – which are subregions in themselves – and four markedly integrated subregional spaces: Central America, the heterogeneous Caribbean zone, Andean Latin America, and the Southern Cone Latin America, consisting basically of Mercosur, in which Brazil is both a player and an emerging power sufficiently large to handle its foreign policy independently from the decisions of the other area countries. We may thus think in terms of these six players, which maintain numerous understandings amongst themselves. Many free trade treaties and agreements are being signed – be they Economic Complementation Agreements under the Latin American Integration Association (Aladi) or bilateral or multilateral Free Trade Treaties. A graphic presentation of the forms of association and understanding among Latin American countries is quite impressive, as they make up a network of agreements of varying quality, among different parties and about different issues. And yet, this trend has consistently grown in the last fifteen years.

Now, in a world characterized by large regions, Latin America must endeavor to become a region that carries weight in the reshaping of the international system and steadily move in this direction.

These two driving forces – partial agreements and the need to have a more dynamic presence on the international stage – have helped to ensure that progress toward integration is increasingly more consistent. As globalization moves on from phase one – before September 11, 2001 – to phase two, with the United States as the global policeman imbued with a new security doctrine involving unilateral military intervention, accompanied by the neglect of its regional policies, we find ourselves before a vacuum and a nonpolicy on the part of the United States toward Latin America. This makes our countries' association and mutual support even more important.

This scenario has forced us to take more initiatives than before, which has led to a proposal that, despite all limitations and unmet challenges, has taken

form in the Cuzco Agreement of December 2004 and in the establishment of the Community of South American Nations, which is holding meetings and considering the next steps to take.

We know that the process begun in December 2004 is only partially auspicious. It is obvious that Brazil has lost much of the international initiative taken by the Lula Administration, owing to its internal crisis. We also know that old rivalries have come up again within Mercosur, particularly between Brazil and Argentina, and that there are many unsolved problems. Despite all this, though, the integration process is a reality and has the possibility of going forward.

The 2005 Bolivian and Chilean elections will have enormous consequences in 2006 and the first half of 2007, as practically all relevant countries of the region will have new Administrations. There will be elections in Mexico (July 2006), with the possibility of a significant change from the PAN to the PRD, if the polls prove true; in Brazil, where we do not expect a change in its foreign policy of recent years; in Colombia; in Peru; in Nicaragua, whose results can mean a drastic change, should the Sandinists win this new context. In several other countries, including Costa Rica, Haiti, Venezuela, and Ecuador, the scenario is being normalized and updated. Finally, in 2007 Argentina will hold its elections.

This means that we should see the integration process from this perspective, which is not unfavorable. Taking into consideration the more and the less relevant developments we will see in Latin America, it is possible that early in 2007 we will have governments even more favorable to integration than today. If we handle things well, this may mean progress in this matter. This is the current context.

Now, as this is a multifaceted context and not one driven by just one factor, differently from when we were pursuing political or economic integration in the 19th and the 20th centuries, we are in a good position to plan our more immediate moves. When we speak of situating the Bolivia-Chile problems in a broader context, we are speaking of the core of the central part of South America, an area where six countries or part of six countries come together: the Peruvian South, the Chilean extreme North, the Argentine Northwest, the Brazilian Southwest, and Paraguay and Bolivia, the two landlocked countries of the area.

This leads us into another equally interesting but complicated exercise, forcing us to innovate with respect to focus and coordination of tasks. Special

importance must be assigned to the subnational level and the authorities therein. In the post-Cold War world, a country's foreign policy is the sum of national and subnational impulses. It does not depend solely on what is decided in La Paz, Buenos Aires, Brasilia, or Santiago, but is often linked to the agreements and understandings that regional players bring to bear on these countries. Once again, the dynamics are driven by two factors: the countries' national foreign policy and the subnational, paradiplomatic foreign policy implied in many projects. And these are precisely what must be organized in the central part of South America crossed by the Tropic of Cancer and which forms the Santos-Antofagasta Ocean-to-Ocean Corridor.

If we look at the actual integration progress that has emerged from the Cuzco meeting and the encounters of political leaders, public policy administrators, and above all from Heads of State, South American integration is the outcome of three substantial agenda items:

1. Physical integration;
2. Social integration, implying attention to social policies and to South American problems of poverty and inequality; and
3. Energetic integration; and the South American gas pipeline project in particular.

There may be other important aspects to this picture. But if we were to do a rigorous, current description of the integration effort and its priority issues, these three would be the most important.

This means that a first exercise we should engage in if we want dynamically to inject Chilean-Bolivian relations into this context is to see how these three factors can contribute to advancing our bilateral relationship.

In these three fields we may find major, decisive issues to give a thrust to our relations. First, because with each meeting of the border groups we are learning and making progress as regards projects and methodology. Last year, for example, in Salta, I took part in a meeting of the Center-West South America Integration Zone- Zicosur, which had already held eight annual meetings, attended by the heads of regional governments, called governors by the Argentines and intendants by the Chileans. Other participants are heads of municipal governments and civil society representatives, including university presidents,

businessmen, and social leaders. This means that at these meetings the private and the public sectors unite their efforts. This type of dialogue about specific projects is becoming more and more frequent in Latin America.

At the same time, the countries are working on these issues at a more official level through “Border Committees,” thereby reinforcing for foreign offices and governments the issues related to bilateral relations. At these committees we must address the current dilemmas and the main alternatives before our two countries as well as before the other countries of South America’s center region. Looking ahead, we can see that these efforts will determine the extent to which we can play a dynamic role in the 21st century’s economy and in international trade in the Atlantic and the Pacific basins, the two largest oceanic basins in the world. I do believe that as the 21st century progresses, this trend will be reinforced, as it was already consolidated in the last century’s final decades and shows that the Pacific Basin is displacing the old dynamism of the Atlantic basin with respect to the trade performance of productive and technological capabilities. Moreover, it is worth noting in connection with this area, that the countries of South America’s center region have a pressing need to enhance their trade with China, Japan, and India. Although the latter is not on the Pacific, the Indian Ocean can be accessed through the Pacific.

For the region’s larger countries, this challenge takes the form of a pressing demand and for this reason I think it is worth referring briefly to the Brazilian and Argentine projects concerning the Pacific.

In June 2004, President Lula, accompanied by 450 Brazilian entrepreneurs, visited Beijing and sought to establish agreements to obtain a Pacific outlet for Brazilian soybean. Brazil is one of the world’s largest soy producers and has to ship it through Peruvian and Chilean ports to gain in competitiveness and travel time with a view to moving this commodity in coming years.

At the same time, China found a good opportunity not to be affected by uncertain availability and rising prices of raw materials owing to its very demand. Accordingly, it offered to extend credit to Brazil through China’s National Overseas Engineering Corporation-Covec, so as to ensure the supply of Brazilian soy in the medium run and, in turn, deliver infrastructure projects, including the implementation of one of Brazil’s three projects to carry soy produced in the state of Mato Grosso to the Pacific shore – either the alternative Mercosur waterway or one of the two other projects that included railway stretches through

Bolivia by way of Salta to Chilean ports, from where the Brazilian commodity would be shipped to Asia's Pacific seaboard with great advantage to the Brazilian economy and competitiveness. Brazil is willing to consider trading 12 years of soy supply for railway infrastructure without having to make additional public investment that would compromise its constrained budget.

Two months later, President Kirchner visited China, accompanied by 300 entrepreneurs and a large portion of his Cabinet, at the suggestion of President Lula, with whom he had good relations at the time. The Argentine President had the same kind of conversation with the Chinese Government and the Covic authorities, this time about the implementation of another ocean-to-ocean corridor, from Porto Alegre in southern Brazil to the Chilean port of Coquimbo, instead of from Santos do Antofagasta. This project called for the construction of a tunnel in the Agua Negra pass, between Argentina's San Juan and Chile's Coquimbo, which would shorten the length and above all the height of the international route. This route would be passable nearly all year and would provide an outlet for Argentine soy, produced basically in the central provinces, particularly in Santa Fé, to be transported on a straight line to the Pacific and from there to the Chinese market. The Argentine plan would also include an infrastructure project to be implemented by Covic, with the backing of the Chinese banking system, on a design by the Chinese government. Argentina would receive the completed project and repay it with commodities in the coming years. This project also remains open and various Chinese technical missions have been working on-site in San Juan.

I have closely followed the conception and intensification of this other type of experiment. My point is that the idea of specific infrastructure projects in South America's central part has long ceased to be a rhetorical issue. With projects being implemented under the Initiative for Regional Infrastructure Integration in South America-IIRSA and by governments, there might be good chances of budgetary commitment to Bolivia's development. The same could be said in relation to projects backed by international financial institutions such as Eclac and Aladi (currently at the study and prospecting stage), as well as the more concrete work done by the Inter-American Development Bank and the Andean Development Corporation-CAF, which could contribute more decisively with financing to ensure the feasibility of initiatives that are of priority interest to Bolivia and conducive to that country's progress.

The fact is that in the central part of South America there is today an intense infrastructure activity in connection with the ocean-to-ocean corridors and such projects can be multiplied to the benefit of the six countries. There is no doubt that the idea of trains and routes running from Cuiabá in Brazil to the Pacific, through a large extension of Bolivia or through a similar kind of route by way of Argentina, is an important consideration as regards prospects and potentialities for the Bolivian economy and the country's productive development.

I thus believe that this is a positive issue on which the governments could work in closer cooperation, in association with international institutions and organisms, and by cultivating a relationship encompassing both the national and subnational levels, in accordance with the priorities set by the authorities.

Social policies and combating poverty and inequality are an equally important issue I have not addressed here. But I should point out that the territorial focus of projects and resources is a key criterion, as the poverty problems of Latin American countries, including the larger countries, are concentrated in specific areas and, in many cases, are better dealt with through projects implemented jointly by two countries than individually by one country. This applies also to the Chilean situation. The poverty problems in Tarapacá or Antofagasta, regions I and II of Chile's extreme North, would be solved much better in association with Argentina and Bolivia and with the Peruvian South than if we treat them solely as another item on Chile's social agenda. Something similar occurs with the Brazilian Southwest or Argentina's Northwest, zones with great concentration of poverty and inequalities.

Lastly, energy is an issue to be considered, which involves the countries' sensitivity and sovereign decision; but we should not forget the picture presented by a report by the Latin American Energy Organization-Olade two years ago: South America has energetic potentialities that can twice meet the national economies' accumulated peak demand. The basic problems are thus a question of coordination, interconnection, and intelligent use of energetic resources. All South American countries have thus something to contribute to and something to gain, on a fair basis, from the rising international prices on today's energy market. Accordingly, the project of the South American Gas Pipeline starting from Camisea, in Peru, is a significant proposal that should provide an outlet for Bolivian gas as soon as the new government establishes the legal framework for its marketing abroad.

In conclusion, I refer to the bilateral handling of the Bolivian aspiration for an outlet to the Pacific. My view is that if we are capable of signing consistent agreements for the integration of an area of interest to both Chileans and Bolivians (which, as far as we are concerned does not involve the entire Chilean territory but essentially the extreme North), we can also implement these projects. For this we should adopt mutual confidence-building measures and foster better mutual knowledge among those responsible for public policies, so that we can go forward together, without exclusions, in the spirit of the Algarve Declaration we issued on the occasion of the 2000 Ibero-American Summit. In this same spirit we should address the issues specific to our bilateral relations, without excluding the Bolivian aspiration for a serviceable, sovereign seaport on the Pacific. On all these issues we should move forward through proper channels, as a two-engine apparatus that finds in the achievement of complementary interests and in the integration agenda a reason for reinforcing and legitimating our bilateral relations and the agreements we may establish.

In practical terms, a substantial effort should be directed at arriving at a constructive relationship with Peru because, as all seems to indicate, an eventual solution will be in the terms envisaged by the 1929 Treaty and will require Peru's consent, similar to the one sought in 1950 and 1975. The only positive result of the failed 1986 and 1987 attempts, defeated by Chile, was that at those times Peru displayed a far greater degree of flexibility and willingness than it had in previous conversations. We should ensure that such cooperation will be forthcoming for materializing the agreements we may arrive at together.

Furthermore, this work will require sound, consistent agreements similar to a State policy in both Bolivia and Chile. I would discard outright the possibility that a Chilean government could, through mere negotiation, sign an agreement under which it would cede part of its territory. No government in the world would do such a thing. The process I envisage should involve a referendum or parliamentary decision in the two countries, which would sanction the agreements and endow them with the legitimacy and stability that only the citizenry could confer on the solution proposed. Otherwise, it would be virtually impossible to obtain the internal accord the two Congresses could sanction as an international agreement complementary to the 1904 agreement. Only this complex course would confer respectability, stability, and a degree of legitimacy to any agreement the technical teams of Chile and Bolivia may arrive at.

In practical terms, I do not believe this solution would entail too high a cost for Chile, if we consider the advantages of putting an end to a more than one century-old dispute that definitely damages our image in Latin America. Chile has a 4,300-km coastline and the truth is that if the matter should be viewed as “national generosity,” as *The Economist* suggested in an editorial of great impact two years ago, Chileans would be seen as niggard by not favoring such a solution.

The point is that this has to do with the legitimacy of a decision based on the media’s handling of questions pertaining to Chilean-Bolivian relations. When Chilean flags are burnt in La Paz or vitriolic editorials are published in Bolivian papers and immediately reproduced by the Chilean press and at times on television, this generates massive rejection of any solution to Bolivian demands. More nationalistic groups find it very difficult to present their views, which leads to an involution of the attitudes that see in the solution of the conflict with Bolivia something favorable to Chile’s national interest, and reduces the maneuver room of those responsible for seeking a more positive solution. Care and prudence are basic attitudes when considering the agreements.

My view then is that it is necessary to create – through multilateral economic relations – an environment conducive to advancing our bilateral relations to a point where a juridical and institutional solution may be finally found, so as to put ourselves an issue of the past, by solving it early in the 21st century. By working together, we Chileans and Bolivians may cross out from the list of conflicts this issue that is an obstacle to South American solidarity, friendship, and integration and finally achieve lasting peace and friendship. **DEP**

Colombia's strengths

*Fernando Cepeda Ulloa**

Grapppling with the challenges posed by guerrillas, terrorists, armed cartels trafficking in illicit drugs, vigilantes, corruption, profound social inequities and property ownership concentration, Colombia has nevertheless been able to preserve itself as a democratic State with considerable economic and social development. How has this been possible?

This is the question often raised by Enrique Iglesias, former President of the Inter-American Development Bank. In his view, the secret should be unveiled. This is why I decided to convene a group of academics and entrepreneurs to provide answers from different perspectives, based on their own research and experience. The endeavor led to the publication of two volumes totaling thirty-eight chapters.¹ As the first volume is out of print, and the second will not be sold in bookshops, this article sums up the main themes addressed by the various chapters, for wider dissemination.

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¹ *Fortalezas de Colombia I*, Ariel, IADB, 2004, *Fortalezas de Colombia II*, Cuéllar Editores, Cociencias, 2006. There is an English translation of the first volume, sponsored by the IADB. This article reflects in large measure the two lectures given by the author as an introduction to the two volumes on Colombia's Strengths.

The two volumes focus on the historical development of a country that like many others has earnestly endeavored to establish institutions, shape a national identity, protect minorities, promote women, and introduce, reinforce, and consolidate democratic procedures that are continually reformulated. Riddled with adversity and shortcomings, Colombian society has striven after economic growth and for distributing this growth among its different segments. There has been progress, backslides, recovery and, there is no denying, injustices and deep-rooted inequities.

And yet Colombia has strengths that range from creativity in different fields of knowledge to the accomplishments of Colombians in sports and the originality of its music, in addition to the country's long-standing commitment to public education, the persistence and importance of the regional press, and the civilized and civilizing answers to violence: the public libraries network, the significant examples of civil resistance against violence, and the public forces' contribution to the strengthening of our democratic institutions.

A brief overview of the authors' valuable, original contributions will familiarize readers with thoughts and data that should be better known by all. As portrayed in the two volumes, Colombia is much more attractive and interesting, as well as deserving of just admiration than the picture usually presented. True, the country is not free of major flaws, injustices, and inequities. But these intellectual contributions offer us a more complete picture, richer in nuances. Accordingly, more positive, noteworthy aspects of Colombian reality are brought into greater relief than in customary presentations of our historical development.

Of course, the subject cannot be dealt with in its full dimension here, but each author calls attention to factors that have not received the degree of consideration they deserve for a better understanding of our reality. The truth is that Colombia has been able to maintain democratic governance despite the notorious frailties of the State, the Government, civil society, and the citizenry.

The intent is to show that Colombia has – with both successes and failures – faced up to the critical situation in which it has lived, which has been particularly acute in the last quarter of a century. This has been possible owing to traditions and institutions that have not only survived the severe challenge of many threats but also transformed and strengthened themselves in the process through democratic reforms as answer to the crisis.

Despite the controversy that still persists about its meaning and impact, the best example of this was the drafting and implementation of the 1991 Constitution. The product of a deep crisis, it was also the result of an extensive self-criticism process, determination to change, and popular participation (Cepeda, 2003).²

Its drafting had the participation of the Executive, the Judiciary, civil society in its various manifestations, and several former guerrilla groups that had reintegrated themselves into civil society and availed themselves of this opportunity to participate in the conception of new institutions. The Constitution's implementation and development, which have not been free of backslides, flaws, and inconsistencies, have been characterized by vigorous debate and broad participation. Although it was the fruit of consensus, the 1991 Constitution elicits no unanimity. It still has some opponents, some of them implacable.

As I expressed at the First Congress on Latin American Political Thinking (June 29-July 2, 1983), the 1991 Constitution was a response to what I then called the challenge of the future. It established an institutional framework combining efficiency and political responsibility, participation and institutionalism. It put in place a different political setup incorporating new political tendencies and established new rules of the game to allow broader participation. It sought to open up the political process to a harsher but nonviolent game. It attempted a prescription for doing away with armed conflict without precluding but rather strengthening a pluralist political life. In brief, it maximized consensus at the same time it allowed a civilized, pluralist political conflict.

This explains why to this day it is the new political forces, such as the *Polo Democrático Independiente*, that defend the 1991 Constitution and oppose attempts to deform it. Other sectors abominate it. My view is that the precarious legislative development accorded it in subsequent years has hampered the 1991 Constitution's full implementation. Some adjustments are needed. The Constitutional Court has been the guardian of its spirit and enforcement (Cepeda, 1984).³

² Cepeda, Fernando. *Colombia: The Governability Crisis*, in Dominguez, Jorge I. and Shifter, Michael, *Constructing Democratic Governance in Latin America*, second edition, The Johns Hopkins University Press, Baltimore, 2003. p. 193 ff.

³ Cepeda, Fernando. *Pensamiento Político Colombiano Contemporáneo*. in *Congreso de la República*, in *Primer Congreso del Pensamiento Político Latinoamericano*, Tomo II, Volumen V, Caracas, 1984. pp. 561. See also Cepeda 2003.

The civil eclectic tradition

Civil tradition in Colombia? In its first century as an independent country did not Colombia experience nine general wars and 54 local revolutions? Malcolm Deas, the distinguished Oxford historian, addresses these questions in a work that in a highly synthetic form follows the course of our history from colonial times to the present. For him, one of Colombia's unique features is the absence of wars with neighbors or imperialist interventions and this contributes to the persistent internal conflicts and the historical weakness of the public forces. He unhesitatingly asserts that the country has indeed had a civil tradition and that this is a strength deserving of a chapter in any book. But Deas sounds a strong caveat as to how, when, and where this civil tradition has failed and proved incomplete. The predominance of civilians does not necessarily imply tolerance, he says. And here lies the problem that has plagued Colombia. After reviewing nearly two centuries of history, Malcom Deas states that a true civilian has to set limits to his hatreds and ambitions so as to preserve civility. This has not always been the case. To this is added another shortcoming of civilians, namely, their shortsightedness in relation to the law and order structure that the country has lacked. Deas believes that some civilians are more civil than others in a culture in which the military has been politically and socially subordinate, and adds the revealing observation that tolerance is a virtue less common among civilian politicians than among the military. In his view, the most dangerous aspect of the Colombian system was the sectarian politicization of the people, which reached a depth and breath seemingly unrivalled in Latin America. The obvious conclusion is that the problem was sectarianism, not militarism.

On the basis of his extensive, enviable knowledge of the history of Colombia and of other countries of the region, Professor Deas also comments on Colombian eclecticism. In his view, the eagerness to have access to a broad culture has been a leading thread in the national cultural history. He mentions a letter from general Santander in which the general stresses that he and his correspondent were in Cundinamarca and not in Dinamarca (Spanish for Denmark) and questions the usefulness of reading the economists of the time, of Filangieri, Say, Adam Smith. His tone seemed to express pragmatism, doubt rather than rejection, as suggested by his mention of an Italian, a Frenchman, and an Englishman. Deas saw in this an admirable example of eclecticism and viewed it as a strength, which may often lead to wisdom. This intellectual eclecticism as regards external influences on national thinking can be seen in

many fields is pointed out by Deas, who seeks to show how cultural geography contributes to this characteristic, establishing a comparison with other countries. At some point in his work, Deas concludes that Colombia is a country without theories, without official assumptions about its being, which are more noticeable in Mexico.

The elections tradition

Since independence, there has been an intensive, prolonged elections schedule, which could be a sufficient indicator of the central role played by elections in the shaping of power in Colombia. This is historian Eduardo Posada Carbo's keen observation. According to him, this is a "long-standing, persistent" tradition. The system has been competitive from the very origins of the republic and this has given rise to various political organizations vying for power. The course of history leaves no doubt about this. The peaceful transfer of power is part of Colombia's democratic history. Male voting was adopted early on, in 1853. Election rules are inclusive. Inclusion, however, has had ups and downs; it has followed a bumpy course. In 1936, all restrictions to male voting were lifted. In 1957, women's voting was introduced, although it had been temporarily adopted in the Velez Province in 1853. Third parties have challenged the two-party system and there have been conquests and failures in this connection. In Posada Carbon's view, a culture of electoral litigation exists.

The freedom of expression tradition

Historian Jorge Orlando Melo says that since the first Constitution – the 1811 Cundinamarca Constitution – freedom of the press has been recognized as one of the citizen's rights, although within some limits pertaining to dogma and obscene issues. Throughout Colombian history, according to Melo, efforts by different governments to curb criticism or to bring the press under control have consistently failed. He also shows how in recent years major, more dramatic efforts to restrict the freedom of the media come from social groups and not from the Government, and points out that the true tragedy suffered by the Colombian press results from violence perpetrated against journalists by social groups and not by governmental agents – drug cartels, guerrillas, paramilitary groups, and other forms of criminal organizations. In general, though, freedom

of expression has not differed much from what happens in European democracies.

The party tradition

Colombian parties do not stand out as the most disciplined in the region. They are the product of one of the most individualistic systems in the world. However, inter- and intra-party competition has not hampered legislative output. Congress has played a major role in maintaining democratic institutions and is one of the most institutionalized in the region. Moreover, together with the parties at the national level, it constitutes one of the most important institutional strengths – the civilian essence and the tradition of democratic institutions. Such is the conclusion of Mónica Pachón in her comparative study of political parties and the Congress.

Civil society

Colombian civil society has played a determinant role at key moments of our history. Fernando Carrillo describes a paradigmatic case. A public order crisis experienced by Colombia owing to narcoterrorism was given a political solution – who would have believed it – through popular participation encouraged by an *ad hoc* student movement in a country where student federations had lost significance. Carrillo's work shows how formidable obstacles, including legal ones, were overcome for arriving at a legal solution to the crisis. This political process fits into the 1989-1991 popular mobilization phenomena that brought down the Soviet regime. In Colombia, this imaginative student movement impelled by a generational spirit of change brought down the wall raised by Article 13 of the 1957 Referendum as it permanently prohibited the realization of a referendum. Not even President Barco, whose initiative had the support of 90 percent of public opinion, was able to overturn it. However, President Barco's attempt set an important precedent for this generational movement that sought to promote new political institutions.

The juridical tradition

If something that, notwithstanding shortcomings and occasional attitudes that might suggest the opposite, reveals the Colombians' attachment to the rule of law is the "juridical review", known among us as the control of constitutionality.

This becomes quite clear in the scholarly work of Justice Manuel José Cepeda, which offers an overview of the practice and development of this juridical guarantee in Colombia.

Suffice it to cite its major conclusions about the role of the Constitutional Court in ensuring the supremacy of the 1991 Constitution:

- The Court has had a substantial role in strengthening the Rule of Law and in the transformation of the juridical system as a whole;
- The Court has had a noticeable impact on the political field. It has helped change social conflicts into constitutional problems and thus to the peaceful solution of conflicts within society;
- The most significant constitutional discussions in recent times have been conducted by the Court, particularly in four areas:
 - Multiculturalism and the right to collective difference;
 - Demand for social rights;
 - Protection of the weaker party in the application of fundamental rights in private relations; and
 - Affirmation of fundamental rights.

Justice Cepeda concludes by saying that Colombia has enjoyed a centuries-old, uninterrupted tradition of juridical defense of the Constitution's primacy. He does not gloss over periods when this power was timidly exercised. Nor does he pass over the fact that there have been court decisions aimed more at legitimating power than at controlling or limiting it. In his view, however, the essential thing is that for a whole century constitutional control has been exercised with independence, in a higher or lesser degree according to the times. He also thinks that the 20th century shows an ascendant constitutionalism and that constitutional control, formerly focused on solving the conflict among government branches, has become a guarantee of the effectiveness of constitutional rights and has thereby helped maintain democracy and the peaceful solution of conflicts.

Fernando Carrillo shows the new economic model envisaged by the Constitution, whose Article 13 sets the cardinal principle of equality and provides the basis for major as well as controversial jurisprudence cases. He also shows how the Constitution obliges the State to assign priority to public expenditure in

the social area as another expression of the social Rule of Law that permeates the new statute.

Carrillo says that one of the Constitution's strengths is the fact that it has added public services to the State's social purposes. The definition of the control bodies (the Public Prosecutor's Office, the Attorney-General's Office, the Public Defender's Office, the National Comptroller's Office), as independent, autonomous bodies. He further observes that to be effective these institutions must function as a "network of relatively independent powers." He stresses the meaning and import of the Constitutional Court and describes the mechanisms adopted to rationalize the functioning of the Executive and the strengthening of the Legislative. According to Carrillo it is very easy to demonstrate how the major achievements and strengths of the 1991 Colombian Constitution can be proven by those that used to have no voice or rights, as they were excluded from the system and marginalized. Innovative instruments adopted in Colombia are the expression of a modern social rule of law.

The Colombian ethnic and racial minorities, particularly since the 1991 Constitution, have been a valuable, essential component of Colombia's nationhood. Psychologist Mala Htun makes a significant contribution to the understanding of these minorities' position throughout our history and today. She raises intriguing questions about the unequal treatment they have been accorded and attempts to answer them. She points out the weaknesses in public policies aimed at these minorities as well as the strengths Colombia could draw from better oriented policies. Mala Htun brings her work to a close by saying that "defending the rights of citizens that are marginalized and underprivileged is not incumbent only upon the legislators that represent the minorities; it is an ethical imperative that obligates all the members of the political society."

Mala Htun points out that in no other country have ethnical and racial groups been more successful in achieving representation in Congress. And she raises the question: Why have the indigenous groups fared better than blacks? She recognizes the differences between the two groups and the different solutions they demanded. She adds that it is easier for the government to grant rights to smaller groups. In her view, political reforms that improve the minorities' representation may be harmful to the country as a whole.

Colombian foreign policy is also informed by a long-standing legal tradition and is "based on the defense of international law," as Rodrigo Pardo

writes. In his long article, Pardo says that “another major thread of foreign policy is the concern that relations with the rest of the world should strengthen the democratic system”. The weak Colombian State has not looked for reinforcement in police forces. It has sought international alliances capable of helping it to face its great enemies: communism in the sixties and seventies; the drug problem in the eighties and nineties; and terrorism in the 21st century. Colombia has favored the peaceful solution of conflicts pursuant to international law. The adherence to extradition of powerful, criminal mafia enemies indicates how, in the midst of upheavals and challenges, it has adhered to law and to compliance with its international commitments.

In view of the preceding, no one should be surprised at Pardo's conclusion that “the United States has been Colombian foreign policy's vertebral column.” The reason for this is that the three major historic threats to Colombian democracy – communism, drugs, and terrorism – have been major or rather fundamental lineaments of the foreign policy of the United States.

The environment

Various studies point out that the Colombian State's capacity to protect the environment as one of the greatest in Latin America and in the Caribbean, a view emphatically expressed by Manuel Rodríguez Becerra. In the nineties, according to him, Colombian reinforced its environmental institutions and policies. One can hardly grasp the fact that Colombia ranks 36th among 122 representative countries for its economic and environmental importance. Colombia ranks second among the 12 countries with the greatest biological diversity. And yet, as Rodríguez asserts, the progress achieved has not been sufficient to reverse the inertial trends of destruction of the natural assets, owing in large measure to population growth and to the prevailing development models. In addition, the armed conflict sets limits and poses unique challenges to environmental protection.

Economic and social development

Colombia was a singular case in Latin America with respect to economic development in the eighties. It was in this period, known as “the lost decade,” that Colombia experienced the highest growth rate as compared with the other

Latin American countries. Such positive indicators are brought into focus by Carlos Caballero and can be thus summed up: “the Colombian economy experienced sustained growth at an average 4.5 percent a year between the thirties and the close of the 20th century.”

Colombia shares with Brazil and Argentina the reputation of having the largest number of competent professionals in the higher business echelons. This is so much so, that the country has become an exporter of qualified human resources. Health coverage rose from 23 percent to 55 percent of the population in 2002, owing to Law 100 of 1993. Nevertheless, as Caballero points out, there are shortcomings in control and vigilance as well as limitations to the system’s financial sustainability. Accelerated urbanization (39 percent of urban population in 1951 as compared with 72 percent in 2002) has put strong pressure on the demand for housing and the deficit of housing units is estimated at two million. Data show that 3,228,751 urban families are not homeowners. The Uribe administration’s “Housing of Social Interest Program” seeks to meet the housing demand, not without difficulty.

The tendency toward poverty reduction, as Caballero explains, points to continuing improvement in the long run, despite a marked setback caused by the economic crisis in the late nineties. Between 1980 and the mid-nineties there was remarkable progress, but by 1999, indicators had fallen to 1988 levels, owing to the economy’s contraction and to higher unemployment rates. New studies lead Caballero to believe in promising expectations. For example, the percentage of families living in poverty and in extreme poverty declined between 1973 and 2003, both in urban and in rural areas and between 1993 and 2003 the quality of life index improved countrywide.

As Caballero puts it, “an economy that has had the capacity to grow and generate social progress with stability has the strength to face the challenges of the coming years.” With greater reason this will come to pass if Colombia overcomes the various manifestations of violence and appropriately integrates itself into the international context.

This assessment should be complemented by two cases of entrepreneurial organization. One is described by Gabriel Silva, the general manager of Colombia’s National Coffee Growers Federation, who shows how the coffee sector was an engine of growth and of social, economic, political, and institutional development, as well as a regional integration factor.

It is a well-known fact that coffee used to be Colombia's main export. In 1925 it accounted for about 75 percent of total exports. In the eighties it still accounted for over 40 percent. Today, this percentage is down to only 7 percent, as a result of diversification. The important thing to stress is the coffee sector's capacity to generate an institutional environment that, as the title of Gabriel Silva's essay indicates, is a model of equality and stability in Colombia's rural sector. "In this institutional quality of the coffee sector lies one of the country's greatest strengths (...) the Coffee Growers Federation is an organization that had the capacity to take advantage of its private, democratic, and participative nature to associate with the State for attaining collective welfare levels which otherwise would not have been possible (...)," as Silva's concludes. He does not hesitate in affirming that coffee is the product that had the greatest distributive impact in rural areas, owing to its economy based on small and medium-size producers, with higher levels of civic interaction, political participation, and quality of life than the rest of Colombia's agricultural sector and other comparable coffee economies. The coffee growers' model of institutional, political, and social organization deserves greater attention even on the part of Colombians, as it may serve as a model for many major productive projects likely to contribute to the post-conflict era that has already started.

The second model is provided by a more recent organization devoted to the exploitation of the African oil palm. Entrepreneur Rubén Darío Lizarralde shows how peasants, State, entrepreneurs, and bankers can establish effective alliances that lead to coexistence and peace as well as productivity and competitiveness. This is the noteworthy, original experience of *Indupalma*, a project implemented in a conflict zone, whose innovative aspect is not so much the distribution of the sparse existing wealth but the generation of new wealth and its equitable distribution. This peace and development alliance is tantamount to a private-sector implemented agrarian reform, which has made 300 new landowners, given rise to oil palm crops, and provided employment for 300 new workers, all of them imbued with an entrepreneurial spirit. Social equity has been created and a sustainable productive environment has been established in an area where the climate of violence was not conducive to the communities' integration.

This model can be replicated in other Colombian zones and for other crops. It points to the possibility of new productive projects that would open attractive opportunities in the post conflict era Colombia is already experiencing.

There are opportunities for both national and foreign investment, as well as for international cooperation, as 70 percent of Colombia's farming land is not in production. As Rubén Darío Lizarralde says, sustainable economic development axes could be created in the rural zone, with economy of scale and competitive production, through the promotion of crops such as oil palm, cocoa, rubber, coffee, timber, and banana and other fruit crops. The management and equality models are visible and have proven successful.

The entrepreneurs' role

Carlos Dávila and Roberto Gutiérrez address the role of entrepreneurs and their significance in our history. Dávila presents a historical view of their significance, stating that they are neither heroes nor villains. His starting point is that entrepreneurial history is part of society's history. He revises the notion of Colombia as but a coffee-producing country, pointing out that there was remarkable entrepreneurial activity before coffee. He also opposes the theory that sees the entrepreneurial spirit as virtue nearly exclusive to the Antioquia province and states that one trait of Colombian entrepreneurship is its marked regional basis and identity. He also focuses on the major role played by Syrian-Lebanese immigrants. Dávila then points to other distinctive characteristics of Colombian entrepreneurship through the 150 years of its history, which can be thus summarized: a high degree of diversification – “don't put all your eggs in one basket;” close relations with politics and the State; few immigrants but some notable entrepreneurs among them; and the family's importance and persistence as an entrepreneurial agent.

As an answer to the question that gave rise to the two volumes about Colombia's strengths, Dávila recalls “that Colombia's economic performance stands out in the Latin American context for the prudential control of the economy on the part of a group of well-qualified Colombian entrepreneurs and technocrats who throughout the 20th century prevented hyperinflation, serious fiscal deficits, and excessive external indebtedness.” He alludes to some behaviors he classifies as “juggling between the legal and the illegal,” a ballast that affects the rules of the game. He further stresses the entrepreneurs' tenacity in adapting to the internal armed conflict conditions and point to the “formation of new entrepreneurial sectors of different origins, which warrant speaking today of a

entrepreneurial middle class that has sprung up with force in many economic sectors and practically in every region of the country.”

Roberto Gutiérrez and Enrique Navarro show the progress entrepreneurs have achieved in devising new approaches to alleviating poverty and inequality. They point to the Colombian private sector's contribution by both profit-oriented and nonprofit entities. After explaining the modern concept of a social enterprise, they present four examples to show the factors that contributed to their consolidation and the results achieved. They start with the Social Foundation established in 1911, stressing that this foundation owns enterprises and not the opposite and that its reason of being is “to change the structural causes of poverty in Colombia.” Although the authors do not dwell on the detailed characteristics of this extremely interesting institution, they adduce four experiences: *Profamilia*, a nonprofit organization, devoted to sexual and reproductive health; *Finamérica*, a commercial enterprise engaged in micro credit; *La Equidad Seguros*, an insurance cooperative; and *Colsubsidio*, a nonprofit family subsidizing organization engaged in health, education, leisure, social marketing, credit, and housing programs. They show that “the structuring of these organizations as social enterprises has managed to change Colombian society.”

The role played by entrepreneurs, both male and female, in the construction of a more equitable society in Colombia would be incomplete without reference to their philanthropic activity. Unfortunately, entrepreneurs seem to have taken too seriously the gospel dictate not to let one's right hand know what the left hand does in respect of generosity. There is thus no proper record of the number of foundations, their resources, and history. Beatriz Castro has worked on this issue and despite scarce research available she makes an evaluation of this activity that harks back to colonial times.

Colombia has more than 5,400 NGOs whose financing is as follows: 39.5 percent comes from their own resources; 23.3 percent from government funds; and 24 percent from donations. Colombia stands out for the fact that most NGO funds come from corporations and entrepreneurial foundations – 14.9 percent as compared with 10.4 percent for Latin America. These are some figures presented by Beatriz Castro. She points out that in recent years, as the Colombian conflict intensified, so did the work of philanthropic organizations, particularly those of a humanitarian nature. There are also noteworthy generous gestures by figures such as the painter Fernando Botero, who has made several donations to

the Antioquia Museum, the National Museum, and the Bank of the Republic. However, this is a matter the entrepreneurial community should bring into relief, as so much discretion does not help, particularly when reviews often fail to do justice to this sector.

Cultural diversity and the emergence of a new accountability culture

Historian Gustavo Bell focuses on another Colombian paradox: the persistence and wealth of different cultural manifestations that range from folk music to the theater and reaching to the extraordinary mass events which express the Colombians' poetic sensibility, despite the harsh reality reflected in so many expressions of violence.

Bell says that Colombians have never faltered in their endeavor to construct a gentler, more cultivated country, as witness the varied cultural agenda in the capital as well as in the different regions. Some random examples of this activity corroborate this view – the Manizales and Bogotá festivals have become a cultural feast; the new version of the Manizales festival, with theatrical groups from five continents has been attended by over 2.5 million spectators. The International Poetry Festival has had the participation of poets of over 70 countries from all continents. This festival's next edition will be attended by 72 poets from 52 countries. With respect to reading, figures are impressive: in 2000 some five million people visited the various public libraries; this number doubled in 2003. Bogotá's Luis Angel Arango public library is the world's most visited public library and maintains the most diversified and extensive home page in Spanish on the Internet.

With respect to music, the *vallenato* has acquired national status, with international repercussions. García Márquez, the Colombian Nobel prize winner for literature says that his famous work *One Hundred Years of Solitude* is a written *vallenato* and that this music style was the source of inspiration for his writing. The Colombian musicians Carlos Vives, Shakira, Juanes, among others, have won international recognition, which is expressed in coveted international awards as well as in million sales. The same can be said of dance and other genders that begin to cross national boundaries.

Bell also finds that the starting point for all state cultural support policy is the diversity of manifestations in the different regions and relates it to one of the new 1991 Constitution's fundamental principles—recognition and protection of the Colombian nation's ethnic diversity, although this diversity was already a consolidated fact. Bell concludes by saying that Colombia is just now discovering itself in its cultural wealth, disturbed as it may be by a violent context. Adverse as this environment may seem, cultural manifestations do enjoy a healthy vigor.

Historian Adolfo Meisel squarely asserts in the first paragraph of his essay that “the existence of different, clearly differentiated economic regions is one of Colombia's strengths today. On the one hand, these regions have imparted a more fluid dynamics to interregional relations than a bipolar division would have done. Another advantage is that crises that affect one zone's economic base do not necessarily have major effects on the whole economy. Moreover, this has allowed the regional economic elites to have a multiplicity of interests, thereby contributing to the existence of intertwined segments in the pressure groups (...), which helps them to moderate the positions they defend.” According to Meisel, *caudillismo* took root in Colombia precisely because of this physical fragmentation. He believes that “the regions' economic strength is one of Colombia's enduring strengths.”

Patricia Londoño Vega has undertaken a thorough historical research that unveils the characteristics of Antioquian society, which so many others have attempted to identify. In Putnam's manner, she shows an intricate network of organizations, associations, and societies that has woven the complex social fabric that has made Antioquia one of Colombia's most vigorous, enterprising regions. To the surprise of many, the author shows how the Catholic religion was a modernizing factor in that society. She concludes by pointing out how these socio-historical antecedents could explain this Colombian region's capacity not only to endure the onslaught of guerrillas, paramilitary groups, and criminal cartels but also to recover, as witness its current economic, political, social, and cultural indicators. She writes that “Its past, compact sociability, and relatively smooth ties binding the private sector, the government, and an institution as important as the Catholic Church in that period (...) may have played a larger role than is usually recognized in the region's response to the challenges posed by recent difficulties. It may be time to do them justice: worse levels of social disintegration might have resulted from a different history.”

The Antioquia case clearly shows the role of associations, the high regard for education, the women's role, and the influence of European religious orders.

The traditions already reviewed and others that have not been considered help explain the emergence of a modern, broader political understanding of citizenship, a keener civic spirit, a demand for accountability on the part of the authorities, and the pursuit of peaceful solution of conflicts. This is the view expressed by David Spencer, for whom Colombia's cultural changes should accompany structural changes, if the system is to function. Spencer asserts that in Latin America Colombia provides the most extraordinary example of the emergence of a new political culture that may contribute to a better functioning of its democratic structure of such long-standing tradition.

Spencer describes the emergence of this phenomenon and compares it with what occurs in other countries and regions. He ascribes this situation to the possibilities open by the 1991 Constitution. For him, the former M-19 combatants rendered a valuable contribution when they assumed municipal governments and implemented the vision they had helped introduce into the new Constitution. In his view, the most successful of them were Antonio Navarro Wolf, as mayor of Pasto, and Rosenberg Pabón, as mayor of Yumbo, near Cali. Both mayors rendered accounts before the citizens, gave them power, and significantly contributed to the improvement of their communities. Also, independent politicians, such as Antanas Mockus, a son of Lithuanian immigrants and former President of Colombia's National University, who made integrity, honesty, and austerity as well as the construction of citizenship into a genuine concern of all citizens. For Spencer, Enrique Peñalosa, another successful Bogotá mayor, and Alvaro Uribe are continuators of these efforts, who are creating a new political culture. This is a remarkable, unprecedented achievement in a country that has lived in the throes of violence that has plagued Colombia in the last lusters.

The theoretical principles and the mechanisms used to make possible the construction of a new citizenship in Bogotá's case are expounded by John Sudarsky, a pioneer among us of academic works dealing with social capital development. He adduces specific examples: the water conservation campaign; respect for the law and its universal application; respect for life; appreciative public information, i.e., information that acknowledges the progress achieved and not so much the shortcomings. According to him, key phrases have served for the collective codification of these issues: "building on the already built,"

“don’t ask in private that which cannot be asked in public,” etc. These battles for a new citizenship require more appreciative communication and less “failure mania.”

In 1940, three U.S. geography teachers claimed that Bogotá was the most inaccessible capital in the world. In 1980, the French newspaper *Le Monde* published a book profiling a dozen cities. The chapter on the Colombian capital was titled *Bogotá: La Peur* (Bogotá: The fear). At about the same time, a French woman architect published a short novel followed by an essay titled *Bogotá: Jungle*. She described a sordid world of urchins, victims of drugs. Julio Dávila recalls these assertions and compares them with those published decades later by a *The New York Times* correspondent saying that Bogotá had never been better. A year later, *The Washington Post* would qualify Bogotá as a “pleasant anomaly” on a continent “whose capital cities are often horror stories.” All this serves Dávila as a background for explaining Bogotá’s transformation.

The author, a London University professor, wonders about what had happened in the Colombian capital to occasion such a radical turnabout in the perception of its citizens and occasional visitors. What triggered the changes that have recently earned Bogotá international prizes and elicited such favorable comments from experts? Dávila’s essay seeks to go further than circumstantial assessments. Without neglecting the role played by successive municipal administrations, he shows that this transformation is grounded on a series of profound social and physical changes that have occurred since previous decades. He points out that there were national but principally local institutional foundations which municipal governments knew how to bank on in innovative ways, with the citizenry’s crucial backing. This perspective reinforces Spencer’s and Sudarsky’s conclusions and does justice to other aspects of the process.

Women’s promotion

There is increasing recognition of the undeniable progress Colombia has made in promoting women. Particularly relevant has been the work done by The Women’s Leadership Conference of the Americas, especially as regards women’s access to government and public administration positions.

The chapter written by María Consuelo Cárdenas focuses principally on the role women now play in the Colombian entrepreneurial sector and in particular

on how they are harmonizing this work with other spheres of their vital activity. For Cárdenas this behavior fits what French philosopher Gilles Lipovetsky calls “the third woman.” She says that Colombia is the country with the largest percentage of women executives in Latin America. They occupy this position owing to their professional training and excellent performance. Colombia is undeniably an exemplary country in this respect. A particularity brought into relief by the author is the rejection of an alienating work ethic that loses sight of other personal and family values. With their practices in daily life, she says, our female executives are questioning the “work ethic.” Many of them are willing to “resign and quit working” if this is the only way to protect their own lives and family relations. They thus question work’s absolute importance, its schedule, and demands. One of our country’s strengths, according to Cárdenas, is the balanced leadership style Colombian women are establishing and the equilibrium they are striking between home and job.

Answers to some threats to democratic governance

Ricardo Santamaría describes the characteristics of the expressions of violence Colombia has endured and shows how in the course of seven administrations (since 1981) government and society have kept an open attitude for reconciliation, a generosity trait. He explains how under the Barco and the Gaviria administrations several insurgent groups (Ml-19, *Quintín Lame*, EPL, etc.) reintegrated themselves into civil life and into the political struggle, and the difficulties that have hampered negotiated political solutions with the FARC, the ELN, and the *Autodefensas*. He points out how the illicit drugs business catapulted into power illegal armed groups and exacerbated other problems. Then he describes the most recent peace processes and suggests what may lie ahead. “What we Colombians know is that never, no matter how great the challenge, terrorism will be able to overcome society and its institutions (...) and we also know that the peace processes in Colombia have been the best learning experience for democracy. They have heightened tolerance and expanded the political space. Those who have participated in them have demonstrated that the force of their ideas is superior to their weapons. Thus, what Colombian society has done has been the deepening of democracy for the construction of peace and in constructing peace it has found the way to go on improving democracy.”

The Spanish analyst Román Ortiz, who lived in Colombia in 2003-2004, makes a careful personal reflection about the factors that converted Colombia into a “problem country” in the nineties. He does a comparison with the other Latin American countries, particularly with the Andean countries. In his view, Colombia's internal security problems are associated with advanced but incomplete modernization processes.

The nineties, according to him, were the period when the “crisis reached its peak,” which was followed by a recovery process. He explains in detail how the illegal armed groups gained strength. In essence, this happened through the internalization of their financing, the type of weaponry they obtained, and the advisory assistance they received from international illegal groups, etc. Ortiz also examines how violence acquired greater visibility and how this circumstance affected national life and foreign relations. The modernization process that encompassed constitutional, institutional, commercial, and financial aspects led to a transition that helped heighten the perception of instability. “The consolidation of the new constitutional arrangement and the gradual completion of the administrative decentralization process reinstated the stability of the state apparatus and made possible the efficient, more orderly functioning of bureaucracy.” These circumstances, coupled with the reinforcement of security instruments, gave rise to a virtuous circle that has translated into improvement in public order and in the citizens' daily life.

Ortiz concludes by saying that the Uribe administration “soon achieved results,” so much so that “Colombia could become a strategic pillar” for the rest of the region. This is not guaranteed and depends on other factors

Civil resistance

It is common knowledge that Colombia has experienced a protracted calvary. I do not think any other Latin American country has faced greater adversity; the events of the last forty years are a real horror history. The purpose of the various chapters of *Colombia's Strengths I and II* was precisely to show how the country has surmounted this terrible happening and to point out the traditions, institutions, and the political, economic, and social facts that have sustained our democracy and permitted considerable economic and social development. The chapter by Juanita León is truly remarkable. Based on careful research she did not so much in libraries as in the very battlefields, she has published works on

the subject, which have served as the source for the chapter titled *Civilian resistance to illegal armed groups*.

Juanita León transmits a feeling of all the courage and heroism displayed by many Colombian communities. It could be said that Colombians' behavior was equated with civil resistance. Otherwise, one could not understand why the pace of work, entrepreneurial and artistic creativity, and the drive shown by Colombians at all times did not flag, despite more than 25,000 kidnappings and countless genocides, assassinations, and grotesque cases of abuse in violation of human rights and the most elementary tenets of Humanitarian International Law. Juanita León shows this in a masterly fashion as she opens her chapter by recalling the astonishing conclusion of the World Happiness Barometer, a project carried out by Rotterdam's Erasmus University, which measures how satisfied people in several parts of the world are with their life: Colombians are the happiest people in the world. "Some – writes Juanita León – interpret this attitude as painful, crude indifference toward the suffering of so many Colombians that have fallen victims of the war. It is possible that this may be true in some cases. But I am convinced that being happy despite the armed conflict is the Colombian's main form of resistance."

Conclusion

It is impossible to fit into a brief text the content of two works totaling nearly one thousand pages. I believe, though, that the original purpose has been achieved, i.e., explaining the factors that have contributed to the preservation of Colombian democracy and the achievement of sustained growth rates despite extremely serious and persistent threats to institutional life. So as not to overburden the text, significant elements have been left out, such as artistic, scientific, and musical creativity; the role traditionally played by the Colombians' love for libraries, education, museums, and sports, which are also strengths that help boost self-esteem. It could be said that it is this array of virtues that is revitalizing and refreshing Colombian society and instilling in it the impetus for achieving the remarkable progress indicators that have led to President Uribe's prompt reelection – a highly significant, unprecedented political fact in our history. There is no doubt that Colombia's strengths have once again performed the task of setting the country on the right path. **DEP**

Version: João Coelho.

Foreign policy and democratic and human security

*Diego Ribadeneira Espinosa**

It is imperative for the Ecuadorian State, as well as for all sectors of its society, to define a national policy in the field of international relations. Such a policy must reach beyond the limits of governments, ideologies, power groups and political or party interests, and should be based on a nationwide consultation process and stem from a consensus by all sectors of the country.

The problems of development; the distressing situation of poverty, dereliction and lack of attention that afflict wide sectors of the population; the growing instability in the northern border; the persistent political instability; the severe problems of governance; corruption; the loss of values in our society, and in the external front the existing state of regional security, all seriously jeopardize Ecuador's security as well as that of many other countries in the region. This situation requires the urgent definition of a coherent, consensual State policy focussed on the higher national interests.

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In order to be effective, this policy must be democratic, and be accomplished with the active and widest participation of civil society.

The serious problems generated by human vulnerability in recent years make it necessary to engineer a foreign policy for the 21st century, with special emphasis on the concepts of human security, citizen security and their consequence, democratic security.

The concept of security has evolved rapidly in the last few years, and should progress decisively from the exclusive stress on questions of State and territorial security to a much higher emphasis on the security of the population.

Democratic security is intimately linked to the effectiveness of the institutions, which must necessarily serve the people. Human beings should be considered as the ultimate objective of the State and of democratic institutions. According to this concept, democratic security should also serve as a bridge between internal and external security.

In order to provide focus to our discussion, it is appropriate to note that the first document where the term “human security” was coined is the Report on Human Development of the United Nations Development Program (Undp). This concept was reinforced during the Millenium Summit of the United Nations.

While the idea of security in the international field is usually limited to the realm of the State, the concepts of human security, citizen security and their consequence, democratic security, have become increasingly important in recent times as a result of human vulnerability. Such a modern view has filled a gap in the policies of States and in international cooperation.

If one concurs with this reasoning, it is possible to agree that a concept of international security for our time should be based on the idea of internal and international security centered on the human being, rather than on the State's exclusive entelechy.

Hence we may recognize the multidimensional character of security, from a wide and integrated criterion, focussed on the life and dignity of the person; from that perspective, this view generates effects and consequences such as an authentic projection that guarantees effective access to all human, civil, political and economic rights by all human beings, including the benefits of development. This also implies new commitments and responsibilities on the part of the international community to review its practices, by recognizing the vulnerability

of the human being, who must be protected and offered security in the face of old and new, chronic and unexpected threats, both domestic and global.

The construction of a fair security system that can render higher values and principles compatible with the practical interests of countries is perfectly feasible. Peace and security are international common goods, whose validity and practicality produce new options of action and cooperation, which without curtailing the sovereignty of States makes cooperation and understanding possible by way of co-responsibility, since the right of a State ends where the other's right begins.

The phenomenon of migrations is intimately linked to the current vulnerabilities of the human being, especially in Latin America and in many African countries. Migrations are part of human evolution and their remarkable increase is a result of globalization, of inequalities in the levels of development, of disparities in worker's wages in developed and developing countries and chiefly of the increase of poverty that afflicts a high proportion of the Latin American population.

In the last eight years a massive emigration movement, unprecedented in the country's history, has taken place in Ecuador. Approximately three million Ecuadorians, roughly 25% of the nation's population, now live in a foreign country. Ecuador has increasingly become a supplier of qualified and unqualified labor to the United States, Spain and Italy, and to a lesser extent to new destinations such as Canada, the United Kingdom, Holland and Germany.

In the case of Ecuador, the causes of this massive emigration are the political instability and the political and economic crises that the country has experienced, particularly the financial crisis of 1999, when the GDP shrank by 30% and the rate of inflation reached 300%. In addition, the country went through a process of dolarization and the occurrence of natural disasters such as *El Niño*, all of which resulted in dramatic impoverishment of the population.

The deep human significance of migrations and the need to establish the basis for a holistic treatment of its problems require the development of a policy aimed at strengthening the role of the State in the following tasks: defending human rights and the freedoms of the emigrants, in order to promote their full regularization abroad, their integration in the receiving countries and their enduring link with Ecuador; improving the care for their families through social assistance programs, support for family reunion and reintegration into Ecuador;

supporting the reinforcement of the relations between the Ecuadorian State and the receiving countries, in order to take coordinated and joint action in the implementation of programs that benefit the emigrants.

The tremendous social, economic and political importance of the phenomenon of emigration requires agreement on a South American policy regarding migrations, whose main lines should be: assistance and protection of the human rights of emigrants, remittances and instruments for development, as well as international negotiations regarding migrations.

The wider practical objectives of such a South American migration policy might be: to oversee the respect for the migrants' rights in accordance with existing Conventions and international instruments; to provide assistance with the laws and regulations of the receiving countries; to promote the regularization of undocumented migrants; to protect their families and promote their reunion; to fight labor exploitation, traffic of persons, traffic of migrants and related crimes (it is urgent to increase the penalty for *coyotes*); to support the strengthening of associations of emigrants and stimulate the application of the principle of shared responsibility in international relations, particularly through development projects; to seek bilateral or regional agreements for the regulation and ordering of migration currents; to provide for effective international cooperation on repatriation; to promote the contribution of migration to development; to alleviate internal problems stemming from irregular migration; and to strengthen relations with receiving States with a view to coordinating joint actions for the design and carrying out of plans, programs and projects for the benefit of emigrants.

In addition, it is extremely necessary that once Ecuador and all South American countries have agreed and adopted this regional policy regarding migrations, systematic and coordinated action is carried out to include those problems in the agendas of relevant international fora, in an effort to counter the restrictive policies of developed countries and at the same time strengthen the international legal framework for the defense of the emigrants' rights. In this context, it is important that countries belonging to the South American Commonwealth of Nations act to ensure their participation in the following international instruments that guarantee the rights of emigrants, of which Ecuador is already a Party: International Pact on Civil and Political Rights, International Convention against Organized Transnational Crime and its Protocols against Illicit Traffic of Migrants by Land, Sea and Air, and to Prevent, Curb and Sanction

the Traffic of Persons; the Conventions against Torture, Discrimination against Women and Racial Discrimination; the International Convention for the Protection of the Rights of all Migrant Workers and their Families, and several conventions regarding migrant workers agreed in the International Labor Organization.

Another essential element of a foreign policy focused on democratic and human security is the promotion of human rights. In this respect, one should recall that the Political Constitution of Ecuador recognizes as the foremost duty of the State the respect, defense and promotion of human rights. In this context, the Government of Ecuador issued, in June 1988, the “National Human Rights Plan of Ecuador” a document promoted since its origins by the Ministry of External Relations, which aims at preventing, eradicating and punishing human rights violations in the country. In this way, the Ecuadorian Chancery not only watches over the respect for human rights in the country but also keeps the international community and relevant international organizations informed about the actions taken by Ecuador to ensure the respect of those rights.

The National Human Rights Plan contains an Operative Plan on the Rights of Migrants, Aliens, Refugees, Displaced and Stateless Persons, for whose implementation governmental agencies, in conjunction with civil society and with international technical cooperation, are currently performing studies aiming at the elaboration of reforms to the norms concerning migrants, in accordance with constitutional provisions and international instruments.

Having suffered less severely the effects of the serious crisis that affects the country, the Ecuadorian Foreign Service, as a permanent professional institution of the Republic, has thus a double responsibility before the society and is summoned to cooperate with other national institutions in order to make up for its weaknesses, without forgetting the fulfillment of its duties in carrying out abroad the policies established by the Head of the Executive.

In this connection, the Chancery must become – and in many ways it has already started this process – a channel of communication between the central government and the national community, so that through its practice in dialogue, its overall view and its experience of foreign ways of life, as well as the society’s perception of its neutrality regarding domestic disputes, it may become a bridge to help solve the great needs and problems that affect the development and welfare of the population.

In this struggle the Ministry of External Relations should pursue permanent coordination and agreement with another professional organization, the Armed Forces. Together, the external sector and the military will apply a strategy of cooperation with the population, in order to attract attention from the central government and the other Ministries to the needs and solutions to the difficult problems of the country.

In order to perform these tasks the Chancery must seek, in addition, increased cooperation with all sectors of the country's population, especially the poorest ones. The credibility of the actions taken by the Ministry of External Relations will depend on the depth of the involvement of its employees with the widest sectors of the Ecuadorian people. In this context, I believe it is absolutely essential to expand the representation of the Chancery to the largest possible number of Provinces, over the totality of the Ecuadorian territory.

In this endeavor, Ecuador should seek help from friendly nations, with which the management of international cooperation, an issue already within the purview of the Ministry of External Relations through the Ecuadorian Institute of International Cooperation (Ineci), shall become an essential tool that will allow on the one hand the channeling of all efforts to provide for the needs of wide sectors of the population, and on the other the involvement with civil society, social organizations and fundamentally with sectorial governments, which fortunately guarantee efficacy, continuity and stability. In this context, the Chancery shall look for an alliance – which in a way already exists on several issues – with the Association of Municipalities of Ecuador (AME), the Corporation of Provincial Councils (Concope) and the National Council of Parochial Boards of Ecuador (Conajupare).

Another extremely important sector for the structuring of a security policy are the social communicators, who – as guides of public opinion – have a very high responsibility before the society. The Chancery should adopt a policy of great openness toward the press, to ensure not only the diffusion of actions already taken and the support of the population, but also the affirmation of national identity and the recovery of the self-esteem of the citizens of Ecuador, who unfortunately, because of the events of the last decade, have lost faith in democratic institutions.

In parallel, Ecuador must participate actively in bilateral and regional processes that seek the reinforcement of the security of the zones of border

integration and at the same time put together a policy of Andean, Amazonian and South American security.

In this order of ideas, the external policy, of whose definition and execution the Ministry of External Relations is chiefly charged, shall pursue the following main general objectives:

- adoption of a foreign policy in the service of peace, democracy, development and integration, that reaffirms the principle of sovereignty, guarantees independence and territorial integrity and promotes the participation of Ecuador in all continents and international markets, through a close linkage between external action and national development priorities, with special emphasis on human rights and above all on the defense of the emigrants' rights.
- Promotion and encouragement of a culture of dialogue, of agreement and citizen participation, which contribute to the best performance of the functions of the State so as to overcome the problems of governance.
- Promotion of a climate of peace and security at the global, hemispheric, Andean, South American and fundamentally the national levels, in order to create an environment of political stability and furthering of confidence, which are indispensable elements for development, eradication of poverty and the security of the nation.
- Promotion of respect to human rights, democratic values and the rule of law.
- Intensification of the struggle against corruption and drug traffic, at the national and international levels.
- Active participation in the processes of physical, political, economic and social integration, particularly at the Andean and South American levels.
- Development of a preferential policy with neighboring countries with a view to allowing for harmonious development of border areas and creating capabilities for initiative, negotiation and dialogue.
- Active promotion of the sustainable development of regions situated in the border areas in the North and the South and their integration with similar areas in neighboring countries.

- Furthering the process of forming new diplomatic generations, in order to ensure the effective action of a national diplomacy that upholds and defends the permanent interests of the State, protects and supports Ecuadorian communities and enterprises abroad and fulfills with efficacy the objectives of trade promotion and attraction of investments and resources from international cooperation, thus becoming instrumental for the development and the security of the country.
- Adopt global migration policies that promote work opportunities and the best use of emigrants' remittances, through the establishment of small and medium-sized family ventures, in order to ensure the return of emigrants and the welfare and development of the next generations.
- Cooperate systematically with all sectors of the State and of the society in policies aimed at affirming national identity, in order to consolidate an integrated, non-regionalist Ecuadorian nation, that respects its values, its historic heritage and its ethnic and cultural diversity.
- Maintain close cooperation between foreign policy and the military and the national defense system, in order to define and safeguard the permanent interests of the State. **DEP**

Cheddi Jagan's global human order

*Ralph Ramkharan**

Background

The New Global Human Order came at a particular time in developments in Guyana and the rest of the world. Poverty was raging, the debt burden of the developing world was increasing and had become unmanageable, Guyana's debt of US\$2 billion was eating up 94 cents in every dollar earned, the IMF prescriptions had drastically reduced the standard living of all Guyanese but had impacted most severely on the poor and disadvantaged thereby intensifying poverty and employment. These prescriptions are being increasingly recognised as "palliatives, not a cure". At the same time the ideology of globalisation had become the new panacea for the ills of the world, both developed and developing.

In Guyana, the IMF prescriptions had begun to take hold and these included the removal subsidies, reduced government spending, a balanced budget, wage freeze, high interests rates and privatisation. The devastating consequences were described in the McIntyre Report and the 1991 Budget Speech of the Minister of Finance. McIntyre described Guyana as being the poorest country in Caribbean

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next to Haiti and Greenidge described Guyana as bankrupt. In 1992 the Government changed and Cheddi Jagan took the opportunity to present in one document the ideas he had been developing for some years.

As is well known, Cheddi Jagan's consuming ambition was the elimination of poverty. He rightly saw this scourge as an infliction and affliction on the developing world which could be eliminated even within the context of the existence of developed capitalist states. He saw poverty as destructive of the "vigour and initiative of the individual and deprives the society of incalculable human resources at a critical time. Its elimination will enrich our community and release a harvest of energy and skills. If left unattended, the expansion of poverty, with hunger, will undermine the fabric and security of the democratic state".

He saw that rational and realistic policies, acceptable to and supported by the developed world, could eliminate poverty. He said that : "Our times call for clear thinking to diagnose the ills of our globe, to ascertain the root cause of society's growing problems and to formulate what must be done – a set of guiding principles and a programme of action".

Cheddi Jagan's vision was expansive and ambitious. He had studied development issues for fifty years and had written volumes on it. He had always recognised and understood that Guyana alone could not obtain the necessary support and resources to influence the developed countries to change course. He knew how important it was to devise a strategy that would gain broad acceptance. He said "... a development strategy for the eradication of poverty must be global and positive".

In a speech to the United Nations General Assembly, he said that he saw this as a "crucial time" as characterised by globalisation and liberalisation dominated by the transnational corporations with one dominant ideology; unacceptably high unemployment and underemployment; increasing poverty and widening gaps in developed and developing countries; chronic budget and balance of payments deficits; social, including family disintegration; strife and convulsions based on race, ethnicity, tribe culture and religion; demagoguery and confusion leading to a rise in fascism and racism.

He argued that Third World debt which he had been studying and writing about since the 1970s and had been one of the earliest voices arguing that it was unpayable and should be cancelled, was strangling reconstruction and human developments efforts.

He calculated that at the time US\$500 billion was lost in unfair and non-equivalent international trade, a sum equal to ten times official development assistance from the developed countries.

He concluded that “these factors pose a grave threat to international and individual peace and security. Consequently, there is an urgent need for a New Global Human Order, as an adjunct to the UN Agenda for Development. A New Global Human Order must have as its goal human development: meeting the basic needs of the people, cultural upliftment and a clean and safe environment”.

The New Global Human Order proposes changes leading to:

1. The establishment of global institutions to respond to the global dimension of the existing human society.
2. The United Nations system to play a more central role in global economic management and should have access to large financial resources.
3. The IMF and World Bank to concentrate on human development as distinct from the means of development and return to their original roles.
4. A new Official Development Assistance which would channel to the poorest countries two-thirds of ODA instead of one-quarter.
5. The acceptance of sustainable human development as an attainable global.
6. A greater role for non-governmental organisations in international institutions.
7. Reduction of military expenditure and the use of the “peace dividend” for debt relief. Introduction of the Tobin Tax of 0.5 percent on speculative transfer of currency
8. Providing for equitable international trade both in goods and services to accelerate global growth and allow a more equitable distribution of its benefits.

Ten years have gone since the New Global Human Order was launched. It was Cheddi Jagan's and Guyana's contribution to the struggle against poverty, a struggle which consumed the entire lifetime of Cheddi Jagan. How have we fared so far?

Despite the tragic international situation which now prevails, we have seen some initiatives during last year but a tremendous amount remains to be done.

The Millenium Development Goals adopted by the United Nations in September 2005 set a ten year agenda with clear goals which it was hoped would guide the strategies of both developed and developing countries in planning their assault on poverty. The MDG proposes to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV / Aids, malaria and other diseases, ensure environmental sustainability and develop a global partnership for development all by the target date of 2015.

While these goals are ambitious and the means to attain them have not been identified, during last year the G8 countries agreed to write off the debt of 18 of the poorest countries in the world, Guyana included, amounting to US\$40 billion. Guyana was already been benefitting from this facility. This is a start but its implementation has been severely criticised.

In his book, “The End of Poverty”, Jeffrey Sachs said: “Alas, the international community’s approach remains incoherent in practice. On the one side, it announces bold goals, like the Millenium Development Goals, and even ways that the goals can be achieved, such as the pledge of increased donor assistance made in Monterey Consensus. Yet when it comes to real practice, where the rubber hits the road, in the poverty reduction plans, the Millenium Development Goals are expressed only in vague aspirations rather than operational targets. Countries are told to go about their business without any hope of meeting the MDGs. The IMF and World Bank reveal split personalities championing the MGDs in public speeches, approving programmes that will not achieve them, and privately acknowledging, with business as usual that they cannot be met”.

Jeffrey Sachs is a famous economist who specialises in development strategies and is absolutely convinced that the poverty and the problems of development can be resolved with the correct strategies and the commitment of developed world.

Guyana was prepared Poverty Reductions Strategies at the behest of the donors. This is what Professor Sachs said about these: “Knowing that a certain amount of aid is likely, the recipient country is expected to engage in a broad-based public consultation to prepare the poverty reduction plan, including how

the aid will be deployed. The international community's insistence on broad public participation in the design of these plans is designed to achieve four main goals: (1) better prioritisation of investment plans, (2) increased public awareness about poverty reduction programmes, (3) mobilisation of NGOs and community groups in the fight against poverty, and (4) fostering more political 'antibodies' against corruption. All of this is fine, indeed, it is reasonably successful in eliciting public participation. What is missing in the process are the practical linkages between the today's arrangements, the country is presented with a fait accompli – 'Here is the amount of aid you will receive.' Instead, the process should be turned around. The first step should be to learn what the country actually needs in foreign assistance. After that, the IMF and World Bank should go out to raise the required amount from the donors".

Professor Sachs recommends a programme for a poverty reduction strategy based on the MDGs. It should be in five parts, namely, (1) a differential diagnosis, identifying the policies and investments that the country needs to achieve the MDGs, (2) an investment plan, showing the size, timing, and costs of the required investments, (3) a financial plan, to fund the investment plan, (4) a donor plan, which gives the multiyear donor commitments for filling the MDGs Financing Gap, and (5) a public management plan, that outlines the mechanisms of governance and public administration that will help implement the expanded public investment strategy.

There is clearly a growing recognition of the belief that Cheddi Jagan carried his entire life by outstanding and world recognised experts like Professor Sachs and public figures like Bono, the pop star, who wrote the forward to the book, that poverty could be eliminated with the resources that are currently available and with the correct policies.

While there have been minimal success, there have been serious failures. The failure of the Doha Round of trade talks recently has been a great disappointment to developing countries which had been hoping that the reduction of trade barriers would have gone a long way in contributing to their own economic growth and the development of the world's economy.

Even though there is much that is discouraging, including the war in Iraq and the continuing hostilities in Israel and Lebanon, we have moved albeit slowly, from the position where up to recently poverty was considered to be the fate of 'lesser' peoples to the situation where it is now recognised that developed countries

have a responsibility and a duty to do much more to destroy this scourge. Developing countries have an equal responsibility to put their houses in order and must discharge that responsibility.

The hopes of Cheddi Jagan as envisioned in the New Global Human Order helped to point the way when many were not looking or could not see. Let us hope that his dreams for Guyana are soon achieved. **DEP**

Paraguay's economic situation and prospects

Dionisio Borda *

Recent results (2003-2005) include restoring macroeconomic balance, public finance reorganization, and an incipient economic recovery after a long political and economic crisis (1982-2002); nevertheless, there appears to be no strategy to achieve economic growth on a new productive basis, nor consistent social policies that aim at fighting poverty and inequality. Ever since the transition to democracy started in 1989, the divorce between economic and electoral results has blocked the emergence of a new development model and a new political model that create both sustainable growth and a true democracy.

I ntroduction

Paraguay is different from other countries in the region in that both the 1980's and the 1990's were lost decades for the country, devoid of reforms or a democratic experience. Its economy is still based on agriculture and cattle-raising, and diversification of economic production has been very limited. To this, low productivity, deep inequalities, an incipient market, and stunted governmental development must be added. Since the advent of democracy (1989), the implementation of reforms has always been partial, inconsistent, and subject to reversals. This situation corresponds to limitations on the part of the political

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class and of the state's bureaucracy – caused by incompetence and dominant private interests – to generate a new strategy that may break away from the present economic and political model.

Paraguay continues to be the least developed country of Mercosur. With about six million inhabitants, the country's per capita income is US\$ 1,300, and GDP is close to US\$ 7,500 billion, of which 30 percent are generated by the agricultural and cattle-raising sector, which employs the rural population (about 49 percent). The Paraguayan economy is riddled with structural problems that have hindered economic growth, especially during the 1982-2002 period, which featured a banking crisis (1995-1998), a growing fiscal deficit (1999-2002), and public debt payment arrears (2002).

The new Administration (August 2003) inherited a heavy burden, but it started its term endowed with a degree of legitimacy that had been denied to the two previous ones. It had a good gauge of the economic situation, and a government program which identified expected results over the short, medium, and long range.

The Economic and Political Crisis (1982-2002)

Paraguay launched a process of economic reform and a transition to democracy after the February 1989 coup. This military action opened the door to democracy, after a 35-year dictatorship. Nevertheless, it was neither able to reverse slow economic growth nor to find a new way to do politics.

The current Administration (2003-2008) was preceded by three elected presidents (1998-1993, 1993-1998, 1998-2003), the last of which faced certain impeachment proceedings arising out of the March 1999 assassination of his vice president, and was ultimately removed by Congress, which put in place a new Administration (1999-2003). In this 16-year democratic period, there were also three unsuccessful coup attempts (December 1995, April 1996, and December 2001), a fact that highlights Paraguay's precarious democratic tradition, particularly among the political class, as well as the limited presence of the state.

The first phase of the economic crisis (1982-1988) corresponded to a sharp drop in economic growth and to the deterioration of the authoritarian political regime. The rate of GDP growth reached 2 percent a year, and GDP per capita had a negative growth of 1.1 percent during the period.

The second phase (1989-1998) which saw the beginning of the transition towards democracy (1989), started out with a modest economic recovery – 2.9 percent GDP growth and 0.1 percent GDP per capita growth. This period witnessed important institutional and economic policy changes. Price controls and multiple exchange rates were dropped, financial markets were liberalized, and legal bank reserve requirements were loosened. Furthermore, the tax system was simplified and new legislation was adopted, with a view to achieving economic and institutional reform.

However, this period also saw the worse banking crisis in Paraguayan history: only 18 banks and 22 financial enterprises – out of a previous 34 and 63, respectively – survived the 1995-1998 bankruptcy wave, which cost the country an estimated 10 percent of GDP.

The major features of the third phase (1999-2002) were economic retraction and a governance crisis. It featured three years of recession (1998, 2000, and 2002), real GDP growth of 0.1 per cent a year, on average, and a rate of per capita economic growth of – 2.9 percent, also on average.

Throughout these phases or cycles, the agricultural production structure has not changed much: its growth has been spotty and it was subject to several adverse exogenous factors, such as the weather and international prices. The two decades since the toppling of dictatorship have been associated to low economic growth, with a yearly average of just 2 percent and a GDP per capita negative growth rate of 0.8 percent. This economic stagnation is due, in part, to the fragile nature of the development model – which is based on undiversified agricultural exports, on the preeminence of the state as a source of employment and contracts, and on linked import-and-reexport operations. It is also partly the result of the vulnerability of a small economy to domestic and foreign volatility.

Moreover, the transition to democracy elicited the emergence of two sources of political instability. The first one is the high turnover rate of government ministers and of CEO's or directors of state-owned companies. Such changes usually bring uncertainty, due to the limited institutional development of the Paraguayan state, and to the high degree of institutional dependence on individual leadership qualities in order to implement policy. The second source of instability has been the emergence of governance challenges, due to the scant legitimacy of elected officials. Both have eroded confidence and have hindered the growth of capital investment levels.

Neither the fiscal debt nor hyperinflation, which afflicted other countries in the region, can explain Paraguay's economic stagnation over the 1982-1998 period. Instead, the cause may be found in the country's production structure, in its vulnerability to exogenous factors, and in its political instability. The deterioration of the political and economic situation accelerated in 1999-2002, as a result of a significant economic downturn that may be partly attributed to the economic crisis elsewhere in the region, and partly to corruption, to symptoms of weakening governability, and to the scarce results of some reforms implemented since 1989.

A new start for a new administration (2003-2008)

The political and economic situation in August 2003 reflected serious short- and medium-term problems. The slow growth of the economy negatively affected the employment outlook, and worsened poverty and inequality. In 2002, unemployment stood at 17.1 percent, and underemployment at 22.5 percent of the work force. Poverty expanded to 46.4 percent, and extreme poverty surged from 17.3 percent to 21.7 percent, particularly in rural areas.

Macroeconomic stability also plunged into a period of fast deterioration and imbalances. Both inflation and the fiscal deficit saw remarkable increases. Mean annual inflation for 1998-2002 stood at 10.3 percent, with a peak of 14.6 percent in 2002. Similarly, the fiscal deficit witnessed an explosive growth – from 1 percent of GDP in 1998 to 3.3 percent in 2002. One of the causes for such surge was the operational deficit caused by retirement and pensions doled out to civil servants, which accounted for 75 percent of the fiscal deficit (2002). At the same time, tax revenue was stagnant, while growing salaries and debt servicing expenses further pressurized fiscal accounts.

Contrary to the trend of the previous 15 years, the foreign debt also surged, and its servicing began to fall into arrears – which was the case particularly with domestic debt servicing and with foreign payments to some bilateral organs. The debt servicing backlog in August 2003 reached US\$ 64 million, and the public debt coefficient reached 50.3 percent in 2002.

Macroeconomic variables linked to the financial sector were also in growing disarray in 2002. There was an increase in debt arrears (13.5 percent) and financial intermediation (71.7 percent), as well as a “dollarization” of banking deposits (69 percent) and credit (60 percent).

In the face of this situation, the new administration (2003-2008) established four pillars to support its development strategy for the next five years:

- i) to restore the public's trust in state institutions by fighting corruption, tax evasion, and public administration inefficiency;
- ii) to promote the participation of civil society in the design of public policies and in the control of public administration;
- iii) to promote job creation through economic growth, on the basis of a new model of agricultural and industrial development, which is endowed with fiscal, environmental, and social accountability; and
- iv) to fight poverty and inequality by means of direct initiatives focusing on access to health, education, and basic services, and on policies that promote equality.

Progress and Achievements

The most basic task for the incoming administration was to restore domestic and foreign confidence, to implement a series of reforms, to solve the problem of public debt arrears, to reestablish fiscal balance, to create conditions for macroeconomic stability and economic dynamization, and to set the foundations for sustainable growth.

Governability, transparency, and trust

In order to face immediate and short-term economic problems, an important achievement was working to build a consensus in order to reestablish governance and to show increasing transparency. An unprecedented step was the October 2003 signing of an “inter-institutional agenda for the Executive and the Legislative Powers”. This agenda included the adoption of major legislative bills in order to avoid defaulting on Paraguay's debts, to fight the fiscal crisis and financial vulnerability, as well as to promote economic recovery. Another significant confidence-building pact was signed in October 2003 between the Ministry of Finance and members of the Banking Association – an agreement to reschedule domestic debt (Treasury Bonds) valued at US\$ 138.1 million over three years at 9.5 percent interest. The real financial possibilities of the Paraguayan state involved extending the redemption date of such bonds to five years, at a lower interest rate that would gradually increase over time.

The administration also signed an agreement with the business sector (November 2003) through which the Executive committed itself to a series of reforms with a view to promoting competitiveness, fairness, fiscal responsibility, and the formal sector of the economy.

Lastly, a seminar was organized that gathered the President and his cabinet, business leaders and civil society representatives with a view to discussing the challenges posed by economic growth with fairness. This event, which was held on 26 November, 2004, identified problems, goals, and possibilities for policy implementation in four sectors relevant to sustainable growth:

- i) Competitiveness and business environment.
- ii) Diversifying and increasing the added-value of production and exports.
- iii) Agricultural production and land ownership.
- iv) Poverty and inequality.

This economic agenda aims at achieving certain intermediary goals by 2008 and medium-term goals by 2011, the bicentennial of Paraguay's independence.

Another sector in which the new Administration quickly broke new ground was improving transparency and citizens' participation. Transition Administrations have been criticized for neglecting these issues. A first step to strengthen the fight against corruption was the August 2005 agreement between the Ministry of Finance and the Council in charge of promoting the National System of Integrity and International Transparency. The agreement would strengthen the Public Procurement Program, fiscal administration – including customs –, and promote accountability practices in the public administration.

After 43 years and two recent attempts, in 2001 and 2002, the administration was able to reach a Stand-by Agreement with the IMF on 15 December, 2005. The agreement aims at fighting poverty, promoting sustainable growth, and improving the public sector's efficiency and transparency. It also made two international loans immediately available to forestall payment arrears vis-à-vis multilateral financial institutions.

Reforming the public sector's pension and retirement system

Reform was started with the adoption, in December 2003, of Law 2345, dealing with the Fiscal Mutual Fund (*Caja Fiscal*). The new legislation sought to

change the public sector's pension and retirement system, which was generating a steadily growing operational deficit for the central national government to fund. Beyond the yearly transfer of funds necessary to cover such deficit, the system required other immediate changes, in order to: i) avoid system-wide, short-term failure; ii) to reduce heterogeneity among the various Mutual Funds, which created serious fairness issues in the system; and iii) to solve the insurance portability issue, which prevented insured workers from being able to migrate their coverage from one government sector to another.

The immediate result of this reform was a drop of the operational deficit due to an increase in public sector workers' contributions to the system, from 14 to 16 percent. Similarly, the long-term sustainability of the pension fund was enhanced, and dividing it into two independent branches – for retirements and pensions – has improved manageability and reduced the possibility of bribes and corruption.

Tax Reform

This reform aimed at promoting the formal sector of the economy and to correct the very low fiscal load (10 percent of GDP) by maintaining taxes at a reasonable level, increasing the ranks of taxpayers, and creating new taxes. Previously existing legislation (Law 125/91) had far too many loopholes (46 types of exemption), which made tax management difficult. Furthermore, it inexplicably lacked universally-adopted taxes, such as a personal income tax, a capital gains tax, and it did not tax agricultural or cattle-raising concerns. The reform aimed at simplifying the system through a 10-10-10 formula, i.e., a 10 percent value-added tax on all products and services, a 10 percent tax rate on individual incomes above 10 minimum salaries, and a 10 percent tax on firms' business income. Tax revenue under a new fully-fledged system was forecast at 1.5 percent of GDP. This proposal was adopted in July 2004 as Law 2421. It introduced individual income tax, a tax on agricultural and cattle-raising firms' profits, and it reduced the VAT on basic goods and services for the population.

Strong resistance erupted against the so-called Fiscal Adequacy Law, because taxation does not translate into improved services. Such a vicious circle – a low, 10 percent tax load on GDP, and bad public services – had justified evading two problems: low competitiveness and extremely low fiscal resources. Improving competitiveness does not only imply low marginal tax rates. Had this

been the case, Paraguay would have been in better shape with a system that included (legal) tax exemptions, (illegal) tax evasion, and low taxes, which along with other concessions were already featured in the previous tax legislation – such as a 10 percent VAT, or a 30 percent tax on business income, gasoil subsidies, and outdated public tariffs. Even in the presence of such egregious privileges, the competitiveness of Paraguay did not improve. The high public services operational deficits and the low quality of public expenditures are two serious problems for development. One consequence of such a situation was the inefficient allocation of insufficient resources for investing on the population and public services; another was low tax revenue due to corruption and privileges.

The crux of the matter, therefore, was to correct this historic inconsistency: an enhanced need for resources to be spent on infrastructure and human capital investment to improve the country's competitiveness, in the face of a low tax load. Paraguay lags behind every other country in the region in infrastructure and human resources training; yet it paradoxically sports the region's lowest tax load.

Customs Code Reform

The new Customs Code update Paraguayan norms to international standards and opens the way to the administrative modernization of an institution that had hitherto been the symbol of political crooning. It also opens the way to professionally qualifying its human resources. Resistance to change in this sector has not been any less intense than that involving other reforms.

The first source of resistance came from within the institution. It slowed down the pace of change. The second source was the government itself, and it emerged during the implementation phase of the law, which makes the customs office an independent institution, the first goal of which is to train its professional cadres.

Public finance reform and fiscal balance

Management reforms at the Ministry of Finance aimed at various immediate goals: to revert the financial gap; to eliminate debt arrears; to contain the growing fiscal deficit; to reduce tax evasion and to correct the lack of tax income transparency, improving the allocation of resources; to introduce innovation in order to modernize institutional management, especially with a

view to planning and monitoring money transfers, foreign loans execution, and the achievement of social and economic goals by the public sector.

The strategy adopted by the Ministry of Finance, as well as some of its major results, hinges on four elements: i) strengthening existing institutions with a view to improving management; ii) creating new units to strengthen administration and control; iii) developing e-government to achieve efficiency and transparency gains; and iv) improving institutional coordination.

After many years, the fiscal deficit was significantly lowered, to .4 percent of GDP in 2003. The following year, a 1.6 percent global surplus and a 2.8 percent primary surplus were achieved. In 2005, the twin surpluses were maintained, though at lower levels.

On the revenue side, the tax load, which over 2000-2002 had been below 10 percent of GDP, was initially lifted to 10.3 percent, in 2003, and had an unprecedented surge to 12.2 percent of GDP in 2004, dropping to .84 percent of GDP in 2005. Such a historically low tax load is, to a certain extent, balanced out by royalties and compensations paid by the two binational enterprises Paraguay owns along with Brazil (Itaipu), and Argentina (Yacireta). Both (especially Itaipu) accounted for 4.1 percent and 3.2 percent of GDP in 2004 and 2005 (after tax load adjustments).

The structure of tax revenue before reforms has made it possible to increase the tax load coefficient just by improving revenue management. The value-added tax (VAT) is the most important source of tax revenue. Between 2003 and 2005, it reached an unprecedented 4.4 and 5.2 percent participation, respectively, relative to GDP. However, VAT, which has been held at 10 percent, is still subject to exemptions and evasion.

As a result of management improvements and the Fiscal Adequacy Law, both tax revenues and the number of taxpayers have increased. Between 2002 and 2003, the number of taxpayers rose by 10.6 percent, and the following years saw increases of 7.6 percent (2003-2004) and 9.7 percent (2004-2005). The same trend is true for revenue levels, which increased by 12.3 percent in 2002-2003, 40.9 percent in 2003-2004, and 14.1 percent in 2004-2005.

As to resource allocation, the growing expenditure rigidity is remarkable. There is a strong imbalance between current and capital (investment) outlays. Over the last few years, they have kept an 80:20 proportion. Such an imbalance

is partly due to low investment implementation efficiency, as investment resources are used up to compensate resource scarcity periods. However, this is not only caused because of the lack of matching investment funds, but also because of managerial problems.

Another characteristic of outlay rigidity is the high proportion used up by personal services in the form of salaries and other benefits. In 2003, these outlays still accounted for about 43.9 percent of total outlays, due to salary hikes that benefited workers in the security area. However, in 2004 and 2005, through enhanced control over hiring practices, they dropped to 42.7 percent and 41.3 percent, respectively – this, in the absence of civil service reform, which is a major bottleneck.

If one excludes amortizations, the servicing of interest on loans by the central government, personal services outlays, and transfers to cover retirement and pensions operational deficits are, as a whole, larger than the tax load. That is to say, tax revenues are used up to pay for public sector salaries and to cover the operational deficits of the public servants retirement and pensions system. Only in 2004 did outlays for these three areas stay, at 10.9 percent, almost a full two percentage points below the tax load.

Economic recovery and macroeconomic balance

After a strong recession period, GDP growth started to slowly recover – 3.8 percent in 2003, 4.1 percent in 2004, then down again, in 2005, to 3.4 percent. In current dollars, GDP reached US\$ 5.616 billion, US\$ 6.929 billion, and 7.479 billion, respectively, over the 2003-2005 period. GDP per capita registered positive growth of 1.8 percent in 2003, 2.1 percent in 2004, and only .8 percent in 2005. In current dollars, GDP per capita reached US\$ 978 in 2003, US\$ 1,205 in 2004, and US\$ 1,301 in 2005.

One of the major achievements of the first two years of the new Administration has been control over inflation. In 2003, the inflation rate dropped to 9.3 percent and to 2.8 percent in 2004. This historic rate, the region's lowest for that year, was a result of improved economic policy coordination, and particularly reflects the active role of fiscal policy, which increased tax revenues and imposed discipline over expenditures – of course, a favorable international situation also played a role. In 2005, inflation made a comeback, reaching 9.9 percent.

Prices have increased as a result of the higher oil prices (though domestic price adjustment has lagged behind the oscillations in international oil prices) and of a more relaxed fiscal policy, especially because of increasing expenditures. A factor that contributes to lower price levels is a freeze over public tariffs, especially water supply. After the 2001 adjustment, tariffs have decreased in real terms. Over the last few years (2003-2005), the evolution of real prices for electricity, water and telephone services has been negative.

Turning to credit, the relation between domestic and foreign currency changed 39:61 in 2002 and 52:47 in 2005. Decreased dollarization of credit corresponded to an increase in domestically-denominated credit of 22.7 percent in 2004 and 21 percent in 2005. One serious limiting factor to encourage private investment demand is the short-term nature of loans and deposits. Active interest rates have dropped over the last two years. The Guarani-weighted rate dropped from 30 percent (2003) to 15.5 percent (2005). This downward trend is led by development-oriented interest rates, due to the influence of public banks.

As to international trade, Paraguay is an open economy, with an opening coefficient of 55 percent (2003). Exports in relation to GDP saw significant growth rates of 14 percent and 22 percent, respectively, in 2000-2002 and 2003-2005. This is due to the recovery of regional economies, mainly Brazil's, the largest market for Paraguayan exports. Exports increased markedly in 2003 and 2004, at around 23.5 percent, and at 3.6 percent in 2005. Imports as a proportion of GDP also grew, to 34.8 percent, compared to 27.5 percent in 2000-2002, and 34.8 percent, in 2003-2005. The trade deficit has stayed relatively constant, at 15.5 percent of GDP.

A remarkable trait of Paraguay's foreign trade is reexportation – the exports of goods that enter Paraguay as imports. Such transactions were on a downward path from 1995 to 2002. Over 2003-2004, they staged a modest comeback, though they have kept below registered exports.

Obstacles and restrictions

The initial thrust of reforms has ebbed away. Signs of uncertainty and obstacles to governability reappear, as does a weakening of commitment to carry on with pending reforms. The lack of a clear course towards a new development model that affords sustained economic growth, poverty reduction, and lower inequality is also apparent. Early electoral jostling, beginning with the

Administration's party primaries (in February and July), to be followed by municipal elections in November 2006, and perhaps a National Constituent Assembly in 2007, which would change the Constitution to introduce the possibility of reelecting the president, are potential threats to sustaining a predictable economic policy over 2006-2008, as well as to securing governability.

A weakened governability

Uncertainty as to the *rules of the game* is on the rise again, beyond the purely economic. The risk perception of society and of the private sector is growing in the face of personal and property insecurity. In spite of the turnover at the Supreme Court of Justice (7 out of 9 Ministers have taken office since 2003), the Judiciary has been unable to guarantee a speedy and impartial implementation of the law. The prosecutors, security organs, and police officers involved in criminal acts, as well as legislators accused of corruption that go unpunished by their peers chip away at the credibility of institutions and their ability to create an adequate environment to attract investments.

Traditional parties are increasingly weakened as sources of proposals and debates over public policy. Clientelism and cronism is on the rise, to the detriment of building on institutions that promote new leaders. The primary elections within the party in office pose a threat to the progress and achievements of the last two years.

Reversibility of reform and stagnation of changes

In addition, political and special interest pressure groups are lobbying to make recently adopted legislation – inter alia, the Fiscal Adequacy Law, the Pension Reform Law, and the Customs Code – *more flexible* either through changes to the legal text or through implementing legislation, just as was done in the 1990's to financial legislation. Reverting reforms does not always mean correcting design errors or implementation mistakes, but responding to special interests. This is one of the vicious circles that explains the low fiscal burden and the fragility of the financial system vis-à-vis the state and the business sector.

Another significant fact is the stagnation of changes to Law 1626, which regulates the *Public Administration*. Law 1626 has serious shortcomings, which account for its inability to establish a civil service on the basis of efficiency and personal integrity, and for the lack of a plan to generate professional cadres of

state bureaucrats. Over 2003-2006, the fiscal budgets have included significant increases in paid government positions.

The civil service faces various problems. The first of these is its lack of professional cadres, which would be achieved by the admission and promotion of professional officials who do not hold politically-appointed jobs. The absence of competition and the lack of a meritocracy have turned public employment into a tool of political clientelism and favoritism. This not only affects managerial efficiency, but also creates challenges to discipline and resistance to change, either under the form of training or goal-oriented incentive mechanisms. The second type of problem, which is linked to the former, is the lack of proportion between the number of jobs at the lower rungs of the hierarchical scale and middle- and higher-management jobs. A third limitation is the low salary level for technical jobs that carry a high degree of responsibility, as compared to jobs in the private sector. Such a situation is a Petri dish for corruption, cronism, and it strengthens political clientelism.

Under present conditions, no serious commitment is apparent on the part of the Administration to reform the state, especially at the level of *state-owned enterprises and autarchic bodies*. With the exception of the Ande public electricity utility, water, oil, and cement companies have in common supernumeraries, overdue payments to suppliers (which the National Treasury may have to pay), and decaying levels of service. Reform of this sector is an unfulfilled pledge to civil society and to opposition political parties.

No progress has been made in improving the *control mechanisms* over state resources, and state control over the management of financial resources transferred to subnational levels of governments is still weak, which could negatively affect fiscal achievements in the immediate future. Itaipu donations for social expenditures are not a part of the fiscal budget, and are being questioned as to their lack of transparency. On the one hand, the body that should concern itself with energy policy undertakes social programs and, on the other, the institutions that should concern themselves with the strategy to fight poverty lack resources to implement their programs.

The scant effort devoted to civil service reform and to strengthening control mechanisms – especially the National General Accounting Authority, a dependency of the Presidency of the Republic which monitors public expenditures – chips away at the credibility of the Administration's claim that it

is fighting corruption, as this fight has limited itself to improving tax revenues and to certain achievements in the field of public procurement.

Improving competitiveness

The governmental agenda has demoted the goal to achieve a *new development model* – one that is anchored on agroindustry, improves the productivity of agricultural family units, increases investments in human and physical capital in order to achieve integration advantages, and enhances the opportunities for the poor to have access to services and resources.

Paraguay needs to generate incentives, to offer guarantees, and to implement a sustainable economic growth policy that is labor- and resource-intensive. This challenge involves supporting the innovative private sector so it may fully use its installed capacity and increase its investments. Besides extending medium-term credits, which the new Development Financing Agency is supposed to mobilize, the country needs to allocate resources to improve its physical infrastructure and to invest in its human capital.

Social Challenges

High levels of *unemployment* persist in the social area, while poverty and extreme poverty have not been reduced by the economic recovery of the last few years. Social tensions grow among farmers and the agricultural business sector devoted to soybean production and cattle-raising. These are large concerns that typically use extensive land areas and are technology-intensive. The conflict revolves around the following factors: i) the growing use of pesticides in the absence of any state regulatory ability to avoid health and environmental hazards; and ii) the creation of a dynamic market for land that increases its value and promotes a growing exodus towards the cities.

The lack of opportunities for *employment* of rural migrants in urban areas has sparked a growing migration abroad. An estimated US\$ 500 million in remittances are made by Paraguayan residents in Spain, Argentina, the United States, Japan, Germany and other countries. Such remittances represent the fourth or fifth largest foreign exchange source of Paraguay's economy.

Besides delaying the implementation of expected reforms – for public enterprises, commercial banking, regulatory agency development, and strengthening the financial sector – the Administration's priority is to send out

clear signs and to take strong steps with a view to changing the development model. The strong dependence on a few, low added-value agricultural products and on the import-reexport business, as well as the state's discretionary powers and inefficiency as the main provider of jobs and the main consumer of goods are not the pillars on which sustainable growth will be achieved.

Conclusions

The progress achieved over the last two years have reestablished the fiscal balance, eliminated foreign debt arrears, started an economic recovery supported by favorable conditions in the region, and reestablished the domestic and foreign credibility of the Paraguayan government. This trust has in turn afforded an adequate governability climate and an incipient economic reactivation. Nevertheless, such changes are not reflected by changing the rules of the game.

Rent seekers within the public sector or the market, or state-linked firms, are still powerful enough to trump innovative sectors both in the economic field and in the political arena. The struggle to control the state is still a struggle to control economic rents. Such a concept of power stunts market development, state development, and the practice of democracy well beyond electoral balloting, and of attempts at economic reform.

Such vicious circle of political and economic backwardness and its alienation from electoral incentives is one of the reasons for the prolonged stagnation and isolation of Paraguay, and it still stunts the emergence of a new model of competitive development based on a fairer distribution of opportunities and resources, and on a system of incentives that may break away from the nihilism that has crystallized the democratic transition. The corruption perception index published by Transparency International shows Paraguay is one of the world's most corrupt countries, placing 144th in a field of 158. According to the competitiveness index of the World Economic Forum, Paraguay is one of the least competitive economies, 113th out of a possible 117. And it is the country that has the lowest appreciation of democracy – only 13 percent of the population is satisfied with democratic rule, according to Latinobarómetro. These figures show that the economic and political transition of Paraguay still has a long way to go before a light may be sighted at the end of the tunnel. **DEP**

Version: Manuel Carlos Montenegro.

A strategic regional view of Peru's foreign policy

*José Antonio García Belaunde**

Introduction

Up to the end of the 60's the foreign policy of Peru was mainly focused on legal aspects in order to defend the State's territorial patrimony. Innumerable demarches and negotiations were undertaken to solve border disputes with neighboring countries. It should be recalled that in the beginning of the 20th century the borders of Peru with its five immediate neighbors were not demarcated. Moreover, the southern end of the territory was still occupied by Chile. In such circumstances, since the State lacked a precise territorial profile, patrimonial defense was obviously the main task for Peruvian diplomacy.

Over the four decades between 1902 and 1942, thanks to the noble effort of renowned internationalists such as Alberto Ulloa, Victor M. Maúrtua, Víctor Andrés Belaunde and Raúl Porra Barrenechea, among others, definitive border arrangements were achieved through recourse to a series of mechanisms for the settlement of disputes, including direct negotiation, arbitration, good offices

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and mediation. Nevertheless, in some cases the signature of treaties was not enough to solve bilateral differences, due to problems arising from their implementation.

Before it could be officially concluded, the agreed delimitation between Peru and Colombia in 1922 required complementary negotiations, due to the military incident that took place in the Amazonian town of Leticia. The question of the observance of non-territorial obligations agreed by Chile in the border treaty of 1929 was only solved in 1999, with the signature of the *Ata de Lima*. The case of the Peruvian-Ecuadorian border is better known. Despite being delimited in 1942, by the Rio de Janeiro Protocol, substantive divergence about the demarcation of the border remained unsettled for decades and gave rise to serious military clashes in 1981 and 1995. The final solution to the problem, with the active engagement of the four guarantor countries of the Protocol, required complex and protracted plurilateral negotiations which were completed in 1998 with the Brasília Agreement.

Taking into account the historic background briefly summarized above, it is not surprising that during the 20th century the legal focus in Peru centered on the defense of the territorial patrimony. Only at the end of the 60's the conditions were ripe to allow a new vision of the Peruvian external management to coalesce, geared to the characteristics and interests of the nation and its international projection. As a result of a fruitful consideration drawn from the French school of political sociology, external policy objectives, still valid to this day, were identified, with adjustments and readjustments obviously needed before a changing and uncertain international context.

That consideration, inspired and directed by the action and thought of Carlos García Bedoya, a key figure of Peruvian diplomacy, defined the ways along which Peru's international projection would be consolidated, on the basis of the historical continuity and the geographical component of its national territory. A whole generation of young Peruvian diplomats, to which I belong, had the chance and the privilege of witnessing and cooperating to some extent in the formulation of that new political vision, designed and executed from the beginning of the 70's. Today, decades later, we, the heirs of this rich experience, both theoretical and practical, have the duty to forge ahead in the achievement of the objectives whose consolidation continues to respond to the vital interests of Peru.

The conditions imposed by the present international context do not weaken, but on the contrary strengthen, the validity of the central objectives of the foreign policy, clearly identified thirty years ago. A clear example of this is the realization that regional integration is the inescapable means to allow for the development of individually weak States. The disappearance of the bi-polar world and the globalization of the economy, unpredictable in the mid-seventies, confirm that it is indispensable to consolidate integration. This is the only way to ensure the best possible insertion in a global world. Competition in a globalized world, both in terms of the exchange of goods and services and in terms of political presence, calls for the shaping of regional political and economic units as a necessary condition.

During the 70's there was a debate over the possibility of establishing a new world economic order on the basis of a North-South dialogue. A new order, globalization, has effectively come about and has radically changed the international economic system, although in a way that is completely different from the aspirations of equality and justice that fueled the now defunct North-South dialogue. The gap between rich and poor countries has widened and the role of the production and manufacture of raw materials in international trade has given way to the growing exchange of services, information, financial means and hi-tech. The traditional division of labor was reshaped and today the rule is the regional division between blocks of countries who concentrate the commercial and financial flows. In the present global context, the establishment of plurinational economic spaces is no longer an abstract notion, but a very concrete imperative that stems from the international reality.

Until 1990 the non-aligned perspective in the face of antagonistic blocks of countries facing each other for ideological or security motivations was still valid. The vacuum generated by the sudden disappearance of the socialist block was filled by the strategic and military unipolarity of the United States, without a countervailing or balancing element. Nevertheless, the global challenges and threats demand political agreement and modalities of transversal management that transcend the limits of a perspective aligned with the unipolar vision originating in the United States. This suggests that regional unity becomes even more important in order to find agreement and to defend policies aiming at the development of our countries, within an international framework marked by the presence of a superpower and by the interaction of political and economic blocks. As isolated actors our ability to dialogue in such a scene is minimal, even nihil.

Consequently, South America faces today the challenge of finding the best possible niche in the global scene, on the strength of actions designed and executed in an integrated way and as a group. Such a challenge, common to all South American States, creates the need to bring our countries together with links that provide for better communication, effectively and qualitatively, and for bonds and interexchange among our national territories, as well as among the integration mechanisms already existing in the region. This requires a negotiated convergence of interests and national policies in order to identify the modalities of linkage whose strengthening will facilitate development.

Ultimately, integration is a shared responsibility, a duty that stems from similar social demands put forth by the citizens of South American countries. The perception of the region as a converging ensemble of integration mechanisms and national States stems from the similarity of our social contexts. In other words, the notion of community inherent to the concept of regional integration responds to the conjunction of governmental agendas facing common challenges, either coming from citizens' demands or imposed by the international panorama.

This concept is expressly included in the Declaration of Cusco, in December 2004, which spawned the South American Community of Nations. The convergence of national policies was defined as a potential factor of strengthening and development of the internal capabilities of our countries, to improve their international insertion and access to higher standards of living for their citizens. Our shared identity was characterized as the result of a history of struggles against common internal and external challenges, as well as the expression of a common vision of development based essentially on the commitment to respond to the same social claims: the fight against poverty, the elimination of hunger, the creation of employment and universal access to health and education. Thus, the external policy of Peru's new government matches the objectives of the declaration of Cusco.

Peru and the new Alan García government

The government's objectives are directed towards the social imbalance of Peru, where half of the population is poor and one fifth live in conditions of extreme poverty. In response to this situation, the fight against poverty is the central priority of the Peruvian government. This leads its external arm to unite

its efforts with the countries in the region in order to push forward a development agenda aimed at ensuring stable growth with equanimity and social inclusion.

Peru's government also pursues the internal consolidation of governance, supported by participation of the citizenry and by transparency in the conduct of public management. The government's objective is to increase the credibility of the State through responsible management, drawing closer to the citizens who live in the national territory or abroad. Within this perspective, the basic purpose of the external action is to give privileged attention to the defense of the rights of our compatriots abroad and to facilitate their integration in the host country.

This government directive is coupled with the taking over of the responsibility to deepen a culture of duty, as one of the pillars on which to rebuild the relationship between the society and the State. The objective pursued with this task has internal and external consequences. In the internal field the goal is the increasing participation of the citizenry in the making of public policies. Externally, the goal is to stimulate the population to gradually assume the role of the protagonist in giving social content to the regional integration, by means of the qualitative intensification of communication and interchange across our boundaries. The government of Peru fully agrees that the growing interaction between private corporations and civil society must be set in motion from within the State, as a key factor of the dynamic integration of the South American space.

The contemporary conceptual framework of the Peruvian foreign policy stems from the notion of the stages where the external action evolves, in accordance with the projection of its oceanic, Andean and Amazonian spaces. This does not presuppose a set of concentric circles with decreasing influence from the center toward the periphery, but rather the simultaneous convergence of the different scenarios, granting to each one the priority and the specific weight commensurate with each given set of circumstances.

The first circle, or stage where the external action is played out is the immediate geographic space represented by the neighboring countries. The second is the Andean and South American region, through the consolidation of integration. The third is defined by the relations with the dominant, or hegemonic world power, the United States, and the ensemble of other powers or blocks in the rest of the world.

It must be noted that in the original concept of the relationships sketched above, previously seen from a bipolar context, Peru's relations with the rest of the world were under the influence of the roles of the different actors vis-à-vis the United States, as the hegemonic power in the continent. Today the relations of Peru with the rest of the world seek the improvement of its insertion, through integration into the blocks corresponding to its international projection.

At the same time, the multilateral level, understood as a field of external action in itself, is defined by the convergence of two specific features of the growing power of international organizations. On the one hand, the multilateral sphere is capable of imposing decisions on States, and this conditions their margin of action as far as political alternatives are effectively available. On the other, the multilateral level is by itself a stage where negotiations about national interests and aspirations are played out, with a view to imposing, or preventing the imposition of, multilateral decisions. Consequently, multilateralism is the proper space where countries with medium or low income can participate in the formulation and approval of international norms, within an international framework in which multilateral legislation gains a new and wider scope.

Nevertheless, it must be underlined that the widening of the scope of multilateral action has resulted in the primacy of international law. The multilateral constraint on the unilateral impulses of the remaining superpower is a pending undertaking. Opposing tendencies, toward globalization or fragmentation, coexist in the international system, and they generate global threats, create insecurity and instability and weaken the ability of States to govern. The existence of poverty, social exclusion and environmental degradation in a world scale are huge challenges faced by multilateralism. Multilateral action requires a holistic view of such factors of disintegration and instability in order to ensure international peace and security.

Again in the inter-State level, the central role of relations with neighboring countries is a particularly relevant feature in the case of Peru, due to the location of the country in the physical map of South America and the large extension of its international boundaries. The transfer of the focus of Peruvian foreign policy, from border problems to the political relationship with neighbors, sought to stimulate the joint use of territorial elements of common interest, including in situations where border disputes still persist. We are interested in cooperative policies, rather than in policies of confrontation.

The axis of integration

Within this perspective, to generate and deepen the integration processes at our borders and bilateral cooperation continue to be priority tasks in our immediate geographic environment. This means that the management of the several variables with each neighboring country must be directed to facilitate the relationship in its entirety, keeping in separate channels the treatment of questions where interests are not coincident or are divergent. The specific political objective is to free the international projection from constraints and prevent bilateral disagreement to become a paralyzing factor. Thus it is possible to preserve the mobility of external action and to prevent the subordination of whole bilateral relation to divergences.

In the case of Peru, the immediate surroundings are not restricted to the relations with neighbors, since due to the geographic position of the country the regional panorama is also a part of our neighborhood. There is thus a close inter-relationship between contiguous vicinity and the regional scene. This means that border integration is a promising field where synergies with the cooperation by integration mechanisms can be found. The strengthening of our border integration mechanisms is then coherent with the deepening of regional integration, and vice-versa.

Within the Peruvian territory there is a convergence between the central massif of the continental vertebral column formed by the Andes and the source of the main South American fluvial basin, the Amazon basin. Consequently, Peru plays a pivotal role in the natural axis that runs vertically through South America, and at the same time forms with Brazil the nucleus of the transversal Amazonian horizon, as well as the natural outlet towards the Pacific for the output of that extended geographic space. For this reason, the Peruvian perspective of regional integration has expanded, encompassing in sequence the Andean, Amazonian and South American spaces, as well as its transpacific projection.

The identification of the Andean integration as an axis of external action for Peru was an eminently political decision. According to its original conception, along the lines of the late 60's, the immediate objective was to extend the scope of the national markets to allow for industrialization via import substitution. Until then, the Andean countries had lived without engaging in major trade among themselves, nor agreeing joint measures. Nevertheless, the integrating model was conceived as a process which, on the

basis of a common market, would lead to political understanding to increase the international presence of the whole.

The original signatories of the Cartagena Agreement of 1969 – Bolivia, Colombia, Chile, Ecuador and Peru – worked actively toward the adoption of a wide range of norms and regulations aiming at a significant increase of trade among the Parties. The accession of Venezuela in 1973 required the renegotiation of the industrial programs and soon after the military government that took power in Chile demanded a review of the common regime on the treatment of foreign capital. The debate on that issue caused Chile's withdrawal from the Andean group in October 1976. The departure of Chile called into question the substantive aspects of the Andean development model and this in turn delayed the economic integration of the remaining member States.

The political dimension of the integration process acquired impetus in 1979 when the Foreign Minister of Peru, then Carlos García Bedoya, promoted the creation of the Andean Council of Foreign Ministers. That initiative responded to the wish to articulate a common political response to the Nicaraguan crisis. The Andean political action prevented military intervention and provided for a solution at the fall of the Somoza dictatorship. Later in the same year action by the Andean Council prevented the consolidation of a military coup in Bolivia and ensured the return to democratic institutions in that country.

Such an experience of common political action linked Andean integration with the defense of democracy and human rights. In the following year, 1980, the Heads of State of all democratic governments in the Andean countries underwrote a commitment to compulsorily defend individual rights and expressly agreed that joint action to protect such rights does not constitute a violation of the principle of non-intervention. The identification of democracy with subregional integration led finally to the signature in 1998 of the Declaration on the Commitment of the Andean Community for Democracy, an instrument that permitted the inclusion, in the following year, of a democratic clause in the Additional Protocol to the Agreement of Cartagena.

While the Andean region has been the preferred path by Peru to stimulate integration, the Amazonian territorial component indisputably turns its external action toward the central physical space of South America, with a view to ensuring the coherent, effective and sustainable development of the Amazon region. The initial formulation, in 1970's, of that conditioning factor of Peruvian external

policy, aroused some skepticism. Nevertheless, the subject of the Amazon is currently placed at the center of the international debate and will certainly acquire increasing significance, since that space contains one fourth of the world's biodiversity and eight million square kilometers of forests shared by the eight Amazon countries.

The signature of the Amazon Cooperation Treaty (TCA) in 1978 responded precisely to the need to articulate common efforts to preserve and utilize in a rational way the natural space we all share. In this connection, the strengthening of the TCA through the creation, in 1998, of the Organization of the Amazon Cooperation Treaty (Otca), constituted a strategic wager for each of its Parties and for the region as a whole. As time goes by, the crucial ecological importance of the Amazonian space in a global scale will only enhance the political role that such an organization will be called to play, the real dimension of which is still to a certain extent beyond our full grasp.

One must underline that the Peruvian interest in promoting Amazonian cooperation, besides stemming from the natural importance inherent to the basin, has significantly complemented relations with neighboring countries through the work of the bilateral joint committees, so that within the Amazonian space actions adopted in the local and regional areas can be mutually profitable.

The Andean and Amazonian composition of Peru is shared by the five members of The Andean Community of Nations (CAN) This led CAN and Otca to sign in 2004 a memorandum of understanding to cooperate in the fulfillment of common interests and objectives regarding regional integration and the conservation of biodiversity and natural resources, with a view to applying the necessary measures to ensure the sustainable development of the region. It was agreed that coordination and cooperation should be concentrated on the areas of water resources, forests, soils and protected zones, besides questions related to biodiversity, among others.

The understanding reached between CAN and Otca demonstrates concretely the links among the regional mechanisms on which the building of South American integration is based.

Since the latter part of the 1970's Peru has stimulated the intensification of that kind of bonds, with a view to facilitate the development of regional joint action. The Andean political agreement of 1979, for instance, served as a model

for the Contadora Group, set up to mediate the Central American crisis of the 1980's. The Peruvian government decided in 1985 to strengthen this mediating instance through the creation of the Contadora Support Group, composed by Argentina, Brazil, Peru and Uruguay.

On the basis of the linkage between both groups the mechanism of consultation and political coordination known as the Group of Eight was developed. Once expanded, it later became the Group of Rio, encompassing all Latin American States under an informal grouping without institutional support. The expansion of the Rio Group, however, diminished the force of its action, since the increase of its membership entailed a reduction of the ability to reach common objectives. The evidence shows that increase in its representativeness coincided with the weakening of its international projection and political action.

During the previous Alan García government (1985-1990), Peru also tried to create a unit of political dialogue within the Latin American Economic System (Sela), with a view to convert that organization into a System of Latin American States that would encompass the political and economic interests of the region. In keeping with the original project, the joint political experience of the Group of Eight would be incorporated into the new Latin American system, according to a model of political concert and economic integration that would include all 26 members of SELA. Nevertheless, this political project did not coalesce and the organization lost its force during the 1990's in the face of negotiations for the creation of the Free Trade Area of the Americas (Alca).

It should be mentioned that in the formulation of the Latin American initiatives proposed by Peru in the period 1985-1990 permanent foreign policy objectives and ideological tenets of the Aprista Peruvian Party converged in the government of that time. Not surprisingly, the name of that political group stems from the American Popular Revolutionary Alliance (Apra), put forth since the 1920's by the founder and ideologue of that party, Raúl Haya de la Torre. The original doctrine of *aprismo* sprang from the continental defense against imperialism. According to the early reasoning of Haya de la Torre, the political and economic unity of Latin America, or *Indoamerica* as he called it, was a necessity in order to preserve freedom and oppose imperialist interests. *Indoamerican* nationalism, in his view, went beyond political boundaries and encompassed the wider nation formed by all Latin American countries.

Nevertheless, the limitations of the integrating models of Latin American scope conceived in the Group of Rio and Sela, as well as in the Latin American Integration Association (Aladi), led to the conclusion that it would be more feasible to build South American unity on the basis of the sum total of existing integration processes within the region. The most promising dynamics of integration is the consolidation of joint action in smaller spaces, such as CAN and the Southern Common Market (Mercosur), and then link it by stages into wider systems. This view entails in parallel the intensification of physical, energy, trade and cultural integration, without subjecting the agenda of common interests to the coincidence of political ideology.

In the South American case, integration supposes that Brazil plays the role of stimulator of the project of regional articulation. In this connection, Brazil exercised in 2000 the regional leadership which befalls to it by proposing the creation of the South American Community of Nations and promoted the adoption of the Initiative for the Integration of the Regional South American Infrastructure (Iirsa), which was conceived as the physical pillar or the community project. The integration of the regional infrastructure is geared to the reorganization of the South American space to promote its more competitive insertion in the globalized context and create viable conditions for the decentralized development within each State.

Brazil also demonstrated its commitment to the community project by facilitating trade negotiations CAN-Mercosur aimed at the establishment of a South American free trade zone. In 2003 the Peru-Mercosur agreement was concluded, and in the following year Colombia, Ecuador and Venezuela followed suit, as Bolivia had celebrated since 1996 an Agreement of Economic Complementariness with Mercosur.

The collaboration between Peru and Brazil to shape the creation of the South American Community of Nations was activated since the establishment of the strategic alliance between both countries in 2003. That measure permitted the conclusion of the trade agreement Peru-Mercosur which in turn facilitated the signature of similar agreements with the remaining Andean nations, so that by 2004 the instruments of physical integration and free trade needed for the launching of the South American community project were already in place. That political decision was formally taken later that year with the signature of the Cusco Declaration.

Nevertheless, the achievement of the regional community project is still a sizable pending task, even as it can also count on the dense integrating fabric woven in South America. Its deepening requires the expansion of free trade beyond goods and services and the strengthening of security, as well as the development of the normative framework and financial mechanisms. The path for physical integration opened through Iirsa must be emulated in the energy and environmental fields, so as to strengthen complementariness and community of criteria for sustainable development.

Finally, the greatest challenge is still the consolidation of a kind of political coordination that allows us to acquire significant and effective international projection. Globalization by itself does not facilitate the fight against poverty and exclusion demanded by our societies. An inadequate or disadvantageous insertion in the global world would affect the conditions of social cohesion in the weakest States, whether of medium or low incomes. Accordingly, the joint political action in South America requires a clear common view of the needed model of sustainable development with social inclusion, as well as a real capacity to promote and defend that common view in the international arena.

The regional orientation of foreign policy

The first stage of Peruvian external action, as we have shown, is the immediate local environment. In the case of Peru, this environment coincides with the physical bounds of the Andean integration and the Amazonian cooperation. Our neighbors are our partners, or our associates in CAN. At the same time, all our neighbors are Amazonian countries, with the exception of Chile. With Brazil, moreover, we share the main Amazonian fluvial route and its bi-oceanic projection. This means that the Peruvian policy towards its local environment plays a major role in complementing the bilateral cooperation measures with the initiatives of Andean and Amazonian cooperation. Consequently, the intensification of our relations with neighboring countries stimulates regional integration. Contrariwise, the Peruvian foreign policy would play a dissociating role in the region.

The first external priority of the Peruvian government has been to lead an active policy of tightening the links with the immediate local environment, with a view to establishing agreed constructive bilateral agendas, above all in the border zones which are the least relatively developed ones. In the execution of

this policy presidential and ministerial visits to neighboring countries have been actively pursued. In his capacity as president-elect, dr. Alan García visited Brazil, Chile, Colombia and Ecuador. Upon my appointment as Foreign Minister, I undertook working visits to Brazil, Ecuador, Bolivia and Chile and received in Lima my counterparts from Chile and Colombia.

Our objective is to concentrate our actions with our neighbors in the identification and development of agreed common interests, being aware of the projection of our policy toward our immediate local environment and of its influence on the facilitation of Andean, Amazonian and South American integration links.

Brazil

Brazil plays a key and privileged role in the framework of the neighborly relations of Peru. The excellent state of the bilateral relations gives a positive input to the political priority attributed to the deepening of the strategic alliance between the two countries.

The ample bilateral agenda includes the substantial increase in trade, the setting in motion of the physical and economic interconnection in the framework of Iirsa, through the bi-national axis Multimodal of the Amazon, Central Transoceanic and Southern Inter-oceanic, cooperation in the system of oversight and protection of the Amazon region (Sivam/Sipam), cooperation in the field of energy, increase of air frequencies and the concretization of the joint use of Peruvian port facilities in the Pacific.

The immediate objective in the current phase of the bilateral relationship is to realize the physical integration between the two countries. The start of the construction of the Integration Bridge between Iñapari, in Peru, and Assis, in Brazil, and of the inter-oceanic highway opens the interconnection of vast shared Amazonian frontier areas that require joint grater effort to overcome their lower degree of relative development. The initiatives to consolidate the joint administration of the tri-national basin of the river Acre constitute an additional experience in the Amazonian trans-border and decentralizing focus that must be deepened.

The social dimension of the Peruvian-Brazilian relationship has not been neglected. In September 2005 the Agreement on Facilities for Entrance and Transit, that abolished passports and visas between the two countries, entered

into force. Afterwards, in the beginning of the current year, on the occasion of the visit of the Brazilian Foreign Minister to Peru, agreements to avoid double taxation and prevent fiscal evasion, promote trade and investment, cooperate in space science and technology and interchange management methods in agricultural research and development were signed. The ensemble of agreements permitted the increase in bilateral tourism and facilitated commercial, financial and investment transactions, thus creating conditions for civil society and private enterprise to undertake the task of providing social content to the physical integration.

In short, the relationship between Peru and Brazil can be considered an example of synergy, where achievements in the bilateral field are in consonance with the aims pursued in the level of regional integration, with special emphasis in the decentralized development of the Amazonian frontier areas. The active bilateral relations maintained with Brazil provide a sample of the dynamic interaction model that Peru intends to consolidate with its other neighbors.

Chile

The Peruvian-Chilean relations have been significantly strengthened by the inclusion of Chile as associate member of CAN since September 2006, thus marking its return to the Andean sphere after 30 years' absence. Previously, during the visit of the Chilean Foreign Minister to Lima, the Free Trade Agreement that follows the Agreement of Economic Complementariness of 1998 was signed. For its part, Chile took the initiative to invite Peru to join the Transpacific Agreement of Strategic Economic Partnership (P4), which currently brings together Chile, Brunei, New Zealand and Singapore.

The reorganization of the relation with Chile is being undertaken through the reactivation of the extensive existing bilateral architecture. The resumption of the "2+2" meetings, which facilitate consultation and coordination between the Ministries of External Relations and defense of both countries should be understood in this context. At the same time, the Border Commission is charged with continuing the process of integrated border control and of the ensemble of questions of common interest to the population of that zone. The convening of new meetings of the binational technical cooperation and limits commissions is also contemplated.

The bilateral relationship with Chile is a concrete demonstration of the advantage of undertaking common action in areas of common interest and to

proceed through separate channels to resolve controversial issues. In addition, both countries enjoy conditions that facilitate the intensification of the relationship, due to the high level of Chilean investment in Peru, to the large Peruvian community living in Chile and the sustained growth of trade.

Ecuador

Relations with Ecuador were qualitatively redefined in 1998 with the signature of the Brasilia Agreements, as the set of instruments reached thanks to the generous mediation of Brazil, among other countries, is known. Within that framework, the signature of the Wider Agreement of Border Integration, Development and Neighborhood and of the Agreement for Acceleration and Deepening of Free Trade put in motion an intense network of bilateral interaction, in several fields, which is fully operative. Accordingly, the Peruvian government has committed itself to the fulfillment of the pending parts of the Brasilia Agreement in order to facilitate the deepening and intensification of the bilateral relations.

In the specific case of the renewed Peruvian-Ecuadorian relationship, the Neighborhood Commission, created in 1998, is the political and representative instance charged with the execution of the programs and projects of common interest to both countries. Likewise, the Binational Development Plan encompasses a number of projects dealing with highway, fluvial and administrative integration, of a scope hitherto unheard of, aiming at converting the border area into a space of inter-exchange of goods and services and of coordination of local policies among the populations of both countries.

It must be underlined that the physical integration projects envisaged under the Binational Plan complement the decisions and measures adopted in the framework of Iirsa. Approved projects also respond to pre-established criteria of environmental sustainment, impact of social development and inclusion. The employment of such criteria contributes to keep the significant presence of international non-reimbursable cooperation in the financing schemes of the Binational Plan.

The characteristics of the current Peruvian-Ecuadorian relationship clearly show that the 1998 agreements unleashed the intense bilateral dynamics that had remained constrained until then due to the weight of conflicting interests.

Bolivia

The General Treaty on Integration and Social and Economic Cooperation signed with Bolivia and recently ratified by Peru is the agreed framework to intensify and solidify the ample ensemble of links that both countries have traditionally entertained. That Agreement seeks, in essence, to shape a common Peruvian-Bolivian market.

Border development is a theme area of special importance within the thick bilateral agenda. In view of that, the Agreement on the Creation and establishment of the Border Integration Zone entered into force within the framework of Decision 501 of CAN. As complementary measures, in the following years agreements of joint border supervision, migratory regularization and customs cooperation have been signed.

Concurrently, the use and condominium of the waters of Lake Titicaca, under the responsibility of an autonomous entity charged with the integrated management of the lake basin is a recognized example of bilateral cooperation in this field. Peru has also provided every facility to Bolivia for the use of the Ilo seaport, including a customs-free zone and the development of a tourist project in the Peruvian sea coast.

Finally, the Convention on Mining Integration and Complementariness reached in 2003 and the Letter of Intention for Energy Complement signed in 2004 make up the binding legal framework adopted to deepen productive bilateral cooperation.

The network of bilateral instruments described above clearly reflects the wide reach of the traditional historic, social and cultural linking Peru and Bolivia, and its rich projection.

Colombia

Peruvian-Colombian relations stand within the concept of a preferential association that seeks integration as a corollary to political agreement, border development, social and technical cooperation besides security and defense.

Cooperation in issues of security and defense is the central axis of the bilateral relationship and this is one of the fields where much has been achieved in the past few years. The common policy of security and defense was promoted in 2002 with the creation of instances of ministerial cooperation and the signature

of conventions on air and fluvial interdiction. The common objective is to ensure the flow and the dynamism of cooperation and the interchange of intelligence information between the armed forces and the police of both countries. The common interest in waging an effective fight against drug traffic has also resulted in the strengthening of bilateral legal assistance and in the signature of a new extradition treaty.

In what concerns border development, the Neighborhood and Integration Commission is responsible for the adoption of measures to improve the living conditions of border populations. Its main activity is the design and execution of health, food security and education projects. The exchange of experiences in programs directed to social problems takes place actively in parallel by means of the joint technical cooperation commission.

Finally, the Binational Plan for the Integrated Development of the Putumayo river basin is charged with ensuring the sustainable management of shared natural resources in the Amazon border area, in close coordination with the measures adopted by Otca.

Regional lines of the foreign policy

Present conditions call the attention of the Peruvian government to the consolidation of the two regional communities, the Andean and the South American, and to the strengthening of their inter-regional relations. The latter constitute the nucleus of the agendas of the V Summit of Heads of State of Latin America and the Caribbean-European Union (ALC-UE) and the XVI Summit of the Asia-Pacific Economic Forum (Apec), which will take place in Lima during 2008.

Almost 40 years ago Peru identified the Andean environment as the natural path for its international projection. Despite the comings and goings of the Process of Andean integration, this continues to be our immediate space of joint action. For this reason the Peruvian government and its Andean partners have negotiated intensely and extensively in order to rescue, normalize and modernize the process of sub-regional integration. The possibility of withdrawal from the Andean group by Peru showed that the process would lose its rationale in the absence of its historic, political and geographic pivot and nexus. For this reason Peru keeps alive its wager on the strengthening and international projection of CAN, with a view to perfecting the common

economic space with an institutional scaffolding that may serve as a platform to facilitate integration with other commercial blocks and countries in the framework of the global economy.

In parallel, as a last phase of the ensemble of integrationist experiences amassed in the region, Peru and Brazil promoted in 2004 the shaping of the South American Community of Nations (Casa), which rests on the convergence CAN-Mercosur, together with Chile, and with Guyana and Surinam joining in the regional integrating dynamics. The project is also based on the innovative path of articulating and integrating the regional infrastructure in order to reorganize strategically the shared physical space, with a view to the creation of the necessary conditions for the promotion of sustainable decentralized development and competitive global insertion.

The construction of Casa, a pending task that requires perseverance and clear objectives, constitutes a South American priority, inasmuch as this political and commercial project, as well as of physical and social integration, aims at ensuring the efficient insertion of the region into the international system. Its realization will undoubtedly mean the appearance of a qualitatively superior regional political and economic actor, in keeping with the notion of modernity.

Nevertheless, even if the central objective of consolidating Casa is kept in force, the immediate priority from the viewpoint of the Andean countries is to conclude the Association Agreement CAN-UE, including a political dialogue, cooperation programs and a trade agreement, as agreed last May at the IV Summit ALC-UE in Vienna, in accordance with the international strategic objectives. The achievement of the association agreement CAN-UE will constitute in itself an experience that will strengthen the concerted action among the Andean countries, due to the kind of block negotiation that it entails. The process of joint evaluation of the state of Andean integration was satisfactorily completed last July and the definition of the basis of negotiation is in the final stage.

The objective envisioned is that the signature of the agreement take place in March 2008, on the occasion of the celebration in Lima of the Summit ALC-UE, a meeting whose primary objective is to deepen regional inter-relations in order to put together balancing measures in the face of the predominant political, commercial, economic and cultural role of the United States in the American continent.

Peru has also demonstrated a growing interest in participating actively in the commercial development that since the end of the last century has been gathering speed in the Asia-Pacific region. This led Peru to join Apec in 1998, by adopting to this end the open economy model. As a reflection of the Peruvian interest in the strengthening of its trans-oceanic projection, it was agreed that the XVI Apec Summit would be held in Lima. The central objective sought by Peru is to use the political opportunity of the organization of the Summit to look for concrete competitive advantages for Latin American countries that are Parties of that Forum. A complementary objective is to push forth demarches aimed at facilitating the adherence of further South America countries to Apec.

On the basis of our trans-oceanic projection, the Peruvian government envisages to propose the creation of a Latin American Pacific Association. This initiative seeks to include CAN, and Chile as an associate member, in an economic mechanism that encompasses the countries in Central America and Mexico. The proposal also contemplates the facilitation of the adhesion of Ecuador and Colombia to the Apec Forum. Its strategic purpose is to strengthen the commercial position of the ensemble of countries in the Asia pacific markets.

Finally, the holding of the Apec Summit in Lima brings a useful opportunity to explore measures through which the South American countries may articulate themselves in a wider and more profitable manner with the dynamic Chinese economy, in view of its aggressive commercial expansion. The weighty role currently played by China in the world economy and, above all, its projected growth, require a concerted regional response given the powerful dimension of the Chinese economy. The positive insertion of Peru and South America in Asia requires the reevaluation of the relation with China, with a view to the qualitative strengthening of the exchanges with the rapidly growing market of that country.

By way of conclusion

The main lines of Peruvian diplomacy are adjusted to the new realities and challenges. The Peruvian diplomacy of President Alan García's government is defined by a dynamic of building agreement and of the construction of scenarios that lead to renewed structures of cooperation.

This diplomacy seeks an international insertion which is competitive in the economic field, supports the primacy of multilateralism and International Law in the political realm, affirms democratic governance and the defense and promotion of human rights in the social terrain, with an effective program of struggle against poverty and social exclusion, and in the cultural area rescues and enhances internationally the rich cultural heritage of the Peruvian nation.

Peru does not intend to tackle that task by itself. It will be performed much better with the concurrence of our neighbors in the region. **DEP**

Suriname by its authors

*Jerome Egger**

Debate on the issue of what constitutes Surinamese literature has spanned the years. It is not confined to the country itself: the question has been raised well beyond its borders, particularly in the former mother country, the Netherlands. To this very day the question is posed. That betokens continued uncertainty in a country that gained its independence just thirty years ago. The legacy of the colonial past has not always been adequately assimilated. This is especially the case in former colonies that do not always know how to deal with this part of their history. Should this issue simply be brushed aside or is it so crucial that it deserves debating?

This article aims to provide an overview of Surinamese literature. Brief considerations will also be made about literature written during the colonial period and in the years following World War II. Literary output began to increase in volume in the latter period, particularly in the 1970s when independence triggered a flourishing of Surinamese literature. The focus will be not only on authors then or still active in Suriname itself but also on writers of Surinamese origin resident and published mainly in the Netherlands.

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An approach

A debate that took place in the Netherlands more than ten years ago raised certain points that remain on the agenda in discussions of Surinamese literature. At the time, Anil Ramas claimed that in actual fact Surinamese literature had failed. How had it failed? He supported his provocative claim by offering examples of well-known novels by Surinamese authors which cannot be cast into the shade by other Caribbean writers. Anil Ramas said that writers in his native country cannot perceive this fact. Furthermore, he argued that writers should not always feel obliged to help in the business of nation-building. Rather, he wished they would describe and probe people's behaviour, plumb the reasons for their acts, and reveal their inner motivation. They should likewise prove capable of reflecting despair. Ramas' harsh tone can be explained by his desire to set the ball rolling in debate on Surinamese literature. This type of introductory gambit frequently causes a wave of reactions. Once such reaction came from Michiel van Kempen. He said it was easy to find examples of Surinamese literature to support the claims Ramas had made. On the other hand, though, many of these examples could be found in the author's own complete works. He also pointed out that there are plenty of poems displaying sentiments and emotions that range from fright and perplexity to repudiation and despair. He drew attention to a key issue: the small size of the community sharing Surinamese experience. This naturally affects what a writer seeks to write and what he prefers to keep to himself. This does not, however, imply that quality will be impaired. Writers occupy themselves with Suriname and certainly attempt to explain what goes on in its vicinity. Hope is a legitimate aspiration, van Kempen argued.

The second reaction to Ramas' opening gambit came from Thea Doelwijt. In an ironic, sarcastic article in the form of a short play, she exposed the absurdity of some of his allegations. To give the play extra punch, it takes place partly in Casablanca, a potential allusion not only to the famous Hollywood film but also to the double Diaspora: away from the native country and away from the former colonizer.

Such reactions show that Surinamese literature was capable of provoking a great variety of reactions, and that all found it hard to reach a consensus as to what precisely should be considered as belonging to the category. At about the same time a congress was held in Suriname on the prospects for Surinamese art, at which literature was also discussed. Writer Robby Parabirsing gave his view

of the country's literature. One important aspect of Surinamese literature, he said, was the absence of criticism. In his opinion, "writers and poets cannot develop and improve their work without effective literary criticism." When literary criticism eventually came into its own in the eighties, a whole generation that had been active in the sixties and seventies had sadly already moved to the Netherlands or died. One can, of course, start over afresh. He also warned that exaggerated demands should not be made by the critics because this could have the opposite effect. He explained that criticism in the eighties expected too much of the literature of the day. The result was that writers were discouraged from publishing their work. In his article, Parabirsing also commented on another feature of Surinamese literature: the lack of self-criticism. It took until the late nineties for regular criticism to appear.

By observing these two moments in the early 1990s, we can draw certain conclusions. Firstly, discussion about Surinamese literature were not confined to Suriname but also took place in the former metropolis. Many Surinamese who emigrated to the Netherlands in the sixties and especially in the period around the 1975 declaration of independence continue to nurture very strong bonds to their native land. This has led them to be irrevocably engaged in debate on any issue relating to their motherland, literature included. Another conclusion drawn is that the writers have undoubtedly taken into account the issues they tackle. That is visible in van Kempen and Parabirsing's articles. The third conclusion is that something or other is still lacking for Surinamese literature to come of age.

This is the debate that occupied the early nineties. Time has not stood still and the scenario has changed somewhat. A group of writers formed in 1977 is increasingly active. The weekly literary page in the press has devoted special attention not only to local literature but also to Caribbean and Latin American writing. Publishers in Suriname and the Netherlands are now increasingly willing to launch books to kindle the debate. That was not the case in the past. Another major step forward is the possibility of participating in seminars and congresses held abroad. Writers resident in Suriname are increasingly being invited to talk about their work elsewhere. Finally, a number of international congresses have been organised in Suriname itself.

The first congress that merits mention was held in 1997 when the 77 Writers' Group (*Schrijversgroep '77*) celebrated its twentieth anniversary. A number of guest speakers from the Guianas, Dutch Antilles, Trinidad and the Netherlands took

part in this event. The former chairman of the group, Frits Wols, has said that it “endeavours to ensure Surinamese writers and poets can conserve or discover their dignity and express themselves without any kind of linguistic restraint.”

He points out the restrictions imposed by writing in Dutch on a continent where no other country speaks the language. Be that as it may, the event proved successful and well attended. It enabled those interested to address the various aspects of the literary enterprise at local and international levels. Furthermore, it allowed considerable attention to be focused on the literature in the media beyond Suriname’s borders.

The second congress took place in November 2002. It was an international literary festival called “*Het Woud der Verwachting*” (The Forest of Hope) and was attended by numerous Dutch institutions and writers. A considerable stir was caused by some Surinamese writers refusing to participate in the event for various reasons. The festival evenings received an extraordinary number of visits and presentations were not confined to the capital, Paramaribo but spilled over into other districts. Surinamese from all walks of life, but especially school and university students, were confronted with work by authors from other countries. Care was taken to hold debates that would induce people to reflect. An occasional push in the right direction does no harm in literature. And that is what happened.

In brief, the groundwork discussions for establishing an approach to Surinamese literature did take place but failed to reach a consensus. Controversies have not yet been allayed in the first decade of the 21st century. Every so often they surface again. Today, there are more writers living and working in Suriname, who publish their work here. They express a certain pride in being Surinamese – and that is all. They differ from poets of the sixties and seventies whose nationalism often left its mark on their work. The quality of the writing has improved, and international contact has enabled their work to be assessed beyond the country’s borders.

Certain vitality is apparent in Suriname’s literature, whether or not it reflects a particular orientation.

The early period

We shall now proceed to provide a chronological overview of the development of Surinamese literature. A good place to start is the oral tradition

of the original inhabitants of Suriname, the Natives. Much of their knowledge and sentiments about their own past was recorded in song. A song recorded in Callaloo describes a great ship that brings cannibals to devour them. Is this a reference to white Europeans arriving in the Americas who, not literally but figuratively speaking, devoured the indigenous peoples driving many communities out to the margins of society? A great deal of interest is now being taken in the viewpoint of these peoples who, in their own manner, have created a literature that is now increasingly recorded in writing.

Another culture (cultures, actually) that has a strong oral tradition and merits attention is that of the different groups who have descended from fugitive slave who set up their own communities in the Surinamese hinterland and, in their own way, expressed the events unfolding around them. They too have contributed to the country's non-written literature. Over the years, their tales, songs and other cultural expressions have drawn the attention of scientists from a variety of countries. This interest has helped bring their culture, which is part of Suriname's multicultural patchwork, to light.

The books written about Suriname cannot strictly be deemed Surinamese literature. Even so, a novel set in the region deserves comment. Aphra Behn wrote "Oroonoko or the History of the Royal Slave" in 1688. The Antilles writer Frank Martinus Arion holds this is one of the first novels to be written, countering the traditional claim that the novel emerged in the first half of the 18th century. According to Arion, Behn used the situation in Suriname and the wrangles surrounding the royal couple as a parallel for the political struggle unfolding in 17th century England. Treason is thus a kernel theme. Arion argues that Behn must have been in Suriname because his descriptions of nature are highly authentic. This is a moot point, however. What really matters, though, is that Suriname is the stage on which the action of the novel is played out.

A number of books were written about Suriname in the colonial period. They were the work of travellers, plantation owners and other people who visited the country for varying lengths of time. These writings generally have more historical than literary interest. Some have come to be viewed as classics because they established an image of Surinamese society in a particular period. There were also societies that encouraged reading and promoted the publication of poems and other literary works. The quality is variable.

The end of the 19th century saw the emergence of several local writers publishing work of higher quality and who played an important part in the country's literary development. The novels written by a Roman Catholic priest, François Henry Rikken (1863-1908), have a specially linguistic importance. The most well-known of these is "*Codjo de Brandstichter*" (Codjo the arsonist), a historical novel about Codjo, who in September 1832 started a major fire in the capital that reduced a great many houses to ashes. He was arrested along with several other people and was burned at the stake in January 1833. Rikken tells the tale convincingly, partly because, wherever possible, he resorted to authentic sources so as to provide the reader with "a faithful sketch of Paramaribo, as well as a detailed account of the fire of 1832." All this makes the book worth reading. Nonetheless, 21st century readers may be less enchanted to know that Rikken have considerable importance to the fact that Codjo converted at the last and, as he walked to the stake, begged for forgiveness. That, of course, does not make the book any less noteworthy for Surinamese literature since it offers such a fine portrait of society at that time.

The first half of the 20th century saw the publication of a number of books, and Surinamese newspapers published some literary works, too. This was a period of enhanced Negro awareness, and that led larger numbers of Surinamese of African descent and other racial mixes to engage in the cause and express themselves through the medium of literature. Anton de Kom (1898-1945) published a book that was to be highly influential among the generation of Surinamese that went to study in the Netherlands in the 1960s and 1970s. He is also well known for his poetry.

Another important author from this period is Julius Koenders (1886-1957). It was he who encouraged the use of the Sranan tongue, a creole language that most Surinamese spoke – and indeed still speak – and that was initially used as a contact language between slaves and whites. It was subsequently adopted by the different ethnic groups descended from slaves in the coastal region, who consider it their native language. As the editor of a paper published exclusively in Sranan (*Foetoeboi*), Koenders championed the emancipation of this racial group and the use of their language.

Finally, there is a representative of the contract workers who began to emigrate to Suriname in 1873 hailing from what is now India. Rahman Khan (1875-1972) was born in the Indian subcontinent and arrived in Suriname in

1898. He wrote poetry that, although it may not be of a particularly high literary standard, has a certain historical value. A translation of his autobiography has recently been released. For these reasons, he has become a landmark figure in Surinamese literature.

Albert Helman

Albert Helman, the pseudonym of Lodewijk (Lou) Lichtveld, was born in Suriname in the year 1903. He is a writer who deserves separate treatment, partly because his literary activity spanned many decades and he bequeathed a large volume of work, but also because he wrote several books that have undisputedly become classics. Besides contributing to newspapers, he was also a composer, writing the soundtrack for the first Dutch talkie. He died in 1996. His work thus spanned several periods of Surinamese literary history, making him a Surinamese man of letters of considerable status. Young writers who came to the fore in the sixties and seventies levelled criticism at Lodewijk, questioning whether he should be considered a Surinamese author. In the eighties and nineties he was largely reinstated and the issue of whether or not he is Surinamese is no longer raised.

Lodewijk spent a good deal of his life outside the country, living for longer or shorter spells in the Netherlands, Spain, Mexico, Tobago and Italy. Nonetheless, his ties to Suriname (at times positive, at others negative, especially after the military coup in 1980) remained strong, and this is visible in his work. Moreover, he can be considered something of a *connoisseur* of Surinamese culture and society. He wrote on anthropological and historical themes. Here, we shall confine our focus to his fiction and those of his works which have attained some importance for the country's literary history.

In 1926, he published “*Zuid-Zuid-West*” (South South West), which painted a spirited portrait of Suriname. A solitary man living in the Netherlands casts a look back at his native country. It is worthy of note that, as early as 1926, Helman wrote the preface to the book in Sranan. At the time this was an unacceptably bold move, since Sranan was not even deemed to be a language proper. Speaking it was viewed as a high road to backwardness because it would hamper command of the Dutch language. Another typical feature of the book is that it actually accuses the Dutch of letting their colony “wither... to a dry desert.” Additionally, Helman criticised the Dutch for being interested solely in creaming off the profits,

not in investing in the country. He even went as far as saying that for centuries the Dutch had been thieves. He quipped sarcastically that he hoped they might at least be “tender thieves and not villains.” This book still merits a read today, and it has been republished several times.

One of Helman's best known novels is “*De Stille Plantage*” (The Still Plantation), which is still a set book in Surinamese schools. This is probably the book that established his reputation. It is a historical novel describing life on a plantation before the abolition of slavery. The opening sentence gives a clear idea of how intelligent the descriptions are: “Memories are like startled birds beating their wings across the rooftops, hardly brushing them before launching into the air again.” The high points in the novel are the descriptions of nature and the period atmosphere. It tells the tale of a French couple who set sail for the West Indies to make a new life for themselves. But idealism in a slave-trade society can lead to ruin – and this is what happens. Death and destruction in such circumstances inevitably lead one to look back, and return to Europe generally seems the only way out. That proved the fate of part of the family.

In old age, Helman wrote “*Hoofden van de Aoyapok!*” (Aoyapok Heads!), published in 1984. The novel is about an expatriate who has left his own environment and fails to adapt anywhere else. His return to his birthplace at the end of the story is a fiasco. The fragmentary tale is told by the native Malisi. A play has been made of this novel, which has been performed in the Netherlands and Suriname.

Finally, brief mention should be made of Helman's great historical work, “*De Foltering van Eldorado*” (The Faltering of Eldorado), which appeared in 1983. It provides a detailed description of the Guianas: Helman does not confine his analysis to the parts colonised by the British, Dutch and French, but widens the focus to take in parts of Venezuela and Brazil. To do so, he resorts to ecological similarities and the affinities that link the natives in the region. On the one hand, the book provides an extraordinarily rich historical account, with wonderful descriptions of nature, the potential and setbacks for the region, set against the sweeping backdrop of this vast tract of land's past history. On the other hand, its treatment of the 20th century must be viewed more critically. He did not refrain from making several very harsh comments that have left a misleading image of the development of several countries in the region. Helman's positive and negative talents are on display in the book. Despite these restrictions,

Helman's work remains unique and unrivalled in Suriname and, in all probability, only a handful of people can match him beyond its borders.

The year 1957

The year 1957 is often considered the starting point for Surinamese literature. Why? That year saw the publication of an anthology of poems by Trotji (Aanhief) van Trefossa, the pseudonym of Henry de Ziel (1916-1975). Why did this particular anthology become so crucial? Firstly, on account of the quality of the poems, but also because they were written in Sranan. For the first time proof was provided – in the eyes of those who refused to consider Sranan a full-fledged language – that subtle thinking could be expressed in that tongue. This was a watershed concerning the publication of poetry in Sranan. It is also noteworthy that the anthology was dedicated to Koenders, the writer who had first sought to raise the status of Sranan. It must be said, however, that many of the poems published subsequently in the language failed to attain Ziel's high standard.

Trotji's slim anthology was a selection of 19 poems. He succeeded in expressing and arousing sentiments, customs and images that many thought could not be rendered in the Sranan tongue.

One of the most beautiful associations is found in the poem *Kopenhagen*. In the Danish port he observes the statue of the mermaid that the Danes and others associate solely with the Andersen fairy tale. Trefossa sees it from another angle. He associates it with the *watramama* of Surinamese folk legend. Others might pass the statue by but Trefossa weaves a connection with the culture of his homeland. The exclamation of surprise “eh-eh” has since been assimilated into poetry but it gives the reader a unique touch. He addresses the statue, saying “*Watramama mi sabi ju*” (*Watramama I know you*) because really does know it but in an utterly distinct context from the Danes.

Others take “*Bro*” to be the most outstanding poem in the collection. Eersel argues that in this poem Trefossa shows that “he feels deep down that the world into which he was born is not the world of his dreams and may never be so.” To Eersel's mind, though, the gap between reality and dream is where poetry flourishes. To him, “*Bro*” is the key to Trefossa's art.

The sixties and seventies

The sixties and seventies are the period when Surinamese literature flourished. A variety of novices took up the pen and began to write poems, short stories and, occasionally, novels. Interest in literature in school grew. Events and well-known, crowd-drawing figures saw to it that writers became visible. The way in which the writers presented themselves and reached “man and woman” alike also played a direct part in the sea change. There were very few publishing houses in Suriname, so the writers were obliged to print and sell their own books. Dobru (pseudonym of Robin Raveles, 1935-1983) was particularly good at this. He was virtually ubiquitous, carting his booklets of poems or short fiction with him for distribution. Several other writers soon followed his example. They often went to the schools where they presented and sold their work. As a result, their literature was distributed to all social segments and classes.

A major launch pad for this literature on the rise was the literary magazine *Soela*, first issued in 1962. The editors included established poets and writers like Trefossa or people who would go on to become authorities in the field, like Corly Verlooghen (1932). The writings of Bea Vianen, later to publish very controversial novels, first appeared in *Soela*. Influential intellectuals like Jnan Adhin and Hein Eersel also contributed to the magazine. The illustrations and covers were the work of Stuart Robles de Medina, one of Suriname’s finest artists. The magazine ran for two years, until 1964, publishing seven issues, two of which were double editions. It was an excellent jump start and the magazine soon became a collector’s item, not only for its content but also for the projection it achieved.

The first issue of *Soela* (which means acceleration in an electric current) provided some interesting points of view that were highly significant for the spirit of the day. Suriname as a whole was undergoing a sort of acceleration in its electric current. Large-scale economic projects sprang from the ground, increasing numbers of Surinamese were afforded the opportunity of studying abroad – mainly in the Netherlands – and the country’s gates to the outside world were flung wide open. *Soela* reached beyond Suriname’s borders and its language policy ensured that all the languages spoken in the country could grace its pages. Indeed, the first edition contained a poem by Shrinvási written in Sarnami, a language spoken by the Indian contract workers together with its Dutch translation. There were also poems in Dutch, English and Sranan. One of the poems was about the crisis in the Congo. A great deal of interest was shown

in events outside Suriname. A number of short stories and prose fragments were also published. For the first time, the country's multilingual make-up was on display.

Poets revealed by *Soela* include Bhai (pseudonym of James Ramlall, 1935) and Jozef Slagveer (1940-1982). Bhai published just one book of poems, "*Vindu*", in 1982, for which he immediately won a prize. His poems have a philosophical slant and are clearly influenced by western and eastern philosophers.

Jozef Slagveer, on the other hand, belonged to the nationalist movement of the sixties. As a journalist, he was often on a collision course with the authorities. His disclosure of scandals did not go down well with those in power. Besides writing poetry, he published one short novel.

A number of novels, that have since come to be seen as classics, were first published in the sixties. Two of them are undoubtedly world class. Leo Ferrier published "*Atman*" and Bea Vianen, "*Sarnami, Hai*." Ferrier's book describes how a man who returns from Europe to his birthplace attempts to reconcile the various cultural values of his homeland with his own multicultural background. In every respect, this is an optimistic book because harmony can be attained. However, Ferrier published a second novel which is the precise opposite, a book narrating the domestic conflict of his homeland – anything but a tale of optimism.

Bea Vianen's work has never been very optimistic in outlook. "*Sarnami, Hai*" (I am Suriname) describes the rite of passage into adulthood of its main character, Sita. Surinamese society is not orderly, its stark contrasts affecting all walks of life. In the end, Sita is obliged to leave her son when she seeks to depart the land where she was born. This remains one of the most frequently read books on the Surinamese school syllabus. Later novels by Vianen have also become well known.

Many writers became active in the sixties and seventies. Naming them all would be beyond the scope of this article. We shall focus, instead, on three more: Dobru and Srinivasie (mentioned above) and Michael Slory. Dobru is, without doubt, the most well known. He was everywhere to be found, he was a good communicator and took an active part in politics, especially in the nationalist movement. His poem *Wan Bon* (A Tree) remains a Surinamese favourite. It stresses the uniformity of the various cultures comprising Surinamese society. His autobiographical description in *Wan Monki Fri* is very interesting because Dobru clearly portrays his origin and how religion helped shape him, his social class

and the burgeoning nationalism of the fifties. Moreover, he was very frank in expressing his opinions and denouncing social conditions.

Shrinivasie published his work, which covers a variety of subjects, in different anthologies. Some agree that uniformity can be achieved in Suriname while others take a more philosophical approach to the issue. While praising his homeland, Shrinivasie is more critical of developments that have hampered freedom over the years. A collection of his poems bears witness to the thematic variety. He describes the districts where he was raised and entered adult life but also refers to the Dutch Antilles where he subsequently lived and worked. He travelled throughout Latin America and saw much injustice, the subject of many fervent poems. In *Sangham*, though, the philosophical tone of an older man prevails, one who can now tackle the subject of death. Shrinivasie is considered one of the most important Surinamese poets in activity in the 21st century.

The last of the three is Michael Slory (1935), one of the most productive writers of his generation. He has been writing poems in several languages (Dutch, Sranan, Spanish and, more recently, English) for more than forty years. His poems still appear in one of the Surinamese dailies, mostly poems focusing on current affairs. In his collected works “*Ik zal zingen om de zon te laten opkomen*” (I shall sing to make the sun rise) not only show the issues that concern him but also demonstrate his prowess in a variety of languages. The district where he was born and raised is the subject of some of his poems. He is solidary with the downtrodden. Surprise is to the fore when he comes across something in nature that holds his attention. Some of his poems seek to capture the fleeting moment. The beauty of women fascinates him. His (to date) most recent collection has poems about freedom in which he refers to slavery and exclaims: “People, never forget that!”

The last three decades

Suriname became independent in November 1975. Extraordinary growth in literary output ensued, virtually all continuing or developing the themes broached in the sixties and seventies. Independence was accompanied by a great wave of immigration to the Netherlands. Shortly after independence about half the population of Suriname moved to the Netherlands. To make matters worse, a military regime took power in Suriname in February 1980. That, however, did

not dampen literary zest. The fact of the matter is that it did indeed make it harder to publish books. Paper was scarce, printing costs rocketed and the growing poverty of the population could also be felt in the bookshops.

What is the Surinamese literary scene like now? Looking back over the first half of the first decade of the 21st century, certain trends can be detected. A positive development is that literature for the young now merits considerable attention from Surinamese authors. Gerrit Barron (1951) and Ismene Krishnadat (1956) are just two writers who have written successful children's books. Robby Parabirsing (writing under the pseudonym Rappa, 1954) has written books for a slightly older audience, his humour and light erotic touches being highly appreciated by youngsters. Thus a new audience has been formed, who see reading as a highly enjoyable occupation. That alone is something to celebrate. All these writers have kept up the tradition of visiting schools to give readings of their work. This has established direct ties with the readership. Gerrit Barron distributed his books through schools, achieving high printing demand. Despite the problems mentioned earlier, a considerable quantity of books was sold in the eighties. These writers also sought to launch their books in the Netherlands. Barron expanded into the literary market of the Dutch Antilles.

One of the most outstanding poets in this period is Surianto (pseudonym of Ramin Hardjoprajitmo, 1937). He is one of the few Javanese writers in activity. His poetry is influenced by Shrinivasie. He drew critical attention because he wrote poetry in both the language of his Javanese parents and in Dutch. The cultural influence is patent. One poem, "*Een Bos*" (A forest) focuses on discrepancies between Javanese Muslims – who face a certain direction at prayer because they traditionally did so in their homeland and so continued to do so in Suriname – and others who face the actual direction of Mecca. These poems are a rich contribution to multicultural cohabitation.

Finally, mention should be made of Cynthia McLoed Ferrier (1936). She is the elder sister of L.H. Ferrier. In 1987, one of Suriname's few publishing houses published "*Hoe duur was de Suiker?*" (How much does the sugar cost?), a historical novel set in the 18th century. By Surinamese standards, the book has been a phenomenal success. Reprints followed in hot succession with more than 10,000 copies being sold. It has also become a best seller in the Netherlands. The main subject of the novel is slave society in the 18th century. The title alludes to the fact that the sugar consumed in Europe was produced at a very high price.

Slaves were required and their suffering was very great. That passage of history has been brought alive for many readers by this book. All her subsequent work has received considerable publicity and reached a wide readership.

In conclusion, it can be claimed that Surinamese literature has progressed from the writings of Dutch colonial authors to the production of work by authors of diverse ethnic backgrounds now contributing to enhance the country's creative potential. Oral literature, independently published booklets and the big publishers who have the courage to publish books with a wider readership, all comprise Suriname's current literary scenario. The Netherlands continue to exert considerable influence and a growing number of Surinamese authors seek to gain a foothold in the Dutch publishing market.

Surinamese expatriates in the Netherlands are increasingly productive and manage to figure on the bestseller lists. Translated works occasionally provide international readers with access to the work of Surinamese writers. In brief, problems abound but Surinamese literature is not by no means in the doldrums. More bookshops have opened, enabling Surinamese readers to purchase books by local authors and writers from other countries. **DEP**

Mercosur: *quo vadis?*

Gerardo Caetano*

1. Correspondence between philosophies and integration-oriented institutions



Today, national political systems of the region, regional institutions, and in general all of Mercosur as a regional integration and cooperation system are faced with particularly challenging circumstances. More than fifteen years after its establishment, Mercosur accumulates a mass of unsolved problems: to a larger or lesser extent, some of its governments have suffered from discredit and weakness; often in recent years, agreements and commitments undertaken have not been fully complied with, particularly after Brazil's 1999 devaluation and Argentina's collapse in 2001; the recent signs of growth have begun to create favorable conditions for the recovery of national economies and societies, but other than speeches and a few relevant actions, the integration process has failed to experience the often mentioned and hoped for "relaunching." However, immediately after facing its worst internal moment, Mercosur has found an opportunity for revitalization, as much expected as it is debated. It can count, for instance, on an external agenda as never before, fraught with opportunities

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(as regards the possibility of trade agreements of different kinds with other blocs or countries, including the European Union, China, Japan, Russia, South Africa, and in the domain of the WTO, among others). Despite all its problems and frailties in an international environment threatened by a unipolar hegemony, Mercosur maintains its identity as a bloc in interaction with other blocs. This notwithstanding, it does not seem to find the most appropriate ways for actually adopting common, consistent positions to negotiate as a bloc with third parties.

All discussion about integration philosophies implies a confrontation of proposals on how to think institutionality of the bloc in the process of being formed. The choice of one model is determined by the preference for a given institutional format.¹ To think “another” Mercosur, different, more compact and effective than the current one, capable of assuming a definite international identity in a world of blocs and multilateral tensions implies an in-depth discussion of the political limits and scope of the process. In this connection, the requirements of a new Mercosur institutional identity stir up polemics in the region. But polemics is welcome if its rigorous conduct permits us to go beyond often distressing circumstances and incites us to take risks and to avail ourselves of the opportunity to think of regional development from a longer term perspective.

The current call for a new, in-depth discussion of Mercosur’s institutionality has many implications of different kinds: the novelties and proposals in this regard are directly linked to the renewal of models and agendas as well as the pace and depth of the integration project. Thus, it should not be surprising that institutional issues should elicit harsh confrontation and disqualifying simplifications. Behind the debate on the institutionality of a process, players display their more substantial strategic and structural differences. As Table 1 shows, the first answer we give to the issue of institutions as we discuss it at Mercosur is that at the center of the debate are the more general models and projections regarding the limits and scope of the integration process as a whole. In brief, the proposal of “another” Mercosur requires a new institutionality.

¹ For a useful, up-to-date comparative analysis of the parliamentary component of regional integration processes in Mercosur and in the European Union, see Marina Vazquez “*Sobre la dimensión parlamentaria de los procesos de integración regional. El Mercosur y la Unión Europea en perspectiva comparada a la luz de los desafíos del Área de Libre Comercio de las Américas*,” in *Revista Argentina de Ciencia Política*, No. Especial 5-6. Editorial Universitaria de Buenos Aires, 2002.

An alternative Mercosur requires a new set of proposals and initiatives. What would be a succinct list of items on this new agenda? We may point out a few: macroeconomic coordination, particularly as regards exchange policies; productive complementation, through Competitiveness Forums and the emergence of Mercosur “productive chains”; complementation of policies (energy, education, culture, human rights, etc.); infrastructure complementation; consolidation and effective application of Mercosur’s Social and Labor Charter; earnest consideration of the already agreed proposal on the free movement of persons; recognition of asymmetries and flexibilities, particularly in relation to Paraguay and Uruguay; full, incremental implementation of Mercosur’s Structural Convergence Fund-Focem; international negotiation as an economic and commercial as well as political bloc with third parties and international forums; common trade strategy; intrazone financing strategies; incorporation of new partners; a new institutionality. A recent document issued by the President’s Office of Mercosur’s Permanent Representatives Commission-Cprm, of July 13, 2006, titled “*Challenges to regional integration. Initiatives and Proposals*”, identifies an agenda of “strategic axes for the formulation of public policies” very similar to the one mentioned above: “mechanisms to redress the asymmetries among countries; thrust to production coordination on a regional scale; expansion of the common external agenda; development of instruments for integrating border areas; intensification of cooperation and energetic integration; greater impetus to common environmental policies; establishment of a Regional Council on Social Policies; definition of a communications strategy; citizens’ participation.”²

There is no lack of ideas or proposals that could lead to a common program aimed at forging “another” Mercosur. Similar ideas can be found in many documents, as those embodied in the proposal known as *We are Mercosur – Concept and Work Plan* adopted in the second semester of 2005 by Uruguay’s first Pro-Tem Presidency of Mercosur and then by the whole bloc. Although there is indeed an agenda, there has been a lack of real political will to act on it, which would imply, among other things, the establishment of a new institutionality capable of providing effective instruments to make possible tangible results on each issue mentioned. The establishment of a Mercosur Parliament could be an

² See President’s Office, Mercosur’s Permanent Representatives Council. *Desafíos de la integración regional. Iniciativas y Propuestas*. Montevideo, July 13, 2006.

auspicious beginning, provided it is not an isolated initiative neglectful of a thorough, systematic institutional reform.³

No item on this new agenda is exempt from problems and contradictions. All items require much political negotiation and one cannot envisage a change process devoid of conflict and bewilderment. Obstacles in this connection are not negligible: the imperative of heightened demands by national societies deeply hurt by the crisis; the ever-present temptation of bilateral agreements by a member country, with circumstantial results, moving ahead at the usual slow pace or impelled by the aggression of other members; the different marketing standards among the national economies of the States Parties; the incipient weakening of national governments; the meager results achieved in international trade negotiations; the heterogeneity of economies and societies; the emergence of bilateral conflicts of increasing severity and uncertain solution (the issue of the pulp mills on the Uruguay River are a paradigmatic example), etc. Be as it may, if voluntarism and naïve views are put aside, current circumstances seem once again to offer an opportunity that should not be missed. If missed, much more negative, serious consequences than in the past could be expected in connection with the soundness of the strategic proposal for the bloc's future.

What should be the direction to be taken, then? Which Mercosur are we talking about? It is the Mercosur of productive complementation, of productive complementation forums. It is a Mercosur that must, as of the moment it fully assumes its condition as a political project, coordinate active sectoral policies, as for instance energy, phytosanitary, agricultural and livestock policies, coordinate infrastructure for common use, and adopt policies on border issues. It is a Mercosur that earnestly debates the free movement of people while including on the agenda the need to draft, publicize, and consolidate a major agreement relative to the Social and Labor Charter it approved as a document that recognizes rights but which currently finds no application or is of questionable applicability. It is a Mercosur that for various reasons, like other blocs, must help contest the unipolar globalization scheme consolidated after September 11, 2001; that has to act as a bloc in international and multilateral contexts in the pursuit

³ For further information on this called-for Mercosur institutional reform, see Caetano, Gerardo: *Los retos de una nueva institucionalidad para el Mercosur*. Fesur, Montevideo, 2005; Fesur: *Desafíos Institucionales para el Mercosur. Las relaciones entre Estados, Instituciones Comunes y Organizaciones de la Sociedad*," Preparatory Document, Fesur, Montevideo, 2005.

of effective access to foreign markets under favorable conditions, based on the external recognition of its international identity as a bloc that can communicate with other blocs. In the context of the unequal struggle between an imposed unilateralism and the problematic possibilities of an alternative multilateralism, the emergence of a new bloc – a bloc projecting itself on South America and further on Latin America – develops a strong international projection. It must participate in international negotiations as a unified bloc vis-à-vis third parties, under somewhat different conditions that nevertheless do not hinder the achievement of negotiated, common stances. It embodies the pursuit of markets, evidencing an open regionalism, while discussing agendas, such as WTO's Singapore agenda, earnestly discussing issues that compromise our economies, such as the new coordination of international organisms and their intervention in national policies, exemplified by the issues of intellectual property, government procurement, and services, and the repeated discussion of farm subsidies. It is a Mercosur that is beginning to talk about common trade strategies, to seek a dialogue with other blocs – not only the classic triangulation with the United States and the European Union but also firmer negotiations with China, Japan, South Africa, Russia, and the Arab countries. It is a Mercosur that is seeking intrazone financing strategies, in terms of possible development and investment banks and of a European-style Central Bank.

Even with a shorter, more viable agenda in the short run, encompassing from more modest, incremental aims to the many emerging issues, there is a widening conviction that deserves further reiteration: despite major changes and recent additions, the current institutionality is not apt for attaining tangible achievements in the various new areas of the more recent agenda. We are talking about a Mercosur that is moving toward a new institutionality capable of surmounting the shortcomings of the original 1991 Mercosur, of intensifying progress and filling the gaps of the 1994 Ouro Preto Protocol and forging ahead on the course begun, through ups and downs, with the latest institutional creations. Under these circumstances, it is not by chance that the discussion begins to turn around a new Mercosur that questions extreme *interpresidentialism* and introduces the issue of evolution (not an hegemonic, imposed evolution but one attained through intense negotiation) toward a better-balanced opposition between *intergovernmentalism* and *supranationality*, as feared as it is misunderstood in respect of its scope and consequences. In point of fact, it is a Mercosur that ratifies and intensifies its ineludible nature as a political project; a Mercosur that consolidates

the necessary transformation from a mere administrative secretariat into a technical secretariat with political projection, a transformation that requires effective technical and academic advisory inputs such as it is beginning to receive, so as to become a think factory, a major regional think tank for fueling – without suspicious subordination and lack of transparency – the operation of the other Mercosur bodies. The Mercosur under consideration begins to discuss the establishment of a Monetary Institute to make feasible an ever more indispensable exchange convergence, the embryo of a regional Central Bank. There is a serious need to discuss not only the establishment of a Mercosur Parliament – which has already been done – but also its possible projection in the first transition stage, when it must prove that it can become a political forum capable of effectively advancing the Mercosur agenda.

It is also necessary to fully implement the provisions of the Olivos Protocol and to move further toward the establishment of a Permanent Regional Court of Justice. We are talking about a Mercosur that is beginning to reformulate relations among its decision-making bodies and their institutional format, to enable them to function less episodically and more systematically and to have a more transparent, quotidian conduct; a Mercosur that is consolidating the foundation already laid in the form of the Permanent Representatives Commission, with ambassadors of the four full member countries, and with a President that can act as the spokesman of a regional will; a Mercosur that is acquiring a new presence and a new weight in the discussions at institutions such as the WTO; that negotiates, in common and not exclusively, agreements with the United States and Europe, based on other positions; that can handle with responsibility but without submission its relations with international credit institutions.

From this perspective some might call utopian in view of the bloc's current difficulties, the new institutionality would also cancel the frequent "democratic deficits" recorded along the process's history. But this requires the avoidance of mistakes and lazy, inconclusive temptations. Mercosur should not be seen in the light of the circumstantial identity of governments more or less attuned to each other ideologically. This would be a serious mistake. This is not the experience of successful integration processes. Of course, ideologically kindred governments may help certain types of agreements. While the purpose is to advance in further depth, the accumulation of institutional experience is the best safeguard of and the best instrument for achieving the economic results our peoples demand with increasing urgency. Obviously, there is no neutral institutional model that could

be advanced by ideological affinity among governments. To take maximum advantage of these opportunities, though, institutional rather than ideological considerations should prevail, based on the premise that institutions should be created to consolidate difficult-to-revert progress in political negotiations. Let us learn (but not copy) from the success of others: the European Union was not formed for social-democratic, Christian democratic or liberal governments. No integration process of democratic governments whose natural life is rotation in power and uncertainty of elections results is possible, if it is rigidly tied to a bloc's strict ideological stance.

If we want to take advantage of the current opportunity, created by the earnest demand of our countries, which cannot find any solution by themselves (such as Uruguay, although I do not believe Brazil or Argentina can do it either; our countries cannot save themselves alone; they must strive for a place in the world as a bloc), we must affirm a new institutionality capable of filling the process's "democratic deficit," overcoming the *intepresidentialism* that has generated a thoroughly "nonxecutive" "superexecutivism," and endowing Mercosur with legitimacy in our societies and enabling it at the same time to implement the other agenda, which fits better the new circumstances that require from us other ways of thinking, not only in national but also in international terms.

2. Stages of Mercosur's institutional development

The frequent claim for Mercosur's institutional strengthening has been evident, as we have seen for many years, in the agenda as well as in the different resolutions of the various integrationist bodies, both in their routine activities and in Mercosur Summits. Dozens of resolutions, recommendations, and statements clearly show this,⁴ incidentally mentioning the need to update and expand the organizational chart established by the Ouro Preto Protocol.⁵

⁴ See, for example, particularly the CPC statements: *Mercosul: Legislação e Textos Básicos* (3rd edition). Comissão Parlamentar Conjunta do Mercosul – Seção Brasileira, Ministério das Relações Exteriores, Senado Federal. Brasília, 2000, 545 pp.

⁵ See "Protocolo de Ouro Preto – Protocolo Adicional al Tratado de Asunción sobre la estructura institucional del Mercosur", signed in that city by the then Presidents and Foreign Ministers of the four member countries on December 17, in compliance with the provisions of Art. 18 of the Treaty of Asunción of March 26, 1991, which states that: "Prior to the establishment of Mercosur on December 31, 1994, the States Parties shall convene a special meeting to determine the definitive structure of the Common Market's administrative bodies and the specific functions of each, as well as its decision-making system." On the same date, a protocol was signed, titled *Procedimiento General para Reclamaciones ante la Comisión de Comercio del Mercosur*."

However, other than the persistent declarations and some substantive, though partial progress, the requisite consensus and the political will to squarely meet such demand were lacking. In addition this demand has been much more insistent on the part of the bodies (such as the Joint Parliamentary Commission and the Economic and Social Consultative Forum)⁶ created by the Ouro Preto Protocol with specific or merely consultative functions.

To discuss the different forms of intitutionality is to discuss at the same time the various models of regional integration, as Mercosur's history clearly shows. As a matter of fact, Mercosur's history begins before the 1991 treaty that established it, summed up in the 1995 Foz de Iguacu Act, signed by Presidents Sarney and Alfonsín, which was the corollary of a set of actions and negotiations prefiguring a Mercosur quite different from the one finally established in 1991. This "other" Mercosur, which did not materialize for various reasons, resembled much more the one that seemed to emerge from the proposals for a thorough transformation of the bloc, put forth between 2002 and 2003, which began to wane as of 2004, at least in some substantive aspects and in respect of its wholesale transformation. The Sarney-Alfonsín agreement pointed to a much more thorough, deeper institutionality and integration agenda than the one established in 1990 and 1991.

The change of course, as has been rightly pointed out more than once, coincided with the government change in Argentina and in Brazil. In brief, the gestation of the "Phoenician" Mercosur model, of an almost exclusively commercial nature, with a markedly *intergovernmentalist*, low-intensity structure, clearly began in July 1990, in the Buenos Aires Act signed by Collor de Mello and Menem. This Brazilian initiative consummated in Argentina, promptly received the adhesion of Uruguay, which, as of the new government headed by President Lacalle, keenly realized the serious negative consequences of a Brazil-Argentina agreement that would cut off Uruguay and the other countries of the region. As it joined the pact, Uruguay called on Paraguay and Chile to do the same, to ensure a better balance of the asymmetries of the aborning bloc. However, as could be expected, Chile's adhesion under the envisaged tariff conditions was absolutely impossible, given the great difference in the degree of

⁶ Uruguay's current Vice-President and former Pro-Tempore CPC President, Luis Antonio Hierro López, pointed out in December 1997, that he saw "*the relation between the Fces and the CPC as that of first-degree cousins.*" See *Voces, Parlamentos, Mercosur* in *Cuadernos del Claeh* No. 81-82, 1998, p. 136.

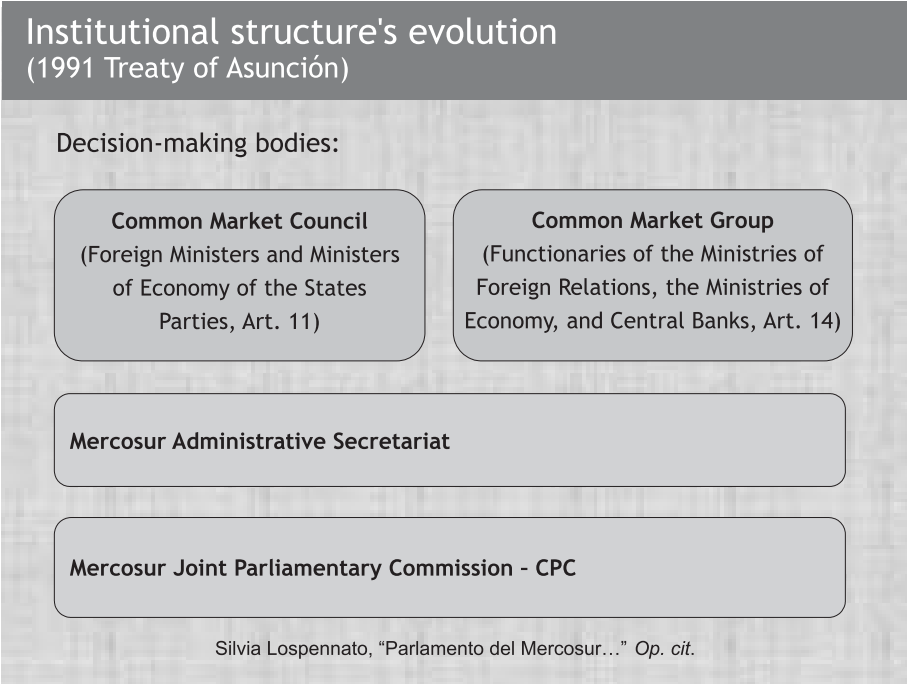
trade opening it had already achieved. Paraguay did join, and on March 26, 1991 the Treaty of Asunción was at last solemnly signed.

Similarly to other students of this subject, Bouza and Soltz, in their work titled *Instituciones y mecanismos en procesos de integración asimétricos: el caso Mercosur* [Institutions and mechanisms in asymmetrical integration processes: the Mercosur case], show that the Treaty of Asunción originally had some defining features. First, it pointed to a clearly *intergovernmentalist* institutionality and to an exclusively trade integration profile, features that were fully integrated into the basically liberal orientation of the governments and Presidents that signed the agreement. Envisaged was an institutionality model pervaded by extreme *intergovernmentalism*, which some authors have not hesitated in qualifying as *interpresidentialism*. This basic orientation was very strong and evident and equally suspicious of precise rules and procedures, similarly to Nafta's institutionality features, for instance, but quite opposite to any hint of supranational development after the European Union fashion. This low-intensity institutionality directed on a priority basis at trade fully matched an integration project oriented primarily toward trade economics, had excluding primary projection topics, such as progressive tariff elimination, the definition of a general origin rules regime, safeguards against unfair intrazone trade practices, and deadlines for the implementation of a dispute settling mechanism.

Bouza and Soltz, among others, have pointed out that the institutional format envisaged by the Treaty of Asunción encompassed features that defined the aspirations and will of the States Parties: i) the clearly intergovernmental trait of the bloc's decision-making bodies (this orientation is almost anecdotally shown in the Treaty's last article, Art. 24, providing, after naming the bloc and as an unequivocal attempt to redress the failure to set up a mechanism to represent the Parliaments of the three member countries); ii) the tacit assumption that the integration agreements would have the nature of "incomplete legal acts" without the establishment of a Mercosur normative framework that would be close to a Community Law (with the consequent juridical insecurity aggravated by the member countries' constitutional and jurisdictional asymmetries, and the often incurred temptation of noncompliance with what had been agreed – an effective recourse for the bloc's powerful countries – and the anticipation of a more than problematic internalization of integration rules by means of national legislation); iii) "the absence of an autonomous jurisdictional body proper to the bloc," which would translate into the establishment of extremely flexible, slow dispute

settlement mechanisms oriented toward the gradual, often nearly interminable negotiation by governments (which not only would combine with other features into a clear *democratic deficit* in the bloc’s institutionality and quotidian operation, but would also sooner or later lead to a crisis in the agreements’ socioeconomic effectiveness, particularly if the international context should turn unfavorable and the disputes and controversies among bloc members should naturally multiply).⁷

Table 1



The Brasilia Protocol of December 1991, centered on the definition of a transitional dispute settlement regime, opted for the establishment of *ad hoc* arbitration tribunals with binding jurisdiction and little effectiveness in practice. In December 1994, the Ouro Preto Protocol was signed, establishing, at least as the agreed text reads, “a definitive regime until the full convergence of the common external tariff.” With its 53 articles and annex, this Protocol introduced undeniable institutional advances but did not substantially differ from the original *intergovernmentalist* orientation. Be as it may, as Table 2 succinctly shows, this Protocol

⁷ Bouzas, Roberto and Soltz, Hermán: *Instituciones y mecanismos en procesos de integración: el caso Mercosur*. Institut für Iberoamerika-Kunde, Hamburg, August 2002.

included some institutional innovations of limited but equally relevant scope: the establishment of the Mercosur Trade Commission (CCM), a new decision-making body, and of the CPC and the Fces, consultative bodies with restricted functions, under the executive instances; the enhancement of the bloc's international legal status; the regulation of the internalization mechanism, and the entry into force of Mercosur's normative framework; the setting-up of supporting bodies under the CMC, including the Working Subgroups (SGT), the Technical Committees, and the ministerial meetings. In addition, the dispute settlement mechanisms were somewhat improved and other minor innovations were added.⁸

Table 2

Institutional structure's evolution (1994 Ouro Preto Protocol)
As an addition to the CMC and the GMC , a Mercosur Trade Commission is established. These three are Mercosur's only decision-making bodies.
The role of the Joint Parliamentary Commission is expanded and the Economic and Social Consultative Forum (FCES) is established, as consultative bodies.
The Mercosur Secretariat is maintained as an administrative body.
International legal status is conferred on Mercosur (Art. 34) the internalization mechanism is regulated, and Mercosur's normative framework enter into force. The decision-making bodies are assisted by supporting bodies - the Working Subgroups (SGT), under the GMC; the Technical Committees (TC), under the CMC; the ministerial meetings; etc.)
Silvia Lospennato, "Parlamento del Mercosur..." <i>Op. cit.</i>

After the Ouro Preto Protocol II, particularly and not by chance as of 2002, the bloc's economic crisis seemed to be the major factor requiring a new institutional engineering to provide instruments for the implementation of other kinds of initiatives, different innovations were introduced, which were

⁸ See Operti, Didier et al. *El Mercosur después de Ouro Preto*, Universidad Católica del Uruguay, Montevideo, 1996, Serie Congresos y Conferencias No. 11.

not only relevant but also endowed in general with a more integral profile, with less executive emphasis and more open to an authentically regional focus. Table 3 indicates in chronological order these institutional innovations and the pertinent decisions. The new organisms were as follows: a Political Consultation and Coordination Forum; a Technical Secretariat, including a Mercosur Technical Advisory Office; a Permanent Review Tribunal; a Mercosur Permanent Representatives Commission; a Mercosur Municipalities, States, Provinces, and Departments Consultative Forum; and the Mercosur Parliament, which, in more than one sense, is the culmination of this phase of gradual, varied innovations, but not of the process aimed at reforming Mercosur's institutionality as a whole.⁹

Table 3

Institutional structure's evolution (Mercosur's new institutionality)
Establishment of the Political Consultation and Coordination Forum (CMC Decision No. 18/98).
Transformation of Mercosur's Administrative Secretariat into a Technical Secretariat (CMC Decision No. 30/02).
Establishment of the Permanent Review Tribunal as a development of the 1991 Brasilia Protocol's Dispute Settlement Mechanism and the 2002 Olivos Protocol.
Establishment of the Mercosur Permanent Representatives Commission (CMC Decision No. 11/03).
Establishment of the Municipalities, States, Provinces, and Departments Consultative Forum (CMC Decision No. 22/04).
Establishment of the Mercosur Parliament (CMC Decisions No. 49/04 and 23/05).
Silvia Lospennato, "Parlamento del Mercosur..." <i>Op. cit.</i>

⁹ See Caetano, G.: “Los retos de una nueva institucionalidad para el Mercosur...” *Op. cit.* In this work I maintain the idea, shared by other experts, that the process of institutional reform of Mercosur must aim at integrality and this can only be consistently achieved through what –amidst the 2004 expectations (exaggerated, as we will see) was informally referred to as the *Ouro Preto Protocol II*.

3. From the crisis to the 2003 promising programs

In large measure, these institutional innovations found their main support and promotion basis on a truly “*institutionalist*” will on the part of the Economic and Social Consultative Forum, particularly of some of its members, such as the Southern Cone Labor Union Centrals Coordinating Office. One of the many statements of similar tenor was issued by the 12th Fces Plenary Meeting held in Montevideo on October 7, 1999, which called for the strengthening of “Mercosur’s institutional structure, as the current crisis has shown the inadequacy of the integration process’s current instruments...”¹⁰

The Fces members not only demanded greater participation by civil society players but also emphasized the need to consolidate the role of the Parliaments as key arenas of the integration process. In this regard, the Southern Cone Labor Centrals Coordinating Office, in a statement issued in Asuncion on October 9, 1994, said that “The region’s labor centrals also share the concern for the process’s democratic content. There should be greater and better participation by social representations and the Parliaments. This latter issue becomes quite clear if we start from the fact that to have validity in each State, Mercosur decisions often need parliamentary ratification.”¹¹

For many reasons, after Argentina’s political and financial collapse in 2001 and 2003, which had a strong impact on the entire region, this institutionalist will not only became firmer but also began to produce significant impact and results. On February 18, 2001, the Presidents and Foreign Ministers of the four Mercosur countries, gathered at the Presidential Quinta Olivos, hosted by Argentina’s new President Eduardo Duhalde, signed the long waited-for “*Protocol on Dispute Settlement in Mercosur*.”¹² This fundamental step toward the bloc’s institutional consolidation, a demand that had been postponed for a long time owing particularly to Brazil’s fears and vetoes, certainly meant substantial progress and

¹⁰ See “Mercosur/fces/Recomendación No. 3/99.

¹¹ See “*Propuesta de las centrales sindicales del Cono Sur a la estructura institucional del Mercosur*.” Asunción, October 9, 1994.

¹² See “*Protocolo de Olivos para la Solución de Controversias en el Mercosur*.” Olivos, Provincia de Buenos Aires, 18 de febrero de 2002. This Protocol had 56 articles distributed into 14 chapters, which precisely defined the form, scope, and procedures of the dispute settlement system, encompassing aspects such as direct negotiation among the parties, the possibility of intervention by the Common Market Group, *ad hoc* arbitration, review procedures, the scope of arbitration decisions, etc. As a matter of fact, the Protocol had already been agreed and was ready for signature in December 2001, but the fall of Argentine President Fernando De la Rúa at the time of the Montevideo Summit caused the postponement of its signing.

suggested that perhaps the region's critical economic and social difficulties might provide a propitious environment for stepping up the pace of the integration process.

What took place at the Mercosur Summit held in Buenos Aires in July 2002 confirmed certain assumptions and perceptions: the economic and financial crisis and its many consequences (market instability, serious social deterioration, the governments' alarming weakness, increasingly difficult relations with international financial institutions, etc.) contributed to the fact that most countries of the region saw in Mercosur the right alternative in a critical situation. This meant endowing the integration process with more political consistency. Everything seemed to lead to the conclusion that the leadership of this new phase should fall on Brazil, not only owing to its status as the largest power in the region but also because in the past, as we have pointed out, it had been the member least willing to commit itself to bloc institutions that might restrict its possibilities of acting autonomously. By the middle of the "ominous" year of 2002, the situation had become quite different and this was clearly reflected in the Summit's agenda. As part of a more comprehensive decision, it was agreed to start the "*necessary process for transforming Mercosur's Administrative Secretariat into a Technical Secretariat*,"¹³ which also implied the confirmation of a will different from the one that in past years had hindered the reiterated project for "*re-launching Mercosur*." The Buenos Aires Summit made progress on other issues related to the bloc's institutionalality: the establishment and consolidation of Sectoral Competitiveness Forums, in charge of coordinating complementation matters in the productive area; the formulation of specific strategies to undertake common trade missions under the Mercosur logo; the broaching of the idea to establish a Mercosur Development Bank as a prime macroeconomic convergence instrument, among other important provisions.¹⁴

July saw the beginning of Brazil's Pro-Tem Presidency, the last to be held by Brazilian President Fernando Henrique Cardoso. Itamaraty had already emitted strong signals of a strategic turn toward Mercosur, a foreign policy option that would become visible in the second half of the year: national elections would be held in October and the Mercosur issue, as we will see, was one that at

¹³ See Mercosur/CMC/Dec. No. 16/02, of July 5, 2002, issued in Buenos Aires.

¹⁴ The Buenos Aires Summit, held under circumstances of acute financial instability in the region, was attended by Mexican President Vicente Fox, as a sign of support for the region and for Argentina in particular.

the time made a distinction between Lula and Serra, the candidates with greater chance of winning; starting in November, Brazil would share with the United States the Pro-Tem Presidency of Ftaa, precisely at the conclusion of the scheduled negotiation. In the rather unstable context of the negotiations and of the alignments at the international level in general and with the United States in particular, coupled with the frailty of the governments of the other member countries, the assumption of Mercosur's effective leadership – without hegemonic attitudes and with innovative proposals, and in full awareness that it entailed both benefits and costs – seemed increasingly more attractive and necessary to Brazil. Then President Cardoso (with the decisive backing of Celso Lafer, his Foreign Minister) made a special point of giving these signals during the last semester of his eight years in office. His speeches as he visited the countries of the region in those months,¹⁵ and the unprecedented fact that a group of advisors to the Pro-Tem Presidency had been set up, consisting of experts and qualified representatives of the four countries, were significant signals in this direction.

The general tonic of a Brazil more favorable to Mercosur than usual became consolidated and more deeply ingrained during the 2002 elections campaign that ended with the election of Luiz Inácio da Silva, the Labor Party candidate. The latter distinguished himself from his opponents by a decidedly pro-Mercosur discourse, a programmatic stance on which he confronted, in the runoff, the “official” candidate José Serra, much more skeptical than his mentor President Cardoso about promoting Mercosur as the kernel of a new proposal of government for Brazil. Both before and after his election, Lula insisted on the imperative need of consolidating Mercosur as a “*political project*,” as an irreplaceable instrument not only for coordinating the economies of the countries of the region but also for endowing the bloc with a true identity for stepping onto and negotiating on the conflictive, current international stage.

In this context, significant progress was made again in the last months of 2002 toward consolidating and deepening Mercosur's institutionality. Some of the achievements even had a *voluntarist* tinge, such as the migration agreement signed in the city of Salvador, Bahia, on November 8, by the Ministers of Justice of the bloc countries and of Bolivia and Chile, under which the citizens of these six countries are now permitted to live and work in any of them, provided they

¹⁵ Notably, for example, on his visit to Uruguay, August 20-21, 2002.

meet some documentat requirements set forth in the agreement.¹⁶ This agreement, which might be considered foundational for future *Mercosur citizenship*, was reconfirmed at the Mercosur Summit held in Brasilia in December 2002. At that meeting, the agenda on a more thorough institutionalization of Mercosur remained at the center of debates, particularly in respect of a speedier, more complete internalization of the normative framework emerging from regional agreements and the strengthening of the parliamentary role in the process. Once again, it was not only Mercosur's official bodies that echoed these *institutionalist* demands but also new, regionally outstanding social players. An official declaration by the Southern Cone Labor Centrals Coordinating Office, issued as the main statement of the Trade Union Summit held in Brasilia about the same time, stated that "the option for a common market would entail the loss of national sovereignty and lessen social control of State decisions, but this loss could be offset by the establishment of community organisms based on political and social representation to guarantee a more democratic process subject to social control. (...) Over and above the Technical Secretariat's instrumentation and the implementation of the Olivos Protocol, it is essential that Mercosur deepen its institutional structure at the same time it restructures, on a priority basis, its different organisms and negotiation areas, through the nationalization and coordination of their agendas."¹⁷

This obvious turn in favor of a more consistent, renewed institutionalization of Mercosur, quite evident in the 2002 agenda we have briefly looked at, established another historic landmark on the occasion of the meeting of Argentina's President Eduardo Duhalde and Brazilian President Luiz Inácio da Silva in Brasilia, on January 14, 2003. In a joint communiqué, the two Presidents expressly stated that they agreed that "Mercosur is also a political project that should have the fullest participation of all society segments in the States Parties, represented today in the Consultative Economic and Social Forum." They agreed on the "importance of strengthening the Joint Parliamentary Commission so

¹⁶ The agreement, which confirmed as never before the oft-announced policy on the free movement of people among the bloc's countries and associates, had a truly historical meaning, in spite of the undeniable difficulties of implementation in the short run, in view of societies severely penalized by unemployment and impoverishment. As Uruguay does not have a Ministry of Justice in the form of a government institution, the agreement was signed by the Uruguayan Minister of Interior. See *Libertad de residencia y trabajo en el Mercosur*, in *El Observador*, Montevideo, November 9, 2002, pp 1 and 14; *Acuerdo histórico en Brasil. Ventajas para los inmigrantes entre los países del Mercosur*, in *Clarín*, Buenos Aires, November 10, 2002 (by Eleonora Gosman, correspondent in São Paulo).

¹⁷ *Cumbre Sindical 2002. Por otro Mercosur completo para todos*. Brasilia, December 5-6, 2002.

as to move further, in consultation with the other participants, toward a Mercosur Parliament, and in looking at the possible representation systems and forms of election.”¹⁸

As if the joint communiqué were not sufficiently clear, President Lula was even more categorical: “We shall build institutions to guarantee the continuity of what we have achieved and to help us overcome the challenges we must face. It is essential to guarantee the fullest participation of our societies in this process, through the revitalization of the Consultative Economic and Social Forum and the Joint Parliamentary Commission, as well as the establishment of the Mercosur Parliament in a relatively short time.”¹⁹

Although the proposal had figured on the agenda of the meetings of the Joint Parliamentary Commission in recent years, it had particular impact when embodied in an agreement between the Presidents of the bloc’s two largest countries, attesting once again the reiterated commitment to Mercosur on the part of the brilliant President Lula. The initiative had strong impact on the region, such as the prompt manifestation of opposition on the part of Uruguayan authorities. Luis Herrero, then Vice-President of Uruguay, said: “I believe that the proposal to establish a Mercosur Parliament is premature; instead of this the Joint Parliamentary Commission’s work should be reinforced as should the national parliaments’ legislative task of internalizing Mercosur’s legislation in each country... A common currency and a common Parliament are both for later stages... It is necessary to strengthen an imperfect customs union, Mercosur’s technical secretariat, and the common juridical body... After strengthening these instruments, attention should be given to macroeconomic coordination and only then there could be thought of such an institution as a Mercosur Parliament...”²⁰

Irrespective of differences and nuances, the 2003 signals, including the disagreement of the Uruguayan government, headed at the time by Dr. Jorge

¹⁸ See *Comunicado Conjunto de Imprensa dos Presidentes da República Federativa do Brasil, Luiz Inácio da Silva, e da República Argentina, Eduardo Duhalde (Brasília, 14 de janeiro de 2003)*. In that communiqué, the two Presidents also agreed on the need to promote Mercosur’s macroeconomic coordination through a *Macroeconomic Monitoring Group* and to intensify the integration of productive chains. They also reiterated the importance of moving further toward fuller Mercosur institutionalization, through the strengthening of the Technical Secretariat, the prompt entry into force of the Olivos Protocol, and the improvement of procedures for the effective internalization and application of Mercosur norms.

¹⁹ *Discurso do Presidente Luiz Inácio da Silva na ocasião da visita do Presidente da Argentina, Eduardo Duhalde*. Brasília, January 14, 2002.

²⁰ *Gobierno uruguayo se opone a la idea de Lula de crear Parlamento y moneda únicos en el Mercosur*, in *Búsqueda*. Montevideo, January 16-22, 2003, p. 1.

Battle, unsympathetic to a strategic role for Mercosur and much more inclined to advance the Ftaa project, still under consideration then, seemed to elicit the manifestation of opinions favorable to intensifying one way or another Mercosur's political and institutional aspects. Not that those opposed to the idea had vanished; but most voices, led by Brazil and its government, seemed strongly inclined in the former direction. As we have pointed out, thinking of different institutional formats for Mercosur implies confronting different integration concepts and models. This became particularly evident at the Mercosur Summit held in Asuncion, June 17-18. After the direct precedent of the meeting of Presidents Lula and Kirchner in Brasilia on June 11,²¹ the delegations from Brazil and Argentina at the Summit displayed a strategic alliance clearly associated with the reinforcement of the political aspect of the integration process.

In this context, Brazil submitted to the Summit a *Program for the consolidation of the Customs Union and the launching of the Common Market*, under the title of 2006 Objective.²² This document, released shortly before the Summit, did not show major content innovations but placed a possibly unprecedented emphasis on the expression of a political will to advance at a quicker pace toward political integration. It set forth, for instance, the objective of advancing toward the establishment of “a Mercosur Parliament elected by direct vote” to be installed before end-2006; of setting up “a Social Institute” to lead a common reflection on common social issues; of giving continuity to and expanding the agreements on migration, legal procedures, and judicial cooperation; of strengthening institutionality for the purpose of “achieving before 2006 a new series of institutional improvements to prepare the bloc for the operation of a full Customs Union,” among other proposals.²³

The Argentine delegation submitted to the Summit a “Proposal for the establishment of Mercosur's Monetary Cooperation Institute,”²⁴ which included a plan for beginning “to implement supranational monetary cooperation mechanisms,” gradually but firmly. The purpose was the same as the creation of “a Mercosur Monetary Institute” as an essential step toward the formulation of gradually converging

²¹ See the joint communiqué issued by the two Presidents at the time. It emphasized several issues of a clearly institutional nature, such as “the need to make progress toward the establishment of Mercosur's Parliament,” the imperative need “of the prompt entry into force of the Olivos Dispute Settlement Protocol,” “the importance of adapting the institutional structure to the current integration phase,” “the commitment to establish a Monetary institute to intensify the macroeconomic coordination task,” among other resolutions.

²² See Mercosur/XXIV CMC/DT N° 3/03.

²³ Ibidem.

²⁴ See Mercosur/XXIV CMCDT N° 02/03.

and even common monetary policies, as suggested, for instance, by the mention of the “*preparation and administration of a first issue of a common currency.*”²⁵

Paraguay also submitted a proposal on another of the bloc’s key problems: “*the treatment of asymmetries.*” This document, based on a critical analysis of the failure to consider the economic and social asymmetries of small countries and the negative impact of the “Free Trade Zone” on their economies, put forth offsetting proposals on various items, such as tariffs, development of border areas, external negotiations, infrastructure, labor training, etc. The only delegation that did not submit a proposal was the delegation of Uruguay, precisely the country that was then assuming Mercosur’s Pro-Tem Presidency.

This undeniable political offensive, carried out mainly by Brazil and Argentina, could not figure in the Presidents’ final declaration owing basically to Uruguay’s stance. Thus, it was not by chance that in the weeks after the Asuncion Summit Uruguay’s leading political figures and parties issued firm, consistent statements about Mercosur, which took the center of political debate, something that had not happened in a long time. In different Uruguayan government, political, and academic circles, efforts were made to establish a minimum agreement basis for the general lineaments of Uruguay’s action during that crucial semester. Other than meetings and declarations, results were scarce, and under such circumstances Uruguay’s Pro-Tem Presidency slipped by uneventfully.

4. The “frustration” over the Ouro Preto Protocol II’s failure to take hold

Félix Peña, the renowned Argentine expert on integration, has thus summed up his view on what happened at the Ouro Preto Summit held ten years after the first Ouro Preto Summit: “After Ouro Preto, Mercosur still stands. Its main problems also remain. The expected festivities did not happen. Neither did the announced death.”²⁶ Félix Peña’s summary is a fair account of the outcome of that Summit from which so much was expected and which produced so little. Nor did it toll the death or signal the dwindling of Mercosur (as those that were against Mercosur had hoped and worked for). It is important to draw an accurate picture of how Ouro Preto happened, of the main circumstances under which

²⁵ Ibidem.

²⁶ Félix Peña. “Hay vida después de la Cumbre del Mercosur in Ouro Preto.” In *La Nación*, September 21, 2004, p. 4.

that symbolic Mercosur Summit took place, and of what could or could not have been expected from its final decisions. The latter must be reiterated because at that time the regional press and the statements of prominent government leaders of the four member countries proffered a great many superficial versions or rash judgments about the event. But without an accurate picture, a consistent interpretation can hardly hold.

The first thing to note about the Summit's antecedents is that in many circles interested in the region's integration, particularly those more favorable to Mercosur's further institutional and economic advance, Ouro Preto was perceived as the opportunity for significant progress. Expectations were well-founded. Ten years had elapsed since a major step had been taken toward the bloc's institutional construction. Since 2002, first at Itamaraty's urging and then spurred by a programmatic approximation between Argentina and Brazil (which the Lula and Kirchner Administrations had not started but had radicalized and strategically projected through statements such as the "Buenos Aires Consensus" or the "*Copacabana Act*"), there was a political return of the integrationist proposal favored by most countries of the region. To this was added the growing interest of the Andean Community of Nations-CAN and even Mexico in establishing different types of association with the bloc or in subscribing to even more ambitious (and perhaps hasty) integration proposals, such as the so-called "*South American Community of Nations*" established in Cuzco on December 8, 2004. In addition, Mercosur continued to draw increasing attention from other international blocs or powerful countries interested in trade agreements of different kinds.

All this encouraged enthusiasm, and what was happening inside Mercosur did the same. One example should suffice: the aforementioned programmatic proposals issued at the Asuncion Summit in June 2003 instilled new dynamics into the operation of various Mercosur bodies. The work after that Summit accelerated the different initiatives involving different bloc organisms, leading in some cases to auspicious improvements and accomplishments. The consolidation of a common left or center-left orientation on the part of the governments of the countries of the region also fueled heightened expectations – undeniably with a strong dose of voluntarism and ingenuity. Never was Mercosur such a strong item on the member countries' national elections agenda as in the period 2002-2004, while the victory of the candidates more favorable to Mercosur

coincided with new ideological identities and integration models that were certainly different from those advocated by the Presidents that had signed the Asuncion Treaty of March 1991.

However, already through most of 2004, particularly in the second half of the year, as the culmination of negotiations and particularly of decisions approached, contradictory and even adverse signals began to emerge. What was most worrisome was the resurgence of the anti-Mercosur lobbies, with the aggravating addition of new participants, apparently recently raised from the ranks, who had not yet had to counter the categorical replies of the groups more inclined toward the consolidation and furthering of Mercosur. The failure of the agreement with the European Union began to be exposed, with manifest error and intention, as the confirmation that negotiations with third parties by the bloc as a whole were slow and cumbersome and did not yield favorable results. Obviously, the next step by the proponents of this view was the fierce defense of bilateral agreements, in the preferred model of the FTTs signed by the United States with various hemispheric countries (all of Central America, the Dominican Republic, Chile, Colombia, and Peru).

Open discussion of institutional issues with a view to the negotiation of a new Ouro Preto Protocol II of a reformist nature began to be caricaturized as “*institutional inflation*”. This opacity and arrant misinformation began to infiltrate negotiations, which changed scope and interlocutors many times in a short time, precisely at the time when definitions had arrived at an extensive (perhaps too extensive) agenda of initiatives and proposals. What was possibly the most disturbing was the fact that blockages began to be raised and hesitation began to be shown by Brazilian negotiators, those that so far had pushed the most for reform, and this elicited both misgivings and skepticism about the extent to which Brazil was willing to go. In this climate, different degrees of enthusiasm about integration began to be sensed between one sector of Itamaraty (perhaps the most resistant to radical commitments to the region) and the main spokesmen of the Workers’ Party. A quite emblematic case was that of Marco Aurelio Garcia, a respected figure in the region, who was then Lula’s main advisor on foreign policy, who repeated on more than one occasion that all in the region “*had to go further and move more quickly.*”

Neither Marco Aurelio nor any of those who were pushing for institutional reforms and the establishment of fundamental agreements on economic matters

advocated changes of a radical or re-foundational nature. With respect to change, there was consensus on certain issues. There was a general conviction that change should be incremental and negotiated, not imposed; that it should also be integral – since what was being proposed was the modification of an institutional Protocol, the objective was to create appropriate instruments to meet the demands of a new agenda, for which the maintenance of the status quo with only cosmetic alterations was not sufficient; that one should proceed with both serenity and audacity with the discussion of issues markedly dependent on free trade agreements, and make decisive progress in perfecting a true Customs Union, instead of just postulating it.²⁷ Also, the first conviction seemed to indicate that the time of diagnostics and proposals (and particularly of speeches and pronouncements) was past and that the time had come for decisions and strict compliance with them. At that time also the idea emerged of a pompous expansion of the bloc, not necessarily conducive to Mercosur's actual deepening.

This preoccupation about how to make the institutional changes in such a complex integration process as Mercosur's was accompanied by the perception of a gradual weakening of the *entente* between Argentina and Brazil, continually tested by complaints (particularly from Argentina) about trade imbalance, especially in respect of manufactured goods and the individual negotiation of strong investment packets with powerful third parties (such as occurred during the visit paid to the region by Chinese President Hu Jintao weeks before). It became also clear that the demands of persistent social emergency situations in the countries of the region required priority attention to the domestic front (particularly from sensitive, progressive governments) and that it was not so simple to balance these urgent demands and the indispensable compromises under any international or regional negotiation.

In sum, there were many reasons why the exaggerated expectations about the Ouro Preto Summit quickly waned in the months before the December meeting. Despite the persistence of some militant voices, skepticism – equally exaggerated? – began to win over the protagonists, who arrived at the Summit

²⁷ An evidence of the problems in the functioning of Mercosur and of what we have called certain “resignation” on the part of the Member States in respect of noncompliance with what has been agreed and decided as a bloc, is the spreading of a mistaken notion of “imperfect customs union.” This should serve as a call for effective compliance with the agreements and against the creation of “lazy shortcuts,” which often starts in concepts and in discourse and quickly leads to accepted or tolerated practices that do nothing for the deepening and consolidation of the integration process.

with very low expectations and the firm intention of denouncing the loss of a new opportunity. We must admit that there were differences before the event. The Labor Union Centrals' Coordinating Office rightly proclaimed its intention of sounding a strong warning in its message to the governments because its complaints and those of the Consultative Forum had been ignored. The Joint Parliamentary Commission, in turn, came with a fundamental agreement, not very attractive but relevant as regards development potential it contained for the establishment of a Mercosur Parliament.

And yet, despite much skepticism and somber prognostics, and notwithstanding the militant activity those opposed to Mercosur's consolidation continued to carry out after the Ouro Preto Summit, the latter left several important agreements and concepts, including the following:

- i) Elimination of the double collection of the common external tariff, for which the on-line interconnection of the Member Countries' Customs would be established;
- ii) Authorization by the Joint Parliamentary Commission for all the necessary measures to be taken for the Mercosur Parliament to begin functioning by December 31, 2006.
- iii) Authorization for the establishment of "*Funds for Mercosur's structural convergence and for financing the integration process*," endowed initially with 100 million dollars, for reducing regional imbalances and improving, in a balanced way, the competitiveness of all bloc members;
- iv) Regulation of government procurement, harmonizing the various kinds of requirements, and moving toward its liberalization within the zone;
- v) Establishment of a "*Consultative Forum of Mercosur Municipalities, Federated States, Provinces, and Departments*," which superseded the *Specialized Meeting of Municipalities and Intendancies (Remi)*, to spur the coordination of integration policies at the local and the subregional levels;
- vi) Establishment of high-level groups to deal with issues such as human rights, job creation, facilitation of entrepreneurial activities, and to propose coordinated policies and initiatives on these subjects to the governments of the Member Countries;

- vii) Confirmation of the admission of Venezuela and Ecuador as associate States and formalization of Colombia's application to membership;
- viii) Signing of free trade agreements with member countries of the Southern Africa Customs Union (South Africa, Namibia, Botswana, Swaziland, and Lesotho); and
- ix) Confirmation of the trade agreement with India.

Although another Summit result was the attenuation of the trade grudges between Argentina and Brazil and the resumption of their privileged bilateralism that would be consolidated in the following two years, the contrast between the Kirchner and Lula discourses on the occasion could not have been more explicit. While the Brazilian President complained about “*the pessimist voices that magnify difficulties*” while Mercosur shows “*a great power of attraction*” (a reference to the higher number of associate countries), which will enhance its negotiating power in respect of the Ftaa or the European Union, the Argentine President, faithful to his style, did not spare criticism: “Discourse remains far from action. (...) Presidential decisions do not carry into subsequent negotiations, where local circumstantial problems seem to prevail over regional interests.”

Beyond the gestures and sparks in the declarations and attitudes, what is certain is that Ouro Preto's results are very close to Félix Peña's apt summary.

5. The 2004-2006 period and some of its major problems

In recent years, after this turn in expectations about Ouro Preto, Mercosur's global activity has not been auspicious nor does it invite optimism. Félix Peña's analysis of that December 2004 Summit might serve as a sensible criterion for a more precise evaluation of what has happened in the last two years with the regional integration process. Instead of self-complacency, what is needed is a proper analysis to provide a basis for reforming and reactivating the integration process. In this connection, it is difficult not to agree with the “*Córdoba Declaration*” issued by the Southern Cone Labor Union Centrals' Coordinating Office on July

²⁸ See “*Coordinadora de Centrales Sindicales del Cono Sur. Declaración de Córdoba.*” Córdoba-Mercosur, July 21, 2006.

21, 2006: “Mercosur’s functioning has alienated itself from the integration project we want, as it does not take into account the requisite coordination of the different policies that should guide our economies toward productive and social development.”²⁸

The turns taken by Mercosur as an integration process cannot be seen apart from recent political developments in the region or from the experience of other integration projects in the hemisphere. The Member States’ governments’ sticking to “*mirroring*” and to “*ideological affinity*” as the engine of Mercosur’s positive transformation seems to have been futile. To go deeper into this, one would have to determine first if the governments of the region did really took a “turn to the left” and then carefully assess the limitations and achievements of this leftist content in respect of specific policies (distinguishing, for instance, among the classical left, allegedly progressive currents, popular national movements, etc.) It would also be necessary to determine the extent to which these new governments promoted (directly or indirectly) or agreed to the resurgence of sectoral, nationalist, and political interests, most of them with little inclination for daring and even less for sacrifices in favor of integration. What is little debatable is the confirmation that integration processes are not consolidated on the basis of “ideological affinities” among governments but by the solidity of institutional constructions among different parties.

Another ineludible observation about the regional political panorama has to do with the persistence of political instability, the continuity of crises in the parties and forms of representation (owing to a plethora of movements, personal politics, the Parliaments’ loss of prestige, etc.), coupled with drastic changes in the map of national and regional movements and social protagonists, and old and new problems in “low-intensity democracies.” To this conflictive, shifting political picture should be added the persistence of inadmissible social inequalities on the most inequality-ridden continent, which nevertheless has experienced strong growth in the last three years, owing to external conditions favorable to commodity exports. In a context marked by internal insecurity associated with different kinds of emerging conflicts, by countries spending enormous amounts on armament, and a perhaps little visible but significant U.S. military presence, Latin America, South America, and Mercosur itself see the multiplication of signs of their relative marginal condition in the international context (a look at indicators of market share, GDP, financial inflows, or other indicators will make this situation very clear).

Against this regional political background, hemispheric integration processes cause disenchantment or uncertainty. This is illustrated by the following: after Venezuela's noisy withdrawal, CAN seems to oscillate between slow agony and self-projection, with Chile's full reintegration, as the engine of a "Pacific League" oriented preferentially toward Asia and the United States; other than some punctual changes in forthcoming elections, Odeca and Caricom seem to enter fully into the U.S. orbit, as did Mexico after its accident-ridden, polemical elections; the speedy admission of Venezuela as full Mercosur member, which meant Mercosur's expansion unaccompanied by consistent deepening; the failure of the Ftaa project owing to the stance adopted by the Mercosur countries and Venezuela (as yet not a bloc's full member) during the Mar del Plata Summit in late 2005; the seeming consolidation of the U.S. presence in the region with the multiplication of bilateral FTAs (which may reach Uruguay, at the heart of Mercosur); the fact that the Community of South American nations does not seem to take hold politically or economically; a silent dispute for leadership positions and the coordination of "axes" (Brazil vs. Mexico, the Venezuela "factor" and its Bolivarian project personified in Chávez; the Bolivia-Cuba-Venezuela "axis"; the Brasilia-Buenos-Aires-Caracas "axis"; the contemplated, uncertain "Pacific League" etc.); the fact that Latin America's presence in the G-20 Plus does not quite restore its contestation role (as in Cancún) in ensuring positive agreements (can the Doha Round and the WTO be "resurrected?") In sum, disenchantment and uncertainty seem to be the most accurate balance, other than the active proposals at stake.

Given this context, in what direction does Mercosur seem to be headed? The developments of the last two years do not invite enthusiasm, even though the careful weighing of these developments seem to be the most appropriate for an analysis. In this connection, some major problems can be pointed out.

- i) The crisis and the uselessness of holding to certain "integration models" become increasingly clear, despite the ever-stronger evidence that Mercosur is indispensable as a platform for the integration of all Member States, both large and small, into the international scene. Not the now exhausted "commercial Mercosur" of the 1990s (little endowed with institutionality and restricted to a mere economic and trade agenda); or the "two-speed Mercosur"; or the "Mercosur of two big and two small countries;" or the Mercosur of "exclusive bilateralism" between Argentina and Brazil, which does not pay due

attention to the question of “asymmetries and flexibility” justly raised by Paraguay and Uruguay. Equally inappropriate seems to be the solution of a Mercosur “escaping forward,” which chooses expansion over depth. However, one should avoid misunderstanding: what is in question is the specter of inconclusive “integration models,” not an integration process that may display significant degrees of irreversibility as a basis for further improvement of our societies.

- ii) As was demanded after the 1999 and the 2001-2002 crises, politics once again is the bloc’s guiding force (expressed in greater attention from regional governments, parties, and social protagonists to the integration agenda), although results have not been as expected (at least so far). Denial of Mercosur’s indispensable political character is found in fewer and fewer lonely sticklers to an anachronistic insistence on sovereignty. But the welcome “return of politics” has not yielded the expected harvest. The political will to further compliance with commitments undertaken and with the bloc’s deepening has been evidenced more in the rhetoric of Summit speeches than in the governments’ daily performance regarding the functioning of the bloc. Politicians have not ceased to privilege their “share in national elections” or lost their inclination to jeopardize strategic regional prospects. Bilateral conflicts of little credibility have emerged and been radicalized between Member States (the conflict over the pulp plants is emblematic) with governments unable to negotiate instead of resorting to nationalism-driven confrontation (undeniably the worst course) or to “external arbitration” in the context of a global Mercosur that has proven inefficient even as mediator. There has been a lack of strategic leadership, which has been so relevant in other international integration processes (leadership based not on charismatic mechanisms or on bombastic and individualistic “historic projects” but on proactive will to arrive at genuine agreements among States).
- iii) Given the exhaustion of the “national developmentist” projects and of policies inspired on the Washington Consensus in its most dogmatic and orthodox form (which has somehow survived in the region, owing to the lack of courage and decisiveness in respect of serious, reliable alternatives), bloc governments are not able to lay the foundations for greater, effective complementariness of their economic policies,

let alone to establish the lineaments of a “region-centered neo-developmentism.” There is no doubt that the content of policies and the way the governments implement domestic agendas strongly affect their willingness and capacity to push for proactive initiatives for the region. As they concentrate on “internal” policies of a more or less nationalist character, what is left for regionalism is residual and subsidiary. True, the false dilemma between national and regional interests should be avoided, but no choice is without cost nor is integration progress possible without longer-term strategic consideration of achievements and possibilities. Defense of the insistently claimed “exclusive” nature of “national interests” also demands – naïve as this may sound – generosity and more enduring attention, particularly from powerful governments, as illustrated by the European Union’s experience. It does not seem too inappropriate to warn that this is what is happening in Mercosur.

- iv) Despite the progress achieved, there are persistent signs of “democratic deficit” in the bloc’s normal functioning, which negatively affects not only the process’s legitimacy but also its effectiveness in trade and economic matters and in policy coordination. This writer has done work on this specific subject.²⁹ It is thus not worth doing an exhaustive review of the functioning problems that lessen the democratic character of the daily running of the bloc, from the opacity of negotiations to the restrictions imposed by the resistant “interpresidentialist” *modus vivendi* to the fear of more effective participation by the Parliaments and civil society players. This question could perhaps be summed up in the deficit pointed out by Grandi and Bizzozero in the seven areas they identified in their works: directionality, governability, manageability, institutionality and legality, transparency, citizenship, and sensitization.³⁰
- v) As we have seen, alleged or actual “ideological affinities” of the Member States’ governments are not enough to guarantee an

²⁹ See Caetano, Gerardo. “Los retos de una nueva institucionalidad para el Mercosur.” Montevideo, Fesur, 2004.

³⁰ As suggested by Grandi and Bizzozero: “Hacia una sociedad civil del Mercosur: viejos y nuevos actores en el tejido subregional” in Alop-Cefir-Claeh: Seminario Participación de la sociedad civil en los procesos de integración. Montevideo, 1998.

inclination to deepen the integration process at its different levels. Much has already been said about this so as to dispense further comments. We will add just one more: the negative consequences for the integration's advancement, yielded by the automatic satisfaction (sometimes with a "populist" or clientelist bias) of strongly sectorial demands dispersed in the bosom of fragmented societies. This scenery, which is so closely related to our countries' current context, provides a fertile soil for the emergence of the so called "intense groups", sometimes carrying out only one demand, and because of that tending to misjudge their extremely particularist claims with their own identity. As a result of the latter, these groups come to be completely ineffective in any sort of negotiation process. And it is needless to recall that every integration concerns nothing but negotiation, a great deal of negotiation.

- vi) A good and favored relationship between Brazil and Argentina has returned, which implicates on an indispensable basis for the enhancement of Mercosur. Obstacles are raised when the approach between the two great States is converted into an "excludent bilateralism", which dodges the members' advice when deciding over paramount issues for the whole group, and constantly postpones the solution of the already mentioned problems of asymmetry. We have already had the opportunity to discuss these matters and hence it is of no use to echo it. However, it would be worthy to restate a point, based on the always pertinent comparative analysis of experience. It has been rightly said that just as the European Union could not have succeeded without the prosperity of Germany and France, neither could Mercosur be consolidated if Argentina and Brazil do not fare well. But it is also true that the European Union counted on Germany's and France's grandeur and generosity in meeting the demand of the weaker members of the Community with respect to the compatibility and convergence of economies. The same thing could be said about Paraguay's and Uruguay's fair demand in relation to Argentina's and Brazil's attitude toward the situation of the bloc's smaller, weaker economies. It could be argued that Focem's establishment was a step in the right direction. But it can be equally argued that this approved experiment by Mercosur is still far from what the social Cohesion

Funds meant in Europe. It is possible that compatibility between large and small economies in Mercosur will come not from exponential increases in Focem resources but from sound management of flexibilities, provided these do not alter the agreed course for Mercosur as a whole.³¹

- vii) In this review of recognizable problems of Mercosur's trajectory in the last two years it is important not to fail to do a thorough, bold assessment of the problems stemming from a hasty, somewhat unclear expansion of procedures and scope (such as the complex incorporation of Venezuela into the bloc as a full member) before an actual deepening of the bloc. As regards Venezuela's admission into Mercosur, the resulting picture is at least a dual one. It meant incorporation into the bloc of South America's third economy in terms of GDP. Its energy resources, as Bolivia's, are vital for any viable integration scheme in the region. Its government has shown undeniable integration will (albeit with the negative bias of excessive charismatic personalization of this inclination) and a plausible generosity to assist and help hemispheric nations that are facing problems. Its clearly independent stance (albeit characterized by counterproductive histrionics and strident confrontation) vis-à-vis the United States provides a welcome geopolitical counterweight, particularly at a time when the U.S. Government is bent on swaying unipolar hegemony and waging "preemptive war," with hints of a return to inadmissible interventionism in a hemisphere it actually underestimates matter. Nevertheless, these positive traits contrast with negative ones, as the Chávez government is of an extremely personal, polarizing nature, puts into practice a dangerously confrontational strategy both inwards and outwards. Its foreign policy is quite aggressive and coincides little with the stance of the Mercosur countries not only vis-à-vis the United

³¹ Mercosur experts and protagonists have often suggested that if the materialization of a real customs union (not an "imperfect" one, with its consistently disregarded common external tariff) is not possible, at least for the time being, a "short agenda" should be attempted to ensure fully free trade within the zone, allowing the Member States greater flexibility to negotiate treaties or agreements with third parties (whenever application of the external strategy of the bloc as a whole is not possible, as long as such treaties and agreements do not resemble the FTAs with the United States, which owing to their already classic content would detract from any integration project suitable for Mercosur), and to place strong emphasis on productive complementation projects and on the coordination of community policies on various subjects and sectors.

States but also as regards its relations with other Latin American countries (in whose electoral processes President Chávez has not hesitated to intervene). Moreover, it gets involved in extremely hard, incompatible positions in particularly danger-ridden zones (Israel, Iran, Iraq, Belarus, etc.). Venezuelan society is politically fractured, with the anti-Chávez opposition and important segments of Venezuela's population fearful of what they consider a "costly" foreign agenda, notwithstanding the relevance of his economic and financial assistance to bloc countries, including under genuinely regionalist initiatives. Chávez has proposed other kinds of initiative (such as the establishment of Mercosur Armed Forces), radically counter the orientation of the other bloc countries. A Mercosur properly anchored on institutionality and on a new agenda could incorporate Venezuela into the bloc by maximizing its potentialities and positive features, while helping minimize and even contain its negative aspects. But the opposite happens with an incorporation of this king in to a Mercosur that does not finish solving its problems because, among other reasons, there is no firm political will to deepen the agreement's contents in the directions mentioned.

- viii) Lastly, the emergence of worrisome binational, unresolved conflicts within Mercosur (as mentioned, the border controversy between Argentina and Uruguay about the construction of pulp plants on the Uruguay River is a paradigmatic example) severely affects the scene of what we might call "the cultural battle for Mercosur (this indispensable construction of an integration culture, of a *"ñandé" culture*³² that is the opposite of enslavement and assimilation), which fuels the activity of the anti-Mercosur lobbies and "individual salvation" projects. Suffice it to point out how negative was the repercussion in Uruguay of the Argentine Government's attitude in the conflict over the pulp plants, the extremely negative effect on the economy and on society of the blockage of the roads at the border, authorized by the Galeguachú Assembly (a decision met with tolerance and, after the Hague Court's pronouncement, with the full support of

³² As the prominent Paraguayan intellectual Ticio Escobar has pointed out, the Guaraní language has two words to express how native speakers see others: "*oré*," which denotes exclusion and would mean "we against the others," and "*ñandé*," which denotes inclusion and would mean "we and the others." Agreeing with Ticio Escobar, we aspire to a "Mercosur culture" that is an embodiment of "*ñandé*."

the Kirchner Government. This support has recently weakened, owing to the radicalization of the position of the backers of that Assembly's decision, who reinstated the blockages and promised a "hellish summer" for the Uruguayans). Mention should also be made of the disenchantment over Mercosur's (and particularly Brazil's) lack of participation in the search for a way out of a controversy of dangerous proportions. There is no doubt that this situation provided a fertile soil for the launching of a political operation in Uruguay, aimed at the signing of a FTA with the United States, an adventure cut short by a sensible decision of President Vázquez's. This is just an example of the extent to which a binational conflict that does not find in the bloc appropriate dispute settlement stimulus and institutions may exact a high cost, by eroding or eliminating the mutual loyalty and trust that are integration's cultural foundation. Thus, winning the "cultural battle" in Mercosur's defense is fundamental. In this connection, let us recall the wisdom of Jean Monnet, the European giant who was a builder of integration among States: *"If I had to start over, I would start with culture."*

It is thus not a question of problems that cannot be solved. There is an array of complex circumstances whose satisfactory solution requires frankness, political will, and much strategic sense. At Mercosur's last Summit, held in Córdoba last July, other than some matters that overshadowed what was really important, progress was made on various initiatives related to the issues discussed here. The Joint Communiqué of the Presidents of Mercosur's States Parties cites consistent achievements regarding more than one major issue: the successful completion of the first phase in the elimination of double collection of the common external tariff; progress in the implementation of the Mercosur Structural Convergence Fund-Focem; adoption of the Public Contracting Protocol; progress in the harmonization of rules for the liberalization of trade in services; progress in initiatives aimed at the establishment of a South-South Gas Pipelines Network/ progress in respect of the so-called "political Mercosur," particularly through the consolidation of the Mercosur Parliament Project; and progress in the celebration of agreements on economic complementation and on trade relations with third countries.³³

³³ See "Comunicado Conjunto de los Presidentes de los Estados Partes del Mercosur. XXX Cumbre de Jefes de Estados del Mercosur." Córdoba, July 21, 2006.

It fell on the Southern Cone's Labor Union Central's Coordinating Office, with its twenty years of work toward regional integration as one of the most consistent advocates of a real deepening and renewal of the integration process, to demand in its Córdoba Declaration the participation of citizens and social players so as to put an end to rhetoric and start working. It says that "Mercosur has made progress in the integration of productive chains or high-value chains of large enterprises that operate in the region, particularly transnational corporations, but has neglected the small productive chains consisting of small and medium-size enterprises, which are the main job generators. (...) Mercosur Governments must seek to achieve the political goals and objectives they have set forth in their recent declarations and in the documents signed by the Presidents, particularly as regards measures to promote the complementariness of the economies of the member countries and to harmonize their agricultural and industrial policies."³⁴

8. Conclusion

All along this last period, we, the Uruguayans who are genuinely in favor of Mercosur, have had to go through difficult circumstances. Buffeted by the neighboring brethren's aggressiveness or omission and the resurgence of the anti-Mercosur lobbies inside the country, Uruguayan citizens have lacked no reason to mistrust Mercosur as a strategic instrument and as a goal of historical development. Cynics have tried to take advantage of the situation. It has not been easy to resist their attacks.

Under these circumstances, again and again we have had to listen to the old saw that "countries do not have permanent friends; they have permanent interests." This is indeed an old, worn out saying, whose authorship is claimed by many and which, owing to its course realism, has become a kind of "common sense" and "conventional wisdom," curiously successful in the region's diplomatic scenario. If the Europeans had adhered to this philosophy, they would not have built the citizens' Europe we admire so much, even in its unfinished form. As to myself, I prefer other maxims and criteria. I subscribe rather to the recommendation from my twenty-year old son, Federico Caetano, a Law and International Relations student at Montevideo's University of the Republic, as

³⁴ See "Coordinadora de Centrales Sindicales del Cono Sur. Declaración de Córdoba." July 21, 2006.

he listened to my arguments in favor of this “other” Mercosur on whose behalf we fight so hard and which often seems so far away. Federico said: “Illusion is the engine that drives our purposes.” According to the most recent Spanish dictionary I have at home,³⁵ the word “illusion” has a degree of ambiguity that I find quite suggestive and timely for referring metaphorically to the current possibilities for Mercosur’s direction. “Illusion” refers to the “concept or image formed in the mind, which does not correspond to reality.” But it may also mean “an interest and enthusiasm fraught with hope.” Fully aware of the dilemma suggested by the two definitions and the extent to which they apply to the current debate about Mercosur’s likely future, we prefer – with wide-open eyes and without being naïve – to hold to the second definition, the best form of undertaking a responsible commitment to Mercosur. **DEP**

Version: João Coelho.

³⁵ Manuel Seco, Olimpia Andrés, Gabino Ramos. “*Diccionario abreviado del español actual.*” Madrid, Grupo Santillan, 2000, p. 968.

Full Petroleum Sovereignty

*Rafael Ramírez**

Role of energy in developing countries



s Venezuela is an oil-producing country and a developing nation, it allows me to talk about our own experience given that petroleum is crucial to our prospects for development.

This brief presentation will describe the path we have travelled in Venezuela over the past few years to reassert full sovereignty in the management of our petroleum resources. This has been an uphill struggle under the leadership of President Hugo Chávez requiring us to mobilise the entire population in defence of our prime resource. It has demanded a tough stance toward transnational interests and their local political agents. We believe the experience we have gained in the process can provide a modest contribution to other oil-producing nations, and serve as a lesson.

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Venezuela has been a laboratory, a playing field where a sophisticated strategy devised by think-tanks in consumer countries has been played out. The aim has been to wrest this vital resource from our sovereign control and so undermine Opec. The so-called “deregulation” strategy is based on globalisation of natural resources. It is embedded in a certain line of modern thinking that paints the nation-State administering the pace of exploitation and exercising full control over its natural resources as an outmoded concept since it hampers unchecked access for financial capital to exploitation and trading of petroleum.

In our country this antinational strategy relied on an unexpected ally – our own national petroleum company, PDVSA. Acting as a veritable Trojan Horse, the company progressively implemented the components of “petroleum deregulation” and consistently set about dismantling Venezuela’s traditional petroleum policy until it came to violent, open loggerheads with the State. Until two years ago we were all still reeling from the effects this confrontation, triggering the extraordinary events we are all familiar with, had had on our mindset and on the market. In April 2002, the board of directors of PDVSA sponsored a military *coup d’état*. Not content with that, between December 2002 and January 2003, the Board unleashed a second coup, economic rather than military this time round, achieved by throttling oil exports. After causing serious losses to our oil industry (of the order of US\$ 14.7 billions), the Board failed to achieve its ends on both counts and its members forfeited their positions. As a result, in 2003 the Venezuelan State recovered control of PDVSA.

The fact is that the old PDVSA had fallen prey to agency capturing by certain consumer nations and international oil companies. Instead of serving the Nation’s interests as the guardian of its natural resource, it set about introducing and implementing policies devised by these external players. In the final analysis, PDVSA aimed to become a “global energy corporation” for the sole benefit of consumers in developed countries, aligning itself ideologically with their line of thinking and divesting itself of the inconveniences and problems that typically beset dependent nations such as ours. In 2003, the Venezuelan State recaptured its own agency. The new PDVSA is proud to serve the Nation as a truly national oil company that not only generates the revenue and royalties dear to all oil exporting countries but also implements economic and social policies devised by the national government and designed to distribute the revenue generated. This is sowing the seeds of petroleum.

Recapturing the company required more than just replacing one board of directors by another and recuperating production. It was an opportunity to reaffirm the ground rules of our sovereign petroleum policy, to enforce the Venezuelan Constitution and legislation extant since 1999 and 2002, dismantling the scaffolding of “petroleum deregulation” that sustained the edifice of the old PDVSA.

The first step was to restore the administration of Venezuela’s petroleum policy to the State, transferring control to the Ministry of Energy and Petroleum, strengthening Opec and subordinating the national oil company to the decisions of the State. Strengthening the hand of the Ministry of Energy and Petroleum, traditionally responsible for conducting the country’s oil policy, and of other state control mechanisms has gradually enabled us to revert all Pdvsa’s revenue to the Treasury. The company’s management has been made more transparent and the mechanisms by which it is held accountable to the Venezuelan State (its sole shareholder) have been improved. Investment and expansion plans have been brought into line with government policy. This new state of affairs has allowed us to launch a review of the legal framework governing all business related to “petroleum deregulation” in which PDVSA played a star role, serving as a “fiscal shield” for transnational corporations. In this context, we refer specifically to Internationalisation, Operational Service Agreements and Joint Ventures.

Internationalisation

The overseas investments made over a period of almost twenty years, from 1983 to 2002, by the old PDVSA were guided by vertical integration with refining, distribution and market activities in major consumer countries. The aim was to make the company a “global energy corporation” investing funds of the order of US\$ 15 billions, mainly in the USA through the Citgo circuit and in Germany through the ROG circuit, precisely at a time when the Venezuelan State was struggling through one of its worst economic crises. The country was suffering de-capitalisation and capital flight, and its national oil company, PDVSA, was a key player in the process. Its board of directors was busy implementing a strategy for extricating assets from state control, raising a “corporate screen” between the State and the company’s new acquisitions, placing them under foreign legislation and financial obligations that ruled out control by the Venezuelan State.

For almost two decades, the hefty investments in overseas refineries generated not a single dollar in dividends for Pdvsa's ultimate stakeholder, the Venezuelan State. All dividends were ploughed back into the corporate structure and reinvested, spent or squandered overseas, amassing assets beyond the State's control. As from 2003, this state of affairs was brought to an end. Since then, dividends have been channelled to their rightful destination: the coffers of the Venezuelan State. Since 2004, dividends have amounted to about three billion dollars and a thorough review has been made of overseas investments, discarding unnecessary ones and reimbursing the State for part of the investments and the losses sustained.

One feature of internationalisation that we are engaged in abolishing has to do with the fact that all the supply agreements with subsidiaries and overseas joint ventures granted substantial discounts on market prices, discounts of 2 to 4 dollars/barrel. In addition, the formulas employed allowed operating costs to be deducted from the price, effectively transferring the costs to Venezuela and thus fuelling tax evasion in our country where rates were higher than in the United States.

Moreover, PDVSA resorted to funding mechanisms to obtain credit abroad by which these supply agreements were given as collateral. Consequently, in order to put an end to this perverse anti-national practice of granting discounts, the debt incurred had to be restructured and reduced from 9 to 3 billion dollars. In other cases, private partners claimed acquired rights to discounts written into contracts, making it complicated to cancel the joint venture. Nonetheless, as the recent termination of the joint venture with Lyondell demonstrates, we will not allow such practical obstacles to serve as a pretext for not addressing failings in the recent past. Furthermore, we will proceed with the review of each and every contract, taking the necessary action to abolish for good the practice of granting discounts, establishing a public system of price formation for our crude and by-products.

Operational Service Agreements

Let us now turn our attention to another component of the old Pdvsa's policy of devaluing our natural resource by means of "petroleum deregulation": operational service agreements. This brings us to the heart of the problem of regulating access to natural resources, and raises the question of whom such

access should benefit. Since 1st January 1976, when the oil industry in Venezuela was nationalised, petroleum prospecting and production have been the preserve of the State. Since then, such activities could not be undertaken by private enterprise save in the form of joint ventures with and under the control of the state oil company. As from 1992, however, the old PDVSA – already captured and acting as a Trojan horse – wielding its very considerable powers and resorting to sophisticated, “creative” interpretations of the Law, conferred on itself powers rightfully pertaining to the Ministry to draw up Operational Service Agreements (OSA).

These wrongly dubbed Operational Agreements allowed private oil companies to use loopholes in the Law effectively to become oil producers through concessions granted by the national oil company, although this fundamental feature was masked by legalistic sophisms hinging on the concept of “services”: the contractors, as they were termed, did not formally explore oil resources but merely rendered exploration services; neither did they formally produce oil but rather rendered production services. Finally, the oil produced supposedly did not belong to them; they merely supplied it to PDVSA, which in turn supposedly did not purchase the oil but rather remunerated the companies for the “services” rendered. The contractors were thus paid a variety of fees (OpFee, CapFee, stipends and incentives), all of them indexed to intricate formulas that – surprise, surprise – amounted to about 60% of market production values. PDVSA and the Venezuelan Treasury were left to pick up the remaining 40% of the bill.

In January 2005, having regained control of our national oil company, we decided to put an end to this indignant farce that had proved so prejudicial to our country. At that time, there were thirty-two OSAs producing approximately 500 mbd. As I have said, on average they kept about 60% of the market value of the oil produced. The figures varied considerably, however, from case to case. In a couple of instances (hard to believe, but this was indeed the case), contractors were remunerated at more than 100% of the market price for crude. In other words, the Nation sustained a loss for every barrel of oil produced. In other cases, the percentage was in excess of 70%, which meant PDVSA consistently sustained losses, for it was PDVSA and not the contractors that was obliged to pay royalties at a rate of 30% (royalties are charged to producers and the contractors allegedly were not producers but mere service providers). Other contractors were paid “incentives” to the tune of one million

dollars a day for attaining a specified level of production. By the end of 2004, Pdvsa's own production costs per barrel were no more than US\$ 4/barrel whereas the production costs of the OSAs had soared to US\$ 18/barrel. This meant PDVSA had to pay more than US\$ 3 billions for this concept.

Naturally enough, on the basis of the same chicanery and bending of the rules, the OSAs were not subject to the 50% rate income tax applicable to oil-producing activities. Instead, since they were mere service providers, they were charged the 34% rate for non-petroleum activities.

The first step we took in 2005 was to put an end to situations of extreme abuse and to limit contractors' overall remuneration so that under no circumstances PDVSA – much less the Nation – would sustain production-associated losses. The national tax authority classified the OSAs as oil producers, as opposed to service providers, taxing them at the 50% rate for petroleum for all their income tax returns for fiscal periods still open to review, i.e. from 2001 to the present. These measures, prudent in themselves, generated an additional billion dollars in tax revenue. The government then set about questioning the legality of these agreements in their entirety on the basis of solid arguments. At the same time, a settlement was offered: they should migrate to the new Hydrocarbons Statute, which established clear rules for the operation of joint stock companies in which the state company was to have a majority shareholding.

To cut a long story short, negotiations lasted 15 months and culminated in the following settlement: the OSAs became joint stock companies; the applicable royalties were raised to one third (33.33%); the appropriate income tax rate was set at 50%. Additionally, to curb income tax evasion, a 50% "shadow tax" on gross income was introduced. By this means, if necessary, royalties and income tax could be topped up by the "shadow tax" so that the sum total would not drop below 50% of gross income. Finally, PDVSA took a minimum 60% shareholding. The rights to carry out primary prospecting and exploration activities within areas determined by the government (coinciding with the areas formerly granted to the OSAs but drastically reduced to approximately one third of the original concession) are to be effective for a period of twenty years.

It should be made clear that these joint stock companies are operating companies. In other words, we are not creating an umbrella under which something akin to the former OSAs can be revived. Moreover, PDVSA acts strictly as a partner and will not be party to any so-called "stability clauses" by

which in the past the company served as a fiscal shield or, worse still, was held hostage, securing compensation for private investors to offset any alterations the National Assembly might make to the tax regime. The joint stock companies are likewise not subject to international arbitration. To be more precise, private foreign capital is entitled to seek international arbitration but only against the government, not against private partners, and only under the terms of the Investment Protection Law, a general law applicable to the petroleum and non-petroleum sectors alike.

In September 2006, thirty of the thirty-two contractors accepted the terms proffered. They included all sorts of international companies, from state-owned and private corporations to small private Latin American and Venezuelan firms. In two cases, no settlement was reached and, as a result, the Venezuelan Government cancelled the respective OSAs on 1st April 2006. Nonetheless, I am glad to be able to inform you that even in the two cases in which it was not possible to reach a settlement by 31st March 2006, we continue to negotiate strictly economic agreements in a very positive atmosphere. These terms are consistent with the general conditions established for migration to the joint stock company regime. In other words, we trust that in the near future we shall be able to state without reserve that we have obtained 100% success on this score.

Joint Ventures

A couple of steps still need to be taken to complete the policy regulation process President Chávez has established for forging a new petroleum regime and dismantling the edifice of “petroleum deregulation”.

The first step has to do with Joint Ventures for improving the extra-heavy crude extracted from the Orinoco Petroleum Strip, currently producing 620 mbd that are transformed into 560 mbd of improved crude. Despite being approved by the then Venezuelan National Congress in the 1990s, these joint venture schemes are fraught with economic and legal defects similar to those described in the case of the OSAs. Some have already been corrected. For example, joint venture schemes were paying royalties of just one per cent. In 2004, the rate was raised to one sixth and during the current year to one third. Likewise, they were taxed at the 34% income tax rate for non-petroleum activities. A review of the Income Tax Law raised the rate to 50% (i.e. the rate applicable to petroleum activities). Meanwhile, we have invited the four joint ventures to

migrate to the new Hydrocarbons Statute. In concrete terms, this means PDVSA will assume a majority shareholding in primary exploration and production activities.

Finally, in order fully to restore nationalisation of the petroleum regime, the case of three joint ventures called “Venture Exploration and Shared Profits” needs to be addressed. These schemes were established in 1997 for exploration and production of conventional petroleum. They have not yet entered the production phase although substantial prospecting finds have been made. They will also be converted in a manner analogous to that for the venture schemes for improving extra-heavy crude. Once this process has been completed, we shall have accomplished our aim of establishing a new petroleum regime attuned to the slogan coined by President Chávez: “Full Petroleum Sovereignty.”

In conclusion, when I began my speech, I mentioned that our experience is at the disposal of brother oil-producing countries, as a contribution to the strengthening of our national policies for controlling and defending our petroleum. It should, indeed, be stressed that the Full Petroleum Sovereignty policy is based on the principles that founded and fuelled its expansion.

However, it is our belief that this experience also conveys a message to major consumer countries and private transnational corporations: stability in the global oil market depends upon stability in oil-producing countries. That means socio-political stability, justice, and nationwide distribution of oil revenues.

The Full Petroleum Sovereignty policy applies equally to the depletable, non-renewable resource and to industrial activity. As should be clear from the explanation we have given, this does not rule out the presence of foreign capital. Simply a demand is made that it respect our sovereign rights. Clearly, we do not expect foreign capital to act as a mouthpiece for our national petroleum policy in consumer countries. We do, though, insist that it refrain from sponsoring policies conceived by certain consumer countries that still yearn to relive their colonial or imperial past. Foreign capital is welcome so long as it confines itself to strictly industrial activity and legitimately seeks to obtain fair profits. At the same time, however, it must unreservedly accept the legitimacy of our aspiration to just remuneration for this finite, non-renewable natural resource. **DEP**

Version: Mark Ridd.

Allegory of the Nation (1938)
Oil on canvas, 82 x 101 cm



Silvano Cuéllar

Allegory of the Nation

*María Victoria de Robayo**

Silvano Cuéllar (1873-1938) studied ornamentation under Swiss artist Luis Ramelli (1851-1931). His works began to appear in joint exhibitions from 1899 onwards. He produced a large number of commemorative sculptures, including marble statues of Epifanio Garay (1922, on display in the front gardens of the

* Director Colombian National Museum.

Colombian National Museum), of José Acevedo y Gómez (at the Bogotá Municipal Palace) and Rafael Maria Carrasquilla (in the Aula Máxima at the Colegio Mayor del Rosario in Bogotá), and the bronze statue of Policarpa Salavarrieta (1911) located in the main square of the town of Guaduas (Cundinamarca Department). He taught at the Bogotá School of Fine Arts (1907) and worked as a painter, sculptor and photographer.

In this work Cuéllar creates an Olympus presided over by Liberty, surrounded by muses and patriotic symbols. Standing in the centre is Bolívar, addressing the nation, divided into two groups: on the left, are the seated presidents of the Republic from Nariño to Enrique Olaya Herrera; on the right are arrayed Colombia's first inhabitants, the conquistadors, representatives of the clergy, literary and scientific personalities, and other renowned Colombian thinkers. The assembly is framed by wax palms (the national tree), Spanish bayonet yuccas from the Independence Park, macaws, the Capitol, the church of San Agustín, the Home Office, and the Bolívar Temple, currently located in *Periodistas* Park. **DEP**

Construtora Norberto Odebrecht

Bioceanic Thoroughfares to Regional Integration

The oft-dreamed South American integration is finally becoming a reality across the map of the continent. Well past the stage of rhetoric, the decision to launch the Initiative for the Integration of South American Regional Infrastructure (IIRSA), taken at the 2000 meeting of heads of State in Brasilia, is now bearing fruit. And Odebrecht is a part of three ambitious projects to build roads linking the Atlantic and the Pacific Oceans. Two of them, the construction of the IIRSA South and the IIRSA North highways, are being developed in Peru – the country where, 27 years ago, Odebrecht launched its international presence. The third project, which also aims at opening a road linking the two oceans, includes building a highway in neighboring Bolivia.

South American integration is indeed going ahead, with the support of multilateral bodies such as the Andean Development Corporation (CAF). One

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of the clearest evidences of this fact was the dedication of the first bridge linking Brazil and Peru, last January, which marked the physical integration of both countries.

The 240-meter bridge across the Acre River did far more than span the natural obstacle that separated the towns of Assis Brasil and Iñapari. It also cleared the way for IIRSA South, a.k.a. Interoceanic South, which will become the first highway linking Brazil to the Pacific Ocean when it is completed, four years from now.

In the words of the Governor of the Brazilian state of Acre, Jorge Viana, “This is an enterprise that will redefine the economic geography of vast expanses of South America’s territory”. He envisions an intense growth of cargo and passenger traffic that will soon dynamize border regions and will further enhance productive activities across towns located along the projected

highway. Numbers leave no doubt: out of Peru's 27 million inhabitants, about 5.5 million stand to directly benefit from Interoceanic South. A similar trend is forecast for changes that the highway will promote in Brazil.

The dedication of the bridge crowned an important phase of Brazilian involvement, for construction of a paved road to the Acre River is already completed on the Brazilian side of the border. Or, more precisely put, Brazil completed its participation on Brazilian soil, since much of what is still to be achieved was entrusted to Brazilian business people. Two out of the five segments in which the construction of the Interoceanic Highway was divided are being developed by Conirsa, a consortium led by Odebrecht Perú Ingeniería y Construcción S.A.C. (70%) and also composed by Peru's Graña y Montero S.A. (18%), JJ Contratistas Generales S.A. (7%), and ICCSA, Ingenieros Civiles y Contratistas Generales S.A. (5%).

For the first time in its history in Peru, Odebrecht will not limit itself to being a construction company. It will also be one of the investors that will take up the concession contract, valued at US\$ 580 million. And, differently from the past, Odebrecht will not have to bring Brazilian financial resources to the table: the company signed on to the Public-Private Partnership regime, which is being successfully implemented in Brazil. But Odebrecht will also contribute with its innovative financial engineering solutions.

The Southern Interoceanic Highway will enter Peruvian territory at Iñapari, close to the Brazilian border. 403 kilometers on, at the Inambari bridge, it will fork out into two roads – one of these roads will, in turn, also fork out, thus creating three separate access roads to ports on the Pacific Ocean: San Juan de Marcona, Matarani, and Ilo. The road linking Iñapari to San Juan de Marcona is already partly paved – between Urcos and the Pacific, a stretch of road that runs through Cuzco. The 703-kilometer stretch of road to be built between Iñapari and Urcos was entrusted to the consortium led by Odebrecht. Until now, this distance could only be covered by means of a narrow, unpaved lane, so precarious and full of dangers that very few ventured to travel on it.

To transform it into a modern highway will not be an easy task. The project presents all sorts of challenges – technical, logistical, social, and environmental. They include working under the frozen, minus 10 degrees centigrade weather conditions of the Andes, or the sweltering, 40-degree heat

of the Peruvian Amazon region, at altitudes ranging from 270 meters above sea level, at the Brazilian border, to 4,700 meters, at the Andean town of Hualla-Hualla.

The communities living along the road have different ethnic origins – ranging from descendants of the Inca and other precolumbian civilizations to indigenous Amazonian tribes, each with its own set of beliefs, customs, and traditions that need to be understood, respected, and valued. This inescapable realization led Odebrecht to adopt special procedures in order to build two large construction-support sites, at Ccatca and Ocongate, in the so-called Sierra Alta region of the Andes.

Inhabitants of this region maintain traditions, rituals, and habits that predate the arrival of Spanish colonists. They speak Quechua, the language of the old Inca Empire, and share their ancestors' belief that it is not the land that belongs to man but rather the contrary. Therefore, they deem it necessary to give offerings to the Pachamama – or Mother Earth – in retribution for its many gifts. Mountains, for instance, are considered to be sacred, and to excavate them in order to retrieve construction materials may be interpreted as tantamount to desecrating a cathedral.

Opening a road inevitably alters the physical aspect of the territory it will traverse. In the case of Andean populations, this could have been interpreted as a sort of profanation. Therefore, it was completely out of the question merely to show up with men and machines – and there will be about 1,500 men on site, at the peak of construction. Therefore, in order to assimilate and to integrate itself into local culture, before any groundwork for the Ccatca and Ocongate sites got under way, the company participated in two ceremonies *de pago a la Pachamama* – that is, of giving offerings to “Mother Earth” –, an ancient ritual started by the forefathers of the communities that would be directly involved in the enterprise.

Another construction front for Odebrecht in Peru is no less important: the so-called IIRSA Northern Corridor, which – like the Southern Interoceanic Highway – will also afford Brazil access to the Pacific Ocean. This multimodal transportation axis will link Manaus to the Peruvian port of Paita. Among other advantages, it will greatly enhance the time and cost competitiveness of products from the Manaus Duty-Free Zone.

Today, in order to reach the Pacific from Manaus, a 20-foot container must first reach the Atlantic and then the Panama Canal – a feat that takes no less than 42 days (including the average two-day wait to cross the Canal) and costs on average US\$ 7,140. Once the multimodal axis is completed, the same container will be loaded on a river barge in Manaus, reach Iquitos and Yurimaguas in Peru, then be sent on its way by road to the port of Paita – at a cost well below the present alternative: US\$ 4,840. It will only take 20 days for the container to reach Yurimaguas from Manaus, and then a scant two or three more to traverse the 960-kilometer road from Yurimaguas, in the Peruvian rainforest, to Paita.

Odebrecht is engaged as a partner in the construction, exploitation, and maintenance of this road. It is the leading partner (49.8 percent) of the IIRSA North Concession concern, along with Andrade Gutierrez (40 percent) and Graña y Montero (10 percent). The total concern's investment amounts to US\$ 220 million, of which US\$ 205 million are earmarked for road construction and repair. These tasks are under the responsibility of a construction consortium composed of the same companies, which is likewise led by Odebrecht.

The first stage, launched in January 2006, involves the repair and improvement of 115 kilometers of road between Tarapoto and the river port of Yurimaguas, which should be completed by October 2007. Last February, an additional contract was signed covering the start of the second stage of the project, involving the repair of two stretches of road, between Paita and Piúra (47 kilometres) and between Piúra and Olmos (163 kilometers). The latter stretch includes improving existing bridges. Beyond the complex technical execution requirements of some segments – for instance, those that involve widening the road along steep embankments and deep crevices –, the road will traverse environmental preservation areas endowed with enormous animal and plant diversity.

The third construction front for Odebrecht in the Andean region, always with a view to linking the Atlantic to the Pacific, is building a 114-kilometer road between El Carmen and Arroyo Concepción, in the east of Bolivia. This project brings Odebrecht back into that country, where between 1993 and 1995 it built 115 kilometers of the road between Santa Cruz de la Sierra and Trinidad. Old partners met again under a new partnership: Brazil's Odebrecht and Bolivia's Ingenieros Asociados (IASA). The US\$ 75-million contract, funded by CAF, will be executed within 30 months. It is a part of the land corridor that will make

it possible to travel from Brazilian ports such as Santos to the coasts of Peru and Chile, thus making the rendering of transportation and other services cheaper between Mercosur and the Andean Community.

The projects described above will establish bioceanic thoroughfares the goal of which is to sustainably enhance the region's global competitiveness. Beyond enlarging markets for local economies by way of binational, regional and even global exchanges at lower production and logistical costs, these roads will also enhance regional communication and access, which are key factors for the distribution of basic goods such as food, medicines, and educational material. To this, one must add over 14 thousand direct and indirect jobs, as is the case of the Southern Interoceanic Highway, which will further benefit and integrate a diversified South American goods and services production chain.

Grupo Andrade Gutierrez

Concession makes possible a new International Airport in Ecuador

By mid-2010, when it shall enter into operation, the new Quito airport will not only stand as one of the major engineering undertakings in Ecuador but also provide a genuine source of new businesses, investments, and resources for the country. The project, which also contemplates the establishment and development of a free trade zone, forms part of a program aimed at modernizing Ecuador's infrastructure and will have repercussions throughout the continent. Indeed, Latin America can no longer wait.

In the highly competitive arena of global economy, investments in infrastructure are essential to ensure the competitiveness of countries and regional blocs. As public resources are limited, it becomes increasingly necessary for emerging nations, such as Brazil and Ecuador, to establish partnerships with the private sector for securing the requisite investments.

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This scenario filled with potential opportunities paved the way for the Andrade Gutierrez Group to enter the services concession market in 2000 through the establishment of its AG Concessões (AG Concessions) subholding company geared to the pursuit of business in the areas of highways, public transportation, sanitation, ports, energy, and airports.

In Ecuador, where the group has been active for over twenty years in the field of engineering, AG Concessões joined the consortium that won the concession to build and operate Quito's new international airport for thirty-five years. The project includes the operation of Mariscal Sucre, the current local airport. This contract sets a historic, doubly significant milestone for the company, as this is its first concession outside Brazil and its first for airport construction.

Infrastructure bottleneck

Quito's New International Airport – NQIA meets one of the greatest demands for infrastructure investment in Ecuador. Particularly since the nineties, the city of Quito has experienced substantial expansion, similarly to what has happened in the Tumbaco-Cumbaya Valley east of the capital and west of where the NQIA will be located. The growing business volume puts a

heavy pressure on all types of services, including air transport. Yet, in the capital's entire area of influence there is no airport capable of handling the cargo and passenger volume this growth has generated. Services are precariously concentrated in the Mariscal Sucre International Airport – MSIA.

Opened in 1960, north of Quito, the MSIA is Ecuador's largest airport as regards both passenger and cargo throughput – in 2005 alone it handled 3.3 million passengers and 130,000 tons of cargo. Its position in Latin America is very modest, though; it comes after airports such as those of Caracas, Bogotá, and Lima. Given its characteristics and limitations – it operates close to maximum capacity at peak hours – the MSIA can be considered neither as an international nor as a regional airport.

MSIA's main shortcoming is that it cannot offer nonstop flights to distant destinations, such as Europe. Perched at 2,800 meters above sea level and only 3,130-meters long, the take-off and landing lane imposes limits on the maximum weight allowed per plane at take-off. This means that the aircraft has to make fueling stopovers at other airports to be able to reach its destinations on the continent.

Lengthening the lane would attenuate the problem, but this cannot be done. The area surrounding the airport is completely built-up, which precludes the expansion of existing facilities. Current infrastructure operates at maximum capacity and, to make things worse, the mountainous terrain restricts the usable air space and potentiates the risks involved in all airport operations. This reality has led to the adoption of a solution equal to the challenges and opportunities. As soon as the new international airport starts operations, the current one will be deactivated.

International partnerships

Government efforts to build the NQIA began more than twenty years ago. The first effective step toward this end was taken in 1989, when the Ecuadorian government set up the *Comisión Nuevos Aeropuertos Quito/Guyaquil* (Quito/Guyaquil New Airports Commission) and entrusted it with developing the project. The work started with an invitation to interested consortiums to submit their credentials for projecting, constructing, operating, and maintaining the facility under a fixed-term concession contract. The Commission pre-

qualified five interested concerns in 1996, including the Canadian Commercial Corporation – “CCC”, which comprises Canadian development enterprises. The high cost estimates and the general financial weakness made the project unfeasible at the time.

Only in late 2000 was the project given new life under the Law on State Modernization, Privatizations and Public Services Provided by Private Initiative. Under the new law, the Quito Metropolitan District was authorized to proceed with the plans for building the new airport.

Negotiations, headed by CCC, lasted several months. Finally, on July 15, 2002, the Corporación Quiport S.A., or Quiport consortium, signed the agreement to build, operate, and maintain the airport for thirty-five years, as well as being responsible for the remodeling and management of the current airport. The consortium is made up of AG Concessões (AG Concessions), which joined the project in 2004 with 43 percent of the capital; Aecon Construction Group and Airport Development Corporation – ADC, two Canadian companies; and Houston Airport System Development Corporation-HASDC, a U.S. company that operates three Houston airports.

Financing for the project, estimated at US\$591 million, has been split into two parcels. The first, totaling US\$376 million, is to be provided by Project Finance, with financing from Overseas Private Investment Corporation – OPIC; the Inter-American Development Bank – IADB; the Export-Import Bank of the USA-Eximbank; and Canada’s Export Development Corporation – EDC. The remaining US\$215 million are to consist of equity and of revenues from the MSIA.

A design for the present and for the future

The location chosen for the NQIA is strategically situated: a 2.4-thousand meter high plateau surrounded on three sides by steep ravines (500 meters lower than the current airport), 20 km from Quito. The area to be built—1,500 hectares approximately—is ten times larger than the one occupied by the MSIA. With a 3,600-meter landing lane and a capacity for handling 4.3 million passengers and 69,009 aircraft per year, the project will be implemented in three stages over the thirty-five years of the concession’s life.

Quito's International Airport's Implementation

	By 2010	By 2020	By 2030
No. passengers/year	4,300,000	6,300,000	8,700,000
No. aircraft/year	70,000	92,000	120,000
Cargo (tons)	200,000	360,000	540,000



At first a main take-off and landing lane will be laid down, but the project envisages its future extension and the addition, at the next stage, of a secondary parallel runway. Taxiing lanes and underground areas will be built at a pace consistent with the construction of the primary lane and facilities through the different stages. When completed, the airport will comprise a passenger terminal, a cargo terminal, a hangar, warehouses, an administration building, a maintenance area, and a parking lot, in addition to a free trade zone to be exploited by the Quiport stakeholders and the local government.

Construtora Andrade Gutierrez, which has solid experience in airport construction, formed, in association with Canada's Aecon Construction Group Inc., the Aecon AG Constructors-AAGC consortium, which has been awarded

the building contract for a total US\$413 million. At its height, the construction work will employ 1,500 workers in direct and indirect jobs, which will have an immediate impact on the country's economy.

The NQIA project is an example of the huge potential of development opportunities in Latin America. With intelligent, feasible solutions, strategic partnerships, and a stable institutional environment, each national government can find consistent answers to the serious challenges of responsible public management.

Embraer – Empresa Brasileira de Aeronáutica S.A.

Embraer goes international

Introduction

Airspace industry, of which Aeronautics is the most significant segment, has a wide range of highly demanding characteristics that make it special and differentiated.

Few industries in the world are faced with such an array of awesome challenges as aeronautics – from the simultaneous employment of multiple advanced technologies to highly qualified manpower to the requirements of a global industry by definition to the requisite flexibility to respond to abrupt scenario changes to the enormous amounts of capital required for its operations.

Based on the experience amassed in over three decades of activity in this competitive, aggressive, and sophisticated market, we at Embraer like to say that the aeronautics business rests on five major pillars, which in turn rest on a single foundation – our clients' satisfaction, the source of the results that will ensure our stakeholders' gains and the enterprise's continuity over time. These pillars are as follows:

- *Advanced technologies:* in view of the highly demanding operational requirements pertaining to safety, drastic environmental changes, and weight and volume restrictions, the aeronautics industry employs a wide range of point technologies and serves as a lab for their fine-tuning before they are passed on to other productive segments and activities. Complex, sophisticated technologies are involved not only in the product but also in the development and manufacturing methods and processes, in addition to the use of the best practices available in financial and human resources management.
- *Highly qualified manpower:* to ensure the efficient, productive, and consistent use of these advanced technologies, it is essential that qualified personnel be available at all levels of the industry's operations: computer-supported projects, relations with suppliers and clients around the world, manufacturing using sophisticated numerical control machines, and the devising of elaborate financial solutions with international institutions.
- *Flexibility:* abrupt scenario changes that affect the world economy and the geopolitical order, the most recent example of which were the terrorist attacks of September 11, 2001, have immediate impact on the air transport industry and thus on aircraft manufacturers. Flexibility in adapting to such changes with a minimum loss in terms of efficiency and costs is of crucial importance for ensuring survival and preservation.
- *Capital intensity:* owing to the massive investment required for developing new products and raising quality and productivity, coupled with long development and maturation cycles, capital intensity is another major feature of this business sector. For example: the development of the Embraer 170/190 aircraft line required an investment of US\$1 billion and the new A350 Airbus plane should require no less than US\$15 billion!
- *Global industry:* low output and the high cost of production makes the aeronautic industry an exporting and global concern by nature, as regards both its client and supplier base and the financial institutions that back it. The same Embraer 170 aircraft that operates under the



Legacy 600.

flag of Finnair, Finland's airline, in the severe Scandinavian winter must also stand the high humidity and temperature levels of southern United States, where it operates under United Express's flag. In both cases, Embraer must be permanently available to its clients, providing local technical support and immediate access to parts and components, thereby honoring its commitment to the success of their business and aiming always at their full satisfaction, which will in turn ensure additional orders in the future. At the same time, Embraer must experience the different environments in which it operates, so as to detect positive or negative tendencies and changes in the scenarios and to be able to provide a speedy response.

All these characteristics make the aeronautic industry into a fascinating as well as a high-risk business. Failure of a new product may make the enterprise that developed it unviable and force it out of the market. The disappearance of traditional enterprises, such as the Dutch Fokker's and the Swedish Saab's exit from the civil aeronautic market are two examples of this harsh reality.

Notwithstanding the major risks involved, developing an autochthonous, strong, and autonomous aeronautic industry has been part of the strategic agenda of many nations, which invest heavily in its development over the years, recurrently supporting it by various schemes – celebrating major Defense systems and products contracts, financing new aircraft development programs under favorable terms, and providing all sorts of tax incentives.

Embraer goes international

Aware that winning new markets, which are essential for its growth and consolidation will become effective only if backed by its physical presence in these markets, through industrial plants or units for rendering post-sale services and support to clients, Embraer has, since its privatization in 1994, gradually extended its operations internationally as a strategic objective.

Far from losing its Brazilian identity and distancing itself from its origins, Embraer will, through internationalization, ensure new business deals, the strengthening of its trademark, and the generation of higher-qualification jobs in Brazil, in proportionately higher numbers than in its subsidiaries and controlling enterprises abroad.

In 1997, as it regained strength after introducing in the market its ERJ 145 commuter jet, Embraer launched its internationalization strategy by adopting measures that included (1) expanding or opening sales and marketing offices and replacement parts distribution centers; (2) participating in joint ventures; and acquiring traditional, renowned enterprises specializing in aeronautic services.

United States and Europe: consolidated presence

Embraer has long been active in the United States and in Europe – since 1978 and 1983, respectively – through sales and marketing offices and client support units (parts and services).

The two units have had and continue to have a vital role in the expansion of its operations in those two main commercial aviation markets in the world. Including Brazil, 950 commercial jets, in addition to 800 turboprop planes as



Phenom 100 and Phenom 300.

well as military planes made by Embraer are now flying. The U.S. and the European markets account for 95 percent of its total exports.

Facilities at the U.S. unit, located in Fort Lauderdale, FLA have been expanded to keep up with Embraer's operation since it delivered the first ERJ 145 commuter jet in December 1996 in that market. In November 2006 it had 234 employees and a spare parts stock of over 50,000 items.

With the increase of its business and client base in Europe, Embraer decided to concentrate into one place, located in Villepinte, near the Paris Roissy-Charles de Gaulle airport, its sales and marketing and client support units, including a major spare parts warehouse, one of which was already located in Villepinte while the other was previously located at the Le Bourget airport. The new integrated facilities should enhance the operational efficiency of a body of 194 employees charged with managing assets totaling 172 million euros and providing services to 37 clients.

China and Pacific-Asia: strategic markets

Given the importance of its economy, which has steadily grown at high rates for the last two decades, as well the strategic significance of air transport as and integrating factor and a development engine on a continental-size territory, China has been selected by Embraer as a strategic goal, which requires specific, differentiated treatment in view of its cultural characteristics, far removed from the Western world.

Embraer's presence in China started in May 2000, with the opening of a sales and marketing office in Beijing, followed soon after by the opening of a spare parts distribution center in the same city.

In 2001 and 2002, it negotiated an agreement with Chinese authorities under which it would be allowed to install an industrial plant to make ERJ 145 family aircraft for the Chinese market.

Finally, in December 2002, an agreement was signed with Aviation Industry of China II (AVIC II), establishing the Harbin Embraer Aircraft Industry (HEAI), a joint venture controlled by Embraer, which holds 51 percent of voting shares.

In February 2004, Embraer announced its first sale in China through HEAI: six ERJ 145 jets sold to China Southern. Other significant sales followed: the same number of the same model sold to China Eastern Jiangsu in March 2005 and to China Eastern Wuhan in January 2006.

In August 2006, Embraer announced the sale of 50 WRJ 145 planes and 50 EMBRAER 190 jets to the HNA Group, China's fourth largest air company. This deal was the first sales contract of an E-Jet on mainland China, with a list price of US\$2.7 billion. ERJ 145 delivery will start in September 2007. The 50-seat jet will be made by HEAI in Harbin, in the Heilongjian Province.

By end-2006, HEAI will have delivered 13 ERJ 145 planes, which, together with the five sold in 2000 to Szechuan before the establishment of the joint venture, will bring to 18 the total number of these jets currently operated by Chinese airlines.

As regards the Pacific Asian region, in December 2000 Embraer opened a sales and marketing office in Singapore, entrusted with implementing the enterprise's trade strategy for the region's markets, including the Indian subcontinent.



Embraer's headquarters. São José dos Campos.

The Indian aeronautic market is undergoing a deregulation process and shows bright growth prospects. In this context, Paramount, a recently established company, has announced the start of its operations, based on the operational leasing of two jets: Embraer 170 and Embraer 175.

Also in India, Embraer has signed a major contract with the government for the sale of five Legacy 500 jets, particularly adapted to meet the comfort and safety requirements of that country's authorities.

Expansion of Embraer's client services and support base

Embraer plans to continue expanding its client services sector not only to ensure that its clients will achieve excellent dispatchability rates for their aircraft fleet but also to provide them with other services, such as aircraft maintenance

and repair, to their full satisfaction, which is essential for the achievement of our goals and the growth of our operations.

Thus, in addition to consolidating its client services in Brazil through the transfer of its Services Center to the Gavião Peixoto Unit, it has expanded its services operations in the United States, with the addition of the new facilities of the Embraer Aircraft Maintenance Services-EAMS, in Nashville, Tennessee, and in Europe, with the acquisition of OGMA-Indústria Aeronáutica de Portugal S.A., in Alverca, Portugal, announced in December 2004, at the completion of its privatization process.

Early in 2005, EAMS expanded its facilities at the Nashville International Airport to raise its services capacity, in view of the growing fleet of Embraer aircraft in the United States. This major decision led to the progressive hiring, as of 2005, of additional EAMS employees, bringing their total to 277 by November 2006.

Since its establishment in 1918, OGMA has devoted itself to aircraft maintenance and is today a major representative of the European aeronautic industry, providing maintenance and repair services for civil and military aircraft, engines and components, and modification and assembling of structural components, as well as engineering support.

Its main clients are the Portuguese, the French, and the U.S. Air Forces and the U.S. Navy, Nato's Maintenance and Supply Agency, and the Dutch and Norwegian Navies, among others. In the trade area, OGMA also provides services to airlines such as TAP, Portugalia, British Midland, and Luxair, and to enterprises, including Embraer and Rolls-Royce.

In addition to doing maintenance work, OGMA also manufactures structural components and composite materials for Boeing, Airbus, Lockheed Martin, Dassault, and Pilatus. By November 2006, its work force totaled 1,606 employees, which makes it Embraer's largest unit and subsidiary.

Preserving culture, values, and attitudes – an enduring challenge

The velocity of Embraer's expansion since 1996, when its ERJ 145 aircraft went into operation, has brought with it formidable challenges in respect of the



EMBRAER 170/190 family.

preservation of culture, values, and attitudes, a concern that continues to guide the enterprise's actions.

To illustrate the magnitude of such a challenge, suffice it to mention that in April 1997, Embraer had only 3,200 employees scattered through five operational units – three in Brazil and two abroad. Today, nine years later, it has 18,670 employees, scattered through thirteen operational units – five in Brazil and eight abroad. In just one of its units, located in France, 26 nationalities and 19 languages are represented in a work force of 194.

One of the managers' top priorities is to recognize the worker's ethnic and cultural diversity and their different working environments, including specific labor legislations, while developing their maximum potential by directing their energy toward the business's objective, in perfect consonance with the enterprise's ethical and moral values.

The main element for the achievement of this intent is the so-called Management Methodology through Action Plan. Each year Embraer prepares

an Action Plan based on a five-year perspective and follows a strategic planning model that takes into consideration markets, competitors, the enterprise's capabilities, opportunities, and risks, priorities, and results, among other factors.

The Enterprise's Action Plan is based on the equivalent internal plans for each corporate, functional, and business area, reaching down all the way to the plant floor, all in accordance with the general guidelines issued by the enterprise's top management. The enterprise's variable pay policy, encompassing all employees, takes into account the targets agreed by the leaders and the led along the entire chain of command. The Action Plan is thus the key instrument for the management of the business, and for all the employees' alignment with and commitment to the agreed targets and results.

In addition to the Action Plan Methodology, Embraer maintains a strong Internal Communication culture aimed at integration with its employees and their families and at disseminating Embraer's central values and concepts.

Internal Communication works in a global, integrated manner, through the use of tools that are both modern and highly attractive to the employees:

- Embraer's Director and President has his own tool for communicating with employees, called *Em Tempo*, issued simultaneously in Portuguese and in English. More recently, *Em Tempo* has been issued in special editions on video;
- Embraer Intranet is a tool of corporate reach and our employees' main source of information, which is accessed an average of 24,500 times a day;
- Some 600 internal communiqués are issued annually and made available to employees through Intranet and bulletin boards; 25 percent of these communiqués are of corporate reach;
- The *Embraer Notícias* [Embraer News] is devoted to issues that are essential to Embraer's culture: the Management Methodology through the Action Plan, the importance of cost discernment and contention, combating waste, team rallying around Embraer's broad entrepreneurial objectives, etc.;
- Interviews with Embraer's top executives are translated and sent to the units located abroad. As they consistently address market evaluation and the enterprise's strategies and objectives, they are well heeded by employees;

- Articles published in the national and international media on themes of interest to Embraer's business are translated and made available to employees.

Armed with this vision and determination, grounded on ethical and moral values, and having integrity as the spring of its actions, Embraer embarks upon an extremely challenging and competitive entrepreneurial activity. And in so doing it brings to the markets the image of an efficient, agile Brazilian enterprise known for its quality products and technological state-of-the-art.

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