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## Summary

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5 Argentina and Brazil: structural differences and similarities

*Torcuato S. Di Tella*

---

34 Bolivia: changes and foreign policy

*Jean Paul Guevara Avila*

---

47 Culture, diversity and access

*Gilberto Gil*

---

59 Major turns in Chilean economic policy and their legacy

*Oswaldo Sunkel*

---

105 Colombia, a country of contrasts

*Alfredo Rangel*

---

116 Ecuador: fundamental issues

*León Roldós*

---

- 
- 131 Guyana: the impact of foreign policy on developmental challenges  
*Robert H. O. Corbin*
- 
- 152 Paraguay: identities, substitutions, and transformations  
*Bartomeu Melià, s.j.*
- 
- 165 Peru: electoral surprises and the pending exclusion agenda  
*Martín Tanaka · Sofía Vera*
- 
- 181 The Suriname Republic and regional integration  
*Robby D. Ramlakhan*
- 
- 197 Uruguay: a brief overview of its economy and politics  
*Alberto Couriel*
- 
- 209 The rule of law and social justice under the Bolivarian Alternative for America and the Caribbean-ALBA  
*Isaías Rodríguez*
- 
- 221 Koki Ruiz
-

# Argentina and Brazil: structural differences and similarities

*Torcuato S. Di Tella\**

I intend to concentrate especially on three relatively recent phases of our history: first, the popular movements headed by Perón and by Vargas; then, the dictatorial regimes that originated in the sixties; and, lastly, the democratization processes that started twenty years later, with their political party systems. I shall begin with a brief historical overview of a longer span than the one I have just circumscribed, as all of us come into the world bearing the marks of what our antecessors did. But who were our antecessors? What were they doing when our countries entered an independent life? The answer will be different for the two countries: great-great-grand parents of the majority of today's Brazilians of all social levels were already in Brazil; ours were far away and it is possible that they were even unaware of our two nations' existence. This contrast is quite sharp and has been the subject of repeated analysis, although not always under a comparative focus. While in some very significant decades for Argentina's formation (say, between 1880 and 1930) the country's population was almost 30 percent foreign-born, in

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Brazil foreigners accounted for barely over 5 percent of the population. True, in São Paulo and in the southern states this figure was considerably higher, but they are states, not a country, and are like an island surrounded by a vast sea of other ethnic and social characteristics. An obvious consequence is that, at least in the cultivated classes, there must be a much stronger historical memory in Brazil than in Argentina, as such a memory is transmitted largely through family traditions. In this respect, Argentina contrasts not only with Brazil but also with Chile, which received fewer immigrants as well (5 percent of its population at the most) and has a very modern political party system, the one on our continent that most resembles the European system.<sup>1</sup> Would this mean that Brazil and Chile are very similar as compared with Argentina? Not necessarily, as the two countries' social structures are markedly different – diametrically opposed, one might say. As regards basic social structure, Chile rather resembles Argentina, with its already settled, long-standing indexes of urbanization, education, predominance of the middle class, and early labor and trade union organization.

As a result of this stronger historical memory in Brazil and Chile, there are in these two countries conservative parties, labeled as such or not, a trait in common with practically all developed and democratic nations.<sup>2</sup> By “conservative party” I mean a party with roots in the upper classes, with an ideology very close to an entrepreneur's view of things. This is how I see Chile's National Renovation Party-PRN and the Independent Democratic Union-UDI, both with over a century-old history, as they originated in the old Conservative and Liberal parties. In Brazil I would mention the Progressive Party-PP (formerly Brazilian Progressive Party-PPB) and the Liberal Front Party-PFL<sup>3</sup>, first or second generation offshoots of the National Renovation

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1 I have addressed this issue in much greater detail in “El impacto de la inmigración en el sistema político argentino”, *Estudios Migratorios Latinoamericanos* 4:12, August 1989, pp. 211-230. See also Oscar Cornblit, “Inmigrantes y empresarios en la política argentina”, *Desarrollo Económico* 6 n.º. 24, January-March 1967, pp. 641-691; Fernando Devoto and Gianfausto Rosoli, comps., *La inmigración italiana en la Argentina*, Buenos Aires, Biblos, 1985; Carl Solberg, *Immigration and Nationalism: Argentina and Chile, 1890-1914*, Austin, University of Texas Press, 1970; Herbert Klein, “La integración de italianos en la Argentina y los Estados Unidos: un análisis comparativo”, *Desarrollo Económico* 21, n.º. 81, April-June, 1981, pp. 3-27.

2 Spain and Italy, until a few decades ago the two major exceptions regarding the absence of a clear Right on the spectrum of parties, have “normalized” this situation since the gradual strengthening of José María Aznar's Popular Party in Spain and of Silvio Berlusconi's Italia Force movement and its ally, the revamped National Alliance.

3 Recently changed its name to “Democratic Party” (DEM).

Alliance-Arena and the National Democratic Union-UDN, incorporating also sectors of the old Vargas Right, the Social Democratic Party-PSD (which had nothing of Social Democracy). In Chile, the two conservative parties can easily win almost half of the electorate. In Brazil, the PP and the PFL together have a third of the electorate; and although they are not usually allied, they constitute a clearly conservative bastion, regardless of their electoral discourse, regionalist banners, or the alliances into which the PFL has been induced on occasion with the Center and the Center-Left personified by Fernando Henrique Cardoso. It should be added that the Brazilian Democratic Movement Party-PMDB, a problem-ridden heir to moderate *Varguismo*, has strong rightist leanings, which bode ill for its continuing unity, already eroded by many schisms since it ceased to play the agglutinating, anti-dictatorship role it played for many years.<sup>4</sup>

The electoral strength of a rightist party rests on two pillars. One, which weakens over time, is the traditional peasantry that vote for their bosses or for notable relatives of their bosses. The other, which gains solidity over time, is the modern, urban middle class: without it no elections could be won. Some allege that there is a third pillar: the working class Tories or rednecks or bureaucratized labor unions. This third pillar is somewhat shaky, i.e., it is not really conservative – at least not the trade unionists. They may be “socially conservative” (against hippies, gays, and immigrants and unconcerned with human rights), but there is practically no instance of their belonging to a country’s main conservative party, i.e., the party that holds the heart and the pocketbook of the upper classes. Leaving an analysis of trade unionism’s role for later, let us now look at the middle classes’ position. It is usual for members of the middle class to envy and at the same time admire members of the aristocracy or of the jet set and thus accept the leadership of these hierarchic superiors. This is what occurs in most countries, where, in their majority, they vote for conservatives, particularly after having been through phases when their preference went mostly to centrist parties, such

4 Oscar Cornblit, “La opción conservadora en la política argentina”, *Desarrollo Económico* 14, no. 56, January-March 1975, pp. 599-639; Douglas Chalmers, Atilio Borón and Maria do Carmo Campelo de Souza, comps., *The Right and democracy in Latin America*, New York, Praeger, 1991; Edward Gibson, *Class and conservative parties: Argentina in comparative perspective*, Baltimore, Johns Hopkins University Press, 1996. On comparative elections data see Torcuato S. Di Tella et al., *Estructuras sindicales en la Argentina y Brasil: algunas tendencias recientes*, Buenos Aires, Biblos, 1995.

as the Radicals, the Christian Democrats, or the advanced Liberals.<sup>5</sup> But what happens in a country such as Argentina, heavily marked by the impact of immigration? This impact was much greater in our country than in any other.<sup>6</sup> This made for a great participation void, as the mass of the urban bourgeoisie and of the urban working classes was overwhelmingly made up of foreigners that were not entitled to vote, as they had not acquired Argentine citizenship. This was a serious issue, as those are the two most strategic social segments for the consolidation of a modern political system. The result was a weak bourgeois liberal party and a weak social-democratic or labor party.

On the other hand, it can be observed worldwide that the bourgeoisie in general, after supporting Liberalism against Conservatives, ends up by merging into one of these two camps or into one that encompasses both, or into two nearly always allied, all of which ensures the already mentioned solidity of the political Right. But, as the overwhelmingly foreign bourgeoisie kept out of the political parties' arena, this attitude, often transmitted to the children, would necessarily affect the health of a modern conservative party and not only the Liberalism of an earlier phase. This is precisely what happened in Argentina: the country is too advanced to have the type of markedly archaic conservatism of rural Brazil and, on the other hand, it has too heavy a foreign component to emulate the Chilean case. In other words, the mass of the middle class or of the bourgeoisie of immigrant descent inherited from their antecessors a dose of contempt for the "Creole country", including the local

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5 It is often argued that today's tendency is toward the blurring of class lines in party support. Actually, the parties have never been wholly based on clear-cut class lines. Many individuals hold inconsistent positions, especially if their status is measured by educational level, which often happens for convenience's sake. On the other hand, Conservatism counts on many modest voters, particularly in the rural areas, while the Left is strong among people with a higher education and a mid-level standard of living. The difference between a conservative and a social-democratic party does not lie mainly in the social status of the mass of its voters but rather in the fact that the organized groups in the upper and the lower strata of the social pyramid are predominantly in one or the other political hemisphere. See Ronald J. Johnston, "Lipset and Rokkan revisited: electoral cleavages, electoral geography, and electoral strategy in Great Britain", in R.J. Johnston, F.M. Shelley and P.J. Taylor, comps, *Developments in electoral geography*, London, Routledge, 1990. It goes without saying that where there are serious religious, ethnic, or linguistic clashes, these drastically affect the Right-Left cleavage. In respect of the United States, see Thomas Byrne Edsall and Mary D. Edsall, *Chain reaction: the impact of race, rights and taxes on American politics*, New York, Norton, 1991.

6 In Australia and New Zealand, where the percentage of immigrants was similar to that in Argentina, immigrants came from Great Britain without losing their nationality, bringing with them the institutional system of the mother country.

upper classes, which were not able to instill respect in them, differently from the North-American case.<sup>7</sup>

Let us now look at what happens in the popular sector in respect of social stratification and its political consequences. It is common knowledge that in the past Brazil has experienced much sharper income differences by regions and social strata than Argentina. In this sense it is quite appropriate to talk of “two Brazils”, which still applies, albeit to a lesser degree. The rural condition, coupled with the lesser weight the modern middle class has historically wielded, is associated with the late emergence of trade unionism and Centrist parties such as Radicalism. It is only since 1945 that one can speak of the existence of a political party system in Brazil, other than the “Republican clans” of the Ancient Republic and the “legions” and state parties that were organized to support Vargas in the early 1930s.

This weakness of the Brazilian middle class explains the fact that in the 1920s dissidence came from the Army’s middle echelons, the expression of which was *tenentismo*, which had no equivalent in Argentina. In Argentina, Radicalism and the Left (Socialist and Communist) were the channels of protest movements. Among those in uniform there were some that sought innovations in the sphere of authoritarian developmentism, but these innovations were heavily colored by the Right until they shifted during World War II to nationalist masonry and the Unification Work Group-GOU, from which Perón emerged.

It was in 1945 that a convergence and reciprocal imitation between Perón and Vargas began. I will return to this. Much has been written about the social conditions underlying the emergence of Peronism and of Vargas’s postwar populist stance. I tend to stress the determining role of the emergence of new industrialists in need of “protection or death” and of the new masses newly migrated from the country to the cities. A characteristic of Brazil’s urban working masses is worth pointing out here: they resulted from a much more intense human renewal and generation turnover than in Argentina. In other words, in the case of an individual of the urban popular sectors in Brazil, it is

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<sup>7</sup> In the United States, the total number of foreigners never exceeded 15 percent of the population. These immigrants took U.S. citizenship and their status was clearly inferior to that of the already established population (slaves excepted).



most likely that his parents had not lived in the same or in another city but had come directly from the country, from environments that were poorly connected to the national information network. This accounted for a sparse historical memory in this population segment. In Argentina, though, an urban resident had most likely heard his parents, an uncle, or a grandfather speak of their emotion as they saw Evita on the balcony, or at a failed or successful strike, or when Babín was arrested and the opposition press was shut down. This is how political views are transmitted. In Chile, where the contrast between the country and the city is not as sharp as in Brazil and where the impact of immigration was not as marked as in Argentina, historical memory is extremely accurate at all social levels.

These factors, coupled with other circumstances, explain why Varguismo, the Brazilian populism phenomenon, was less deeply rooted than the similar phenomenon in Argentina. As a result, its adherents were more easily inclined to change loyalties. This is why Varguismo's more radical, caudillismo-imbued Democratic Labor Party-PDT of Leonel Brizola has become so enfeebled and why the PMDB, its moderate strain, has lost its Varguismo connotation and become a version of the various centrist parties in many parts of the world, pulled right and left, which causes inner divisions, a highly noticeable phenomenon with the Radical Civic Union-UCR in Argentina.

Varguismo's feebler connection with the popular segments and the intensified transformation of its industrial productive system explain why the social and political scene in Brazil has undergone such radical changes in recent years. As it left the political scene, Vargas populism gave room to a new Left, represented by the Workers' Party-PT, which had its cradle in the industrial district of Greater São Paulo. In this connection, a significant role was also played by the Catholic Church, which gave origin in Brazil to a Liberation Theology current that was much more influential than it could have been in Argentina. This Base Communities Church greatly helped PT's expansion, providing protection and supplying devoted militants. In this respect, this phenomenon resembles British Laborism, for which, as its long-time Secretary-General Herbert Morrison said, the important "M" was for Methodism, not for Marx. Moreover, the competition of evangelical churches and Afro-Brazilian rites forced the Brazilian clergy to modernize to be able to keep its flock, differently from the Argentine situation. In Argentina, the masses were won to Catholicism in the early 1940s, through Peronism, by a clergy that was

dissident in its own way and which had the sympathy of popular-falangists opposed to the most traditionally liberal-conservative, somewhat latitudinarian attitudes that prevailed in the upper classes.

Moving on to the military regimes, a major difference between the two countries is also noticeable. In Brazil, the 1964-1985 period was, if not genuinely constitutional, at least orderly, as presidential succession took place without internal coups, with voter participation, albeit indirectly. In Argentina, all military governments from 1943 to 1983 staged at least one, if not two or three internal coups, whose memory is still sufficiently fresh to need mention here. Why this difference? Was it because the Argentine military were more undisciplined, authoritarian, or ambitious than their Brazilian or Chilean peers? This may be part of the answer but it was most likely due to an underlying cause. In my view, it was due to the vigorous, threatening although not wholly revolutionary character of Peronism during decades. This movement, which represented in large measure an urban working class that carried greater weight than their counterpart in Brazil or Chile and counted on major negotiator *capitani del popolo*, has always been an appealing ally for any civilian or military group. The fights among ruling factions, which have always existed, found in Argentina since World War II a likely way of obtaining a winner: an alliance with Peronism, with the obvious purpose of dominating it. But this is not so easy, because as soon as the innovating faction imposes itself through a coup d'état or an electoral pact, as Frondizi's, the allies immediately become insufferable guests, the alliance breaks owing to the excessive weight of its popular component, and things go back to square one.<sup>8</sup> The main way to put an end to this mechanism is Peronism's conversion into a no longer menacing, rather distributive movement that is a rival but not an enemy of the Establishment, as occurs now.

In light of the preceding, the following characteristics may be lined up as working hypotheses:

1. In Brazil, there is a sharper difference between urban and rural living standards and a greater generation turnover in the popular strata, coupled with a shorter historical memory at this level and a greater facility to change political and party orientation.

<sup>8</sup> Guillermo O'Donnell has referred to this process as "the impossible game" in his *Modernización y autoritarismo*, Buenos Aires, Paidós, 1972, chap. 4.

2. In Argentina, the impact of the inflow of immigrants has given rise to a shorter historical memory than was the case in Brazil and accounts for less political participation, as this impact was countered by the weaker influence of a liberal or conservative bourgeois party and of a kind of laborism.
3. In their political interventions, the Brazilian Armed Forces have acted in a more disciplined way, owing in part to the control exerted by civilian sectors of the Right, which contrasted with the Argentine temptation to resort to Peronism as a potential ally in the struggle for power.
4. A social-democratic party in Argentina in the first half of the twentieth century was weaker than in countries at a similar economic and cultural development stage (such as Chile, Italy or Australia), owing to the large percentage of “nonnationalized” foreigners in the working class.
5. In Argentina, Peronism has been stronger, more closely linked to the urban working class than Vargasismo in Brazil. This, coupled with less intense economic changes, has helped Peronism to endure to this day. In Brazil, on the other hand, the place formerly occupied by Vargasismo remained vacant, which has permitted the establishment of a new Left, the Workers’ Party.

## Peron’s and Vargas’s different trajectories

If brought back to life, a Plutarch wishing to present to Mercosur citizens the feats of their most famous personalities would certainly include the Perón-Vargas duo. Without the intention of emulating the Greek historian – whose methodology would certainly be objected by my more scientific-minded colleagues – an investigation of this topic from a sociological comparatist standpoint might shed light on our social development and prospects. Vargas committed suicide to prevent a coup d’état, while Perón died still in power. And yet, Vargasism no longer exists, while Peronism endures, albeit changed. Vargas as a historical figure raises little controversy, differently from Perón. Perón left a goodly amount of books exposing his doctrine, whereas, apart from his speeches, Vargas only left a quite interesting private diary and a family – both in a strict and in the broadest sense – that sees that proper rites are conducted at his tomb.<sup>9</sup>

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9 Getúlio Vargas, *Diário*, 2 vols., Rio de Janeiro, Fundação Getúlio Vargas, 1995; Alzira Vargas do Amaral Peixoto, *Getúlio Vargas, meu pai*, Porto Alegre, Globo, 1960; Valentina da Rocha Lima and Plínio de Abreu Ramos, *Tancredo fala de Getúlio*, Porto Alegre, L&PM Editores, 1986.

The better known “parallel lives” images date from 1945, when the close similarity of the political roles of the two leaders became apparent. Vargas (ten years Peron’s senior) had had a very long political career; he had reached power through a civic-military revolution in 1930 and been Governor (“President”) of an important state, Rio Grande do Sul. That is, he was a member of the old political class. Although he had a military rank, as was customary among traditional landholders, he never practiced a military profession.<sup>10</sup> From 1930 on he lived through various stages, principally as “provisional” but innovator ruler (1930-34), constitutional President (1934-37), “developmentist” dictator with a Constitution of corporative inspiration until being deposed in 1945, and, after an interval, President again, now leaning towards the Left (1950-54). Was this trajectory an example of the “Brownian movement” that according to some of our critics characterizes the behavior of politicians in this part of the world? As part of greater self-esteem that should characterize us, I will attempt to put some order in this type of trajectory, seeing if, though Ptolemaic, a system may clarify things, so as to place us at least at the level of the celebrated although not too consistent Whigs and Tories that established the civic liberties regimen in England.

Perón also oscillated between a Mussolinian inspiration – claiming in his last years that the Duce was realizing a “local version of socialism” – and admiration for Mao, whose attempts to build socialism fell perhaps as short of the aim as the Italian’s, even though both enjoyed much greater credibility until recently. In his Rio Grande do Sul beginnings, Vargas belonged to the local Republican Party, of a Comtean positivist cast, clearly inclined to forming strong governments capable of carrying out profound changes toward modernization. But this party barely deserved its name; the same thing happened with the various attempts to form official parties, or rather “legions”, which the *tenentes* [armed forces middle and lower ranks] sent out as “interveners” tried to establish with modest success in the states. As a matter of fact, in 1937, with the self-staged coup known as *Estado Novo*, Vargas, unable to establish an official party, dissolved the few existing parties, from those that supported him to the liberal, fascist, or communist opposition parties. The *Estado Novo* thus never had truly fascist characteristics because, without an official party, the exercise of totalitarianism was difficult. In the end, the *Estado Novo* meant a technocratic dictatorship, which is something else. Vargas

<sup>10</sup> Virgílio A. de Melo Franco, *Outubro 1930*, 5ª ed; Rio de Janeiro, Nova Fronteira. 1980.

did not establish the corporative representation system his own Constitution demanded; in view of prevailing critical circumstances, he kept putting it off until he was able to achieve it in the liberation spring of the war's end.<sup>11</sup>

It is common knowledge that in 1945 Vargas called for free elections, pressured by public opinion and by the military, which were tired of his protracted term and apprehensive about his inclination to draw inspiration from Perón's now successful example of mass mobilization. To counter this impasse, Vargas established two parties, just as did his Argentine model. Perón had the Labor Party, firmly anchored in the unions and significantly named after the English worker's party; and the Radical Civic Union – Junta Renovadora, a somewhat loose grouping that included free-standing politicians, many of them linked to the provincial caudillo-style system. Significantly, the two parties were merged into one by Perón with the stroke of a pen soon after his victory at the 1946 elections, evidencing a verticality tendency and the mighty power of a leader who acted upon a mass that was already largely mobilized but little used to joint action.<sup>12</sup>

## Varguismo's alliance and its mutations

In Brazil, Vargas also established two parties, both named after the European social-democratic experience, but could never unify them, not because he did not want to do it but could not, or rather he did not want to do it because he knew he could not. For the urban popular sector, newly unionized but with structures much more dependent on the government than was the case in Argentina, he established the Brazilian Workers' Party-PTB. For the local notables, particularly those in the peripheral states, often conservative but resentful of the centralist dominion, he established the Social Democratic Party-PSD, an acronym that, differently from PTB, was merely fanciful.<sup>13</sup>

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11 José Murilo de Carvalho, "Armed Forces and Politics in Brazil, 1930-45", *Hispanic American Historical Review*, 62:2, May 1982, pp. 193-223; Virgínio Santa Rosa, *O sentido do tenentismo*, 3ª ed., São Paulo, Alfa-Omega, 1976 (1ª ed., 1933); Aspásia Camargo et al., *O golpe silencioso*, Rio de Janeiro, Rio Fundo Editora, 1989.

12 This is not the place to list the extensive bibliography on the role of the pre-existing unions in the making of Peronismo or on the degree of autonomy enjoyed by those that joined it. See, for example, Juan Carlos Torre, *Perón y la vieja guardia sindical*, Buenos Aires, Sudamericana, 1990, and my somewhat different view, which stresses the dependence with which union leaders acted, in *Perón y los sindicatos*, Buenos Aires, Ariel, 2003.

13 Lúcia Hippolito, *De raposas e reformistas: o PSD e a experiência democrática brasileira, 1945-64*, Rio de Janeiro, Paz e Terra, 1985; Ângela de Castro Gomes, *A invenção do trabalhismo*, São Paulo, Vértice/Iuperj, 1988; Edgard Carone, *Movimento operário no Brasil, 1877-1944*, São Paulo, Difel, 1979.

Of the two Vargasist parties, nearly always allied with each other during the democratic period that lasted until 1964, PSD was the main vote-getter in the beginning, owing to the characteristics of the Brazilian electorate. But with each rally, which attracted urban contingents, PTB's weight increased and its more radicalized segments became more active. The PTB-PSD alliance was to a certain extent equivalent to Mexico's PRI and to India's Congress Party, that is, a party integrated by different classes, although it had two heads and had not been preceded by a revolution. The fact that there had been no revolution – despite Vargasismo's renovation bias – may help explain why, differently from what happened in Mexico for a long time, there has been from the beginning an electorally strong Right (UDN, then Arena, and PP plus PFL today). On the other extreme, parallel to the Vargasist coalition, there was an electorally weak Left (mainly the Brazilian Communist Party), similarly to the Mexican case.<sup>14</sup>

Then came the extreme radicalization of the Goulart phase, when Vargasist strains and the Left converged. The situation created the preconditions for a revolutionary outcome, possibly brought about by the Executive and its entourage in the form of a self-inflicted coup, as in 1937, but on the Left this time. It is quite certain that the looming revolution would not have been exactly “socialist” but sufficiently threatening and bent on expropriation to shake awake the property-owning classes, following an intermediate model between the Mexican Revolution, with high mass mobilization, and the later, more elitist Peruvian Revolution or one of the revolutions in the Arab world or in Africa.<sup>15</sup> This leftist reorientation had already been given a thrust by the late-day Vargas, as he used to say that there are two forms of democracy, one of which was “liberal and capitalist, based on inequality”, while the other was “social democracy”, or “workers’ democracy”, which he defended on behalf of the collectivity.<sup>16</sup> In the tumultuous days that preceded the 1964 military coup, the Vargasist alliance broke up because PSD's great majority was clearly opposed to the measures contemplated by Goulart. The coup, then, was not just a military event; it marked the rupture of a coalition, which indicated broad civilian support for the new regime, which was approved by the majority of

14 Maria Vitória Benevides, *A UDN e o udenismo*, Rio de Janeiro, Paz e terra, 1981; Edgard Carone, *O PCB*, 2 vols., São Paulo, 1982.

15 Denis de Moraes, *A esquerda e o golpe de 64*, Rio de Janeiro, Espaço e Tempo, 1989.

16 Paulo Brandi, *Vargas: da vida para a história*, 2ª ed., Rio de Janeiro, Zahar, 1985, pp.204-205 and 211.

Congress that consisted of the liberal Right (UDN), the Varguist Right (PSD) and other regional groups, such as the Progressive Socialist Party-PSP of São Paulo Governor Adhemar de Barros.

## Classic Peronism

Differently from Varguismo's two-pronged alliance, Peronism had always been more unified, at least in a formal sense. As a matter of fact, though, it encompassed different internal currents that I would describe as follows:

- The Peronism of the labor unions, based on the workers' sectors in the country's more affluent area, highly mobilized and with a not negligible association experience;
- The Peronism of the inner provinces, more *caudilloist* and based on poor, little mobilized segments of the population; and
- The Peronism of the elites, the significant minorities not yet well integrated into their original classes, the Armed Forces, the clergy, the industrialists, intellectuals of the Right, and other more idiosyncratic circles.<sup>17</sup>

The labor unions current resembles the Brazilian PTB; the difference is that it is much more dominant. The inner provinces current resembles the PSD, but with more components given to mobilization, although to a lesser degree than the labor union current. The current associated with the elites, quite heterogeneous, resembles Varguismo in many aspects, as the latter in general found firmer consensus among the upper classes (peripheral and central) than did its Argentine counterpart. Thus, the upper classes' Varguist sector, being quite numerous, does not differ very much from its other segments, as was the case of Peronism in Argentina.

Early on, the Peronist elite, although a minority among the upper classes, encompassed a wide sector of some of the Armed Forces, a significant part

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<sup>17</sup> See, inter alia, Christian Buchrucker, *Nacionalismo y Peronismo: la Argentina en la crisis ideológica mundial, 1927-1955*, Buenos Aires, Sudamericana, 1987; Manuel Mora y Araujo, "Populismo, laborismo y clases medias: política y estructura social en la Argentina", *Criterio* 1755-1756 (1977), pp. 9-12.

of the less modern-minded clergy, and some industrialists torn between the benefits they derived from the *Justicialista* government's protectionist policy and the headaches caused to their enterprises by social agitation, which was much more intense than under Vargas. Despite the similarities pointed out between the Peronist currents we may consider as being of a "PSD type" and a "PTB type" and their Brazilian counterparts, those of "PTB type" in Argentina were much more vigorous. As regards those currents of the "elite type", they were much more adventurous and daring, much less connected to their original classes than in the Brazilian case and began abandoning the movement when it demonstrated its mobilizing power and the difficulty in controlling its members in the leader's absence became apparent. This is what may have led the Church to confront the government and, beginning in 1945, to take precautions to train its own leaders, which was violently countered by Perón. This is why the 1955 coup, similarly to the 1964 Brazilian coup, can also be considered not as just a military intervention or a recrudescence of the combativeness of the traditional opposition rooted in the Democratic Union, but also as the result of a breakdown of the Peronist coalition, whose Right had deserted. It is obvious that this Right did not take away many votes with it, differently from what happened in Brazil, but it did take away major power factors.

## Peronism's radicalization

Peronism's radicalization is well known. It began around 1954, was intensified by the "resistance" and then by the emergence of a guerrilla faction. Although many members of this faction were not originally or firmly convinced Peronists, the fact is that they were welcomed into this movement.<sup>18</sup> In general it can be said, based on worldwide experience, that in its early or intermediate stages, a popular movement harbors marked tendencies toward confrontation and even violence. This is why the incorporation of the popular masses into the political system and their

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18 Donald Hodges, *Argentina, 1943-1987: the national revolution and resistance*, Albuquerque, University of New Mexico Press, 1987; Daniel James, *Resistance and integration: Peronism and the Argentine working class, 1946-1976*, Cambridge, Cambridge University Press, 1988; Roberto Baschetti, ed., *Documentos de la resistencia peronista, 1955-1970*, Buenos Aires, Puntosur, 1988.



integration into and participation in power and influential circles are the main problem to be solved in a basic democratization process, such as the current one in many countries of our continent. Over time, the tendency in countries with relatively high urban, industrial, and cultural development is toward the bipolarization of the political scene between a Right and a Left, both moderate. The often convulsive phase of integration of the masses is followed by a sort of equilibrium, a social draw, when some consensus is formed about the rules of the political game, as well as an acceptance of government projects; this pulls all the sectors into the center, which, paradoxically, weakens the parties at the Center.

Now, it is possible that the initial model Perón had in mind resembled the PRI model, which had already stabilized and exerted a great impact on international public opinion since the nationalization of oil in 1938. In Perón's mind, that model interacted with the model Vargas was developing at the same time; in addition, earlier on, the Argentine leader had drawn inspiration from Mussolini. Despite his wishes, he was not able to copy any of these models. Moreover, in the beginning of his participation in the 1943-1946 military regime, he would surely have been shocked at the idea of starting such a conflictive and confrontationist movement as he ended up by starting. As he used to say even before French politician Alexandre Ledru Rollin did so at the time of the Paris barricades: "I am a leader and so I must follow."<sup>19</sup> Perón undoubtedly hoped to attract the majority of dynamic entrepreneurs, the professionals, both the urban and rural middle class, and craftsmen, possibly leaving aside some recalcitrant landholder sector or extremist groups among the intellectuals and the labor unions. This is difficult to document, but everything leads one to think that it was so. Nevertheless, his movement aimed at consolidating the Argentine community for a great effort toward economic, perhaps also geographic, expansion, ended up by engendering some of the most serious episodes of class confrontation in the country's history.<sup>20</sup>

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19 Ronald Aminzade, *Ballots and politics: class formation and republican politics in France, 1830-1871*, Princeton, Princeton University Press, 1993, p. 52.

20 On Perón's initial project, see Carlos Waisman, *Reversal of development in Argentina: postwar counterrevolutionary policies and their structural consequences*, Princeton, Princeton University Press, 1987.

This is where Peronism clearly differs from the Mexican PRI, although the two are often thrust into the same conceptual bag. Both can be included in a broader concept of populism, or “popular nationalism”, as long as their differences are kept in mind. Although this is not the time to dwell too long on comparisons, I should mention that in other works I have classified the movements that in a broad sense may be called “populists” into the following types:

- *Multiclass integration populism*: the Mexican PRI and the Vargas’s PSD+PTB alliance;
- *Middle-class populism*: with strong participation of a provincial middle class, separate from not very central unions, such as in Aprismo and Democratic Action;
- *Social revolutionaries’ populism*: characterized by the leading role played by quite radicalized sectors of the middle classes, with varying degrees of workers’ and peasants’ influence. The better known cases amongst us are Fidelism and Sandinism;
- *Workers’ populism*: with major participation of urban workers, minor participation of the middle class, and leading elites ranging much higher in social status. The classical example is Peronism, which Vargas’s, or even more, Brizola’s *trabalhismo*, or workers’ movement approached. More recently, Hugo Chávez seems to lead a phenomenon of the same type in Venezuela, as are doing Rafael Correa in Ecuador and Ollanta Humala in Peru. Evo Morales’ movement in Bolivia is somewhat similar, but because of the more popular origin of his leadership, it comes closer to “Aprism”.

To this list it must be added in the popular profile though not in the populist:

- *Social-democratic parties*: although not populist, these popular groupings have roots in the socialist unions but this does not preclude the participation of other sectors, such as the intellectuals or often important middle-class minorities. This category includes European Social Democracy (including in turn a former Communist variant), or its more radical versions:

the old Chilean Socialism and Communism, and the Workers' Party-PT in Brazil.<sup>21</sup>

Outside this group, which represents one or another sector of the political arena, are situated the centrist parties, such as Radicalismo or Christian Democracy, and farther away, the rightist parties, to which we have already referred.

## Varguismo's and Peronism's transmutations

Varguismo, as we have seen, ended up by dissolving itself in the maelstrom of urban transformations, with its roots in a proletariat with limited historical memory severed, or in an elite marginalized by the advance of modernization. This created a representation void, which the PT was soon able to fill. Leonel Brizola's Workers' Democratic Party-PDT, Varguismo's radical offshoot, seemed for a while to continue to hoist the old flags but in the end proved to be just too personalist when national conditions had already changed.<sup>22</sup>

As regards Peronism, its radical period was cut short by Perón himself, as he used it to return to power, although significant segments remained connected to the movement. From then on, Peronism began to evolve in a reformist, consensual sense, typical of a popular movement after the first enthusiasms and battles without quarter give way to more orderly competition. This process typically occurs when the workers' movement achieves certain social conquests and gains access to major positions, if only provincial or municipal, as in Italy's case. In Argentina and in other countries of the continent, such as Chile, former adversaries are drawing closer, despite the poor economic and employment conditions of a goodly part of the popular mass. This is in part

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21 I should clarify that I use the "populism" concept in the sense disseminated by the social sciences in Latin America in the sixties and not as it has become current among journalists and even more for some social scientist as synonymous with bad government and unfulfillable populist promises. Oftentimes, the populism label has been attached to any movement, tendency, or public leader that appeals to popular feelings and prejudices. From this angle, both Margaret Thatcher and Ronald Reagan and even more Le Pen or Hayder would be considered populist. It is something else when on the basis of these popular feelings and prejudices a strong social mobilization movement waving anti-oligarchic banners arises, in which case we may speak of populism. See Ghita Ionescu and Ernest Gellner, comps., *Populism: its meanings and national characteristics*, London, Weidenfeld and Nicholson, 1969.

22 Moacir Gadotti and Otaviano Pereira, *Pra que PT: origem, projeto e consolidação do Partido dos Trabalhadores*, São Paulo, Cortez Editora, 1989; Leôncio Martins Rodrigues, *CUT: os militantes e a ideologia*, São Paulo, Paz e Terra, 1990.

a result of the end of the violent state, including civil war, in which we had been submerged for decades. Hence the political elites' inclination to clinch "pacts", from the early cases of Colombia and Venezuela to the Spanish case to the more recent instances in Argentina. *Justicialismo's* rise to power with Carlos Menem in 1989 intensified a gradual process already under way, particularly among the leadership that aspired to wield political power instead of just confronting it. This reorientation occurred in practically all reformist parties, whether they had Social Democratic, Communist, or populist roots.<sup>23</sup>

This reorientation, though, does not warrant classifying the political parties of popular origin that follow it as "conservative" or as "popular conservative". Otherwise this category would have to include the Spanish socialists and the British labourites. Where then would be the Peninsula Popular Party or Great Britain's conservative party? According to some people, *all* parties that carry a certain weight today are conservative; but if this is so, the term loses its meaning. It is also argued that today the parties are mere machinery geared to the conquest of power, impelled not by ideology or class ambition but by a leader's personality and by alternative, yet very similar, technocratic projects, which can be changed as one changes clothes. To me, this is a "postmodern" reasoning that results in a distorted view, which magnifies certain facts taken out of context.

This being said, certain topics should be added to the analysis, to wit:

1. In some cases, alliances may be struck among parties of a different origin that may join similar or not so similar groupings for tactical motives. This has occurred in cases from the "Great Coalition" that endured in Austria for decades or in Germany in the postwar years and today to the Catalan parties' and the Basque nationalist parties' coalitions that joined off-and-on Socialism and the Popular Party. This is also the Brazilian case of the alliance between the PFL and the Brazil Social-Democratic Party-PSDB or perhaps the one between *Justicialismo* led by Menem and the neoliberal Democratic Center Union – UCD and other groups of the Right in Argentina. None of these alliances alone warrants ascribing to

23 For a recent discussion on this issue, see Seymour Martin Lipset, *Political renewal on the Left: a comparative perspective*, Washington, Progressive Policy Institute, January 1990; Alejandro Foxley, "After authoritarianism: political alternatives", in A. Foxley, M. McPherson and G. O'Donnell, comps., *Development, democracy and the art of trespassing: essays in honor of Albert O. Hirschman*, Notre Dame University Press, 1988, pp. 91-113.

the individual parties that make it up the characteristics of its members, although its most extremist militants may think so.

2. On the spectrum of parties under scrutiny (social-democratic, communist, and populist), there is special room for those of a populist type, whose class makeup is generally more heterogeneous, although not as extremely so as the Mexican PRI. Peronism, as mentioned, falls into a particular category, one more deeply rooted in the unions and in the workers' context than those more broadly called "populist". However, they harbor also a leading elite markedly differentiated from the movement's mass. This happens to a certain extent in any political party, but in Peronism this is more noticeable.

### The 1966 Argentine coup: a military-labor pact?

For several decades Peronism has been seen by the upper classes as a threat to its interests even though most of the time the movement did not show a revolutionary profile. It did indeed go through periods of violence and sharp antagonism against the dominant classes, since the burning down of the Jockey Club and of churches, and particularly during the protracted ostracism (1955-1973) that led it to strike an alliance with guerilla groups, some bred within itself and others from the outside. In its leading elite and union leaders, Peronism has always had a segment oriented toward Third-World authoritarian nationalism or even fascism. This latter rightist factor instilled vigor into it, through the roots it launches into significant minorities of the dominant classes, while alienating the intelligentsia and broad sectors of the middle classes, though. All this notwithstanding, for most of the time Peronism has been seen by the Establishment as potentially more dangerous than the local Marxist parties.<sup>24</sup>

According to political gossiping toward the end of the administration of Radical President Umberto Illia (1966), there was a formal or informal pact between the military and the unions to oust him, a "military-labor pact", a sort of neocorporatist agreement to divide the spoils of what was left of the country,

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<sup>24</sup> For different views on the subject, see Carlos Waisman, *op. cit.*; Juan José Hernández Arregui, *Peronismo y socialismo*, Buenos Aires, Ediciones Hachea, 1972; Oscar Terán, *Nuestros años sesentas: la formación de la nueva izquierda intelectual en la Argentina, 1956-1966*, Buenos Aires, Puntosur, 1991.

regardless of the outcome of the elections. This actual or alleged pact must be checked against the fact that the main objective of all the military regimes that took power in Argentina from 1945 thru 1976 was to oust or prevent a Peronist government.<sup>25</sup> The Peronists were indeed the main adversaries of the military as well as of the entrepreneurial class in general, notwithstanding the intentions of many of their leaders, who were thus forced to take every precaution and act with special caution, as any false step on their part would produce an immediate, violent reaction from the other side. This is why there was always a Peronist negotiating component, of a labor cast or not, that made utmost efforts to approach their possible enemies in the pursuit of a coexistence pact at any cost, including the alienation of segments of their own base. This is why, as General Onganía took office, the metallurgic Augusto Vandor and other leaders were seen paying homage to the new authorities. This attempt at coexistence did not last, though, and in a few months, confrontation became very harsh. The negotiators never ceased to hope for the reestablishment of an alliance between the Army and the People, which never happened. Peronism's negotiating leaders knew full well that the objective of the 1966 coup was to prevent Justicialismo's sure victory at the forthcoming presidential elections. They felt too weak to break the military's hegemony but were willing to offer a pact whereby they would be recognized as junior partakers at the table of power, proffering guarantees that this attitude would filter down to the more radical segments of the movement itself. But this quite reasonable argument could not win the day because the contestation-prone, even violent nature of the movement they led prevailed upon their conciliatory strategies. The organizing force of the pressure groups in Argentina, coupled with Peronism's contradictory characteristics, caused the failure of all Argentine military regimes, which were unable to remain in power, as was the case in Chile and in Brazil.

It should be pointed out that in the modern world it is practically impossible to find political parties that embrace at the same time entrepreneurs, financiers, successful professionals, and most of the middle class in general, as well as the workers' and the popular segments. Some past experiences of this type, such as the Mexican PRI, the Varguist PSD-PTB alliance, and India's Congress Party, have undergone or are undergoing a definite process

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25 Guillermo O'Donnell, *El Estado burocrático-autoritario, 1966-1973*, Buenos Aires, Editorial de Belgrano, 1982; Eugenio Kvaternik, *Crisis sin salvataje: la crisis político-militar de 1962-63*, Buenos Aires, IDES, 1987, and *El péndulo cívico-militar: la caída de Illia*, Buenos Aires, Thesis/Instituto de Tella, 1990.

of disintegration or evolution toward something different. Argentina is not an appropriate field for the consolidation of a multiclass integration movement as structured as the PRI. Moreover, the “popular conservatism” concept does not find expression anywhere in the world, unless we apply this label to any conservative party capable of winning elections and appealing to somewhat atavistic feelings.

Existing comparative evidence indicates rather that a class-type convergence as broad as the one that Justicialismo seemed to express under Carlos Menem (1989-1999) is difficult to maintain and this has been made clear by the subsequent evolution of this movement reoriented by Néstor Kirchner. The undeniable existence of this alliance leads us to consider it rather as a tactic coalition, typical of a postwar situation. The war I am referring to is not necessarily the “dirt war”, although the latter is not excluded, but the war that encompasses practically the entire period from 1945 – or 1930, perhaps – to 1983. It is not that “Peronism may be anything” as it is often said; but it is a typical agglutinating movement that includes various social sectors, more noticeable in the peripheral countries than in the First World, and which tends to change over time. But this does not mean that in the more affluent regions of the planet parties do not change. Or can also the Spanish or Chilean socialists that have moved from revolution to reformism, or the ex-communists of Italy or Eastern Europe, not to speak of the Alleanza Nazionale fascists, unknowingly be “peronist”?

## Outlook for Argentina’s political party system

The Argentine political system is under strong pressure and will very likely change in an almost unrecognizable way in the coming years, approaching West Europe’s model, or Chile’s, to take a closer example. This is the issue I will address now, despite my friend’s earnest advice not to engage in futurology, as one is master of one’s words only before uttering them and their slave thereafter. But human curiosity is unfathomable and mine is sufficiently strong as to make me dare tread this path.

For a long time our country has had strictly organized “corporative” groups (entrepreneurial, labor, professional, and farmer associations, the Church, the Armed Forces), which is usual in the more developed countries,

but has had a very peculiar party system. This system has some differences vis-à-vis the model it is bound to approach, in my view:

1. Absence of an electorally strong Right, a fact that one perhaps should not lament, but which differs from what happens in most actual democracies.
2. Enduring force until recently of a Center party, the Radical Civic Union, albeit without strong roots in entrepreneurial or labor “corporative” organizations.
3. Absence of a social-democratic voice in the popular classes, filled by a populist movement firmly rooted in trade unions.

Trade unionism in Argentina during the thirties and the early forties was very similar to trade unionism in Chile and Uruguay, two countries with which we share many characteristics. It also followed European models quite closely. But it differed from what was happening in the rest of Latin America, where labor organization depended heavily on the State and had often been initiated and encouraged by the upper echelons, particularly in Mexico and in Brazil. Since Peronism’s rise, Argentine trade unionism has changed so much as to differ quite clearly from its counterparts in Chile and Uruguay, which have maintained many of their traditional albeit modernized forms of organization and ideology. In Argentina, a caudillo-type of leadership has imposed itself, which makes for leaders much more distanced from their bases than is current in countries with a democratic structure. True, owing to the advances of modern life, trade unionism everywhere has adopted a bureaucratic organization, within limits, as it has kept its association character, and violence ceased to be endemic in internal struggles, with notorious exceptions, such as the Teamsters Union in the United States. In Argentina, the proliferation of violent groups within trade unionism was part of a reaction to the threat of infiltration by rival groups that were often backed by authoritarian governments, beginning with the so-called Liberating Revolution. With the consolidation of the Rule of Law, the possibility or legitimacy of continuing to use these methods must slowly vanish.

In Brazil, the transition from traditionally very manipulative leadership – the “pelegos” – to leftist forms more directly connected with the militants, has been obvious and has provided a base for the PT and Lula. Would this process be possible in Argentina? Perhaps, but with major differences, because, as we



have seen, Varguismo in Brazil never penetrated as deeply into the popular classes as did Peronism and because the country has been radically transformed by massive industrialization, which did not happen in Argentina.

Now, looking at the middle class, one notes that its majority, far from supporting some conservative party by whatever name – which is the case in the developed world – has provided the base for the Radical Civic Union-UCR, which has won battles in the democratic struggle but shows few ties to corporative interests. This party's electorate gradually decreased to almost a quarter or less (21 percent at the 1973 elections, when Balbín ran against *Justicialista* Héctor Cámpora), gaining new vigor with the rise of Raúl Alfonsín, when it attracted a considerable group of intellectuals and people from the Left, tired of sectarianism and disillusioned with revolutionary Peronism. But the returns showed that Alfonsín won the 1983 elections thanks to the Right, which preferred his centrist variant, somewhat inclined towards the moderate Left, to the threatening, unpredictable *justicialista* popular mobilization. Despite this backing, though, *Alfonsinism* was not sufficiently conservative to represent the corporative interests of the upper classes' and much less those of the Church or the Armed Forces. Neither did it display sufficient leftist characteristics to identify with the unionized segments of the population, whether with their leadership or with the opposition minorities in each union.

## Changes in Peronism

Peronism has undergone profound changes practically from the beginning. Its protean nature is such that the first person to be surprised by his own creation must have been Perón himself. He would have a thousand times preferred something similar to Mexico's Institutional Revolutionary Party-PRI, which encompassed nearly everybody, from industrial entrepreneurs to dynamic technicians to the middle class, including the peasants and workers' majority, but all clearly under control. Perón vehemently repudiate class struggle and his entire initial endeavor was aimed at consolidating the nation and at preparing it for undertaking huge efforts on the industrial front and possibly on the war front as well. But in practice, as we have seen, his party ended up by staging some of Argentina's harshest confrontations with the affluent classes.

Other populist movements typical of peripheral countries, and Varguismo in particular, have also undergone major changes that have thrust them into a pendular oscillation between positions that were close to, if not identical to fascism, and other stances of a clear anticapitalist bias, as illustrated by João Goulart in the early sixties. In all populism variants, the participation of the upper or middle classes or of functional groups such as the Armed Forces or the clergy was central. These minorities within their original class are quite strategic, as they inject power elements into a movement that, if it were not for them, would be reduced to a little-organized mass or to their leaders' inner circles. Obviously, these minorities endow the movement with a moderate profile, but any unbiased observer can see that their possibility of controlling the masses, especially at their leader's death, would be somewhat uncertain. The social-democratic phenomenon (or Eurocommunism in its time) also encompasses segments of the affluent classes that support the movement, but they are fewer and their attachment to their original classes is more problematic. In addition, a *déclassée*, or opportunist minority that swarms around populism is not always a guarantee of moderation. Many elements, when caught in painful personal circumstances may, despite their ideology rooted in conservatism, suddenly change and jump over the ideological spectrum. Thus, the rightist origin of many guerilla activists in Argentina and in other countries should not surprise us.

In 1989, the prospect of Carlos Menem's winning the elections, ever more assured according to the opinion polls, caused real panic among both the Right and the intellectuals, as they were, for a number of reasons, worried about a return of what seemed to be a fundamentalist strain of Peronism. This was so real that it can be said that hyperinflation was due not so much to any possible mistakes in Alfonsín's economic plan or to punctual speculation, which inevitably occurs in such cases, but rather to the fear that tortured those that had something to lose. There was high probability of a replication of the C ampora-Per on scenario or of Allende's in Chile, with a different ideological but similarly conflictive content. The redirection adopted by Carlos Menem and his advisers, seeking to share power with the country's major entrepreneurial groups contributed to general pacification, notwithstanding the economic results that, particularly in certain situations, had a stronger impact on the lower, traditionally peronist segments. But given the quite possible alternative of civil strife and a coup, "Argentina's Pact" helped consolidate the democratic

process. There was a recurrence of situations that neither Spain's nor France's socialism had known, not to speak of Eastern European post-communist regimes. This reorientation had also some unexpected effects on the political party system, which will be felt with still greater intensity.

## Possibility of party fragmentation

Strangely enough, the first victim of the new image projected by Peronism – or Menemism, if you wish, although it is a fact that the majority in the party followed Menem – was the Radical Civic Union, which began to lose votes in provincial and national legislative elections. It happened that, in view of Menem's pact with the political and economic Right, the "Peronist menace" began to wane. At first, public opinion doubted that changes were genuine. But as time went by and the President paid the price of having alienated many militants in his own party and in the General Labor Confederation-CGT, entrepreneurs could breathe at ease. Only one cloud remained: before the loudly voiced militant clamor of "Treason", the government could soon be reduced to a nullity in the electoral field. Something similar had happened before in our area with Carlos Ibáñez in Chile in 1954 and also in England to Ramsay MacDonald, who applied "neoliberal" medicines to the 1930 crisis and was left without a party, as well as being denigrated by his former peers' historiography. But, as is well known, this did not happen in Argentina, where in successive elections Peronism voters only dropped from 50 percent to 40 percent, exactly the same thing that happened to Felipe González in Spain.

As fears dwindled not only among entrepreneurs but also among intellectuals, each of these traditionally anti-Peronist groups felt free to go its own ideological way, without having to opt as before for a less evil, i.e., the UCR. In other words, the center-right and center-left electorate, the base of what Alfonsinism had added to radical centrism, became free and established their own organizations: leaning to the Right, Ricardo López Murphy's Recrear; toward the left or moralism, Elisa Carrió's ARI (Argentines for a Republic of Equals), both leaders being former Radical figures. The persistence of the electoral force – and thus of social support, whether organized or not – of the ruling Justicialista Party was consolidated in the 1995 presidential elections. At those elections, one could no longer say that the discourse was different from the practice. Justicialismo won approximately 50 percent of the votes, just as it

had in 1989. Now, however, the makeup of the 50 percent was different, as at least 10 percentage points were undoubtedly the same 10 percentage points it had lost to the Left and which it was now recovering from a Right that could hardly believe it was depositing the ballot with the nation's emblem in the box, which it certainly did *à contrecœur*.

## Peronism's components

Before addressing Peronism's future, it is necessary to do an X-ray of the parts that make it up and that can burst under the effects of economic changes. A comparison with Eastern Europe shows that the social-democratic parties that adopt "neoliberal" policies have lost much of their electorate, which has affected its militancy and its size. Secessionist groups, or new parties on the Left, have gained strength but do not pose a serious threat, owing partly to the discredit into which alternative utopias have fallen. Is this experience applicable? Is Argentina's economic situation much worse than the one faced by Europe even in its critical periods? Is Peronism the equivalent of Social-Democracy? There are certainly differences, but similarities do exist also, and one should note the converging tendencies that after the crisis that began in 2001 are quite radically changing Justicialismo and forming a new agglomeration around President Néstor Kirchner, which includes most of the Justicialist party as well as other free-standing Center-left groups. The two main differences between Peronism and Social-Democracy are the nature of trade unionism and the presence of important though minority sectors of the upper and the upper-middle classes, the Armed Forces, and the Church. Also important, and to a certain extent derived from the preceding, is ideology, largely developed by the aforementioned groups, i.e., by non-labor elites.

Be as it may, let us now look at each component and see if it shows inclination to change.

### a) Trade unionism

It is well known that Peronism is a special category among the different types of populism, owing to trade unionism's marked presence in it, stronger than in all the other known types, particularly in its early stages. Union organization is quite different from that of social-democratic labor associations.

This is due to the way unions were established when the movement began and were changed soon after under State pressure. Juan Carlos Torre was right in saying that some members of trade unionism's old guard had a key role in the formation of the Labor Party, but he may overestimate its relative weight. As a matter of fact, soon after the Labor Party was established, Perón ordered it dissolved, which met with little resistance. The combination of verticality and popular acquiescence is precisely what characterizes populism in general and Peronism in particular. Only certain social conditions give rise to this peculiar combination, which lasts for a long time, oftentimes even after the original conditions no longer prevail. Over time, new conditions impose themselves. Today, these new conditions require a less Caudillist union organization, short of arriving at full internal democracy, in which the bases fully participate. Acceptance of privatization public policies and other free market prescriptions is not due to imposition from above but rather to the reading of the newspapers' international section or from conversations with people who attend numerous international meetings, in which their leaders frequently participate. In this connection, major transformations are expected with the adoption of more participative agendas, as leaders will have to pay more attention to the opinion of the bases and live with segments that profess a different ideology. Many changes have already taken place, particularly at the local level, and this will entail new versions of the Justicialist ideology and practice. The loss of unions' sections and even of entire unions to more militant opposition groups, whether Peronist or not, will undoubtedly stimulate this process. In other words, before dying, Peronist trade unionism will decide to grow, but this implies the adoption of social-democratic practices, whether they are recognized as such or not.

### **b) Higher elites**

The presence in Peronism of numerous although minor sectors recruited from the higher social strata is one of the characteristics that differentiate it from Social Democracy. This does not mean that there are no social democrats from these higher echelons, but in Peronism this component was very significant, particularly at the outset, although it became weaker after the confrontations at the time of the Resistance and the guerrilla warfare. The drawing in of conservative leaders and votes under Menem was a different

phenomenon, as it did not mean a real political merge but rather a tactical alliance, similar to the one struck in Felipe González's Spain between the Socialist Party and the rather bourgeois *Convergència i Unió* in Catalonia. Said tactical alliance was broken when the late-2001 crisis brought down its symbol, i.e., *convertibility* (one dollar to one peso). Among the intellectualized lower-class segments, support for Peronism was generally much weaker than the support given by such segments to Social Democracy where the latter predominates. Instead of these middle class "illustrated" segments, culturally conservative and Catholic groups were a significant component of Peronism, particularly in the country's interior. Peronism's "higher" segment that provided much of its purely political leadership has not always been exempt from a weakness for the fascist model, at least in the beginning and even later. Be as it may, today it is closer to Christian Democracy or other Christian socialism variants than to Social Democracy. In general, Peronism is identified with a classical model of popular nationalism, filled with nostalgia for the golden years of Juan Domingo Perón and his antiimperialism and antioligarchy campaign, and little concerned with "formal democracy". But there are also in Peronism numerous sectors, at both the political and the trade unionism level, that consider themselves more to the left and are now discovering that Social Democracy is not an imperialist invention. Given such a heterogeneous makeup, the Peronist movement could hardly maintain its cohesion for long. As a matter of fact, it is slowly unraveling, without serious debilitation, by actually transforming itself. In Peronism, the main force countering this division is verticalism and the members' conviction that their movement is synonymous with nationality. But time cannot fail to erode this rather primitive belief, as it has done with other creeds adopted with equal or greater enthusiasm by militants of popular parties in Europe and elsewhere.

### c) Ideology

The lode of Peronist ideas is sufficiently rich to provide materials for constructing practically any other political creed. It has changed many times and may change again. Peronism's intellectual heterogeneity is partly due to its contradictory social makeup but also to the legacy of its founder's ability to integrate different elements into a viable whole. This is not just pragmatism; it is a major contribution some peronist leaders may bring to a future left. One of

the major components of this multifaceted Peronist corpus is a pragmatic, pro-unionism reformism quite similar to Roosevelt's New Deal. The latter mingles with a Latin American caudillismo of a populist type, with strong roots in our history since the first decades of independence. In general, our intellectuals have not taken this national popular tradition very seriously, except during periods of enthusiasm for Peronism's revolutionary potentialities, which they then mythicized. Once the drunken uncritical enthusiasm has subsided, it would be worth returning to the study and knowledge of our traditions, attaching to them at least the same value the French attach to theirs. This would help situate Peronism in a Latin American context, without, of course, failing to take into account its affinities and counterparts in other parts of the world.

### A futurological excursion

Argentina's current party system has played out its historical role and now finds increasing difficulty in representing the new configuration of social forces. This being the case, we will have to go through a period of disaggregation and disorientation, which will jeopardize the solidity of our still frail democracy. If we manage to survive this phase of tensions, we will arrive at a modernized, rejuvenated political parties' structure. It is possible that Peronism, even if it loses its own majority in Congress, will continue to be the party with the largest electorate in the country, with at least a third thereof. The Radicals would gradually shrink, drawn to the Right or to the Left by alternative strategies, similarly to what happened to their counterparts in Chile and in France. A moderate form of the Left, split today into various currents, may eventually reach consolidation. At some point, a division would occur in Peronism, something that is already happening and that may intensify. I cannot, nor is it my intention, to predict the timing or to associate this with any events or personalities. I rather believe that this division process could result from the operation, in Argentina, of social forces similar to those that operate in other countries at a similar development stage, engendering bipolarity between a sector inspired by entrepreneurial values and a sector inspired by trade unionist or egalitarian values. A conservative coalition might then emerge, based on the various center-right, provincial parties, certainly with a major Peronist component. This Peronist component would then fit some observers' description of this movement as the main expression of the Right

in Argentina, with a reservation: this would apply only to a minority. On the opposite side, a leftist coalition could have its main numerical base in a majority sector of Peronism that might appeal to its “national and popular” traditions, encompassing a somewhat renovated trade unionism. With the loss of various supports, the new Peronism needs allies, something that will become increasingly clear. To find them, it will have to frequent circles of the Left, moderate or not, and of Radicalism. In the latter case, this is already happening.

As regards the future of the Brazilian party system, I prefer not to venture any comments, as there are many people who know about this a great deal more than I do, although I have dealt with it in the past. But I wish to point out that a convergence of mentalities is taking place in our entire region. Some fifty years ago, each country had parties that did not consider themselves as akin to any others beyond their national borders, which they barely knew about. The situation has changed and now resembles that of Europe, where the existence of cross-border parties, such as the Christian Democrats or the Socialists has greatly helped continental unity. It is said that one swallow doesn’t make a summer, but many swallows are now flying in our skies. **DEP**

Translation: João Coelho.



# Bolivia: changes and foreign policy

*Jean Paul Guevara Avila\**

## Introduction

### Changes in a global context

**O**ne of the characteristics of our times is change. This historical moment which the entire planet is living is a time of changes that break away from previous models and trends. Most of these trends were determined by obsolete paradigms or unsustainable, upsetting inertia. Complex, profound changes are the present's distinguishing feature.

As it is conducted, globalization is being seriously questioned everywhere. It globalizes costs and debts, but not gains and benefits. This globalization exacerbates competition and private interests, leaving aside solidarity, complementariness, and mankind's common welfare. This kind of globalization is questionable because it is based on and developed at the expense and in spite of the environment and nature, whereas this planet is our *pachamama* – the Mother Earth –, the only space we have in which to live as the human species.

A worldwide consensus is thus shaping up about the need to change this course and this model. Although changes have distinct characteristics in each

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country, we are all aware that we have to take charge of this global process of search for alternatives.

## The world

The capitalist accumulation model is incompatible with the planet's existence. The 'western civilization's' consumption patterns cannot be extended to all mankind because the natural resources are not sufficient and are not renewed at the same pace as consumption.<sup>1</sup> The world energy and food crises and the effects of climate change are expressions of this process.<sup>2</sup>

We are witnessing the decline of the Washington consensus and the neoliberal model.<sup>3</sup> The policies of trade liberalization at all costs and the market's absolute supremacy are being questioned and refashioned to be recycled under a 'public-private' garb. The imaginary financial bubble is six times as large as world production, whereas poverty reduction stalls.

Military monopoly and dominion are sufficient for devastating a country or even a region, but not for imposing the designs of the great powers in crisis. The force of the stronger is insufficient for subjecting the weaker, but in its desperate application it only entails destruction, harsher confrontation, and crises.

- Unipolarity in crisis
- Weakened global governability
- Energy crisis
- Booming private economy

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1 One individual's consumption requires an average of 2.23 hectares a year of productive land and water ecosystems worldwide. This means that one year and three months are needed today to produce what one person consumes in a year on the average. A European requires 4.8 hectares. If everybody consumed the same as a European, two planets would be needed. A U.S. citizen requires 9.6 hectares. If everybody consumed the same as an American, four planets would be needed. Current world economic growth does not reduce poverty; on the contrary, it heightens inequalities and increases environmental degradation. According to OECD's 2001 Environmental Outlook, environmental degradation keeps pace with consumption growth.

2 Data from the World Conservation Union (IUCN's Red List) show that 16,119 of the 40,170 species studied are under risk of extinction: one in eight birds; one in four mammals; one in three amphibians; eight in ten crustaceans; and three in four insects. This is the sixth living species extinction crisis. Extinction is 100 times faster now than in geological eras. In the Pacific Ocean there are today three kilos of plastic for every half a kilo of plankton.

3 The income of the 500 richest people on earth equals the income of the 416 million poorest people. The income of the three richest people in the world equals the GDP of the 48 poorest countries (UNDP 1998).

## Latin America

Our region also needs new visions and a change of the old models. A look at current, democratically elected governments shows the extent of change: we have a worker as president of Brazil, a woman as president of Chile and another woman as president-elect of Argentina, an Indian as president of Bolivia, and left currents (more to the left than the label implies) in Ecuador, Uruguay, Venezuela, and Nicaragua.

It is not a question of homogeneous or homogenizing processes but of new characters and players that have brought with them a new breath of air, greater 'genuineness' and a much more earnest commitment to their peoples and to our region.

Bolivia is an important part of this complex change process. Our country's foreign policy is one of its major instruments, not only as an expression of the internal changes that are taking place but also as a tool for playing a major role in worldwide changes. The advance of Bolivia's democratic and cultural revolution is interdependent with world processes.

Under these circumstances, changes have led us to pursue the foundation of a new State, or to refound Bolivia by proceeding to an internal and external decolonization.

President Evo Morales's government, which I represent, is both a product and a vigorous promoter of these change trends.

It is thus necessary to divulge and share information on the processes in which we are involved and which we are conducting.

This exposition will address the following topics:

- Historic imperative of change: need and meaning
- Duplicate institutional framework that has prevailed in Bolivian history
- An indigenous president and his achievements
- The international relations challenge in the current context: a historic imperative to establish new models
- Bolivia's foreign policy in times of change

## Development

### *Historic imperative*

- Three eras that have exhausted themselves at the same time

January 2006: enter President Morales:

- First indigenous President
- The President elected with the highest number of votes in Bolivia's contemporary democratic history
- Six months later he confirmed his electoral support base and expanded it

Signs of the need for and the pursuit of change in society:

- Crisis of the neoliberal modernization and/or development model
  - Indication of the need for change
- Voting at the Constituent Assembly
  - The meaning of change
  - Claims of unmodernized indigenous populations (by exclusion; by choice)

If change has a reason and a meaning (desire to change and deep-rooted indigenous and community consciousness):

- Construction of a new State
- Reformulation of foreign policy
- Diversity policy

## Results achieved

As this is the case of a democratic revolution, change has two directions and various complementary instruments:

- Structural changes are being conducted by the Constituent Assembly
- Immediate changes that allow us to go forward under current circumstances are made through the nationalization and recovery of our natural resources (hydrocarbons and minerals); a democratic agrarian reform; and a National Development Plan.

The new Hydrocarbon Law and the Hydrocarbon Nationalization Law, which have permitted greater State participation – have achieved these results: State revenues have climbed from US\$324 million in 2005 to US\$1.173 billion in 2007. Recovery of two major refineries will require the investment of US\$98,286,000, which will permit the refining of 95,000 barrels a day after the project's completion.

After its nationalization as part of the refounding of the Bolivian Mining Corporation, the Posokoni tin mine reported in March 2007 a net income of US\$5,135,000.

The Vinto foundry, which was also nationalized and recovered, earned the State US\$2,820,000 last year.

As always, though, the interests affected by the changes we are making raise every kind of obstacles, as it was to be expected.

In the beginning, they encouraged the culture of fear amongst us. It was said that things “are simply the way they are” and that they would always be the same; and that we, the indigenous people, could not tell one end from the other.

As we started, we were warned of “international isolation;” that “juridical insecurity” repels investments and that without foreign investments nothing is possible; that Bolivia is an “unviable country...” And so on and so forth.

And yet, external cooperation and foreign credit and grants have increased in the last two years. Commercial credit rose from US\$190 million in 2004 to US\$35 million in 2006 and to US\$210 million in 2007. Concessional loans climbed from US\$51 million in 2004 to US\$7 million to US\$160 million in 2007. Grants rose from US\$114 million in 2004 to US\$51 million in 2006 and to US\$63 million in 2007.

The Mutún steel project is expected to invest US\$2.1 billion and to generate 5,000 direct jobs and 10,000 indirect jobs for Bolivians.

Currently, US\$9 billion are being invested in a cathodic copper plant.

Public investment has climbed from BOB 670 million in 2005 to BOB 905 million in 2006 and should total BOB 1.116 billion by the end of 2007.

As to roads, an unprecedented investment of US\$38 million was made between January and June 2007.

Net international reserves increased from US\$1.856 billion in 2006 to US\$4.922 billion in 2007.

President Morales's agrarian reform has three components: land redistribution; ascribing to land a social and economic function to people's benefit; and respect for lands already under exploitation. Under previous administrations, 36,815 hectares were distributed between 1996 and 2006, whereas the current government has already distributed 494,899 hectares. Also between 1996 and 2006, title deeds were issued for 9.2 million hectares, while President Evo Morales has issued titles for 5.5 million hectares in only two years.

## Conclusions

### Societies' challenges today:

- Institutional apparatus for living with difference: community

### International relations challenge in the new millennium:

- Old players, new scenarios ("Davos paradox")

New parallel state enterprises: large entrepreneurial groups that under crisis and conflict scenarios replace the State in many areas. This is the case of old enterprises that, in the midst of political crises and environmental disasters, have found new market niches in which they obtain extraordinary gains.

This issue was the focus of attention at this year's Davos World Economic Forum and gave rise to the Davos paradox: the fact that in spite of wars, confrontations, high oil prices, terrorist attacks, and stock exchange plunges, enterprises such as Exxon Mobil (which earned US\$40 billion in 2006), or Lockheed Martin (which won U.S. Government contracts totaling US\$25 billion in 2005), are doing better than ever. This is such a major phenomenon that it has deserved a specific indicator – the "guns-to-caviar index."

- Strategic dismantling of the State's management capacity; bankrupt States

This phenomenon affects not only Latin America and the so-called "underdeveloped" countries. The debilitation of the State is a global phenom-

enon that also affects post-industrialization countries, particularly the United States, whose basic management capacity has so diminished that during the Katrina hurricane tragedy in New Orleans the Federal Emergency Management Agency-FEMA had to hire a private enterprise to draft and celebrate contracts with private enterprises for reconstruction.<sup>4</sup>

The Iraq war has entailed many experiences, including some based on direct observation, that have to do with the new role of private corporations in respect of dismantled/debilitated states, as related to the *Fast Company* magazine by John Robb, a former Delta Force commander in Iraq and current management consultant. Robb describes the “final result” of the war against terrorism as “a new, more resilient approach to national security, one built not around the state but around private citizens and companies... Security will become a function of where you live and whom you work for, much as health care is allocated already.”

The ‘irruption’ of all these corporations into State ‘domains’ is not limited to crises or emergency situations. In the United States, “contract cities” are cities that contract third parties (private companies) to manage them. A recent model is Sandy Springs, in New Orleans. Incidentally, CH2M Hill, the company that was awarded the reconstruction contract after the Katrina hurricane, had gained experience in Iraq and in reconstruction work in Sri Lank after the 2005 tsunami.

## Disasters and obsolete institutions

The current international institutional structure is proving obsolete and inoperative in the face of today’s environmental crises, political conflicts, and trade and economic confrontation. It has no mechanisms capable of establishing consensus and enforcing agreements on environmental and nature conservation. The power to decide on and “to legalize” (never mind the expression’s incoherence) direct military interventions are in the hands of countries that are the ones directly interested in and benefited by such interventions. The WTO

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<sup>4</sup> Surprise! The companies that were awarded the largest reconstruction contracts were the same that were responsible for Iraq’s reconstruction – Halliburton KBR, Blackwater, Parsons, Fluor, Shaw, Bechtel, CH2M Hill. These contracts totaled about US\$3.4 billion.

is not able to go beyond free trade postulates and market opening, to prevent industrial countries from subsidizing agricultural products, which exacerbates and maintains existing economic asymmetries and inequalities.

### **A historic imperative for the construction of new models**

The specific conditions of life production and reproduction on the planet today force us to face the challenge of establishing new models and paradigms of international relations. The international institutional apparatus stemming from the Yalta and the Bretton Woods agreements have proven obsolete and inoperative at present, when new currents and governments are seeking to assert their self-determination and ensure their right to development.

- Conceiving relationship modes that respect and reflect diversity, to govern relations between States on the basis of complementariness and not competition;
- Using power for prestige and not as force; and
- Conceiving paradigms that supersede or bypass modernization.

### **Pillars of Bolivia's new foreign policy**

*Peoples' diplomacy.* A new approach to international relations depends on a new formulation of diplomacy with the concurrence of the different social players. Peoples' diplomacy implies the following: (a) listening to all, dialoguing with all, and working for all and not for just some privileged sectors; and putting the interests of the nation before the interests of any sector; (b) promoting relations not only with foreign offices but also with peoples, as the sap of integration and change processes run in the people; and (c) and putting human rights and life's principles before the market and investment dictates.

*Effective exercise of sovereignty.* Sovereignty is not a static condition but a dynamic process. It is not acquired once for all but is exercised, constructed, and developed through the State's proposing and coordinating capacity. Sovereignty's function is not only defensive (protecting the interests of the State); it is also assertive (contributing to the conception of new change models for harmonious international coexistence).



*Cultural diversity.* Peaceful coexistence, respect among peoples, and integration for a more balanced world require respect for and practice of diversity. No culture stands alone as modern and superior to all other cultures. Acceptance and recognition of the different systems of human relations and of the different forms of production, knowledge, and vision; recovery of the history and memory of all peoples; respect for the different identities, codes, beliefs, expressions, and values of all the earth's inhabitants – this is the central message of the original, indigenous peoples of Bolivia's culture of life.

*Harmony with nature.* International relations encompass not only relations among human beings, societies, and States but also their relations with nature. Promoting integral, diversified, and integrating development in harmony with nature is the only alternative for life on planet Earth.

*Reduction and elimination of asymmetries.* The intensification of inequalities is the major factor of injustice, conflict, and destruction on the planet. An unbalanced world needs international norms biased in favor of the less privileged. We pursue complementariness and solidarity rather than competitiveness and reciprocity based on the mistaken presupposition that all nations and regions are equal. These precepts should be applied at all levels of international relations: trade, cooperation, institutional framework, dispute settlement, etc.

*Revalorization of the coca leaf.* The coca leaf plays an essential role in the life of the original Andean peoples owing to its nutritional, traditional, ritual, and religious uses that are deeply rooted in their culture and worldview. And yet, the coca leaf was mistakenly included on List I of the 1961 United Nations Single Convention on Narcotic Drugs, as if it were a drug in its natural state. Revalorization of the coca leaf requires a critical assessment of the coca leaf agreements; scientific research of its medicinal and nutritional benefits; an inventory of its traditional and cultural uses; the study of its demographic, economic, social, and environmental implications; and the implementation of initiatives aimed at promoting its industrialization, marketing, and exportation.

*Fight against drug trafficking.* The fight against the processing, trafficking, and consumption of illicit drugs is spurred by the need to address – in accordance with the international community's shared responsibility and respect for national sovereignty and human rights – the negative effects of such activities on society, politics, the economy, and the environment. Our

policy does not call for zero coca or free coca cultivation. Conscious that part of the coca leaf production is channeled to the manufacturing of with narcotic drugs and that today Bolivia's surplus production may potentially contribute 9 percent to the world's cocaine production, the government, in conjunction with the peasant coca-growing organizations, is working toward voluntary coca leaf rationalization. The government's plan is as follows: (a) to stabilize coca production on about 20,000 hectares at a first stage; (b) to withdraw about 4,000 hectares from cultivation through interdiction; and (c) to industrialize the production of another 4,000 hectares, thereby reducing from 9 percent to 2 percent Bolivia's potential share in world cocaine production. In addition, the government is determined to reinforce border control in view of the mounting flow of cocaine into neighboring countries, particularly into Brazil, and has celebrated a cooperation agreement with the European Union for a comprehensive study of the coca leaf market.

*Maritime reintegration.* Since the war with Chile, Bolivia has affirmed as its foreign policy's permanent objective its maritime integration with the Pacific coast, based on historical and legal rights. This reintegration is imperative for political, economic, and commercial reasons and for the purpose of gaining access to the exploitation of marine resources. And yet, in the last 128 years, Bolivia has achieved no result other than what was agreed under the 1904 treaty. Since the adoption of a State policy based on dialogue, we have witnessed a historic change in relations between the two countries. Chile has opened itself to dialogue and we have managed to agree for the first time on a 13-item agenda, which includes Bolivia's claim for a sea outlet and establishes the content and timetable of joint work on the various issues of mutual interest. The first item on the agenda is the building of mutual trust to allow progress in respect of the other items, on the basis of friendship and complementarity rather than the traditional enmity and confrontation. We are working toward opening up new scenarios and possibilities in Bolivian-Chilean bilateral relations. It is essential that we adopt initiatives aimed at engendering social awareness, participation, and transparency in addressing this issue as well as understanding of the new focus nationwide; at informing people and winning international support for Bolivia's maritime claim; and at working toward the inclusion of this maritime issue on the agenda of international forums, such as the United Nations, the OAS, the NOAL, among others.

*Indigenous peoples.* Practically all over the world indigenous peoples continue to be treated as aliens on their own territories. Their rights are not recognized or respected. Their views and message are considered as vestiges of the past and their identity and culture are reduced to folklore. Bolivia's and the world's future hangs on a change of attitude. The indigenous peoples hold moral reserve, an ethical view of nature, and the commitment to cultural diversity and to the democracy of consensus capable of helping us save the planet and life. In this connection, it is essential to move forward with the approval of the United Nations Declaration on the Rights of Indigenous Peoples and of new binding mechanisms to guarantee the rights of indigenous peoples and their vision of the world.

*Biodiversity, water, and climate change.* The biological diversity and the water that sustain life on earth are under risk, owing to the capitalist accumulation and trade liberalization model.<sup>5</sup> Biofuels,<sup>6</sup> the privatization of water, and the development of transgenics only aggravate this situation.<sup>7</sup> To this are added the effects of climate change,<sup>8</sup> which shows that it is impossible to proceed on this mistaken development road. Implementation of the Convention on Climate Change and the Convention on Biological Diversity by the more developed countries is essential for saving the planet. Just as a 'cultural exception' is sought, an "environmental 'exception' must also be ensured in the application of trade agreements. There should be UN binding mechanisms above trade or other instances to protect biodiversity and water and to control the effects of climate change. In view of the resulting droughts and floods, Bolivia proposes that all nations assume responsibility for changing the energetic model and our consumption habits, for going beyond the Kyoto Protocol, whose targets are but a fraction of the reduction necessary to significantly check global warming. As a base for this policy, Bolivia proposes that the world should embrace the Culture of Life values as the only solution capable of sustaining and preserving our planet Earth.

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5 Twenty-four percent of the fish are overexploited; 52 percent are near the overfishing limit.

6 One hectare of land is needed to produce one ton of biofuels. In 2000, world agricultural production was equivalent to 10 million tons of oil, i.e., 3 percent of world oil consumption.

7 Dams hold three times as much water as the planet's rivers. About 1.7 billion people live under water tension (Millennium Ecosystem Assessment, 2005).

8 In 10,000 years, CO<sub>2</sub> on the planet increased approximately 10 percent; in the last 200 years, it increased 30 percent. Since 1860, Europe and North America have contributed 70 percent of CO<sub>2</sub> emissions as compared with the developing countries' 25 percent; 2005 was the hottest year in the last one thousand years.

*Bolivians abroad.* Bolivia has never had a migration policy focused on nationals that leave the country predominantly for economic reasons. We are now promoting the regularization of the alien status of Bolivians in Argentina, Brazil, United States, Spain, and Italy and are defining mechanisms to ensure the vote of Bolivian's living abroad. To address migration's structural causes, a series of initiatives is needed to overcome the sharp inequalities among nations and to promote full citizenship, so as to for guarantee respect for human rights in every country.

### Areas of diplomatic activity abroad

Under current circumstances, foreign service has to operate in the following fundamental areas:

- a) *Political dialogue:* for improving reciprocal knowledge and Bolivia's relations with other countries and for projecting the image of the democratic and cultural revolution the country is engaged in, with a view to reaching agreements on common objectives and on the joint implementation of programs and projects of mutual interest.
- b) *Cooperation:* for the establishment of mechanisms aimed at reducing and overcoming, through mutual collaboration, the sharp asymmetries stemming from colonization and the imposition of neoliberal prescriptions.
- c) *Trade and investment:* for making trade relations more fruitful and promoting investment in our country, with a view to benefiting small rural and urban producers and ensuring their participation in foreign trade, while guaranteeing juridical security for all those that make investments in conformity with the Bolivian Constitution and the national legislation.
- d) *Tourism:* for promoting knowledge of our country and its cultural diversity, biodiversity, and people, and for qualifying this sector for intercultural dialogue, jobs creation, and strengthening of the national economy.
- e) *Culture:* for providing knowledge of an essential aspect of the changes the country is undertaking and for ensuring recognition of the indigenous peoples' huge contribution to the formation of

- our national identity, thereby putting an end to discrimination and exclusion and showing to the world our view of welfare.
- f) *Bolivians abroad*: for rendering quality public service to fellow Bolivians that, for various reasons, had to leave their country to live abroad.
  - g) *Solidarity movements*: for achieving the coordination of social movements, networks, and intellectuals in solidarity with the process of change in Bolívia and strengthening their relation with national social movements, thereby making Peoples' Democracy into a reality. **DEP**

Translation: João Coelho

# Culture, diversity and access

*Gilberto Gil\**

## Introduction

**T**he concert of globalization shifted culture to a unique and strategic place in the global debate – probably because the traditional ground of geopolitics in the contemporary world has itself been changing. Upon the cartography of national maps we see more clearly today the emergence of a global panorama of huge cultural diversity, with thousands, maybe millions, of different cultural systems, not all of which coincide with national scenarios. The region encompassing the north of Argentina, the south of Brazil, part of Uruguay and Paraguay has the strength of a symbolic system that reaches beyond national frontiers.

It is not by chance that I bring up this example, to the extent that Mercosul and the relationship with South American countries has been a priority in the general endeavor of the Brazilian government to integrate the region, not only economically, but also culturally. But the change is not only regional. The planet's general panorama is redesigned when culture is shifted to the center of a debate on the kind of development we wish for the globe, when we examine the limits of the economic model that shaped the 20<sup>th</sup> century

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and caused the contemporary migration of production to light, immaterial forms of value generation. The panorama is also redesigned when we take stock of the expansion of democracy in the world and the establishment of education as a global priority, when millions of hitherto excluded subjects start saying loudly: “we want access to culture”. It is not merely a wider access to consumption, but expanded access to forms of expression, production structures and the means of social circulation.

The culture agenda finds today an interface with the international economic debate. That interface becomes more intense when the economic debate deals with the discussion of forms of contract, intellectual property and copyright, identifying the repositioning of old asymmetries and of unfair terms of trade towards poor and developing countries. Not by chance, one of the important issues for Brazil, both internally and externally, is the trend to recognize, examine and make effective policies aimed at the so-called “Economy of Culture”. These are the new circumstances that make the cultural agenda a very important agenda for Brazil and for the world.

Within this concert we in Brazil represent a voice increasingly integrated with the regional destiny of the South American peoples, a voice that recognized its huge debt to Africa and its cultural brotherhood with that continent. As one way to expand cultural ties, the III CIAD – Conference of African and Diaspora Intellectuals – was recently held in Salvador. During the last four years, the Brazilian Ministry of Culture assumed its regional and international responsibilities as well as the promotion of Brazilian culture in the world, both symbolically and economically. A good example is the Year of Brazil in France, whose activities involved millions of people, as well as the Culture Cup, bringing cultural diplomacy closer to soccer diplomacy. We have taken up the responsibility of promoting in many directions this welcome shift of the agenda: culture as an agent of change of an old form of development.

It is important to recall Brazil’s role, side by side with many other countries, in the shaping of a large basis for the adoption of the Unesco Convention on the Promotion and Protection of the Diversity of Cultural Expressions, in 2005. In the years to come, this Convention – recently ratified by the Brazilian Congress – may come to mean to the cultural agenda what the Kyoto Protocol means today to the concrete advancement of environmental policies: not only an effective platform of fundamental principles, but also an agreement on a new role for the State in what concerns culture and diversity.

Brazil's role is important because the way the country was formed is a fortunate example of diversity and cultural encounter. We are a mixed breed, a product of diverse and lively populations and traditions occupying a vast territory and which together make up a wide field of images. As seen by foreign eyes, we practice a unique mode of living and being in the world. There is a universal message of peace, community living and huge creativity expressed in the way this civilization opened itself and assimilated the values of other countries and civilizations, in the way this population deals with its customs, ethnicities, races and creeds. This message of peace is the heritage of the Brazilian people. In this connection, during the last four years in government, we have sought to promote Brazilian culture as the bearer of unique contents and of universal values.

What the Convention makes clear is that these cultural values, both tangible and intangible, are being increasingly challenged by the process of globalization. The symbolic load of cultural goods shows the special nature of such goods and services because they express after all an accumulation of hundreds of years, the investment of several generations who put into their expressions the very meaning of human existence. Many people, and especially the State and its agencies responsible for the cultural agenda have become aware of the high added value of culture, made clear by the interest of large corporations in the pharmaceutical knowledge and technologies of the South American Indians, in the skill of our craftsmen and in the contagious reproduction of the music and dances of Brazil.

For this reason the Lula Administration and the Ministry of Culture have been bringing cultural policies to the center of the debate on national development and the relations of exchange between Brazil and other countries. We understand cultural policies, together with environmental policies, as dimensions that qualify, and in certain cases condition, sustainable economic development. These are policies that promote a balance between economic production and the welfare of society.

Culture has an undeniable economic dimension. In 2003, cultural activities accounted for the circulation of 7% of global GDP.<sup>1</sup> Such activities are not concentrated on the symbolic expressions already recognized – such as musical, audiovisual and book production chains, more evident today – but also

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1 IDB (World Bank)



in dozens of external features, in contents which, based on the technological convergence of our time, move among traditional and contemporary media. These are swift, dynamic contents that add value to sandals, prowess in sports and fabrics. The advent of digital technology only sharpens these possibilities of access, employment and exchange that culture carries within itself. It also strengthens new forms of currency circulation and new economic models that, in the near future, will be thoroughly established.

The challenge here is to understand the growing economic dimension of culture and find forms of cooperation that allow poorer populations possessing knowledge, culture and identity, to enjoy fully the benefits and wealth from intellectual property. We must find ways and means to allow cultivated, formatted and industrialized knowledge to circulate and be accessed, by balancing copyrights, investor's rights and rights of access.

Nevertheless, these contemporary features of culture take on other aspects when they are examined in the context of developing countries, as is the case in South America. Seen through this lens, international cultural policy becomes one of the main elements in the confrontation of international asymmetries which, in the end, result in hegemonic models, in centralized forms of social communication, in concentration of management and content, and in industries that pay scant heed to labor and pollute the environment. In the end, we are dealing with an ongoing struggle to realize democracy in a more effectively cultural scenario so that it permits better conditions of access to cultural content and models of protection of the cultural diversity.

We are living in a privileged historic moment. The changes in the forms of production, significance and distribution of cultural contents point to new, dynamic cultural policies. The digital revolution opens new doors to developing countries. It is a unique chance of insertion in the existing model of globalization: an opportunity for us to put into practice the joy of cultural diversity.

Culture has an incredible potential to produce sediments that activate historic change. In many cases, culture is where change effectively takes place. But its unobtrusive and keen action on the trends of international relations, its new economic potential and its transversal action still suffer from a great lack of awareness – and even mistrust – from traditional public bureaucracies. It is time for us to heed the contemporary strength of culture, and the impetus to modernize agendas and update public debate, to promote peace, pleasure

and mutual knowledge – for the sake of developing countries, for the sake of South America.

## From the domestic to the international field

During the first four years of the Lula Administration, we have endeavored to guide public cultural policies in Brazil along three conceptual directives. Culture was understood in its symbolic, economic and citizen dimensions. Such a concept represents an attempt to organize the role of the State and recognize the scope of cultural phenomena in the contemporary world. It represents a way to translate such political and symbolic challenges into effective public policies.

Cultural Mercosul opened up new possibilities. One of its main axes stems precisely from the emphasis attributed to the *Exchange of National Culture Policies* of Mercosul members. We focused on the interaction of State policies and programs centered on cultural phenomena in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

This is an extremely healthy exchange, because it strengthens our common patrimony (just as the archeological soil) and our historic and cultural similarities, besides stimulating mutual learning of programs and mechanism that produced consistent and important responses to the complexity of the cultural phenomena that our countries currently house.

Interchange, however, should not be confined to policies implemented by States. One must take into account cultural manifestations that are circumscribed, or highly influenced, by the dynamics of the distribution of cultural industries. Data from Unesco indicates that in 2002, the United States, United Kingdom and China alone were responsible for 40% of the circulation of cultural goods in the world.<sup>22</sup> Another consequence of the international asymmetries in the field of culture is the importance assumed by the English language, which became the great medium of contacts among cultures of other tongues. The largest share of cultural exchanges among the “peripheric” of the globe is controlled by the center of the system, centered on the axis United States-Europe-Japan. Mass communications, which represent today a

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2 *International Flows of Selected Goods and Services, 1994-2003* (UNESCO, 2005).

fundamental part of the public sphere of expression, debate and formation of thought, are being increasingly absorbed by large transnational conglomerates, oligopolies of the production and distribution of mass cultural goods. There is an incredible potential for interaction among the diverse cultures of the world, but this potential is dampened by the logic of the distribution of cultural merchandise.

It is in this environment that access, exchange and diversity can meet. The position of Brazil in this new scenario must be guided by the exercise of plurality, against the imposition of a single culture or of culture changed into mere merchandise. This implies the defense and promotion not only of the Brazilian cultural diversity, internally and abroad, but also access to other cultures and exchanges with our neighbors in South America.

## **Diversity of cultural expression, intellectual property and development**

The implementation of the Unesco Convention on the Promotion and Protection of the Diversity of Cultural Expressions represents a new landmark in the international legal order. The Convention seeks to establish a more balanced international system of exchange of cultural goods and services, ensuring the sovereign right of States to implement cultural policies to protect and promote their cultural diversity and to guarantee access to the cultural diversity of the whole world, for instance through the implementation of a range of regulatory policies. This Convention permits the creation of a South-South circuit of exchange of cultural goods and services, raising the possibility of access, consumption and exchange of cultural production among developing countries, thus breaking up eventual hegemonies of segments of the cultural market.

Another international front prioritized by the Brazilian Ministry of Culture is the participation in the International Network of Cultural Policies (RIPC), an informal network of culture ministers of the whole world who meet annually and that may have been the great springboard for the adoption of the Unesco Convention.

In 2006, when Brazil hosted the annual meeting, we chose the theme “Access to Culture, Copyrights and New Technologies: Evolving Challenges to

Cultural Diversity” to promote a reflection on two of our political concerns: copyrights and access to culture. Our main conclusion inferred from this study was that the copyrights may represent an obstacle for the access to culture, mainly in view of the new technologies, with obvious consequences for the cultural diversity.

This may be explained by the growing expansion in the last few decades of the reach and scope of legislation and treaties regulating this sector, constraining developing countries to assume very restrictive obligations regarding intellectual property, even if they do not have the infrastructure and institutional capacity needed to assimilate the new rules.

The existing system of intellectual property is totally alien to the modern technological, economic and social trends. It is a system that makes intellectual property, and within the rights of authorship, into an end in itself.

Our RIPC meeting in 2006 demonstrated that the problem of copyrights is more serious for developing countries, since in such countries the laws of authorship are most restrictive, either because of greater vulnerability to the lobbies of the big corporations in the cultural industry or because of the absence, in these countries, of civil society organizations that defend the users of protected works and the public interest in general, as is the case in developed countries.

The Brazilian Ministry of Culture also put together the Agenda for Development, in close partnership with the government of Argentina. Our concern was to include issues regarding rights of authorship in the establishment of a program in the WIPO (World Intellectual Property Organization) devoted to development. In this way we are defending an important public domain, with effective respect to the limitations and exceptions to copyrights as well as to the promotion of alternative forms of licensing of works, such as Free Software, *Copyleft* and *Creative Commons*.

There is an ongoing debate at WIPO with the active participation of the “Group of Friends of Development”, a bloc of developing countries led by Argentina and Brazil in opposition to the group of developed countries. Depending on the result of the debate, developing countries may be able to count, at the WIPO, on a program where intellectual property is no longer an end in itself, but a tool for development, where countries can have room to implement public policies that ensure access to culture, knowledge and information for their

populations, as well as an international flow of assets protected by Intellectual Property in a fairer and less painful way toward the developing world.

Another issue related to intellectual property that we intend to bring out during the next few months and years – and which is dear to all South American countries – is the *Protection to Traditional Knowledge and Cultural Expressions*. WIPO has a specialized committee on this issue, whose work has not been up to the expectations. We believe that it is essential to achieve some sort of protection to such assets. This measure could benefit mainly the developing and less developed countries and within them their traditional populations, which normally suffer great economic and social deprivation, even if they possess a rich cultural patrimony. For our region, it is important to have an agenda that includes the protection of Traditional Cultural Knowledge and Expression as a fair and just source of economic income for our populations.

## Peace, culture and the current crisis of multilateralism

Half a century after the end of World War II, the agenda of culture once again comes forward in the post-Cold War and post-September 11 world as a fundamental element for the construction of peace among peoples. The discourse of the apparent “symbolic collapse” referred to the new forms of terror and intransigence, leads us again to reflect collectively about the future, as well as to the need to undo warlike, fundamentalist or equally ethnocentric sentiments that once more come back to haunt mankind.

Just as it was necessary to build a new international organization in the post-war period, there is today a growing consensus that the United Nations system needs a deep reform in order to strengthen and adapt itself to the new times, by becoming even more plural and representative. It is not a question of supporting just a reform of the Security Council or the General Assembly, the most important political institutions of the United Nations, but to put into practice in the ensemble of our relations the agenda of the centrality of culture for democracy, peace and development.

The Unesco Convention will surely be a fundamental tool for global governance in the 21<sup>st</sup> century, but we must proceed beyond that in order to deepen the national and regional understanding of this Convention. It upholds, for instance, the value of cultural diversity in an even wider and more global

level. By doing so, it faces the argument that legitimizes conflict and even that kind of war that – absurdly – happens through the clash of civilizations; cultural conflicts that would be the most important fuel for the war industry and unilateral interventions. The thesis that culture is at the genesis of contemporary conflicts intends to deflect the real causes of the asymmetries that shape the fate of whole multitudes, who are doomed to restrictive forms of intellectual property that limit technology and the social and cultural rights of the population.

All this shows that the notion of diversity is very wide and the instrument of the Convention must go beyond the aspect of “protection”. It empowers countries to promote culture as a central element of their development strategy. This means, for instance, that roads and ports must be built and modernized according to the public perspective, for the populations are the *raison d’être* of such structures; they are the points of departure and arrival of such strategies. Populations cannot be eliminated from the analysis of costs or from the policies of the State. If we consider the restoration of historic centers, for instance, not to take into account the populations involved would also mean to dismiss all the value of the historic centers, to exhaust the life and the social dynamics of these centers, their fairs and festivities, which constitute the deeper motivation for touristic migrations in today’s world. This was what happened in a certain moment to the city of Salvador, in the state of Bahia, when someone decided to remove the population of Pelourinho, in the historic center, to proceed with the restoration work. Those who still understood that the worth of the city lies in its communities – and not exclusively in its structures – had to face that decision with pain.

From the exclusively economic standpoint, a pragmatic and realistic view fails to see that the economy of culture is among the fastest growing in the world of globalized capitalism, one that grows at a faster rate than the evolution of the global GDP. The economy of creativity competes with the war economy in the United States, is already among the most significant in the European Union and enjoys a strong showing in less developed countries, such as Brazil. Culture is the fastest growing sector of the economy in the world, since it generates in average better wages and jobs, and also – which is for me most important – social inclusion with full citizenship.

The notion of culture as a right, as economy, politics and identity, that has slowly come to the fore in the last few decades, must more than ever become

a part of the ideas that inform proposals for the reform of international institutions. Instead of a clash of civilizations, culture must be seen as the mortar of global relations, capable of uniting different social communities, nations and even whole hemispheres through diversity.

The crisis of multilateralism cannot be overcome without the end of any aspiration to hegemony. The only acceptable hegemony is that of diversity. If, on the one hand, unilateral versions of the contemporary world can only weaken and threaten it, on the other the fragmentation of international relations – that came about in the last few years as a result of unilateralism – also reinforces the isolation of cultures, preventing the convergence of cultural exchanges with the wide opportunities opened by new technologies.

The Brazilian Ministry of Culture works to restore multilateralism in all its dimensions and meanings. Not only its institutional and decision-making features, but also the very spirit of cohabitation with multilateralism inspires the international action of the Brazilian government. The multilateral concept goes together well with the protection and promotion of the diversity of cultural expressions, as well as the balance between respect to intellectual property and a less asymmetric access to culture in its different modalities and technologic means.

Cultural, historic and even geographic links encourage us to combine our universalism with more local concerns. In regional terms they strengthen our ties with South America and with African countries of Portuguese language. Finally, we may establish with South American countries a multilateral area of peace and solidarity, especially if compared with other regions of similar economic situation, with those who speak our language. We can also strengthen our cultural insertion in the world and at the same time recognize ourselves in our own linguistic identity.

South America and the Community of Portuguese Speaking Countries certainly provide us with a sound starting point to face globally the challenges of the contemporary world with initiatives such as Cultural Mercosul, Recam (Specialized Cinema and Audiovisual Network of Mercosul), Cultural CASA of the South American Community of Nations, the Interamerican Cultural Committee of the OAS and the Conference of Intellectuals from Africa and the Diaspora. However, the policy of promoting a humanistic culture of peace, whether on the local, regional or global level, must recognize all existing

difficulties as a starting point. History is marked by conflict. Let us not deceive ourselves. But war is neither an inexorable truth when the culture of peace leaves the field of rhetoric and really influences the great decisions.

## Culture as agenda

Finally, a quick view of past events. Since the end of World War II, culture entered the international agenda as an indispensable element for the harmonic and peaceful coexistence among States, peoples and nations. The devastating image of the atomic bomb and of the Holocaust led men and women of the most diverse origins to reflect on the need for a new world pact.

It is within this context, where cultural issues have been the main points in the political debate that the modern concept of multilateral organs of the United Nations system has emerged. In these historic circumstances, peace and culture became complementary forces and features. How can we contemplate peace, if not through cultural coexistence, in harmony and equilibrium, among peoples and nations? How can we think of a new geopolitical map, theoretically multilateral, without recognizing the right to cultural differences and to different forms of organizing life in the symbolic level?

Not by chance, shortly after its foundation Unesco invited a group of renowned scholars to elaborate a number of reflections with a view to a scientific review of the racist theories that marked the first half of the 20<sup>th</sup> century.<sup>3</sup> In this context, the anthropologist Claude Lévi-Strauss argues that cultural diversity is the main element that promotes human development.

Lévi-Strauss launched one of the first theoretical seeds of the Unesco Convention on the Protection and Promotion of Cultural Diversity, which was ratified by more than thirty countries in 2006. He emphasized the wealth brought about by the inevitable interaction among cultures.

This new concept did not emerge only as a theoretical debate. It was awakened through the struggle of the movements of independence and decolonization, in the post-colonial context, by means of affirmative policies – of gender, groups and ethnicities – besides the multiple trails opened by multiculturalism.

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3 *Raça e Ciência* (Race and Science) Vol. I. Unesco (org.) Editora Perspectiva, São Paulo, 1960.



Thus, in these 60 years, culture became increasingly stated and exercised *as a right*, one that is now being deepened in an even more democratic scenario. It is a scenario that seems more and more to demand the universalization of the right to culture. Will States be in a position to guarantee this right to their citizens? Which new updates are needed so that cultural diversity becomes a starting point for the present forms of development? How can national and global institutions that finance development be able to incorporate culture as a guiding principle – just as in the past the environment was included? How can the social technology developed by peoples be strengthened, free of tutelage and authoritarianism?

We face today, just as we did 60 years ago, a huge challenge and an immense perspective of shifting positions, by having the opportunity to deepen the frame of the presence of culture not only in the world debate, as a trimming of development, but as a structuring and regulating factor of social relations and of the very development project of our countries. Society has progressed, cultures have progressed – the agenda must progress. **DEP**

Translation: Sérgio Duarte

# Major turns in Chilean economic policy and their legacy

*Oswaldo Sunkel\**

## 1. Introduction

**B**asically, four schools of economic thinking have had a decisive influence on Chile's economic policy and reality since the mid-20<sup>th</sup> century: the ECLAC thinking in the 1950s and 1960s; the socialist thinking in the late 1960s and early 1970s; the neoliberal thinking in its more ideological version, from 1974 to the end of the dictatorship; and since 1990, a hybrid mix of the more pragmatic neoliberalism late in the military regime and an emerging neostructuralism known as "growth with equity," oriented toward the resumption of a long-term socioeconomic development strategy.

In this essay I intend to focus on some of the specific expressions that clearly show the development of economic thinking through the economic policies adopted by the different currents. I do not ignore, of course, that there is no unidirectional movement of thinking toward economic policy practice and hence toward historical reality. Theory, policy, and reality interact with

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and influence and modify one another, as becomes clear particularly at times when signs radically change.

Thus, for example, the Great Depression of the 1930s, with its sequel of financial and international trade crises and widespread unemployment, marked the genesis of the Keynesian policies that prevailed until the 1970s. Contrariwise, the deceleration of economic growth since the 1960s, growing fiscal imbalances, and inflationary pressures, coupled with the ineffectiveness of fiscal policies in the stop-go seventies, in addition to the oil crises and the prodigious expansion of the private international financial system, greatly contributed to the displacement of Keynesianism and the rebirth of 19<sup>th</sup> century liberalism, or neoliberalism.

The history of economic policy in Chile in the last century was characterized by substantial changes in the role of State, market, private sector, social policies, foreign trade, international financial relations, and so on. In this essay, which is of a preliminary nature, I insist, I have set myself three tasks. I shall attempt to show how the origins of these profound changes in economic policy included equally profound changes in the internal sociopolitical context. I shall also point out how the significant role played by major changes in the international context affected the more fundamental internal changes. Lastly, I shall list some of the more important long-term consequences of the various economic policies that were a determinant of economic, social, and human capital accumulation in the Chilean economy's major development stages, which thus became a positive or negative legacy for subsequent periods. In other words, I maintain that although major turns do occur in it, economic policy does not work in a void but amidst inherited historical realities amassed in previous periods.

I am particularly interested in showing that, despite the prevailing orthodox neoliberal discourse that has woven a dark legend around the statist phase of the mid-20<sup>th</sup> century, many of the foundations of a modern economy were laid in that period in terms of economic, social, and human capital accumulation that greatly facilitated the establishment of the neoliberal model of the subsequent historical phase. Accordingly, a relatively extensive, detailed section of this essay will be devoted to that period.

As regards the more recent period of transition from the military government's early fundamentalist neoliberalism to a more pragmatic neoliberalism and

then to a series of democratic governments policies of an increasingly neostructuralist vein, I wish to underline two things in particular: first, notwithstanding its serious and admitted deficiencies, neoliberalism has also left a very positive legacy; second, the Concertación governments' economic and social policies have also introduced substantial innovations into the classic neoliberal program, thereby giving it an increasingly neostructuralist character.

## 2. Three basic assumptions

A review of the tendencies and salient facts in the history of Chilean economy in the past century may be grouped under three main general, interrelated assumptions.

According to the first, since the emergence of the international capitalist economy in the 18<sup>th</sup> century, economic policy discussions in each country conform systematically with one of two main views: one that assigns a predominant role to the market and to private entrepreneurship, and which I will call a “market-centric” view; the other assigns a predominant role to the State, which I will call a “state-centric” view. Any significant modification in economic policy is intended either to give wider room for the play of market forces or to allow the State more room for intervention to regulate or replace market forces to a larger or lesser extent.

In practice, of course, State and market are not mutually exclusive but complementary to each other; both are present at all times, even in the most extreme forms of market or planned economy. There has never been and there will never be a market economy without a State to establish and enforce free-tradism rules when the market functions reasonably well and to regulate public and semipublic goods when the market does not function. Similarly, even under the most radical, centralized socialist planning the market, though formally prohibited, will always exist in the form of black market.

Thus, the State and the market have been combined in different proportions according to the different historical periods, so that economic policy has tended to favor greater predominance of the State over the market during state-centric periods or to expand the function of the market and private entrepreneurship during market-centric periods. This historical observation is

important for an appreciation of the variability of institutional arrangements over time from a long view perspective.

In Chile, a market-centric model prevailed from the late 19<sup>th</sup> century to the 1930s. From the 1940s to the early 1970s, a state-centric model was followed, which led to an attempt to install a socialist economy under the Popular Unity government. In the mid-1970s, a market-centric model was once again adopted, characterized at first by radical neoliberalism, which was attenuated in the second phase of the military regime and has undergone significant changes and revisions since the return to democracy in 1990. Replacement of one model with another is a traumatic process of profound structural and institutional change owed in part to the internal political power structure. This change is not entirely independent, though, as it is heavily influenced by changes occurring in the international sphere also. Despite drastic changes in economic policies, significant continuities are also to be found in the established socioeconomic infrastructure, which may prove to be advantageous or inconvenient to the new phase.

Hence, my second assumption is that the degree of predominance of the State or the market over the course of history is definitely conditioned by the extent of integration or disintegration of the international commercial and financial markets, particularly in the case of small economies that are heavily dependent on the world economy, as is the Chilean economy's case.

It is also necessary to correlate the institutional trade and financial apparatus with the economic, social, and power structure and with economic policies. Particularly important is a look at the transition from one period to another, as this is when the financial and political power structures change, and with them the development strategies, and when the debate about economic theory and policy flourishes.

Lastly, according to my third assumptions, it is important to point out that no matter how profound the changes are from one period to another of predominance of a given economic policy, a significant legacy is passed on from one period to the next, especially as regards institutional and capital accumulation aspects, which will have a major influence on subsequent development.

### 3. The international context in the mid-twentieth century

This section explores further the idea that there is a close relation between the degree of integration or disintegration of the international economy, particularly of the international financial markets, and the extent of protectionism or opening of the national economies, their orientation regarding resource allocation, their consumption or investment options, the configuration of their power structures, the extent of State intervention, and the orientation of economic policy, all of which translates into theoretical and economic policy reformulations.

During the period of the so-called “outward” development, which extended from the mid-19<sup>th</sup> century to 1930, a close economic, trade, and financial integration was reflected in the predominance of the sterling pound, a currency that had firm economic and military backing, and in major, ever larger international trade, credit, investment, and migratory flows. In general, this global configuration of the British Empire and its influence zones, such as Latin America, and certainly Chile, contrast with national economies of small, weak states – economies that were very open and scarcely protected, including both the central and the peripheral economies of Latin America. This was the phase of 19<sup>th</sup>-century liberal market-centrism under the predominance of the British Empire.

This led to a process of allocation of resources on the basis of comparative advantages. As the comparative advantages acquired by the central countries during the Industrial Revolution were to be found principally in manufactures, these countries specialized in exporting manufactured products, while the peripheral countries, which lacked those advantages, specialized in exporting products that came directly from their abundant natural resources.

To this structural arrangement, there corresponded certain organization of political power: the exporting sectors (manufacturers at the center, raw material producers on the periphery), the importing sectors (raw materials at the center, manufactures on the periphery), the major businesses, and particularly all the financial sectors constituted an international or transnational dominating coalition. Their interest in maximizing trade and international finances was reflected in relatively little State intervention in the economy, except in areas where the State provided the political services as well as the transport and communications infrastructure necessary to outward growth

and to the imposition of appropriate rules of the game. Laissez-faire and free exchange policies predominated, as did the rationalization of this historical configuration in theoretical and ideological terms, i.e., the classic liberal theory of resources allocation through the market both nationally and internationally (static theory of comparative advantages).

That phase of capitalist development ended with the 1930 crisis that, together with World War II, gave origin to a series of profound readjustments. International markets disintegrated, the international financial market and private direct investment disappeared, and only some reduced trade flows remained. The generalized crisis of international trade, finances, and investment was reflected in each country in serious disequilibria in international transactions, marked depression of economic activity, and profound social and political crises. All countries closed their economies through trade and financial protectionist measures and encouraged economic growth through public spending and deliberate State action. This was the beginning of a protracted state-centric phase.

At this point it is worth mentioning something that has not been sufficiently dealt with in the literature. *This State protectionism and activism occurs simultaneously in both the central and the peripheral countries.* Import substitution was not a perverse invention of the peripheral countries, Prebisch, and ECLAC, as some economists of limited command of history seem to believe. Rather, it was essentially the tool used by the central countries to address their own financial and foreign trade crises, recession, and unemployment. It was the beginning of the worldwide state-centric phase that ultimately led to the European Welfare State, the United States' full employment and regional development policies, and to Nazism and Fascism in Germany, Italy and other countries, followed by social market economies in those countries. This coincided also with the expansion of socialism, introduced in the Soviet Union in 1917 and subsequently extended to the countries in the Soviet orbit, as well as with the State developmentism that took root practically in all the rest of the underdeveloped world after World War II.

All countries resorted to the State for giving impetus, through protectionism, public spending and investment, to social protection and employment expansion as well as to growth and development. They particularly

sought to protect and foment what they used to import: the central countries – the United States and the European countries – basically protected agriculture and this gave origin to a huge State apparatus for supporting and fostering agriculture and livestock, which after half a century is still an obstacle to international trade and to the development of peripheral countries. One should not forget that Europe maintained its protectionist and exchange control policies well into the 1960s, and neither the European Community nor the United States has relinquished agricultural protection to this day.

Whereas it led to the changes in the industrial countries, as pointed out, in the Latin American countries that had already achieved a degree of industrialization in the preceding period, such as Brazil and Chile, the 1930s Great Depression led to the protection of the manufacturing industry and marked the beginning of the import substitution industrialization. A gap thus occurred between domestic and international prices, reflected in a change in relative prices to the disadvantage of agricultural products and in favor of industrial products. This in turn led to an adjustment in the allocation of productive resources in favor of the development of the manufacturing sector on the periphery and of the agricultural sector in the center.

This process did not occur automatically but through the reorganization, in both groups of countries, of the hegemonic power coalition within the leading classes. This coalition, centered on exporters, importers, entrepreneurs, and financiers was superseded, not without deep, widespread political conflicts, by a State-intermediated coalition of middle groups, intellectuals, professionals, and organized labor sectors, together with entrepreneurial sectors that produced for the domestic market.

This happened from the thirties through the seventies, which were characterized in many Latin American countries by social-democratic and/or populist governments that allowed active State intervention in many fields other than the traditional ones. Industrial development was favored, as was investment in infrastructure, and certain structural reforms were broached, such as agrarian reform and income redistribution through the expansion of social spending and public policies that favored middle- and lower-income segments. Institutional modernization and planning emerged as guiding tools for intervening in and complementing the market.



Prevailing economic theories dealt basically with growth, development policies, and planning. Theoretical discussion tended toward criticism of the traditional neoclassic economic theory, given the need for a dynamic theory of growth and development in underdeveloped, dependent countries. That was the period when the thinking of Raúl Prebisch and the ECLAC was most influential. It was based on a particular interpretation of Latin American underdevelopment and on the need for economic and social policies geared to industrialization and economic and social modernization, and for the requisite economic policy's operational implementation instrument, namely, planning. In fact, ECLAC undertook a series of studies in many countries at that time, based on the Economic Development Programming Techniques developed by a team headed by Celso Furtado.

This thinking had a powerful influence in Latin America and particularly in Brazil and Chile at first and ultimately throughout the world – but quite particularly in Chile. ECLAC has its headquarters in Santiago and its novel ideas were widely disseminated through its staff's personal relations with the country's intellectual and political elites, the courses on Economic Development it began to offer, and the wide dissemination of its publications, especially by faculty and students of the University of Chile's Schools of Economics and Sociology, and of ESCOLATINA and FLACSO.

While this was happening internally in most countries, and certainly in Chile, the international economic system was endeavoring to come out of the 1930s debacle through the action of the national states. The following decade witnessed a feeble revival of international trade, but private direct and financial investments dried up completely. However, some national public institutions were created, such as the US Eximbank and similar export financing institutions in other developed countries. In view of the disappearance of the *private* international financial system after World War II, an international financial system of a *public* nature was created, consisting of the institutions established under the Bretton Woods agreement, particularly the World Bank and the International Monetary Fund, and later, GATT. These institutions were joined thereafter by regional development banks, such as the Inter-American Development Bank-IADB, bilateral and multilateral financial assistance institutions, and state export credit agencies. By the mid-1960s, a *public* international financial system was thus in place.

It should be noted that this financing mechanism implied social criteria of resource allocation, as public international resources were intermediated by the State, in both the donor and the receiving countries. Public criteria of resource allocation were set and planning was promoted in support of sociopolitical options, such as fostering industrialization, providing basic social capital, carrying out structural reforms and modernizing agriculture, saving foreign exchange, and creating jobs (the Alliance for Progress comes to mind). All this conformed to the criteria imposed by the parliaments of developed countries on their own States and financial assistance organizations, as well as to those negotiated and adopted by the underdeveloped countries' States, in so far as they reflected national, long-term interests.

#### **4. Instauration apogee, decline, and crisis of the state-centric model**

Returning to the Chilean case and the most important, significant changes in economic policy that marked the transition from the 19<sup>th</sup>-century market-centric to the state-centric model that started with the 1930s crisis, those changes had to do with the control of foreign trade assumed by the Central Bank and to the external crisis, declining State revenues, and unemployment. The state changed from a relatively passive into a very active agent in the area of short-term economic policy, i.e., in the area of macroeconomics.

From the standpoint of long-term economic development, though, the most far-reaching innovation in economic policy was undoubtedly the adoption of the idea of development planning, understood as a deliberate public initiative aimed at achieving profound changes in Chile's traditional economic and social structures, particularly in respect of industrialization and the modernization of productive structures, taking into account the interrelations among the various sectors and regions, the social ends, and the limited resources available. Planning became the domain of a key institution in Chile's economic history in the past century: the Production Promotion Corporation-Corfo, established in April 1939. This new institution's Council was charged with "formulating a general production promotion plan to raise the population's living standards, through utilization of the country's natural resources, reduction of production

costs, and improvement of the international balance of payments, taking into account during the plan's preparation the need to maintain a proper balance in the development of mining, agriculture, industry, and trade, as well as meeting the needs of the country's various regions.”

Corfo's establishment and the birth of planning in Chile are closely associated with two significant events: the devastating earthquake of January 1939 and the political upheaval of November 1938, which for the first time raised to power a coalition of center-left parties – the *Popular Front* – which assigned a fundamental role to industrialization, the modernization of agriculture, and social policies. The external economic crisis and the reorganization of the internal political power structures had a decisive influence on this radical turn in economic policy.

The earthquake that thoroughly devastated the country's central and southern regions, where most of the population lived and where most economic activities were located, caused a national emergency of unprecedented magnitude. This situation had to be faced by a new government that not only lacked any administrative experience but, owing to the traditional liberalism that characterized the Chilean administrative apparatus, was also impotent from an institutional point of view. The requisite means for providing assistance to and for reconstructing the devastated regions did not exist. In addition, the government was in a precarious situation in respect of the resources needed for this purpose, given the weak, limited tax system in place.

The positive, significant role played by Corfo in the development of planning in Chile, as well as its limitations can be understood only in light of the political upheaval that the *Popular Front's* rise to power in 1939 meant. This political event, in turn, was but the consequence of profound changes in the economy and in society, occasioned by the structural transformation begun decades earlier and strongly encouraged by the consequences of the Great World Depression in Chile.

Until 1930, the dynamics of Chilean economic life was based almost entirely on mining, which accounted for one third of national income. In the last two decades of the 19<sup>th</sup> century, the economy saw the addition of the rich saltpeter deposits in the north and, shortly before World War I, a modern, mighty copper mining industry was also developed. The primary

export sector brought to the Chilean economy the modern technology and entrepreneurial organization forms that were predominant in Europe and in the United States. This had a profound, substantial effect on some sectors of the country's socioeconomic structure, particularly in urban and mining areas. However, this process barely affected the rest of the productive and social structures, which continued to operate according to traditional methods, with large labor surpluses, low productivity, and primitive forms of organization, particularly in rural areas.

With the expansion of foreign trade, the State secured substantial additional income from this important source of revenue. The new resources were invested in the expansion of basic public services and in building urban and transport infrastructure. With the development of these activities, new urban and middle class salaried segments emerged, adding to the mining proletariat and the middle segments grouped around activities related to foreign trade. Even industry developed to certain extent, fueled by the internal demand spurred by the boom of mineral exports and by government activities, as well as by the growth of urban middle sectors.

The changes in the social structure had major repercussions on the political life of the nation. The development of an industrial proletariat in the mines paved the way for the Socialist and Communist Parties. Moreover, the expansion of the middle class and related groups served to increase the ranks of the moderate, anticlerical left that registered predominantly with the Radical Party. These new, growing social forces gradually diversified Chile's sociopolitical spectrum and had their first major impact on State policy in the 1920s, when they joined forces to support the passing of an important body of social laws.

From a political viewpoint, these groups and forces came out fortified from the catastrophic effects of the World Depression in Chile. The crisis caused a drastic contraction of foreign trade; external demand for Chilean exports dropped sharply; and the mining activity practically stopped, causing massive unemployment. The crisis also produced an abrupt, substantial reduction of foreign exchange reserves and fiscal revenue. Unemployment in export industries was followed by unemployment in the cities and by a rapid deterioration of the political situation.

Besides greatly contributing to the acceleration of the changes in the political structure, the crisis had also major effects on the productive structure, which over time led to substantial changes in the country's economy. In subsequent years, these changes fortified the political position of the center and left parties at the 1938 elections, as well as playing an important role in the industrialization process and thus in Corfo's functions and in planning.

These were the main sociopolitical and economic antecedents of the first planning period in Chile, with Corfo as the central technical planning body and as the executive agency responsible for implementing the plans. The extent of economic power entrusted to this new State agency can be explained only by the fundamental changes that had taken place in the economic and social structure. These changes brought unto the stage new political forces imbued with varying shades of socialist ideology, and a growing middle class from which issued engineers, technicians, and specialists that together with the emerging entrepreneurial groups devoted themselves to the country's industrialization, the exploitation of its natural resources, and the modernization of agriculture.

The development strategy adopted by Corfo was heavily conditioned by the experience of external dependence that often subjected the national economy to serious disequilibria caused by uncontrollable external factors. Hence, the preference for a 'inward' development strategy based on greater and more rational utilization of the country's human and natural resources. This orientation was further accentuated with the outbreak of World War II precisely when Corfo was starting its operations. The international conflict exposed once again the country's dependence on external events. Although financial resources were relatively abundant owing to the expansion of strategic minerals exports, there was great difficulty in procuring abroad the machinery, equipment and other goods required for expanding the manufacturing industry. The developed countries' industrial capacity and means of transportation were fully absorbed by the war effort.

As a result of these external events and of the internal sociopolitical changes, the new government's development strategy boiled down to two basic lines: social policy and industrialization. The social policy implied mainly higher urban salaries and new, broader social security, health, education, and

housing programs. Its effects were impressive and lasting in the areas of social security and public health, with the establishment of new, powerful institutions, especially the National Health Service. Education, particularly secondary and technical education, also received a new impetus.

It should be understood that Corfo did not have to invent an industrial policy. On the contrary, as shown earlier, the effect of World War II on the Chilean economy, similarly to its effect on other economies in a similar situation, was to push it onto the path of industrialization, which was further spurred by the economy's expansion and the scarcity of manufactured goods and imported industrial inputs. By 1940 this industrialization process was already under way, so that Corfo inherited a general orientation that was already followed to certain extent and an implicit strategy that only needed to be rationalized and pursued in a more systematic manner.

In fact, the industrialization process had begun in the previous century and received a considerable, sustained thrust after the World Depression and particularly during World War II. The balance of payments crisis and the difficulty in importing goods gave rise to strong protectionism, while governments maintained or increased public spending to curb unemployment. Thus, the installation of industries for producing consumer goods was encouraged. In economies traditionally specializing in the production of exportable raw materials, this necessarily meant the importation of capital goods and the requisite intermediary products for the new industries. The importation of final consumer goods was thus gradually replaced by the importation of machinery and other inputs for producing those consumer goods in the country. This caused a change in the composition of exports, which was the other face of the process of import substitution industrialization.

An industrial sector in rapid expansion necessarily resulted in the expansion of the demand for fuels, raw materials, basic metals, chemicals, energy, transportation, communications, and financial and commercial services. Also needed were specialized labor and experienced administrators and entrepreneurs. In addition, owing to industrialization's strong stimulus to urban concentration, there was a sharp increase of the need for urban services: housing, schools, potable water, electricity, sewerage, and marketing and distribution systems. The rapid progress of the industrial sector and of

urbanization exposed serious deficiencies as well as the lack of flexibility in the supply of services, giving rise to tensions and disequilibria throughout the economy. This situation was described by the new industrial planning body as “a large number of specific problems that have gone unsolved for many years and that require immediate solution.”

Under its organic law, Corfo’s first task was to come up with a general production development plan, but accomplishing this task in such a short time proved unfeasible. Previous data were lacking; no industrial or agricultural censuses existed; notions of the potential of our natural resources were incomplete and disorganized; statistics were deficient. Drafting a general development plan within a reasonable period of time was thus impossible. The solution adopted was to draft the so-called ‘plans for immediate action,’ i.e., efforts aimed at overcoming the more notorious shortcomings and gaps in the productive structure.

Evidently, the needs deemed more urgent were related to strategic industrial inputs, such as steel, fuels, and energy. As these intermediary products and services are required by every activity in the industrial sector, demand began to rise at such unprecedented pace that it became clear that Corfo’s main task was to develop these industrial sectors. The scarcity of these products during World War II and the serious attendant difficulties, the strategic importance of these sectors for the industrialization process, and the professional preferences of the engineers that formed part of Corfo’s general staff helped the concentration of the planning effort on these areas.

As it assumed tasks of such magnitude, Corfo had also to start a series of studies and basic research activities in respect of natural resources, especially a systematic analysis of the country’s water resources potential, as well as its forests, soils, and underground resources. The first sectoral plans drawn and approved addressed the utilization of hydroelectric power, steel, oil resources development, and agricultural modernization. Each of these sectoral plans was implemented by a Corfo subsidiary: the National Electricity Enterprise (ENDESA), the Pacific Steel Company (CAP), the National Oil Enterprise (ENAP), and the National Sugar Industry (IANSA). Given its crucial importance for the subsequent development of the agroindustrial exporting sector, mention should also be made of the Chile-California Plan developed

by the respective universities and funded by the Ford Foundation to study the agroindustrial potential of Chile's Central Valley.

The extensive research program carried out by Corfo produced the first *Chilean Economic Geography*, a comprehensive, modern, and serious work. The Foment Corporation had the merit of introducing modern economic research in the country, especially in respect of national income and national accounts. The first result of this work was the calculation of Chile's national income. All of this had a crucial importance that is easily underestimated today, now that this information is digitally available. Before these calculations by Corfo it was impossible to have an overall view of the economy's development. Thus, it was also impossible to draw a coherent, balanced development plan capable of taking into account the interrelations among the various sectors and activities and the macroeconomic equilibriums.

For this reason, Corfo's planning strategy in its first decades was, owing to its economic and sociopolitical conditioning and to the precarious economic information systems, a sectoral, uneven development strategy. Nevertheless, notable results were achieved in these activities targeted by its main efforts. This is proved by these efforts' crucial importance in the subsequent development of these sectors' enterprises and activities, so much so that most of them were privatized during the military government and are today basic pillars of Chilean development.

Macroeconomic equilibrium in the Chilean development process began to run into increasing difficulties by the mid-fifties. Inflation escaped any control as a result of the serious copper exports crisis, and the economy stagnated. The two phenomena were related, of course, and their causes led to the emphasis on short-term macroeconomic policies that prevailed from 1953 to 1964, as well as to the new development and planning strategies adopted after 1964.

In 1954, inflation in Chile exceeded 70 percent, so that the following years a massive effort was done to curb inflation. Those were the years of the well-known 'stabilization programs' and of a sharp, prolonged controversy about the monetarist and structuralist approaches to inflation.

Later, long-term planning and vision lost in importance under President Jorge Alessandri's government (1958-1964), as it represented the first attempt by the political right and the entrepreneurial sector to stop the advance of



state-centric policies. But in 1960, circumstances forced the government to formally adhere to the *1961-70 National Economic Development Program* that had been prepared by the Corfo staff several years earlier, and which was hurriedly updated. Two circumstances led to this decision: once again an internal factor, namely, the devastating earthquake of May 1960, and a major external change, namely, a radical turnabout in the U.S. policy in 1961, promoted by President Kennedy: the Alliance for Progress. The two events led to increased external assistance to Chile, subject to the presentation of a global development plan. Corfo's old plan served this purpose but did not have much influence on policy, which remained dominated throughout the decade by short-term macroeconomic considerations and problems.

In 1964, a new political situation arose with the election of President Eduardo Frei Montalba and the irruption of the Christian Democratic Party. Before looking at his planning experience, we must backtrack to the serious economic evils that led to high inflation and stagnation in the mid-fifties, as the diagnostic of those difficulties provided an important basis for the formulation of the new government's development strategy.

As pointed out, the import substitution industrialization model was the main driving force of the economy and the basic dynamic element in the general development process. Induced industrialization, based on the permanent scarcity of foreign exchange and on an expansionist government policy, led to higher demand not only for basic materials and services, such as steel, oil, and electricity, but also for a wide range of industrial inputs. Moreover, urban expansion and higher income in the cities spurred the demand for the various urban services and for manufactures and agricultural and livestock products.

To maintain some equilibrium in this process and overcome specific bottlenecks, production in the entire economy should have expanded *pari passu* with the growth and diversification of demand, in view of the limited external resources available. This would have required a highly flexible, elastic, and dynamic production structure, i.e., a high rate of capital formation, highly qualified human resources, 'Schumpeterian' entrepreneurs, and an appropriate institutional, values, and attitudes framework. The lack of these conditions is one of the main characteristics of underdevelopment and explains in large measure the difficulties and tensions attendant to a vigorous industrialization process.

The major effort to overcome these obstacles had to be made by the public sector, which was ill prepared for such overwhelming tasks. The State was forced into an active participation in the creation and reorganization of the productive infrastructure to support the private entrepreneurial sector and lead it to introduce and expand new branches of activity. It had to discharge the responsibility of developing certain basic industrial activities and had to set up the requisite public enterprises for this purpose. It was under strong public pressure to improve income distribution and to extend basic social services to a rapidly growing urban population. It was also pressured to absorb workers that could not find employment in private economic activity. All these tasks, in addition to others, meant a huge expansion of the public sector, in both absolute and relative terms.

To discharge these new functions and expand existing ones, the government had to make use of an obsolete financial and administrative apparatus. The dated administrative system was in large measure to blame for inefficiency and for the obstacles encountered, thereby causing serious limitation to all the administrative sectors regarding the application of planning, programming, and project preparation techniques. The old fiscal and financial system was another factor that aggravated the systematic tendency to incur large budgetary deficits, a tendency inherent in the Chilean taxation structure.

Indeed, a high proportion of fiscal revenue derived from exports and foreign trade in general. This sector contracted in relation to Gross Domestic Product while the public sector expanded, which meant a relative reduction of the most important tax base. In addition, many import and export duties were specific, so that their real value and incidence declined as prices rose. In addition, the changing imports structure gradually reduced the relative volume of high-duty imports (consumption goods), replacing them with lower duty or duty free goods (raw materials and capital goods), and with increasing public sector imports, which were also duty free. Transferring the foreign trade's tax burden and the multiple exchange rate system to the internal economic activity was no easy task, as the country's political structure posed difficulties for a comprehensive tax reform and the establishment of an efficient tax administration. The result was disorderly annual tax increases and the successive creation of a large variety of new taxes, which led to an uncoordinated tax system with little elasticity or flexibility.

The long-term process just described had been evidenced by an acute crisis in 1953. At that time, serious difficulties in the copper market forced the abandonment of the multiple exchange rate system that strongly subsidized 'essential' imports, occasioning a substantial devaluation of the national currency. This, coupled with simultaneous salary increases aimed at compensating consumers for higher prices, triggered an explosive inflationary movement that threatened to escape control.

This short-term problem contributed to the aggravation of the just mentioned fiscal crisis in the long run. The public sector's growing requirements had been financed in large measure by heavy, continuously rising taxation of the major copper exporters through the application of a steadily overvalued exchange rate. Taxes became so high that copper production stagnated, which led to a revision of the tax treatment in 1956 with a view to encouraging new investments. This change in the copper policy that had been in place for over twenty years, was actually the first step in the 'inward' reorientation of the development strategy that had been followed since 1940. The second step – the 'Chilenization' of mines – would be one of the mainstays of the new strategy adopted in 1964.

Another difficulty that became more acute in the fifties was the lack of response from the agricultural sector to the growing food demand by part of a fast growing urban population earning higher income and of a manufacturing sector whose demand for raw materials rose continuously. The slow expansion of agricultural production and productivity also had a decisive influence on the stagnation of the economy as a whole, not only owing to agriculture's relative importance but also because rural stagnation tended to limit industrial expansion. It was also a basic cause of inflationary pressure, which tended to aggravate balance of payment difficulties.

Chilean agriculture had always been characterized by an antieconomic land tenure structure, with the predominance of latifundia and minifundia, which meant unused or poorly used land. This hindered the introduction of modern technology and the rationalization of agrarian resources use. Thus, production and yield could hardly be raised and it was difficult to increase the supply of the requisite agricultural products for industrial expansion and for the system's development and overall equilibrium.

Around 1950, Corfo began to extend its activities to the rural sector, by introducing the cultivation of sugar beet for industrial purposes. As Chile was a sugar importer, there was a clear import substitution motivation. But, owing to its secondary effects on agricultural activity, and particularly on cattle raising and milk production, the measure was also intended to spur the modernization of the rural areas. In addition, Corfo launched an agricultural mechanization program whose effect was not only to raise production but also to increase per capita productivity, which contributed to the acceleration of the rural exodus. But although this meant an ever larger obstacle, it ultimately added another basic area to the future development strategy.

Industrial development also encountered difficulties. The State had invested heavily on infrastructure (transport, energy, etc.) and established some basic industries. Private enterprises, highly protected and stimulated, had made considerable progress in replacing a significant number of superfluous consumer goods. Each new line of import substitution promised substantial benefits, attracted numerous entrepreneurs, and caused a rapid expansion of productive capacity. But while the void left by the cutoff of the external supply was filled, internal demand grew only at a moderate pace, so that activity after activity began to show excess of installed production capacity.

To continue substituting imports, industry had to begin producing durable consumption goods, machinery, and equipment as well as intermediary products. This presented local entrepreneurs with considerably greater difficulties. The required financial resources were much higher, the technical problems more complex, the need for qualified human resources more crucial, and the administrative problems much more complicated. Moreover, pushing industrialization further in this direction required ever more capital; the minimum economic plant size had to be increased and often exceeded the size of the market. For this reason, or owing to monopolistic factors – which can easily develop in such a situation – an ever larger portion of the industrial apparatus operated below installed capacity. For all these motives, the industrialization process reached a point of declining real yield per additional unit of invested capital.

This complex of factors, combined with the effect of agricultural stagnation, had several major consequences. First, the pace of industrial

growth tended to slow down. Second, Corfo had to begin providing financial, technical, and other forms of assistance for the establishment or expansion of industries in these new fields, thereby becoming a sort of industrial bank. Third, the doors were open and encouragement was given to foreign private investment, external financing, association of domestic with external capital, the use of licenses and patents, etc.

Chile's industrial development in these decades had serious flaws. Started and carried out in a relatively almost completely protected small market, its more salient negative characteristics have been inefficiency, wasted resources, high property concentration, and heavy dependence of external financing, technology, and administration providers. In addition, the increasingly capital-intensive character of the industrial apparatus – owing to the adoption of new, technically more advanced production lines, the replacement of obsolete equipment in existing plants, and the substitution of primitive manufacturing by modern industry – failed to create a sufficient number of new jobs. Industrial development thus became another problem sector of economic activity, which required a thorough reorientation so as to become once again one of the most important, dynamic factors of growth and development.

Moreover, Chile, similarly to other underdeveloped, dependent countries, was characterized by halting, unreliable foreign exchange inflows. What is less known is how the import substitution process boosted imports to a large extent, thereby aggravating the external bottleneck.

Import substitution consisted basically in producing in the country the consumer goods that used to be imported. But, as the country still lacked a basic industrial complex, it became necessary to import machinery, equipment, and a wide range of semi-manufactured products and inputs needed for making the final consumer item. Thus, a dynamic industrialization process gave rise to an equally dynamic demand for imported industrial inputs and capital goods. As long as foreign exchange could be spared by not importing finished consumer goods and used for importing production goods, things went well. But once the substitution of consumer goods ended, continued industrial development required fast growing industrial imports, while exports grew only slowly and there was no foreign exchange to be spared by ceasing to import consumer goods: each dollar had to be used for importing some

essential item, so that new essential imports could be financed only by skipping other equally essential imports.

Naturally, external financing is the short-term answer to the need to go on with industrial development, despite a genuine ‘foreign exchange trap.’ Industrial development was not able to contribute significantly to inject dynamism into exports, for obvious reasons, such as inefficiency and high costs; foreign investment directed at the internal market through subsidiaries and license and patent contracts; lack of access to the markets of developed countries, etc. Thus, external financing under any form soon became a new factor of balance of payments disequilibrium. Under the circumstances, it was necessary quickly to find new foreign exchange sources, as import substitution had been exhausted as a means of obtaining external resources, while the industry created by this process proved incapable of helping to increase exports, and the foreign debt mounted. Chile’s only way out of these difficulties was to expand copper production and gain some control over the enterprises’ pricing policies. It was at this point that the cornerstone of the development strategy was laid by the Christian Democratic government that came to power in 1964.

A last element to be considered is the effect of the development strategy on income distribution and marginalization. Estimates showed that income distribution had improved somewhat in the fifties, at least in the sense that the higher-income groups lost something in favor of the middle- and low-income groups. However, 10 percent of the higher-income population still earned 36 percent of total income. In addition, excessive supply and the lack of jobs for nonspecialized labor gave rise to two diverging movements among the lower-income groups.

The better organized urban, semi-specialized, and specialized workers and those employed in modern activities saw their real salaries rise and their relative position in the income structure improve. Rural workers, though, small property owners, and family businesses, street vendors and artisans, and nonspecialized, unorganized urban workers continued to earn subsistence salaries.

The proportion of the population represented by these groups increased. In every sector and at every level of economic activity, advanced and much more primitive production methods coexisted; a steadily growing portion of

economic activity was now using modern technology; and the employment level per unit produced with modern technology was much lower than with primitive methods. Thus, job opportunities did not increase substantially and may even have declined under certain circumstances. In addition, as the work force grew at a fast pace, the number of unemployed may well have increased. A clear sign of this was the expansion of slums in big and medium-sized cities throughout Chile, which became another problem requiring a new development strategy.

This diagnosis of some of Chilean development's basic problems was prepared by a group of Chilean economists in the late fifties and early sixties. One of the strongest stimuli for this analysis was the controversy about stabilization policies, which caused uproar between 'structuralists' and 'monetarists'. The structural analysis of the problems affecting Chile's development was the interpretation adopted by the two main political groups competing for power in 1964. Thus, the Christian Democratic and the Popular Action Front (FRAP) programs were based practically on the same strategy, although the means for their implementation were quite different. Moreover, the two political groups had as one of their programs' central points the establishment of a strong, efficient, and comprehensive planning system, and promised to use this as a basic tool of their development policy.

This stance of the political groups was partially due to the influence of the aforementioned economists. Planning offices were established as part of the electoral campaign and charged with the preparation of the respective government plans. The technical group sympathetic to the Christian Democrats even became the new planning office (Odeplan). This situation partially reflected the ideological position of the two main political parties and the experience of the previous decades. But the national consensus about the new development strategy and the importance of planning was also influenced by the agreement celebrated in 1961 between Latin America and the United States under the new Kennedy administration: the Alliance for Progress.

This program coincided in large measure with what would become President Frei's development policy – 'Revolution in Freedom' – and was based on the same acceptance of structural reforms, planning, and external assistance. Actually, external assistance was subject to conditions, as it required

the presentation of development plans that should include agrarian reform, social improvement programs, tax reform, etc. International arrangements were established – such as the ‘Nine Wise Men Committee’ – to evaluate plans and achievements and to authorize financial assistance in accordance with the degree of compliance with the commitments under the Alliance for Progress. The preparation of plans and the establishment of planning systems were thus strongly encouraged and even imposed on reluctant countries through external financing pressures. To this end the National Planning Office (Odeplan) was set up under the President’s Office.

The new government’s program had the following main objectives: agrarian reform, expansion of copper exports, marked expansion of social services (particularly housing and education) industrial development, and inflation control above all. To implement agrarian reform and improve peasant farming, two institutions were strengthened: the Agrarian Reform Corporation (CORA) and the Agricultural Development Institute (Indap). To impart a vigorous impetus to the government housing program – a similar program was already under way in the private sector – a Housing Ministry was established and various complementary corporations were set up under the umbrella of the existing Housing Corporation (Corvi), such as the Urban Improvement Corporation (Cormu) and the Housing Services Corporations (Corhabit), among others. In the area of copper mining, the government established the Copper Corporation and proceeded with the ‘chilenization’ of enterprises by establishing mixed societies. Corfo set up new subsidiaries or especial commissions (Automotive Commission, Electronic Commission, etc.) to foster industrial development in certain branches of activity. The Ministry of Education was reorganized and endowed with substantial additional resources. The macroeconomic stabilization policy was placed under the sole responsibility of the Ministries of Finance and of the Economy and of the Central Bank, while an informal Economic Committee consisting of some ministers and representatives of some public agencies acted as a short-term policy coordinating agency.

As can be seen, all the main strategic development and stabilization policies were assigned to powerful state corporations or to Ministries, all of which enjoyed broad autonomy in the public sector and were backed by powerful interest groups, such as the Construction Chamber in the case of the Public Works and the Housing Ministries or by serious political commitments, as in the



case of the Agrarian Reform and inflation control. Given this fragmentation of the public sector and of the decision-making bodies, a consultative agency such as ODEPLAN could hardly play a decisive role in coordinating the policy of these various giants or force them to adhere to some long-term development program consistent with short-term macroeconomic equilibrium.

Nevertheless, especially in the government's first three years, a degree of coordination was achieved, particularly because this was the first time the government was run by only one party, which meant that some basic decisions for the long term could be made by both party and government. But as this political unity deteriorated with the passing of time, with increasing conflicts between the party and the government and within the party itself, this coordination also suffered.

The situation aggravated further because the government had made the commitment to achieve some highly ambitious objectives in the aforementioned areas but was also firmly committed to curb inflation through a program aimed at decelerating it in three years. As the economy was relatively depressed, there occurred the miracle of accelerating growth and simultaneously checking price increases for several years. As copper prices rose considerably and the world market was quite favorable, while internal revenue also increased, a significant expansion of government spending was possible in the first two years, when the ministries and major corporations were beginning to achieve their ambitious objectives. But as soon as the economy regained high levels of activity, inflationary pressures began to accumulate again and the projected reduction of price increases turned into the opposite. The need to contain fiscal expansion subjected planning to a decisive proof, as a coordinated reduction of the various programs became necessary, so as to prevent depression or serious disequilibria in the economy. At this crucial moment for planning it became clear beyond any doubt that coordination was no longer possible and that each public sector segment employed all its efforts to maintain its own program at the expense of the others.

Once again, the need to achieve a reasonable minimum of macroeconomic equilibriums compromised the achievement of long-term goals. The failure of the state-centric policies to achieve industrialization, modernization, and the improvement of the social conditions of the majority of the population

led, in the sixties, to a critical review of those policies and a serious debate that issued in three clearly differentiated positions and proposals.

First, there was a neoliberal proposal that radically rejected the policies implemented in the previous decade, based on a market-centric view. It was initially formulated by the Klein-Sachs Mission called in to solve the inflationary crisis in the second half of the fifties and which was systematically and progressively carried out by American and Chilean economists, who renewed the teaching of economics at the Catholic University under an agreement with the Chicago University. This agreement was inspired and promoted by the U.S. Government to counter the Eclac and socialist thinking in the context of one of the most intense phases of the Cold War and of the Cuban Revolution's growing influence.

Second, a current that advocated a deepening of the above described developmentist proposal of President Frei's government: industrialization, agrarian reform and peasant unionization, social policies and popular promotion, tax reform, planning, etc.

Third, a radical proposal, also based on the developmentist diagnosis but of Marxist inspiration, as well as on the criticism of one of the currents focused on 'dependence, which became popular in the mid-sixties. It basically argued that development was not viable under the international capitalist system, because, as one of this current's most popular authors put it, that model led to the 'development of underdevelopment.'

This thinking had a major influence on the government of the Popular Unity, a left political current that elected President Salvador Allende in 1970, whose program, in addition to structural reforms, including Agrarian Reform, created a socialized sector through expropriation of the large private enterprises, nationalization of the copper mining complex, greater popular participation, etc.

Popular Unity's irruption and its subsequent, dramatic collapse cannot be understood save in the context of the state-centric development model and particularly of the rise of the working and peasant classes, and the higher intellectual level of the middle classes – a product of the major social and economic changes of the fifties and sixties.

The strengthening of the workers' organizations and leftist parties reached a zenith with Salvador Allende's victory in 1970. These organizations and parties carried out a government program that, based on a developmentist model but with a Marxist criticism of capitalism, aspired to the building of a socialist society through the development of social and productive forces associated with a much more active State, which intervened much more in all areas of economic activities. This was done – and here lies the novelty – under strict democratic legality.

The first year of the Popular Unity government was characterized by great State activity. A strong impetus was given to fiscal and monetary policy, aimed at raising income and at expanding internal demand. This was reflected in a 40.7-percent increase in public spending that caused a fiscal deficit equivalent to 8 percent of GDP. This deficit was financed in large measure by the Central Bank, which led to rising inflation already in the second year.

The expansion of internal demand led to a 9-percent GDP growth, while unemployment (measured for the first time in Greater Santiago) dropped to 3.8 percent from 8.3 percent in 1971. But the financing of the fiscal deficit through issues triggered the escalation of inflation, which reached 163 percent in 1972 and 500 percent in 1973, entailing the well-known effects on salaries and contracts. This led the economic administration to set price ceilings, thereby generating excess demand and the attendant scarcity of goods. In 1972, the fiscal deficit was 12.7 percent of GDP, which in turn dropped 2 percent.

The aggravation of the social and political conflict, the radicalization of the popular movement and of the more moderate and conservative sectors led to an unprecedented production disarray. Between January and July 1973, industrial production fell 94 percent. By the mid-1970s the country was paralyzed and the Popular Unity government's room for maneuvering had become extremely limited. The denouement was dramatic, as everyone knows. September 11, 1973 not only marked the beginning of an extremely painful period for the country in terms of loss of citizen rights and grave human rights violations; it also marked the end of a project that had mobilized millions of peoples, instilled in the poor the hope of better living conditions, a hope that was never fulfilled. Thus, the state-centric development model that had been highly positive for the country's development and modernization came to a traumatic end.

## 5. The international context in the 1970s: transnationalization, rise of neoliberalism and decline of the State

In the sixties, foreign private direct investment reappeared on the scene by way of the emerging transnational corporations, at first only from United States, then from Europe and Japan. These corporations took advantage of the national markets created in peripheral countries through protectionist measures and industrial development policies, escaping trade barriers by setting up or acquiring local manufacturing subsidiaries.

In those years, with Eurodollars reaching a zenith, an international private financial market was recreated, whose expansion in the 1970s attained extraordinary dimensions after the 1972 and 1979 oil crises, thereby facilitating widespread, unrestrained indebtedness in the underdeveloped world. This unsustainable situation led to the 1982 foreign debt crisis, when extremely restrictive monetary policies involving extremely high interest rates were applied in the developed world to address the disequilibria stemming from the oil crisis.

In brief, the pendulum returned to a new period of international economic integration, known now as the globalization phenomenon that began with the recovery of trade, continued with the expansion of transnational private investment, and was completed principally after 1973 with the creation of a gigantic transnational private financial market. This phenomenon has a series of consequences, but what is worth pointing out first is the debilitation of the international public financial system and, in general, the entire international system of bilateral and multilateral development assistance.

Throughout the seventies, a considerable part of the national and international institutional structure that emerged in the preceding period of systemic changes was once again subjected to significant reorganization. Today's generalized economic reform process actually began in the mid-sixties with the elimination of the exchange controls of financial transactions, which persisted in some countries of the Organization for Economic Cooperation and Development-OECD since the post-war period (regrettably, its 'import substitution' schemes in support of agricultural protection are still in force); the liberalization attempts in socialist countries such as Hungary, the USSR, Poland, and China; and the transition from the import substitution strategies to exports promotion in Korea and Taiwan. In Latin America, and particularly in

Chile, steps were also taken in this direction: tariff reduction and simplification schemes; introduction of exchange readjustability; replacement of quantitative imports control by long-term deposits; reduction and simplification of exchange and price controls and subsidies; determined promotion of manufacture exports in Brazil, of fruit, fish, and forest products in Chile, of flowers in Colombia, and so on. In several countries this process was frustrated by abortive attempts to carry out socialist revolutions and then by the 'Dutch malaise,' the syndrome produced by the effects of the oil boom in the oil exporting countries, and by financial permissiveness and the ballooning of indebtedness in the late seventies.

The birth of the new international era was foretold by the dramatic collapse of the Bretton Woods international economic relations system, the 1973 and 1979 oil crises, and the adoption of radical neoliberal policies by the Thatcher and Reagan administrations. All of this is a key part of the global changes process. These events, though, and those that suddenly and unexpectedly erupted in the former countries of the soviet bloc, concealed deeper forces that had been stirring in those countries and elsewhere.

Some of the more significant of these phenomena for our purposes are as follows: the United States has consolidated the overwhelming predominance it has enjoyed for over half a century and continues to maintain and exercise its unarguable military power; Europe and Asia, particularly China, are emerging as economic powers and beginning to play a corresponding political role; the public multilateral system of international economic relations that emerged after World War II has been eroded by the expansion of multinational enterprises, the emergence of global corporations, and international financial deregulation. This has given rise to a fully integrated and very powerful transnational entrepreneurial private sector, particularly in the financial and investment areas, as well as to informal, extremely elitist mechanisms of international economic coordination.

Socialism, as it existed in the soviet bloc countries, collapsed, putting an end to the East-West confrontation that characterized the bipolar world system of the Cold War. The disappearance of the Second World has practically eliminated the North-South confrontation, leaving the former Third World countries in a process of reabsorption, together with the remnants of socialism,

by a new globalized capitalist system, or simply abandoned in a limbo in which they disintegrate economically, socially, and even politically.

A profound scientific and technological revolution has shifted the former emphasis on the physical and biological disciplines, and through the development of microelectronics and the information revolution, robotics, biotechnology, and new materials has produced fundamental changes throughout the economic and social system, as well as in inter- and intra-company relations, labor processes, comparative advantages, and traditional position on the world scene. Environmental degradation, the depletion of natural resources, and the threat to local, regional, and global ecosystems have added a new dimension to human affairs – the need of change for sustainable development, as proclaimed by the Rio de Janeiro Earth Summit.

Finally, the predominant role of the State that emerged after World War II, under various socioeconomic and political guises, has given rise to a socially, politically, and culturally renewed, stronger civil society. It may be argued that the events of May 1968 in Paris and the Prague Spring that followed were premonitory signals, in both the socialist and the capitalist world, of the strengthening of social movements that represent the rights of minorities and women, green power, youth, decentralization and democratic participation, the defense of human rights, and so on. All of these issues have led to the proliferation of base and nongovernmental organizations and to a relative withdrawal of the state.

A similar situation has occurred in the economic field, including particularly the market's growing predominance and the strengthening of private enterprises, simultaneously with a declining GDP share of public spending, massive privatization of enterprises and public services, and a higher level of private as compared with public investment. This process has been reinforced by being associated with the notable expansion of the transnational corporations, which has given origin to an unprecedented globalization process and to new forms of relations between them and the State and national capital. All of this has meant a thorough reorganization of relations between the public and the private sectors, both nationally and internationally.

With globalization and the markets' more complex private economic interrelations, the aforementioned phenomena create other problems, such as those associated with the different national practices that affect international

competitiveness. These problems inevitably become part of the conditionality under which economic reform is pursued. Thus, the international and regional negotiating agencies find themselves in a critical situation, with ongoing negotiations that range from the treatment of products to the treatment of policies. This is why the World Trade Organization should be given a broader mandate to permit it to assess political and institutional differences as sources of 'distortions.'

It was in this global context of transnational capitalist integration that Chile experienced the traumatic collapse of state-centrism and the drastic, brutal implantation of neoliberal market-centrism.

## 6. Neoliberal market-centrism in Chile

Chile is an atypical country in Latin America as regards the return of a market-centrist orientation. The implementation of a radical program for dismantling the state-centrist institutions and policies of the forties through the seventies preceded by five years the 1982 foreign debt crisis that forced the other Latin American countries to undertake rigorous macroeconomic adjustments and neoliberal structural reforms in subsequent years as well. In Chile this was a consequence of the profound economic, social, and political crisis into which the Popular Unity government and the military coup that ended it were plunged. Accordingly, another peculiarity of the Chilean process is that it unfolded under the political conditions of an iron-fisted dictatorial regime. This contrasts with the experience of the rest of Latin America, where democratic regimes became the rule in the eighties.

Of the three economic policy options that found definition in the sixties, the deepening of developmentism exhausted itself with President Frei's government as did the socialist option with President Allende. After one year of indecision, the military government chose the third, neoliberal option. This option counted on a complete, detailed program of drastic economic reforms and a team that for a long time had been preparing itself for such an opportunity, and relied on determined support from the national and foreign entrepreneurial sectors, the international financial community, and the U.S. Government. All this, as has been shown, took place in an international context that was undergoing a profound transformation toward a return of market-centrism.

The internal crisis of the previous models and particularly the catastrophic denouement of the socialist experience thus coincided with the resumption and vigorous expansion of private foreign investments. These now materialized through the proliferation of transnational corporations in conjunction with the private international financial system. This proliferation began with the Eurodollar markets in the late sixties and grew exponentially with the accumulation of petrodollar reserves with the private international banking system as a result of the oil crisis. This coincided with the turnaround that was taking place in respect of economic policies and economic thinking in view of the mounting failure of the Keynesian policies in the seventies, which were aimed at stabilizing the developed economies and at resuming growth.

Later, in the eighties, the foreign debt crisis forced debtor countries to undertake profound macroeconomic adjustments. The new international constellation of financial and commercial interests took advantage of the occasion to impose an ensemble of structural reforms, eventually labeled the 'Washington Consensus, to dismantle the state-centrist institutional apparatus established in the previous decades. This was done by means of a drastic reduction of tariff and exchange controls, financial opening, privatization of public enterprises and services, deregulation, market liberalization, focused social policy, and in general the shrinking of the State and its financing basically through indirect taxes. The objective was to reestablish and maximize the predominance of the market in an open, deregulated economy, with as little State intervention as possible.

Transnational financial integration, the return of easy, wide access to the private international financial system, and the possibility of borrowing on a large scale meant a strong pressure and encouragement for adopting trade and financial opening policies. When the political conflict among the various coalitions tended in this direction, this led to a reallocation of resources toward sectors with natural comparative advantages, extended in some countries to manufacturing activities with advantages acquired during the import substitution process. This is a new fact of utmost importance: the dynamism of nontraditional exports could not be explained apart from the creation of productive capacity in the preceding stage.

Now, market criteria are consistent with income distribution, the preferences of higher-income consumers, and national and transnational



private groups with greater power and economic dynamism. Entrepreneurs are at much greater liberty but it is doubtful that this broader room for maneuvering is necessarily advantageous to the countries that receive major flows of private capital, unless the receiving countries provide institutional incentives for their productive investment and enjoy macroeconomic stability for guaranteeing returns. Unless societies are firmly committed to development policies, the ample availability of external private financial resources may be diverted to consumption and/or capital flight instead of contributing to the expansion and diversification of productive capacity. Moreover, the market alone is not the most appropriate instrument for directing resources toward the development of a diversified, sustainable production system with social justice in the long run. Obviously, this does not lie within the responsibility of the banks that make the loans but of the borrowing countries. The fundamental question is: What will be the destination of these abundant international financial resources?

All these events have been accompanied by the consolidation of a new hegemonic coalition. Displaying new vigor and supported by private international financing, the exporters, importers, and the trade and financial sectors are making a comeback, integrated now in the transnational corporations commanded and integrated by the financial sector, forming a coalition that seeks to replace the former one consisting of the industrial sectors, the middle groups, and the working sectors. The reduction of State intervention lets the market – and the major economic groups in particular – operate in total freedom, in a revival of *laissez faire* policies and of all the ideology centered on the market, free exchange rate, comparative advantages, the massive support of the new international centers of transnational financial power, and so on.

In this context, the neoliberal prescription in a strict sense was applied in Chile from 1974 until the early eighties. Its basic elements were as follows: a drastic fiscal adjustment based on reduction of public current, social, and investment expenditures and broadening of the tax base; privatization of most public enterprises and part of public services; cancellation of the industrial policy; compensatory focus on social spending; unilateral trade and financial opening; and deregulation of the markets of goods and services and of production factors, namely, of land, labor, and capital.

It was a question of completely eradicating the state-centric model of the previous decades, not only in the extreme version of the Popular Unity government but also since its origins in the pioneering social legislation and policies of the 1920s. There is a foundational effort to create a free-market economy and a society based on strict respect for private property, a subsidiary role of the State, including the reduction of its social and productive commitments, and its concentration on the task of maintaining macroeconomic equilibriums (understood as price levels stability), the elimination of corporative institutions (professional associations, labor unions, etc.), and full integration into the international market.

This was the culmination of the economic right's intention of reversing the statist orientation adopted in the fifties, first at the time of the Klein-Sacks Mission and then under the Jorge Alessandri government, in close association with the national entrepreneurial sector and the political right. As to the Pinochet government, it harbored deep mistrust of politicians, even of the right, while the Chicago economists mistrusted the national entrepreneurial sector, traditionally protected until the advent of the socialist government. As it assumed full economic power with full political backing of the military government and without having to worry about the social and political consequences of its actions, the economic team could count on the force of the dictatorial regime for imposing its program in its entirety.

The most purist phase of implantation of the new economic policy model lasted through the mid-eighties. The foreign debt crisis early in the decade produced, among other effects, the bankruptcy of the banking and financial system, raised to immeasurable levels the unemployment caused by the previous policies. Under these circumstances, the neoliberal orthodoxy that called for a retreat of the State was partially abandoned. Once again the State began to act energetically, reorganizing the financial system by means of firm intervention and state subsidies, substantially devaluating the currency to stimulate exports as well as import substitution, expanding public spending and investment to stimulate demand and employment, creating extremely favorable conditions – meaning granting subsidies – to stimulate foreign investment, particularly in the mining sector and in the sector of privatized enterprises and public services, establishing conditions for the setting-up of private enterprises for managing pension funds accumulated by the old Social

Security system and oriented toward the high and middle income segments, as these funds substantially contribute to the establishment of a long-term financing system controlled and oriented by the State.

It should also be recalled that in the beginning, before the irruption of the economic team of the so-called Chicago Boys, the military government undertook some industrial policy initiatives of utmost importance, which survived the neoliberal assault of the economic team. They consisted in subsidies for the development of the forestry sector and in the establishment of the Chile Foundation, a public institution jointly supported and administered by the State and the private sector, for promoting the development of new productive export sectors that incorporated advanced technological innovation. These two initiatives have been extremely successful in stimulating the growth and diversification of exports.

The new government inherited exceptionally positive assets from previous governments. For one thing, it inherited the benefits of the nationalization of the copper mining sector. The exclusion of Codelco, the major national public enterprise, from the state enterprises privatization program, under the pressure of some nationalist military, was another notorious exception to the neoliberal project for withdrawing the productive function from the State, which thus preserved Codelco's considerable contribution to public finances and to the management of the exchange policy.

Of similar relevance are the long-term benefits of the modernization of the agricultural and livestock sector and those of the Agrarian Reform undertaken in previous decades, as they created the conditions for the development of new agroexports productive activities and for the emergence of new rural proprietors that eventually became a modern, dynamic entrepreneurial class.

The autonomy enjoyed by the economic team in the first years of the military regime was further reinforced by the debilitation of the manufacturing entrepreneurial class remaining from the import substitution phase, which was subjected to an extensive expropriation program during Salvador Allende's government, and was replaced by a new, or renewed entrepreneurial class that began operating under extremely favorable conditions: substantial incentives to investment, extremely inexpensive labor, stabilization of the rules of the game, etc., as well as the repression and subduing of the urban workers'

organizations and unions. All this permitted the formation and restructuring of a dynamic, modern private entrepreneurial sector and an accelerated process of capitalization and growth as of the late eighties.

## 7. From neoliberalism to structuralism

It was in this context that democracy was regained in 1990 and the process of negotiated transition in the political sphere and of continuity and changes in economic policy took place. In large measure, the economic system established by the dictatorship was preserved and then gradually subjected to reform and adjustments focused particularly on the social area and on the country's productive participation in the world economy.

Some of the main changes in the economic and social policy since 1990 are as follows:

- A major tax reform to raise state revenues;
- Reallocation of public spending, so as to substantially increase social expenditures;
- Labor reform;
- Increase of the real minimum salary;
- Establishment of criteria for periodical minimum salary readjustment;
- Implementation of various financial measures, including statutory reserves, so as to reduce and control the entry of volatile short-term capital;
- Introduction of the public works concession system (investment in highways, airports, dams, wastewater treatment, etc.);
- Special social programs for poverty reduction (Chile Barrio, Chile Solidario);
- Comprehensive coverage and reform of education;
- Public health reform (AUGE Plan);
- Penal procedural justice reform;

- Public administration reform;
- Free trade agreements (USA, European Community, Asia);
- Reintegration into Latin America (Mercosur and bilateral treaties);
- Establishment of several regulatory bodies (Superintendences); and
- Establishment of an environment institutional structure and policy.

These and many other changes were made possible in large measure by a negotiated transition between the military regime and the party coalition in favor of democracy. It is not easy to explain to those that did not experience the transition period the reasons why a negotiated transition between the military government and the new democratic regime in 1990 was chosen. Nor why much of the economic system instituted by dictatorship was adopted, only to be gradually reformed and adjusted. To help readers understand this, I permit myself a very personal sociopolitical digression.

The decades from the sixties to the nineties were undoubtedly the most traumatic in Chile's history. The citizenry's coexistence was gradually eroded by the transformations of every sort the country underwent, with special intensity from the mid-sixties on. The social fabric was progressively torn by antagonisms that increasingly hindered normal relations among social groups, thinking currents, and political sectors. Everyday life was affected by the deterioration of relations among colleagues, companions, friends, and even family members.

Those decades witnessed the profound institutional and structural reform processes that were triggered in the sixties and gradually intensified; the predominance of the left's thinking and its revolutionary and counterrevolutionary actions; the increasingly uncontrolled and conflict-ridden character of the Popular Unity government and the opposition; the violent overthrow of President Allende by military intervention and the intense sequel of repressive actions and human rights violations; the fierce struggle for the restoration of democracy and the violent and terrorist actions against the military government and its cruel repression tactics; and the drastic economic, institutional, and cultural changes that were fueled by the war cries of 'revolution in freedom,' 'the Chilean road to socialism,' and 'neoliberalism' that were made and partially reversed in that period.

That tumultuous, dramatic period left in many sectors a negative legacy of deep divisions, hatreds, and fears. Numerous social groups and the individuals and families belonging to them suffered, in varying degrees, losses, affront, injustices that they attributed to other sectors, groups, and individuals, who in turn felt the same way about them. All of them had some measure of reason. All of us experienced or learned about cases of relatives, friends or acquaintances that met death or repression, torture, and exile, or lost their jobs; or expropriation, takeover, occupation, or destruction of their property or business; and there were those that had to drop a lifetime occupation, and even leave the country. Accelerated, drastic macrosocial changes are reflected in the daily lives of individuals and families in the form of traumas and heartbreaks of every sort, which drastically and profoundly altered daily coexistence and the life project of people and their families, entailing much suffering and glaring injustices.

However, as painful as it has been for many, such suffering was not in vain. Mutual recriminations were gradually overcome, despite occasional flare-ups, and a great effort has also been made to appreciate whatever was positive inherited from such a traumatic period. Along these decades, Chilean society, through its different segments and components, has taken extremely important steps that have placed it under relatively favorable conditions, as compared with its own past and with other countries, to meet the challenge of consolidating a democracy imbued with solidarity, a dynamic, just economy, and a shared culture, as well as the challenges posed by the major changes of every sort that are taking place in the world at the outset of the third millennium.

Thus, on the political plan for instance, the militant exacerbation of global and exclusive ideological projects of the left, the center, and the right has led the citizenry's majority to seek fundamental consensus for reestablishing the democratic game in which each sector revises and refreshes its utopian ideological proposal but understands that for governing here and now everyone must give up something so as to arrive at what is essential to the consolidation of democratic coexistence.

On the economic plane for instance, the recognition is dawning that without the agrarian reform and the policies aimed at creating and encouraging new tradable sectors in the sixties, we could hardly have a dynamic export

sector today. But we must also accept that without a drastic reorientation of the economic policy so as to facilitate the opening of the economy and the action of the private entrepreneurial sector, those initial steps might not have been taken so quickly and efficiently.

It could also be said that the nationalization of the copper mining sector was a historical, fundamental achievement. In strictly economic and financial terms, it gave a considerable contribution to the financing of fiscal and balance of payments deficits, thereby also contributing to a more agile and efficient management of the fiscal, exchange, and monetary policies and to the determined effort to order, modernize, and streamline the public sector, which was accomplished to a large extent by the military government.

More polemic is the social, generalized deregulation, and privatization policies that were implemented and that have affected both enterprises and public services, entailing major social and economic consequences, whose positive and negative effects continue to be heatedly debated. Perhaps it is possible to clarify and rationalize this polemic, particularly if it is viewed in its historical context. In the decades following World War II, the expanded role of the State, despite its many deficiencies, was fundamental in the modernization of Chilean economy and society. Many of the achievements of recent years would not have been possible without the previous governments' action in the areas of health and education, the building of energy and transport infrastructure, and expansion and diversification of productive capacity in the different sectors.

But it should be also admitted that this State activism, which provided decisive support to the private sector over those years, later acquired a too obvious statist bias that has certainly led to the inhibition and displacement of private initiative, to exaggerated, renter protectionism, and to all sorts of bureaucratic impediments, price system distortions, and serious macroeconomic disequilibria.

A dispassionate look at these pendular movements between excessive State intervention and abstinence should lead to a more pragmatic assessment of the most appropriate forms of State complementation and the market, as well as of the role of civil society and citizen organizations, in respect of the new conditions, challenges, and tasks, both internal and external, with which the country is faced.

A strategic analysis capable of envisaging tasks ahead must have as a central concern the rapid advance of transnational integration in the economic, political, and cultural areas, to which the financial and technological circuits have been recently added with particular intensity and velocity. This complex, far-reaching globalization process has defined issues that have the force of ‘imperatives,’ which no State can elude. The ecological issue is another universal imperative. This transnationalization process, though, unfolds through segmented circuits that tend to heighten the fragmentation of our already divided society. Not only past traumatic experiences but also this new context characterized by these opposite integration and exclusion movements forces us to rethink the role of the State.

The new situation exposes the magnitude of the problem, as it becomes necessary to review not only the tasks incumbent upon the State and its specific action, but also the very concept of national State cohesion in this new stage of history. From the standpoint of the new democratic phase, it would be opportune and timely to undertake a collective reflection about the new modalities of organization, action, and management of the State and civil society, suggested and motivated by the recent, major ideological, socioeconomic, and political changes occurring in the country and in the world, and to examine them in light of Chilean reality, with a view to arriving at specific proposals.

The democratic consolidation process began with a wealth of ideas about the new tasks and challenges to be met in the main development sectors and in the formulation of specific policies for each sector. However, we lack enough experience of how to institutionalize and organize these policies’ management through a renewed State and a reorganized civil society. This requires new forms of interaction between the State and the market, and between these and the citizens, civil society, basic solidarity organizations, and the regions. Also required is greater emphasis on effectiveness, flexibility, and decentralization, as well as a foremost concern for technological aspects.

## **8. Some preliminary conclusions and lessons drawn from Chile’s experience**

### **ECLAC period – 1950s and 1960s**

The 1930 crisis marked the end of a phase of capitalist development characterized by a prolonged process of international economic integration. It



was superseded by far-reaching adjustments to the development policies followed until then, a process that was in turn characterized by the steady adoption of protectionist policies and incentives to production and employment through more public spending and direct, energetic, and increasing State intervention.

In this international context, Eclac's theoretical contribution to the Latin American countries played a key role. In particular, the thinking of Raúl Prebisch, based on his own interpretation of the causes of Latin American underdevelopment and the need of policies aimed at industrialization and at the modernization of the economies of the continent exerted a major influence on intellectual and political circles, especially in Chile, where physical proximity (Eclac's headquarters are located in Santiago) allowed wider dissemination of ideas, particularly among academic institutions.

The State became very active in adopting economic policies. The establishment of a series of institutions and the impetus imparted by the State to universal public policies can be considered the main positive legacy of this period. Some public enterprises established then included the following: Corfo, a powerful, lasting institution created for fostering long-term productive development; Endesa and ENAP, which were responsible for providing energy infrastructure; CAP, another public enterprise, responsible for supplying basic industrial inputs; Iansa, charged with the modernization of agriculture; LAN, in charge of developing national air transportation; and Entel, responsible for the development of telecommunications.

During that period, Chilean society also underwent major changes. Wider access to education by the middle class ensured greater social mobility. The development of public enterprises gave rise to a high-level entrepreneurial class and an equally high-level professional contingent in the public sector. At the same time, workers' organizations and left popular parties gained strength.

While industrial development and public social policies allowed the development and growth of urban middle segments, in the rural zone agrarian reform and the peasants' unionization were the engines of major social and economic structural changes.

Despite its significant achievements, this period also left a negative legacy in some aspects. The persistent macroeconomic instability, with a series of inflationary outbreaks, the stabilization programs, and the external bottleneck

owing to the lack of a developed export sector were in my view the worst inheritance of a period characterized by drastic transformation and social and industrial modernization.

### **Popular Unity – 1970-1973**

Popular Unity's irruption and subsequent, dramatic collapse can only be understood in the context of the development of the state-centric model, and particularly of the rise of the working and the peasant classes and the intellectual ascent of the middle class, as a result of the major economic and social changes of the fifties and sixties.

Salvador Allende's government had to face a period of sharp social contradictions and political radicalization of both the left and the right, internally and externally, which entailed serious social disorder as well as major industrial disarray, at a time when the state-centric model was exhausting itself both at home and abroad.

Despite the acute institutional crisis of those three years, some significant achievements of that period deserve pointing out, such as the nationalization of the copper mining sector and the deepening of the agrarian reform, which led to the end of the latifundia, which in turn paved the way for increased productivity and land use. The period's negative legacy includes major macroeconomic disequilibria, uncontrolled inflation, and productive disorganization.

### **Neoliberal Orthodoxy – 1974-1990**

The exhaustion of the state-centric model and the ensuing economic and institutional crisis stemming from the Popular Unity experience coincided, at the international level, with a rearrangement of the dominating ideas, particularly in the United States and England, where a drastic turnaround was taking place, from Keynesian-styled to neoliberal policies.

In economic matters, the military government chose the latter. Total control of the State's power and the absence and even prohibition of any type of union or social organization permitted the unchecked application of an overall economic reforms program. This program was based primarily on

a drastic fiscal adjustment based on reduction of public current, social, and investment expenditures, and broadening of the tax base through indirect taxes; privatization of most public enterprises and part of public services; elimination of the industrial policy; compensatory focusing on social spending; unilateral trade and financial opening; and deregulation of the goods and services market, and of production factors, i.e., land, labor, and capital.

The period of strictest application of the neoliberal prescriptions extended from 1974 through the mid-eighties. However, the country experienced a sharp economic recession between 1982 and 1984, after which more pragmatic economic policy measures were adopted, which allowed the economy's recovery and the beginning of a process of accelerated growth with relative stability.

There is no doubt that some of the positive milestones inherited from the more orthodox application of the neoliberal market model are related to the permanent pursuit of macroeconomic equilibriums; the rehabilitation of public finances; the creation of macro conditions for the development of the export sector; institutions and policies for productive development; privatization of public enterprises (notwithstanding procedures subject to criticism); formation of new entrepreneurial classes in the private sector; and maintenance of a strong State.

Despite these achievements, the application of this economic orthodoxy also left a very negative inheritance: profound social deterioration; the dismantling of public services, especially in respect of health and education; widening social inequality; high concentration of power and wealth; foreign indebtedness; and marked deterioration of the middle classes.

### Neoliberal period – 1990 on

The return to democracy marked the end of a period of sharp confrontations in Chilean society. Between the sixties and the nineties, drastic institutional and structural reforms were tried, under the mottoes “revolution in freedom,” “the Chilean road to socialism” and “neoliberalism.” These reforms were imposed, and partially reversed thereafter.

There is a consensus today that the return to democracy was deliberate and negotiated. The incipient administration opted for a consensus policy both

in the economic and in the political domains. To a large extent, the economic system established by the dictatorship was embraced and gradually reformed and adjusted, and its focus directed particularly at the social sphere and at the country's participation in the world scene.

The main achievements of the post-1990 period were geared to preserve and reinforce macroeconomic equilibriums, with firm adherence to fiscal equilibrium, which has been maintained and has inspired high confidence. Other achievements included a tax reform that could soon support a much more expansive and focused social policy aimed at reducing poverty, which dropped from 45 percent in 1990 to 18 percent in 2003. Efforts were made to correct externalities inherent to the market, through the establishment of a strong institutional regulatory framework. The market was called upon to take over traditional State tasks, such as public works, through strong concession policies. Technological and productive development was encouraged. Environmental institutions and policies were established. Finally, there is no doubt that Chile's enhanced participation in the international scene on the economic and political planes is also an achievement of this period.

Notwithstanding these major achievements, much that was negative in the most orthodox neoliberal period still lingers, such as the excessive concentration of wealth and power; the sharp distributive inequality; the lack of a territorial regulatory policy; and the lack of a vision and a strategy of long-term development.

### **By way of conclusion: lessons from the Chilean experience**

The analysis and review of the history of the changes in economic policies in Chile warrant significant conclusions, as well as dispelling some confusion in the minds of many who deal with economic science, who tend to look at the application of economic policies without putting them in the context of the period when they were developed both internally and internationally.

The following conclusions may be drawn from a review of Chilean economic policy in the past century, in respect of the more recent market-centric period:

- (1) The determinant importance of the legacy of strategic public productive enterprises established in the state-centric period and privatized by the military regime;

- (2) The crucial importance of the basic structural and institutional reforms of the ECLAC and the socialist periods, especially the agrarian reform and the nationalization of copper mining;
- (3) The Chilean case is not a chemically pure example of successful neoliberal policies, as is commonly thought: the State played a decisive role in important productive development public policies since the outset of the military government and in the Keynesian reactivation after the debt crisis; and
- (4) Since 1990, the Chilean model has become even less identified with neoliberalism. One should not confuse neoliberalism with respect for macroeconomic equilibriums and the market economy, which are inherent in any contemporary economy. Moreover, since 1990, the State has been strengthened by reforms pertaining to taxation, social issues, regulatory tasks, production, public works concessions, and so on.
- (5) The recipe of the Chilean success since 1990 seems to be based mainly on the following:
  - The legacy of an economy in relative macroeconomic equilibrium and of high investment, exports, and growth rates;
  - Maintenance and improvement of macroeconomic equilibriums;
  - Tax reform;
  - A strong emphasis on social policies, particularly as regards labor, poverty, health, and education;
  - Strengthening of technological innovation and productive development policies;
  - Establishment of incentives to private investment in infrastructure, particularly through the concessions system;
  - Establishment and strengthening of the various regulatory bodies; and
  - Policies geared to the active promotion of exports and of the country's participation in the international scene.

A common denominator stands out in these conclusions: *a strong, proactive State* that feels no inhibition before the market but rather develops a wide range of public policies to influence the market.

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Translation: João Coelho

# Colombia, a country of contrasts

*Alfredo Rangel\**

**C**olombia is the third most populated country and the fifth economy in Latin America. It is the fourth largest country in South America, with an area equivalent to that of Portugal, Spain, and France combined. It enjoys a privileged, highly diversified geography, as it is the only country with an outlet to the Atlantic and the Pacific, and is at once Caribbean, Andean, and Amazonian. Occupying only 0.7 percent of the Earth's surface, Colombia harbors 15 percent of the world's biodiversity, being surpassed only by Brazil in this respect.

With a population of 42 million, Colombia is demographically deconcentrated, as 28 percent of Colombians live in the four major cities – Bogotá, Medellín, Cali, and Barranquilla. Bogotá alone has 15 percent of the total population. There are eight cities with over half a million inhabitants, and 22 with more than 100,000. Economic deconcentration is also a fact: 22 percent of economic activity takes place in Bogotá, 15 percent in Medellín, and 12 percent in Cali. The economy is highly diversified: 55 percent of exports consist of products other than oil, coal, and coffee, the major exports, and account for 25 percent, 13 percent, and 7 percent of the total, respectively. But it is also a very little globalized economy, as its exports represent only 17 percent of its internal product.

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The country's intricate geography has militated for decades against national integration. Communication difficulties have hindered the regional economies integration with one another and with external markets. Colombia has been a quite insular country that only recently started opening up to the world. And yet it has always had one of the region's most educated and sophisticated political, intellectual, and entrepreneurial elites. With Brazil and Argentina, Colombia has the largest number of competent professionals, particularly at the highest corporate levels, and has become a net exporter of qualified human capital.

Paradoxically, it has been at the same time the region's most violent country and the most economically and politically stable in the last decades. It has the Americas' second-oldest Constitution after the U.S. Constitution. It also has the region's oldest political parties and in it lives and fights the world's oldest guerrilla.

Colombia is a country of contrasts and paradoxes. A country with a strong civilian tradition in which the military forces have never wielded significant political influence, even though in its first century of independent life it experienced nine general wars and fifty-four local revolutions that culminated in the Thousand Day War at the beginning of the 20<sup>th</sup> century, then a parties' confrontation in the 1950s and an insurgent armed conflict in the last forty years that has not yet ended. A civilian-minded country without a militarist tradition, but with a deep-rooted political party sectarianism among civilians – possibly unrivaled in the region- has led to frequent armed contests between members of the two traditional political parties, namely, the Liberal and the Conservative.

## Recent history

After the One-Thousand-Days War at the closing of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, which opposed the Liberal and the Conservative parties, Colombia experienced half a century of political peace that was broken by a new party confrontation in the early-1950s. This period, known as *The Vivencia* [the living experience], caused between 300 and 500 deaths and an intense migration of peasants to the country's major cities.

This confrontation was interrupted by General Gustavo Rojas Pinilla's caudillo-style military coup. General Pinilla, who curiously enough had the support of a segment of the ousted president's Conservative Party, decreed a general amnesty that demobilized most of the party forces that had risen in arms against each other. This dictatorship lasted only four years and was replaced by a very brief military government that prepared the way for a return to democracy. To put an end to party violence, the two traditional parties agreed to alternate in power, and this was done in the following sixteen years, during which time the State bureaucracy remained unchanged.

This pact became gave rise to a National Front. Although it put an end to party violence, the National Front closed political spaces and suffocated democratic pluralism. In the 1960s and 1970s the country experienced accelerated urbanization, an educated middle-class began to emerge, the mass communication media multiplied, and the National Front's political regime began to show signs of exhaustion. Meantime, some of the armed peasant groups remaining from the party violence did not accept amnesty and started the Revolutionary Armed Forces of Colombia-FARC guerrilla, adopted the communist ideology, and thus began the gestation of their insurgence project. At the same time, another guerrilla movement of Cuban inspiration emerged, known as National Liberation Army-ELN, whose leaders were mainly university students and which initially built a small peasant base that would sustain it. In the early 1970s, the April 19 Movement-M-19, an urban guerrilla movement emerged, which defended General Rojas Pinilla's supposed victory in the 1970 elections, which, according to his followers, had been usurped by the National Front alliance of the traditional parties.

In the beginning, these guerrilla groups were weak, poorly armed, financially strapped, had inexpressive social backing, and precarious military capacity. The ELN and the FARC hibernated in their first twenty years in markedly marginal areas of Colombia. Their existence was known only because of occasional raids on remote towns to rob their small banks and steal weapons from their few policemen. The M-19 was as poor as the rural guerrillas but this was compensated by bold armed propaganda activities in the cities, which found great repercussion in the media. This situation changed when the ELN, at the brim of extinction in the early eighties, found in the extortion of oil companies a huge source of funds, while the FARC did the

same to get resources from the drug traffic. The M-19 never had an efficient financial strategy and thus remained poor, and was forced to take refuge in the rural areas after its backbone had been broken by State security forces in the late 1970s.

The eighties proved to be one of the country's most convulsion-ridden decades, owing to the irruption of drug trafficking as a novel force, with major drug cartels that violently fought against the State to prevent the extradition of drug traffickers to the United States. Those were the narco-terrorism years, when the mafias assassinated presidential candidates, judges, members of the military, police officers, high authorities, parliamentarians, and hundreds of common folks, both in selective actions and in indiscriminate massacres aimed at instilling terror in the population. That was the era of Pablo Escobar and Rodríguez Gacha, two of the most famous members of the Colombian mafia.

At the same time, the FARC and ELN guerrillas became stronger, expanded their area of influence, increased their military capacity, and attracted further social and political support. The M-19, now fortified in the rural areas, kept up its spectacular actions, such as the taking of the Dominican Republic's Embassy in Bogotá, when dozens of diplomats were made hostages. It was then that President Belisario Betancurt started peace negotiations with the guerrillas, particularly with the FARC and the M-19. A general amnesty of the guerrillas was proclaimed and a political solution for the armed conflict became a key issue on the national political agenda. Unfortunately, this first peace effort ended catastrophically with the taking of the Palace of Justice in Bogotá by the M-19 after an incident-ridden truce violated now and then by both sides.

This notwithstanding, late in the decade the Virgilio Barco Government managed to arrive at a peace agreement with the M-19. César Gaviria, Barco's successor, did the same with four other small groups: the EPL, the Quintín Lame, the PRT, and the CRS. A Constituent National Assembly was then convened. It expanded political spaces and introduced major institutional reforms to democratize the political regime. A few years later, the main drug cartels were dismantled; this did not mean the end of drug trafficking but the emergence of small cartels that, differently from their predecessors, did not pursue violent confrontation with the State; they kept a low social and political profile, although their fortune was also enormous.

The peace dialogue the Gaviria Government attempted to establish with the FARC and the ELN together, first in Caracas and then in Tlaxcala, Mexico, failed. Ernesto Samper, Gaviria's successor, headed a government affected by the scandal of the use of drug trafficking money in the financing of his campaign. The ensuing political crisis prevented the continuation of the peace dialogue. Rather, it provided the background for FARC's major military escalation, which dealt the Colombian Army the severest blows it ever suffered in combating counterinsurgency. At this time, strong paramilitary groups entered the scene; although basically regional organizations, they banded together into a nationwide organization known as the United Self-defense Forces of Colombia-AUC. These organizations began the systematic extermination of those they thought were guerrilla supporters, which led to massive displacement of people throughout the country. In a short time, the guerrilla reacted with similar tactics against the paramilitary support bases; a full-fledged humanitarian crisis set in owing to the spreading of the barbaric armed conflict throughout the country.

The combination of military failure, guerrilla escalation, paramilitary vigor, and the humanitarian crisis led the country to call for a resumption of the peace dialogue with the guerrilla. This determined the outcome of the next presidential election, won by Andrés Pastrana, who soon after being elected demilitarized an extensive area of the country – over 40 square kilometers – to start peace conversations with the FARC. This flawed attempt ended in resounding failure, for which both sides bore responsibility. The guerrillas assumed a triumphalist posture based on their newly-won military victories and, expecting to go on advancing on the military terrain to defeat the National Army and take over the government, they used the peace dialogue as a political tactic of their war strategy. They never intended to arrive at an agreement. The Pastrana government, in turn, never had a clear negotiation strategy; he relied on goodwill gestures more than on political efficacy, and was deemed by public opinion as extremely naïve and weak vis-à-vis an ever prouder guerrilla. Guerrilla abuses against the population in the demilitarized zone soon blew the peace dialogue, which was broken a few months before the elections that chose Alvaro Uribe as Pastrana's successor.

## The current situation

The 2002 presidential elections turned into a referendum against the guerrilla and in favor of a strong arm against it. As a candidate, Uribe convinced the electorate that he was the best choice for returning security to the country and for curbing violent acts. He ran as an independent, although all his life he had been an outstanding member of the Liberal Party, whose candidate, who seemed poised for victory, he defeated at the first balloting, an extraordinary event in Colombian elections' history.

Faithful to the mandate received from his electors, Uribe made democratic security his government' major concern. His objective was to recover control over the area in the hands of the violence perpetrators, ensure the population's enjoyment of the liberties that had been restricted by the lack of security, and weaken the irregular groups so as to force them to negotiate the State's terms. To this end, he sought to strengthen and modernize the State's security forces, expand manpower strength, improve communications, enhance mobility, intensify training, and increase and upgrade equipment. He also appealed to citizens to voluntarily organize themselves and actively support the State through extensive informant networks, in its endeavor to defeat the agents of violence. He sought not only to maintain but also substantially to increase the efforts begun by his predecessor, such as the Colombia Plan, a broad cooperation program adopted two years earlier with the United States Government, which feared that the guerrillas might destroy Colombia's democratic regime.

Nevertheless, Uribe's government left the door open for peace negotiations with any irregular group, while adding to the negotiation conditions. Some of the major conditions included unilateral, unconditional truce on the part of the interested group, an agenda strictly limited to agreement on juridical and social conditions of its demobilization and disarmament, international supervision to guarantee the earnestness of conversations and commitments undertaken, and the outright refusal to demilitarize any zone of the national territory for carrying out this dialogue. The guerrillas flatly refused to accept these conditions but the paramilitary groups did accept them. Thus began these groups' demobilization, which culminated three years later in the disarmament of most of them.

To ensure demobilization, the Colombian Congress approved a special juridical framework known as the Justice and Peace Law, to be applied to paramilitary accused of crimes of lese-humanity or war crimes. This law provides for a substantial penalty reduction if the defendant reveals all his crimes and surrenders all his possessions for reparation to his victims. Noncompliance with any of these conditions causes the defendant's transfer to ordinary courts, under which he is subject to the full force of the law, which multiplies manifold the number of years of imprisonment with which he has to pay for his crimes. The paramilitary found not guilty of these crimes is pardoned of the crime of association for committing a crime.

This process resulted in the demobilization of 32,000 members of paramilitary groups, 16,000 of whom surrendered their weapons; the others had provided logistic and intelligence support. The fifty main leaders of these groups are being held in maximum security prisons. Many parliamentarians and politicians that allied with them are also in prison and are being tried for this.

Similarly, the guerrillas have been weakened by the State and have been forced to redeploy. Their manpower strength has decreased and the number of their violent actions has substantially declined. The ELN saw its numbers drop from 4,500 to 1,200, while its kidnappings decreased from 680 in 2001 to only 60 in 2006. The FARC armed members declined from 18,000 to about 14,000 and the number of towns taken over by them dropped from 60 in 2002 to only four in 2006.

With the strengthening of the State, the demobilization of the paramilitary, and the weakening of the guerrillas, security has been significantly restored in Colombia. In the last five years the rate of homicides per 100,000 inhabitants dropped from 63 to 33, and the number of kidnappings for extortion purposes declined from 1,700 in 2002 to about 280 in 2006, while the number of highway blockages dropped from 180 to 9 and the guerrilla attacks on towns declined from 32 to only four. This substantial improvement in security has had a very positive effect on the national economy, which is growing at 8 percent, as compared with its recent historical average of only 3 percent. Foreign investment, whose average was US\$2 billion a year, will surpass US\$7 billion this year. As a result, the unemployment rate, which stood at 17 percent in 2002, is now 10.5 percent. These are just some indicators of the positive effects of greater security on the economy.

The preceding notwithstanding, drug trafficking resists giving in in Colombia. The current Government's failure adds up to the failure of previous governments that were unable to implement a successful strategy to reduce the quantity of cocaine produced in and exported from Colombia. After ten years of fumigating coca crops and extraditing hundreds of Colombians to the United States, the quantity of cocaine produced has not diminished. What has diminished is the area planted to coca, but this is Pyrrhic victory, as the same quantity of coca is produced in half the previously cultivated area, thanks to the growers' and traffickers' success in substantially raising crop productivity. Faced with this situation, the Government seems to be looking more carefully at the results of the antidrug fight; it has announced a reduction in crop fumigation and is laying more emphasis on manual eradication and on the prohibition of illegal drugs. This business's high returns, though, and the unrelenting expansion of its international markets militate against these new efforts' eventual success.

However, there has been substantial progress in other indicators of political freedom as well. Past October's local elections took place under the most secure circumstances and with the least violence of the last ten years. Voter participation struck a record as did the number of registered candidates. Despite the violent group's intention of sabotaging the elections, this time there were twice fewer assassinations than in 1997, 36 times fewer kidnappings, and the number of municipalities affected by violence was three times lower.

The last elections also showed the strength and pluralism of Colombian democracy. Independent candidates, on both the left and the right, who ran against consolidated political apparatuses, became mayors of Bogotá, Medellín, Cali, and Cartagena, among other examples. Four recently founded national parties came out stronger also – the Partido Social de Unidad Nacional, the Cambio Radical, the Convergencia Ciudadana, and the Polo Democrático Alternativo. But the traditional Liberal and Conservative parties, whose obituary had been written by some, demonstrated renewed vigor and strength, ranking first and second in the voters' preference; but they are no longer the parties that some decades ago firmly and exclusively dominated the national political scene.

## Prospects for security and peace

Despite the major progress achieved in the last five years, security and peace continue to figure prominently on the national political agenda.

The Alvaro Uribe Government, elected for the second time on the first balloting in 2002, has established a plan for consolidating democratic security. To this end, it will have at its disposal over the next four years the largest security budget the country has ever had, fortified by an extraordinary tax to be paid by society's higher economic echelons. These additional funds will enhance the State's presence throughout the national territory and allow the State to go on undermining the capacity and reducing the presence of illegal armed groups, so as to restore the State's monopoly of armed forces and to further guarantee the citizens' exercise of their rights and enjoyment of their liberties.

To ensure peace it is still necessary to achieve a successful completion of the process involving the paramilitary and agreements with the FARC and ELN guerrilla groups. As mentioned, the main leaders of paramilitary groups have submitted themselves to the Justice and Peace Law and it is expected that the ongoing judicial proceedings will arrive at a significant dose of truth, justice, and reparation to victims, something the previous peace processes involving the guerrillas failed to accomplish. This Law is indeed the most advanced and rigorous in the world as regards the transitional justice that has been applied for achieving peace and resolving armed conflicts. It is also expected that the State will succeed in dismantling some of the groups that have recently emerged, small bands that did not agree to demobilization, consisting of recidivist paramilitary. These groups seem to be of a different nature, not as bent on insurgency as the already demobilized groups, but rather devoted to drug trafficking and to obtaining other types of illegal earnings in some regions of the country.

Moreover, for two years now the Government has carried on peace conversations with the ELN in Havana, Cuba. Although no major progress has been made, the important thing is that this insurgent group seems to have made the decision to abandon arms as a means of political action and to accept a peace agreement with the State. Apparently, this decision is due to the group's own debilitation and to the advances made by the democratic left



in Colombia and on the continent. The negotiation process may be slow but, differently from other occasions, this time it seems to be irreversible. ELN's demobilization is thus a question of time, of two or three years at the most.

The hardest part is FARC's demobilization. These forces do not yet seem convinced of having reached the limit of their political possibilities through armed conflict. Although for the first time they have seen a reduction in their manpower strength and been forced to leave areas where they had been strong and over which they had relative control, the FARC rely on the fact that the Government was unable to defeat them after having launched the Patriot Plan, its strongest military effort in the forty years of their insurgency. This leads them to adopt a very hard line in any peace negotiations.

The humanitarian agreement to exchange kidnapped politicians in the guerrillas' power for guerrilla members in prison is the first crucial step for further peace conversations between the Government and the FARC. After unsuccessful efforts by national mediators, including a former president of the Republic and the Catholic Church, the process of humanitarian exchange seems to have been freed up by the request submitted to President Uribe to make the Venezuelan President a mediator in this humanitarian issue. Chávez has instilled strong dynamics into the process and the probability that his effort may be crowned with success is very high, as he has the confidence of both parties, a requirement for a successful outcome. After Chávez's talks with Uribe and the FARC, a meeting of the two parties – something unthinkable only a few months ago – may be possible in Venezuela, at which Chávez may present proposals for overcoming the main procedural obstacles that have so far prevented this humanitarian encounter.

If Chávez's mission succeeds, the exchange might take place in less than six or eight months. It is unlikely that, with his complicated and conflictive domestic and international agenda, Chávez will be able to devote much time to this question. If the exchange takes place, the next step would be to agree on the terms of a new political negotiation between the Colombian State and the FARC.

Under the best hypothesis, peace conversations could start in two years' time and an agreement could be reached in another three or four years. Accordingly, the most optimistic prospects envisage peace in Colombia in over five years.

These dynamics will have great influence on political and electoral perspectives in Colombia, where a third term for President Uribe begins to be discussed. Should expectations of a fruitful peace dialogue materialize before President Uribe's current term expires, the likelihood of his second reelection would be very strong. **DEP**

Translation: João Coelho

# Ecuador: fundamental issues

*León Roldós\**

**N**o State, nation or society can exist apart from others because it is socially, politically, and economically self-sufficient. Major collective efforts are necessary to ensure that relations among nations are maintained in dignity and with a view to development. The main burden of responsibility rests on the dominant classes, and their role is seeing that there is justice and equity, as well as preventing and punishing injustice and inequity. No one should stay away; everyone is under the obligation to contribute.

Dignity has to do more with principles and imperatives than with results. In the pursuit of success, players must act with dignity, without corrupting or submitting themselves to corruption, without lying or making false promises, and without betraying those that have made success possible. Nor should they pretend to be omnipotent and infallible – or even worse – purposely use half-truths to attain success. They should be magnanimous in victory and fair in discharging their responsibilities. Fairness implies avoidance of excesses and of belittling others, moved by prepotency, persecution, or vengeance. This also implies believing that forgiving and forgetting the faults of others contribute to the common welfare and that impunity is a form of injustice that leads to recidivism.

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One must maintain dignity even before defeat and sacrifice, never humiliating oneself or giving in to bitterness, remembering that not even death is the end, as physical disappearance may lead to other forms of life. Collective processes may lose protagonists, which is natural, but as no one is indispensable and irreplaceable, others will replace them and build a different reality.

Development also necessarily implies justice and equity and in this lies its difference from growth and accumulation alone. True, wealth must be created, as one cannot distribute poverty, but it is a fact that macroeconomic growth and accumulation result from exploitation without respect for social values, including labor and the environment, is a crime.

## The territory and its boundaries

The shrinking of our national territory to 256,310 sq km is a salient feature of our history. The Francisco de Orellana's expedition that left from Quito in the 16<sup>th</sup> century showed that through the Amazon River it was possible to connect the Pacific to the Atlantic. Yet, from the time of the Royal Audience of Quito imposed by Spain and subordinated to the Vice-kingdoms of Bogotá and Lima to the agreements with Peru in October 1998, we, Ecuadorians, have watched our country being slashed again and again.

We are not going to discuss the juridical aspects of boundary conflicts or military threats or the circumstances under which timorous negotiators were dismissed, but will focus on the following facts: in the 19<sup>th</sup> and the 20<sup>th</sup> centuries, foreign policy was conditioned by territorial issues; in the 21<sup>st</sup> century, the feeling is that the amputations have ended. Today, we must deal with the real Ecuador.

We face the challenge of developing the areas bordering on Colombia and Peru, which seems possible, as they have an economically active population, but more difficult in the Amazon region, where the environment, which cannot be discarded, raises serious obstacles to investment.

Although Ecuador and Brazil do abut each other, macropolicy for the Amazon requires that agreements be celebrated by the Amazon basin countries. Much has already been done in this respect, but timely decisions are needed, based not on the investment interests of enterprises seeking profit but on

the convenience of the nations involved and of all mankind. If the benefit of environmental conservation reaches beyond the Amazon countries and states, we ought to be entitled to compensation from other nations and states, particularly from those with greatest economic growth, which are responsible for the environmental deterioration that we must reverse in an attempt to restore environmental quality.

Two border issues do give rise to concerns, though.

The first is the dominant presence of Colombian guerrilla in certain border areas, which has led the Ecuadorian Minister of Defense, perhaps with a dose of exaggeration to sound an alert, saying recently that instead of bordering on Colombia under an elected, sovereign government, Northern Ecuador borders on the Colombian guerrilla and the drug trafficking power. So far, the major damage has been caused by the spray of aerial fumigation with highly toxic products, now suspended; and the displacement of people. Ecuador has asked Colombia for compensation; it seems that this request means the assertion of a position rather than an attempt to enforce the claim.

The second issue has to do with Peru. The October 1998 agreements signed in Brazil by the Ecuadorian and the Peruvian governments, based on the opinion of the guarantor countries of the Rio de Janeiro protocol of January 29, 1942, to which was assigned a binding force, pertained to continental Ecuador, without any specific mention to maritime limits, which may not have been considered necessary in view of the instruments signed by Ecuador, Peru, and Chile under the Southern Pacific Agreement of the 1950s. This agreement had set the outer limit of the territorial sea at two hundred miles – which is not accepted by other states or by the Convention on the Law of the Sea. Under the agreement, the three countries declared that the maritime line was the parallel intersecting the point where the land joins the sea. In 2005, though, Peru put forth the thesis of the bisecting line created by the prolongation of the continental boundary line and not the geographical parallel and apprised Chile accordingly, saying that the Southern Pacific Agreement established economic zones, not limits. The Toledo and the García governments were explicit toward Ecuador and the divergence ended with the signing of the October 1998 instruments. In Ecuador, though, some people worry lest Peru should raise any pretension against Ecuador, similar to its claim against Chile,

and think that Ecuador should approach the Chilean government for arriving at a common position.

The best thing is not to entertain any doubts and fears or any attempts at confrontation. Social and economic integration is indispensable. Good examples are provided by Europe, where hundreds of conflicts and two world wars, with millions of the dead, and expenditures on killing and destroying under the argument or pretext of boundaries, are things of the past.

## Population's makeup

The Ecuadorian population should reach fourteen million by end-2008, while about to million emigrants are concentrated in the United States and in Europe.

Ecuador is a multiethnic, multicultural country.

The self-accepted and self-declared indigenous population accounts for 10 percent and lives mostly on the highlands, or Sierra – with a high degree of integration – and in the Oriente or in the Amazon regions, with a lesser degree of integration. To this day, there are some indigenous peoples that have not been affected by miscegenation. Afro-descendants account for 4 percent of the population and native descendants of Europeans and Orientals, also unaffected by miscegenation, account for 1.5 percent.

Foreign descendants' application for citizenship in their forefathers' countries should not be taken as negation of or resistance to miscegenation but as interest in preferential treatment in obtaining visas, given the spoliation and exploitation attendant to the procedures for entering the United States and the European countries.

Some members of high- and middle-income segments have the custom of traveling to the United States for the birth of their children, which would be understandable for medical reasons; but the intention is to ensure U.S. citizenship for their offspring.

Mestizos account for 84-85 percent of the overall population.

The indigenous and Afro-Ecuadorian cultures have enhanced their strengths and inspired ethnic pride.

The indigenous peoples demand that they be recognized as ‘nations’ and the Ecuadorian State as ‘*multinational*,’ not just multiethnic.

The *multinationality* issue fueled the indigenous peoples’ political organization, which in the late 1990s advanced to the vanguard of social causes, given the crisis of the union movement and of other social organizations. This will carry great weight at the National Constituent Assembly called to reform the State’s institutional structure and draft a new Constitution. Eighty of 130 members of the Constituent Assembly are members of the *Country* movement headed by President Correa.

Not much more can be said about *multinationality*, which is to be embodied in the magna charter, together with the recognition of cultural and language diversity, as well as some economic and social rights, including the maintenance of consuetudinary justice that does not violate human rights conventions.

In my view, there is one issue related to *multinationality* that will not be accepted, namely, the nations’ territoriality, as this would seriously limit the central government’s right to make decisions about investment in the oil, mining, and infrastructure areas. Hearings with the various nations may be scheduled, but President Correa certainly will not relinquish his decision-making power.

## **Territorial political division. Administration: centralism and autonomy**

The Andes divide the country into three distinct regions. The Coast, lying between the mountains and the Pacific Ocean, consists of six provinces, five of which are historical: Esmeraldas, Manabí, Los Ríos, Guayas, and El Oro. The sixth coastal province, the Santa Elena Peninsula, was recently created through the partition of the Guayas province, which thus lost access to the open sea, except for areas on the rim of the Gulf of Guayaquil.

The Sierra, between the Western Cordillera, including the western parapet-like foothills descending towards the Pacific, and the Central Cordillera, formerly called Oriental or Eastern Cordillera for the chains of mountains along the foothills sloping down to the Amazon basin, is known as the Central Cordillera. Until the 21<sup>st</sup> century there were ten provinces: Carchi, Imbabura,

Pichincha, Cotopaxi, Tungurahua, Chimborazo, Bolívar, Cañar, Azuay, and Loja. The recently created province of Santo Domingo de los Tsáchilas on the western foothills was formerly a part of the Pichincha province.

The Eastern Region is situated in the Amazon lowlands and its territorial division reflects the presence and force of settlers from different parts of Ecuador, most of them mestizos, rather than the will of the original peoples. The region has six provinces: Sucumbíos and Orellana – the two that account for most of the country's oil wealth – and Napo, Pastaza, Morona, and Zamora.

The Galapagos archipelago is also a province.

Continental Ecuadorian regions have no juridical autonomy to manage their own affairs. Some coastal provinces have closer social and economic ties to the highlands than to other coastal provinces.

Provinces are divided into cantons – in the last quarter century the *cantonization* frenzy was unstoppable, as a way of ensuring resources for local development.

In turn, the cantons are divided into urban parishes – forming part of the canton's capital – and rural parishes, run by parochial boards of little actual weight.

The indigenous peoples – or nations, as they define themselves – on the highlands and in the Amazon, as well as the original social organizations in parts of the coast and of the highlands, known as communes, manage communal affairs and goods, as they have their own government and regulations that are partially recognized by the national legislation.

With the promulgation of the Constitution of December 1946 the provinces gained force owing to the establishment of sectional governments, known as Provincial Councils, consisting of popularly elected mayors and council members.

However, the socially and politically most important local governments are the municipal governments, whose highest authority is the mayor, who is popularly elected, as are the council members. Since the 1998 Constitution, their economic weight has increased, owing to the delegation of attributions by the central Government and to budgetary transfers.



President Rafael Correa's government has announced that it will propose to the Constituent Assembly a different territorial division based on regions – the possibility of seven to nine provinces has been mentioned – which would integrate the eastern and western provinces regardless of their natural situation on the Coast, the Highlands or in the Orient, with metropolitan districts exceeding a million inhabitants, such as Quito and Guayaquil, in addition a the special Galapagos District.

The integrated regions scheme proposed by Correa is based on social flows, similar or complementary economies, riverbeds and basins, and existing or projected roads.

In the seventies, the military government, supplied with much oil money, had already attempted a similar project, which called for a unified region made up of the northern provinces: Esmeraldas, Carchi, Imbabura, and Napo – Napo, in the Amazon, had not yet been partitioned into Sucumbíos and Orellana. The attempt failed owing to opposition by the provinces' dominant sectors, under the argument that the imposed reorganization was actually meant to intensify centralism.

Prior to the Spanish occupation and before and during the Inca Empire, the indigenous peoples seemed to have been concentrated on the highlands, with sporadic contacts with the peoples by the sea. It was during the Spanish colonial times and jurisdiction that Quito interconnected the Coast and the Sierra and sent expeditions toward the Amazon. Orellana, the Spaniard who reached the Atlantic Ocean by navigating down the Amazon River, founded Guayaquil on a hill at the confluence of the Babahoyo and Daule Rivers that form the Guayas Ria, South America's major river basin on the Pacific, which flows into the Gulf of Guayaquil, the region's main sea outlet.

When the major means of communication and transport were by sea, which lasted until the early 20<sup>th</sup> century, Guayaquil was vital for survival. Independent Guayaquil launched the revolution of October 9, 1820, thereby starting the liberation campaign that, backed by Bolívar forces under the command of Antonio José de Sucre, known later as the Marshal of Ayacucho, and by one of San Martín's battalions, culminated in the Pichincha battle that, on May 24, 1822, freed Quito from the rule of Spain. Quito's population had declared its independence on August 10, 1809, and assumed in the America's the defense of Spain against Napoleon's invasion.

Guayaquil inspired Bolívar's attempt to annex it to Colombia and San Martín's intent to annex it to Peru. There Bolívar and San Martín held an encounter July 25-27, 1822; that event and the documents it produced soon led to the battles of Junín and Ayacucho, on Peruvian territory, which definitively ended Spanish dominion in South America.

Quito, Guayaquil, and Cuenca, the Royal Audience's three main cities, were designated by Simón Bolívar as part of Southern Gran Colombia; and as part of the Republic of Ecuador in 1830.

Federalism was never adopted in Ecuador because no cities developed as capitals of federal states with sufficient economic and political weight, except for Guayaquil, whose declaration, as that of Loja, was taken as mere separatist pretension.

Another fact that may have influenced the option for a unitary State was that dominant Guayaquil sectors, beginning with Vicente Rocafuerte, the second President of Ecuador, Throughout much of the country's history, those dominant segments unfortunately exercised power through centralist practices. The main historical events in the political processes, which can be classified as revolutions, had Guayaquil as their main setting: the Marchist Revolution – thus called because it happened on March 6, 1845 – against the government of Venezuelan General Juan José Flores, Ecuador's first and third President; the Liberal Revolution of June 5, 1895, through which General Eloy Alfaro took power; the Julian Revolution of July 9, 1925, which ended the era of the liberal banking bourgeoisie – Alfaro had been assassinated on January 28, 1912 – and which, together with the State's modernization – fate's paradox – reinforced centralism; and the Revolution of May 28, 1944 that, with the 1944-45 Constituent Assembly, promoted socialist reforms, but was exceeded by the only Ecuadorian that was five times elected President of Ecuador and a decisive factor in the country's history from the mid-1930s till 1972: José María Velasco Ibarra, a conservative and liberal in the 18<sup>th</sup> century and early 19<sup>th</sup> century mold, but an earnest Latin America advocate and anti-imperialist.

Guayaquil, the breeding ground of the most important political processes and the major economic center owing particularly to agricultural exports, the birthplace of dozens of ruling leaders, rightly claimed to be affected by centralism, although in other less developed provinces there was talk of a 'Quito-Guayaquil bicentralism.'

Since the 19<sup>th</sup> century, Guayaquil has also been known for finding local solutions for needs unmet by the Central Government. In the area of health, for instance, for over a century the best public hospitals have been run by a Beneficence Board, a private foundation that also administers the country's only authorized lottery; a Road Committee cared for the construction of roads, until it was suppressed under the dictatorship in 1970; a Guayas Transit Commission had charge of road and transit matters for sixty years, until it was taken over by the Central Government, which changed its top structure.

Entities active in the area of health in general or specializing in combating tuberculosis and cancer, as well as in the areas of management, maritime port and air traffic authorities, for instance, had their beginnings in Quayaquil.

Before it began to export oil in the seventies, Ecuador had in agricultural exports produced in the coastal region its major source of foreign exchange.

I do not hesitate in expressing my thoughts on one of the most sensitive issues of macro importance, namely, the territorial and political regime and its administration.

I am against centralism and power accumulation and believe in real decentralization, not to be confused with the mere decentralization of procedures. I believe in advancing toward financial and administrative autonomy centered on the local governments, greater delegation of functions, quality spending, and reliable auditing.

The autonomous regions must contribute to solidarity and complementariness so as to reinforce national identity macro policies and help depressed or less developed areas. They should help make Ecuador an inclusive country and demonstrate that they harbor no separatist intention – an exaggeration of which Santa Cruz de Bolívia is accused. Nor should they permit the formation of dominant groups that protect and are protected by local authorities, which sooner or later challenge the central government in their own interests, forgetting that the internal migratory flows that inflate the peripheral, marginalized sections of the large cities usually come from the most depressed social and territorial sectors, a reason why citizens see themselves as victims of the major dominant groups.

The regions established from above, without a consensus that could be achieved only through popular consultation, run the risk of reinforcing

centralism, unless they have government agencies that are independent from the central government.

When I espouse the concept of autonomy, I do not correlate it with the autonomy model in Spain, as Ecuador, with a population that is 84-85 percent mestizo, cannot be compared with the nationalities and regions that coexist in Spain, including the conciliating Catalonia and the demanding Basque people.

Ecuador displays different nuances among its natural regions and its populations. Diversity must be respected and one must build on its reality, as this is the best way to contribute to national unity.

## Growth and development

Ecuador is no exception in Latin America. Its economic growth surpasses its development level, as accumulation has niches of beneficiaries, including monopolies and entrepreneurial cartels and even the State, which is no example in respect of the allocation of resources.

The Constitution's economic model is a social market economy; in practice, though, *social* is only a word and the market is in large measure a fiction.

In the 1990s, Ecuador's juridical, economic, and entrepreneurial system entered a phase of modernization and opening to foreign investment and concessions. This was not an accelerated process as in other countries of the region. Thus, when mention was made to the advance of privatizations in Argentina, with Menem and Cavallo, in Bolivia, with Sánchez de Lozada, and in Peru, with Fujimori, Ecuador was accused of "missing the train of history." Over time, the Argentine convertibility model collapsed, Sánchez de Lozada was tried and had to flee Bolivia, and Fujimori is in jail.

The preceding is not meant as a defense of statism or of the old Eclac model of import substitution and subsidies.

The common denominator underlying the delays and failures is corruption encouraged by privileges and impunity.

Oil prices and correction of State participation has raised fiscal revenue. Increased imports in recent years have affected the non-oil current account of

the balance of payments but the volume and price levels of non-oil exports have been favorable.

The economy's decelerating trend owing to the economic players' doubt-ridden expectations as regards politics may reduce imports for the moment. This might be a good thing as regards consumer goods, as it would allow businesses to move out accumulated stocks; but if this reduction applies also to capital goods, it may affect production and investment. Moreover, these doubts may trigger the flight of liquid resources. Accordingly, the Executive and the Constituent Assembly should think about this and adopt measures to inspire confidence.

As to external indebtedness, President Correa has indicated that, save for already committed credits from the Andean Development Corporation and its outstanding disbursements, it is possible that Ecuador will no longer require external loans. With respect to the previous debt, whose relative burden on the State's Budget and its GDP percentage are steadily declining, it has been subject to political investigation under the allegation of illicit indebtedness, but it seems that such allegation was unfounded, and the debt service proceeds with absolute regularity.

Correa has politically distanced himself from the International Monetary Fund and no letter of intent to it is being contemplated; and from the World Bank, because of its conditionalities. I do not expect the next step of withdrawing ourselves from these organizations will be taken, but relations with them will be frozen. The situation in regard to the Inter-American Development Bank and the Andean Development Corporation is different.

Correa's role in giving impetus to Banco del Sur as a source of credit and depositary of the Central Bank's and the State's liquid assets has been very important. The Bank's professionalism and nonpolitization could ensure its success.

The pretension of a regional currency is something else; it would be impossible in the short and in the medium term, as it would require the homogenizing of economic policies. The time frame cannot be accelerated; it might not require decades, as in Europe, but neither would it be a question of just a few years.

The monetary issue in Ecuador is complex. Before coming to power, both President Correa and Alberto Acosta, the likely President of the National Constituent Assembly, based on economic theory, called for the elimination of the dollarization established in 2000, when the emission of sucres stopped. But during the electoral campaign and in the discharge of their duties, they have been emphatically in favor of maintaining dollarization as an irreplaceable reality in the next few years, while rejecting the pretension of the political right and entrepreneurial sectors to make it constitutional.

Recently, President Correa made harsh references to the dollar's loss of value against the Euro and other currencies that have appreciated, pointing out that there was no devaluation of the sucre until the early 2000, but through dollarization our monetary reality deteriorates and drags the dollar in its wake. The President suggested that oil exports could be settled in stronger currencies than the dollar; accordingly, part of public liquidity abroad and of the national accounts could be denominated in these other currencies.

How would social and economic players react to having two or three different currencies circulating in Ecuador? Will President Correa's statement carry the day if the Assembly decides in favor of the currency diversity? Will players that deal in liquid assets be scared, regardless of the latter's amount? If it were up to me, I would maintain dollarization in the liquidity of payments; as to the amounts in other currencies, I would enter them in the dollar accounts; and would treat as foreign exchange increases the differences stemming from the dollar's devaluation and the appreciation of the strong currencies. The latter should be selectively defined, though, not just as the adoption of currency symbols of other countries, even when concealed in business or investment flows, or of new currencies for the purpose of eliminating zeros from those that have been in circulation, regardless of the discipline or liquidity of the issuing country.

The expected question is: Why would Correa make such radical changes in the Ecuadorian economy, which still keeps its statist, centralist bias? Without the shadow of a doubt, because of the intense iniquity in economic relations, accumulated or potentiated by the dominant groups' links with those who used to hold actual political power.

The widespread bust of the banking system with the freezing of deposits and the devaluation of the sucre, the national currency, which led to

dollarization, causing bankruptcies, depletion of savings, emigration driven by desperate poverty and lack of jobs, has not yet been penalized as it deserves to be. The economic players and politicians that caused, permitted, or concealed it were let go scot-free and continued to govern in the following years; some even dare to assume leading positions, from which they pontificate about politics and the economy.

To this should be added the practice of tax evasion and elision, the business circles within the State, simulation, lack of transparency in the balances of State concessions, and other forms of corruption.

Monopolies and cartels that eliminate competition continue to exist. The most pathetic case, connected to the banks' cartel, is the cost of money, for a dollarized economy free from devaluation against the dollar has inflation of less than 3 percent, passive operations payments of less than 5 percent, excess liquidity, credit interests in the various sectors far above the annual average of 15 percent, as the authorities take as their calculation basis the banks' average monthly charge.

I will participate in the Constituent Assembly, where I will firmly stand for the following: preventing monetary uncertainties; strengthening the State's regulatory and control capability, without unnecessarily adding to the statization of the economy; respecting private property for social purposes, without any confiscatory attempts; ensuring the transparency of concessions; encouraging productive, competitive investment; incorporating more economic and social players into production; establishing clear, mutually beneficial investment and labor rules; dismantling monopolies and preventing the formation of entrepreneurial cartels; punishing corruption, including those responsible for impunity; rehabilitating public contracting, without the use of foundations that channel business toward dominant circles or declare emergencies so as to skirt public contractual rules; stimulating regional Latin American integration; ensuring that the environment and the proper use and exploitation of water are taken into consideration in every investment and in all public and private works.

As to public spending, my intent is to favor the allocation of resources for the social area, including economic support for those who have been historically marginalized in terms of work, housing, and other requirements.

Health, education, culture, sports, social security are in need not only of resources but also of quality. Bright statistics are worth nothing if quality is lacking.

We must have positive expectations, objectivity, courage, and the opportunity for assuming attitudes and for practicing wisdom and tolerance.

## Governability

Ecuador's social, economic, and political deterioration has accelerated since the 1990s. Under the pretext of governability, the Constitution and the legislation were reformed so as to perpetuate parties and dominant groups, which President Correa has called 'partycracy' and 'the hairy ones,' respectively.

I once qualified the actual exercise of power by the dominant groups as a pressing mill because those that reach a power position questioning the perverse reality sooner or later give in, to the point of becoming dispensable and being thrown out as bagasse.

International circumstances were propitious to Rafael Correa's victory. His questioning of the United States, particularly in connection with the negotiations of a Free Trade Treaty and the closing of the Manta Base, the empathy of the Latin American left, and the frank, clear influence of Colonel Hugo Chávez, among other factors, were decisive.

Rafael Correa benefits from Hugo Chávez's experience, but I do not think he is Chávez's unconditional follower. Indeed, the United States and Colombia, whose governments have been questioned by Correa, have preferred not to contest him and have opened orthodox room for conciliation, as did the social democracy-tinged left governments – Brazil, Argentina, Chile, and Uruguay – as well as Spain and Italy.

On the domestic front, Correa elicits and replies to confrontation in words and actions. In addition to winning the presidential elections, he also won by a large margin the two matches related to the National Constituent Assembly: the referendum about its convening and the election of its members. In the latter case, he obviously made use of all the opportunities attendant to power, including State funds for publicizing his administration, and increasing



and creating subsidies, which was no novelty, as this had always been the practice of the *partycracy* decried by Correa.

The Government's strength lies in the fact that it has challenged and continues to challenge the actual dominant powers. One cannot expect from it any compromise with them, but tolerance and respect for fundamental liberties.

As Assembly members and citizens, we shall go to the National Constituent Assembly determined to reinforce the changes, democracy, and the building of a new, strong institutional apparatus and a juridical and constitutional order that will allow us to act with justice and equity. **DEP**

Translation: João Coelho

# Guyana: the impact of foreign policy on developmental challenges

Robert H. O. Corbin\*

## Preface

**I**n his recent publication<sup>1</sup>, Guyana's former Foreign Minister Rashleigh Jackson reflected on Brazil's diplomatic tradition as follows:

*"My first contact with the high quality of Brazilian diplomacy occurred in 1963 when I attended a diplomatic training course for Caribbean personnel, which was organized by the UN and held in Barbados. Among the panel of distinguished lecturers was Ambassador Roberto Campos of Brazil. He impressed the participants with the brilliance of his intellect and his demonstration of what a good diplomatic should be like... My contacts with these two diplomats, (the other being Mr. Costa E Silva),*

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<sup>1</sup> Rashleigh Jackson (2003), *Guyana's Diplomacy: Reflections Of a Former Foreign Minister*, Free Press Georgetown, ISBN: 976-8178-11-6

*stirred my interest in the training of Brazilian diplomats. Subsequently, I became aware of the high reputation and excellent facilities of the Rio Branco Institute. It is a source of satisfaction to me that when I was Minister, young Guyanese diplomats were selected to attend that institute through Brazilian scholarships. They performed well.”*<sup>2</sup>

This institution, among others, can take credit for Brazil’s fine diplomatic tradition. I feel privileged to have been asked to deliver a lecture on Guyana to this distinguished institution, which is playing such a pivotal role in the training of students of International relations from across the continent. The fact that other countries on the continent entrust the training of their diplomats to this institute attests to the esteem in which it is held.

## Introduction

Guyana is a multi ethnic, multi-cultural plural society that has faced numerous problems before and after independence from the British in 1966. Among the many challenges are, the achievement of national unity and social cohesion in a society that has been plagued with racial, ethnic and political conflict and confrontations; the acceleration of economic development and the reduction of poverty in an increasingly hostile global environment; the preservation of its territorial integrity in the face of claims by two neighbours; and, the exploitation of its abundant natural resources.

This lecture paints a brief sketch of Guyana and the origin and nature of a few of its problems, the solutions to which have posed serious challenges for the people of the country. It would not suffice, however, simply to provide a biographical sketch of Guyana.

I would not venture to provide any professional guidance on the techniques required in the pursuit of inter state relations which involve complex negotiations and behind the scene consultations that demand great skill. The successes in diplomatic efforts make attractive media headlines but the hard work and careful planning, more often than not, attract none<sup>3</sup>. I hope however that I can at least provide you with a perspective on Guyana that is relevant to your own professional pursuits.

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<sup>2</sup> IBID, P. 40.

<sup>3</sup> See, Jackson (2003) p. 1.

Since this presentation is intended for practitioners in international relations, it provides some insight into how the pursuit of Guyana's foreign policy and international relations has contributed to the resolution of some of these problems and the achievement of national objectives, particularly the preservation of its territorial integrity<sup>4</sup>. Special emphasis is placed on the bi-lateral relations between Brazil and Guyana.

## Brazil – An economic power

I have had the privilege of serving in government in Guyana in the political administration that pioneered formal relations with Brazil. It seemed to me then, as it does now, that we embraced our continental destiny almost four decades ago by reaching out across our borders to “touch base” with neighbors from whom we had become disconnected by accident of history. I hasten to add, however, that the disconnect was an altogether coastal phenomenon, since there have always been ties between indigenous peoples across borders. Those ties have endured and have grown stronger.

Brazilians will recall the dramatic image of the jaguar invoked by the National Treasury to illustrate the robust performance of the country's economy during the presentation of the country's economic results at the start of 2006. In June this year, during a presentation in Georgetown, His Excellency Arthur V.C. Meyer, Brazil's Ambassador to Guyana, noted that since the beginning of the present decade the growth rate in Brazil's real Gross Domestic Product had increased by around 3 per cent annually and that current forecasts for 2007 indicate a growth rate of around 4 per cent. As far as the external sector of the Brazilian economy is concerned, he said this:

*“There have been surpluses in the current account balance of payments in the last three years. The turnover of the merchandise trade flows accounts for about 25 per cent of the national GDP while the total amount of merchandise exports largely surpass the US\$100 billion figure. As a consequence the total amount of Brazil's external debt has been steadily declining and foreign reserves of Brazil today reach the significant level of US\$140 billion. Foreign direct investments and foreign portfolio investments*

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<sup>4</sup> Venezuela continues to claim some two thirds of Guyana's territory to the West: Essequibo; Surinam claims territory to the East: The New River triangle; The maritime boundary issue was recently settled by arbitration.

*into Brazil have also been growing at impressive rates. Brazil is nowadays one of the most important developing countries in terms of attraction of foreign investment. The prospects for the Brazilian economy are increasingly good”.*

Brazil’s status as a fast emerging global economic power is simply not in question. Additionally, through institutions like the Amazonian Cooperation Treaty and MERCUSOR, Brazil is integrally involved in the economic progress of the rest of the continent. Far from being what one might call, a next-door neighbor, Brazil is, as far as Guyana is concerned, a vital strategic ally. In the words of Former Minister Jackson:

*“those relations have not only political and economic connotations; they also have implications of a security nature. Relations with Brazil comprised an essential component of a coherent and internally consistent frontiers policy. They were also important in helping to consolidate the identity of Guyana as a South American state without diminishing its role or impacting negatively on its character, as a Caricom state.”<sup>5</sup>*

This view has been endorsed by the present political administration in Guyana, which, while in opposition, had expressed misgivings when, in 1969, the Guyana government established an Embassy in Brazil<sup>6</sup>. The value of Guyana’s relations with Brazil has been acknowledged by both the Ministry of Foreign Affairs in Georgetown and by President Bharrat Jagdeo<sup>7</sup>. Ours has been a history of constructive engagement, of peaceful coexistence and of good neighborliness and I believe it surely serves as a model for broader inter-state relations on the continent.

## Guyana: the genesis of the challenges

Guyana’s challenges began with the struggles of our indigenous people against colonization and threatened genocide. Then there was slavery, the struggle against colonialism and the fight for political independence. There were also the struggles for workers rights and for economic independence.

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<sup>5</sup> IBID, P. 45

<sup>6</sup> See, PPP Press Release of August 1969, “The latest waste of public funds is the setting up of an Embassy in Brazil”; See also, Mirror of August 10, 1972, “The Question of Brazil; See also Jackson (2003), p. 42.

<sup>7</sup> See, Annual Report of the Ministry of Foreign Affairs of 2000; see also, President Jagdeo’s speeches during the recent Rio Summit held in Georgetown.

Contemporary Guyana is the product of an interesting geo-cultural circumstance. While we are situated on the continent of South America, our history and culture have been decidedly Caribbean. We share with Brazil the experience of indigenous people whose presence in the hemisphere long predated the arrival of the Europeans and the other races that currently make up our country.

Guyana<sup>8</sup>, the only English speaking country in South America, is uniquely bordered by Spanish, Portuguese and Dutch<sup>9</sup> speaking nations. It provides an interesting, if not sad, case study of a country struggling for development in the context of a multi-cultural, plural society in which ethnic conflict has dominated politics. The population of less than one million citizens<sup>10</sup> comprises peoples of six ethnic origins<sup>11</sup> residing on a land mass of 83,000 square miles (214,970 square kilometers). It should be noted that ninety percent of Guyana's population resides on the narrow 470-mile Atlantic coastal strip. This former British colony<sup>12</sup> has, unfortunately, found it difficult to exploit its abundant natural resources<sup>13</sup> and provide a reasonable quality of life for all of its citizens.

The voyages of Columbus to the new world ushered in a period of prolonged European rivalry to establish colonies in the West Indies and South America for the purpose of extracting wealth, first thought to exist in cities of Gold. This search for the elusive El Dorado stimulated many voyages. The last one by Sir Walter Raleigh, (1617), cost him his head because of his failure to deliver the prized commodity to the Crown. Raleigh's claim that El Dorado had, "more abundance of gold than any part of Peru and as many or even more great cities"<sup>14</sup> was never substantiated. It was agriculture that brought Europe its Caribbean wealth.<sup>15</sup> Sugar became King. Mineral wealth came much later, but by that time sugar, along with rice and bauxite, were already the mainstay

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8 An Amerindian word meaning, "Land of many waters" out of recognition of the numerous rivers and waterways that dissect the landscape.

9 Venezuela on the West; Brazil on the South and South East; Suriname on the East.

10 The last census statistics in 2000 stated that the population was 750,000.

11 Indigenous Amerindians of several tribes; European; African; East Indians; Portuguese; Chinese.

12 While the British was the last colonizing power the country was also periodically colonized by the Dutch and French.

13 Rich tropical forests, a variety of minerals, including gold, diamonds, bauxite, uranium, oil; an arable coastal plain supporting a variety of agricultural crops including, sugarcane, rice, and green vegetables; a rich marine Atlantic shelf, enabling a thriving fishing and shrimp industry.

14 See, Adamson and Holland, (1969), p. 232; see also Barber and Jeffrey, (1986), *Guyana: Politics, Economics and Society*, ISBN: 0-86187-418-8, p. 4.

15 Cotton, tobacco and sugar.

of Guyana's economy. This status quo prevailed for nearly two centuries until the exploits of BG Consolidated Gold Fields Ltd<sup>16</sup>. More recently, Omai gold mines<sup>17</sup> discovered its own El Dorado.

Long before European rivalry began, the aboriginal peoples had settled these lands<sup>18</sup>. They survived the worst ravages of disease and inhumane treatment and today they represent some 10% of the population<sup>19</sup>. Equally significant is the fact that they have retained their various languages<sup>20</sup>.

The Dutch established the first settlement in Guyana in 1616, a trading post on the Essequibo River<sup>21</sup>. Originally divided into three colonies, Essequibo, Demerara and Berbice, separated by three rivers of similar names, which all flow into the Atlantic Ocean, and with a Northern coastline frontier spanning 432 kilometers, Guiana was finally united in 1831 under British control. The intervening period witnessed the three colonies changing hands several times among the Dutch, French and English<sup>22</sup>. Evidence of this can still be found in the contemporary architecture and in the names of various places in present day Guyana<sup>23</sup>. The British continued the extraction of wealth and maintained control until independence on the 26<sup>th</sup> May 1966 under a Westminster type Constitution. In 1970, Guyana became a Republic with an executive presidency.

It was the decline in the production of cotton and tobacco and the huge profits derived from sugar, that proved the catalyst for the unique configuration of Guyana's physical landscape<sup>24</sup> and demographics<sup>25</sup>. The African slave

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16 A Company that extracted large quantities of gold from the Tumatumari area in the Mazaruni region establishing in the process, the first hydro power facility to facilitate their operations.

17 A Canadian Company established in an area of the same name in 1989 and exported the largest quantity of gold by any operation in Guyana.

18 According to one account, as early as 900 AD.

19 See, Guyana Population and Housing Census Report, 2002.

20 The Arawaks and Caribs have basically lost their languages but the Amerindians from the inland communities still speak their various languages: Arawak, Carib, Warau, Patamona, Akawaio, Arecuna, Macushi, Wapishana and Wai Wai, making English their second language.

21 Historians differ as to whether the first settlement was at New Zeelandia or Kyk-Over-Al but Guyana accepts the latter.

22 See, Baber & Jeffrey.

23 Today, many places still retain Dutch or French names such as the Stabroek Market, La Reconnaissance, La Bonne Intention.

24 The reclamation of land from the sea: the massive sea wall built by the Dutch stretched along the coast to make the coast, some six feet below sea level, cultivable; the massive system of canals, drainage schemes and trenches and dams built largely by slave labour which today are still essential for agricultural production on the coast.

25 Importation of slaves and indentured labour from several countries.

population rose from 2,500 in the 1660's to 100,000 by 1812<sup>26</sup>. By 1891, the Decennial census reported a total population of 278,328.<sup>27</sup> Some historians have, however, numbered in millions those Africans who actually left for the new world, but never arrived.

The abolition of the slave trade, (1807), and later slavery, (1838), forced the plantation owners to look elsewhere for labour. The experiment with Europeans failed miserably and as one writer puts it, "*the experiment with Germans was a disaster: at one point they even refused to go to the fields.*"<sup>28</sup> The Portuguese from Madeira fared better, (40 were first brought in 1834 and 429 were brought in 1835) but, like the Chinese who were imported from 1853, they proved an unreliable source of labour due to their preoccupation with entering into commerce as soon as their contractual periods were over<sup>29</sup>.

It was from India that most of the indentured labourers came, the first arrivals being recorded in 1838. When the indentured system was ended in 1917, a total of 31,645 Portuguese, 238,979 Indians, 14,189 Chinese, and 42,343 West Indians had arrived in the colony and by 1921, the Census report indicated a population of some 297,691 persons.<sup>30</sup> Eighty-one years later, in 2002, the census report reveals a declining population. Today, the population comprises 43% East Indian, 30% African, 10% Amerindians, 17% mixed and the other groups less than 1%.<sup>31</sup>

## Ethnic, political and social conflict

Some writers contend that the involuntary coexistence of ethnic groups in Guyana created the conditions for conflict and that this was fostered by the colonial power to facilitate a system of *divide and rule*<sup>32</sup>. Others have pointed to

26 ARF Webber.

27 Decennial Census, 1841-1891, cited in Moore, B L (1987) *Race, Power, and Social Segmentation in Colonial Society*, London, Gordon and Breach, p. 274; see also, Kampta Karran, (2004) *Racial Conflicts in Guyana*, reproduced in, *Racial Conflict Resolution and Power Sharing in Guyana*, Selected Readings, Kampta Karran, ed. (2004) ISSN: 10128239 Offerings (Georgetown), p. 69.

28 See, Baber & Jeffrey, *Guyana: Politics, Economics and society*, (1986), p. 12.

29 See, Mary N Menezes, (1986) *Scenes from the History of the Portuguese in Guyana*, London, p. 6.

30 Baber & Jeffrey, (1986), p. 13.

31 Guyana Population and Housing census Report 2002.

32 See Baber and Jeffrey, at p. 13



the influences of the plantation economy, cultural pluralism<sup>33</sup>, the problems inherent in a plural society<sup>34</sup>, the impact of class divisions<sup>35</sup>, political rivalry<sup>36</sup> and cultural differences<sup>37</sup>. A more recent study<sup>38</sup> cites the influence of religion coupled with notions of racial superiority as major factors that created a cycle of racial antagonism in Guyana. While some political leaders<sup>39</sup> have tried to dismiss race as a major cause of conflict, Guyana today is faced with serious challenges in seeking to address escalating ethnic conflict<sup>40</sup> and credible contemporary claims of racial marginalization<sup>41</sup> resulting from the misuse of political power. Later, I will discuss the role of foreign relations in efforts to resolve these challenges.

Real economic development is unlikely to be realized in the present condition of ethnic division. Several organizations<sup>42</sup> and intellectuals<sup>43</sup> have advanced the proposal for institutional changes as a means of addressing the problem, the most recent of these being *shared governance*, a proposal that has been treated with scant regard by the present administration. The “National Development Strategy, (2001-2010): Eradicating Poverty and Unifying Guyana”<sup>44</sup>, states, inter alia:

*“The major obstacle to Guyana’s development is to be found in the divisive nature of its politics. Ever since the years leading up to the country’s independence, the nation’s every activity has been dominated by two political parties, the main followers of which are drawn from one or other of the two major racial groups. Largely, Indo-Guyanese*

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33 See George Beckford,(1972) *Persistent Poverty: Under development in plantation Economies of the Third World*, London: Routledge.

34 See J S Furnival, (1948) *Colonial Policy and Practice: a comparative study of Burma and Netherlands India*, Cambridge University press; M G Smith (1965) *The Plural society in the British West Indies*, Berkeley, University of California Press; Leo Despres (1967), *Cultural Pluralism and Nationalist Politics in British Guiana*, Chicago: Rand Mc Nally & Co.; see also, Kampta Karran (2004) *Racial Conflict Resolution and power Sharing in Guyana, 1831-1905*, Selected Readings, pp. 13-15.

35 Clive Thomas (2000), *Revisiting theories of Class and ethnicity in the Caribbean*, in Kampta Karran (ed), *Race and Ethnicity in Guyana: Introductory Readings*, Guyana: Offerings Pub; see also, Baber & Jeffrey, Chapter 3, *Guyanese Social Structure – Race and Class*,pp.38-54.

36 See,Jagan Cheddi, *West on Trial*.

37 See, George Beckford,(1972) *Persistent Poverty: Under development in plantation Economies of the Third World*, London: Routledge.

38 Kean Gibson, (2003) *The cycle of Racial Oppression in Guyana*, University Press Of America.

39 Cheddie Jagan, Forbes Burnham, Walter Rodney.

40 See, Baber & Jeffrey, *Guyana: Politics, Economics and society*, (1986).

41 The PNCR political party, ACDA: African Cultural Development Association, and many other organizations.

42 ACDA, PNCR.

43 Dr. David Hinds, Kampta Karran, Clive Thomas.

44 Government Publication: *National Development Strategy (2001-2010): Eradicating Poverty and Unifying Guyana*, A Civil Society Document.

*support the Peoples Progressive Party and the African Guyanese the Peoples National Congress, (Now Peoples National Congress Reform).*

*Partly because of the prevalence of fierce racial political rivalries between these two groups, and partly because Guyana's constitution is largely based on the Westminster model which does little to embrace inclusivity in governance .... There has been little or no meeting of the minds between these powerful political parties on any major political, social or economic issue since Guyana became independent.*

*It is evident, however, that if Guyana is to attain even a modicum of development in the next ten years or so, it is essential that a number of decisions, that are based on intelligent, objective discussions and consultations between the two Parties, be made."*

Chapter three of the Strategy Document which is devoted entirely to the issue of governance concludes that, "*the picture that emerges is very disturbing.*"<sup>45</sup> It recommends that consultation and participatory procedures needed to be institutionalized in all aspects of government. It emphasizes that the history of governance in Guyana demonstrates that the country's very origins, its various constitutions, its political configurations, etc., have militated against consultative democracy. The current systems of local and regional government<sup>46</sup> also do not lend themselves to meaningful participation and in fact only accentuate the imperfections of the central government. Finally, among the many others, was the recommendation that every opportunity be taken,

*"to examine the relevance of the Westminster system of Government to Guyana; and to have a series of structured national discussions on, (i) the meaning of consociatism and federalism and other forms of inclusivity and power sharing, and (ii) their applicability to Guyana."*<sup>47</sup>

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45 IBID p. 8, para. 3. II. 2.

46 The country is divided into ten Administrative and political regions, and sixty-five local government bodies called, Neighbourhood Democratic Councils. There are also xx Amerindian Village Councils that administer the local affairs in the respective communities.

47 IBID, p. 15, para. 3.IV.1.1.10.

Despite constitutional changes<sup>48</sup>, electoral reforms<sup>49</sup> and dialogue<sup>50</sup> between the main political parties and Leaders, the goal of a new and enlightened system of governance remains elusive.

The existence of a Development Strategy Document is, in itself, an example of the impact of foreign relations on domestic policy. The document has its genesis in the involvement of former United States President Jimmy Carter, in seeking to broker solutions to political differences between the major parties. The involvement of Caricom, the role of the Commonwealth Secretariat, including its appointment of a special envoy to facilitate the political conflict resolution, all point the impact of foreign relations on domestic policy.

## The Guyana economy

In his February 2, 2007 Budget presentation to the Parliament of Guyana, the Minister of Finance Dr. Ashni Singh painted a glowing picture of the Guyana economy. Using as his reference point the latest edition of the World Economic Outlook, which estimates global growth in 2006 at 5.1% (with the United States recording 3.4 % growth), he posited that the 4.7% growth recorded for Guyana was commendable. He argued that sugar production grew by 5.5% to 252, 588 tonnes, and that rice surpassed the 2005 levels by 12.4% to reach 307, 041 tonnes. He also said that, while there was a decline in some sectors<sup>51</sup>, several other sub-sectors of the agricultural sector recorded strong performances<sup>52</sup>. With the inflation rate declared at 4.2%, a slight depreciation in the exchange rate of the Guyana dollar to the US dollar by 1.13 % and the increase in wages and salaries by 5%, he asserted that Guyana was doing well economically.

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48 The most recent being after the 1997 Election Violence and the involvement of CARICOM, a constitutional Commission was set up and changes were made by 2000; The Constitution was also changed previously in 1980 to a Socialist Constitution.

49 Fundamental Electoral Changes in 1992, 1997, 2001; see, Report on the recommendations of the Constitutional Reform Commission 1999.

50 Between Opposition Leaders and President, Hoyte/Janet Jagan 1997. Hoyte/Jagdeo 2001, Corbin /Jagdeo 2003; also between the major political Parties.

51 Mining and quarrying sector fell by 22.4%; bauxite production at 1,538,587 tonnes: a decline of 9.2%; declaration of gold at 200,000 ounces: a 23.3% decline.

52 Forestry sub-sector by 11%; manufacturing sector by 4% buoyed by 36.5% expansion in private sector credit; engineering and construction sector by 12%; transport and communication sub-sector by 12%; overall balance of payments increasing to US\$44.9 million from US\$8.1 million in 2005; Bank of Guyana reserves stated to be US\$278 million.

The citizenry, however, did not share that view. In fact, it is widely acknowledged that if it were not for the high level of remittances from abroad, the cost of living would have had an even more serious impact on the lives of the people.

An analysis of the budget<sup>53</sup> done by the Accounting Firm of Ram and McRae rejected the picture painted by the Minister. It openly questioned the real growth and inflation statistics, pointing out that the growth rate figures for sugar and rice were not sufficient to reverse the losses of 2005. It concluded, *inter alia*, that with no major new measures and with growth and inflation projected at 4.9% and 5.2% respectively, “*it does not inspire confidence that Guyana will return to the high growth seen in the early 90’s anytime soon*”<sup>54</sup>.

The point should be made that the ‘high growth rates in the 90’s were the result of the Economic Recovery Programme (ERP) introduced in 1989 by the administration of President Desmond Hoyte (1985-1992).

Tyrone Ferguson<sup>55</sup>, provides a structured analysis of Guyana’s economy, the contextual circumstances of Political Economy Reform and the impact of the ERP. Ferguson argues that the post World War II manifestations of Guyana’s political economy have arguably been determined by the interplay of domestic considerations and external influences during specific periods. These he identifies as the period of the struggle for political decolonization of the 1950’s and early 1960’s characterized by, “*an internal contestation for control of the political economy, involving ideological divergences, racial-ethnic rivalries, and the personalistic ambitions of the pre-eminent political leaderships.*”<sup>56</sup> The economy became hostage to external involvement, as there was deliberate manipulation of the prevailing situation of tension and conflict on behalf of a larger global-strategic imperative linked to the cold war.

Ferguson characterized the next period, the 1970’s, as one of, “*radical, structural transformation of the political and economic relations of the country*”<sup>57</sup>, with far reaching new departures linked to the continuation of severe competition for control over relatively scarce national resources on behalf of sectional interests. This was only

53 Focus On The Budget, (2007) Published by Ram % McRae, Chartered Accountants, Professional Services Firm  
54 IBID, p. 6.

55 Tyrone Ferguson, (1995), Structural Adjustment And Good Governance: The Case of Guyana, Public Affairs Consulting Enterprise, ISBN 976-8136-69-3.

56 IBID, p.1.

57 IBID.

possible because of a largely permissive international environment that presented developing countries with a range of options for both the organization and functioning of their political economies and the conduct of external relations.

The focal period of his study, 1985 to 1992 reflected a similar pattern. However, unlike the previous period, there were, *“sharpened struggles for political ascendancy in tandem with a reversal of socialist economic experimentation and the radical reconfiguration of the economy in keeping with capitalist principles of organization and the triumph of the market economy”*<sup>58</sup>. This was facilitated, he claimed, by the activist intrusion of major western governments and international institutions to ensure the implantation of the guiding features of political economy.

The Economic Recovery Programme, ERP, (1989-1992) was also attended by a shift in ideological direction and is generally acknowledged as an economic success<sup>59</sup>. There was a high social cost and it could not have succeeded without the support from the Donor Community,<sup>60</sup> The role of the Guyana Foreign Service in the realization of the ERP cannot be overstated. In addressing Guyana’s Heads of Mission Conference on 17<sup>th</sup> July 1987 President Hoyte stated, inter alia,

*“our foreign policy must promote our domestic objectives and cannot be divorced from them. That is why no Ambassador can be effective unless he has a keen understanding of the evolving internal situation and can personally make the linkage between national objectives, the internal situation and the foreign policy he is required to execute”*<sup>61</sup>.

President Hoyte was reaffirming what his predecessor<sup>62</sup> fully understood and pursued<sup>63</sup> and which the present administration has emulated in its quest for debt write offs<sup>64</sup> and foreign investment.

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58 IBID.

59 See Eradicating Poverty and Unifying Guyana; National Development Strategy, 2001-2010, Chapter 4 at p. 21.para, 4.I.

60 See, Guyana: The Economic Recovery Programme and Beyond: Report fo a Commonwealth Advisory Group, Commonwealth Secretariat Doc. (August 1989).

61 Hoyte (1991) Guyana Economic Recovery: Leadership, Will-Power and Vision, Selected Speeches, Free Press Georgetown, p. 48 “Economic Independence and Self Reliance”; See also IBID p. 23, Speech on 11<sup>th</sup> July 1986 to Heads of Mission, “The Economy: the diplomatic effort”.

62 Linden Forbes Burnham, Prime Minister from 1964 – 1980 and President from 1980 –August 6<sup>th</sup> 1985.

63 Links with USSR, Yugoslavia, China,India the Non Align Movement, CARICOM, Group of 77, The ACP etc, to offset the hostile west to his socialist pursuits.

64 President Jagdeo has demonstrated this recognition by refusing to delegate the handling relations with the IFI’s and has personally pursued the diplomatic effort as it relates to economic affairs, e.g the ACP negotiations on the future of sugar.

There is no disagreement among economists that the economic advances recorded in the 1990s<sup>65</sup>, long after the Hoyte Administration had left Office were attributable to the ERP<sup>66</sup>. An examination of the 2007 budget will however, reveal that Guyana is still heavily dependent upon those traditional sectors for economic success, despite the learning contained in The National Development Strategy paper that,

*“The basic problem is that Guyana’s economy is too narrowly based and is not sufficiently diversified. Moreover, the country relies almost exclusively, for its economic development, on the production and export of raw materials.”*<sup>67</sup>

Notwithstanding this, the Minister of Finance, in outlining Vision 2011<sup>68</sup>, pointed to the “flagship project”: the US\$169 million for the Skeldon Modernisation Project<sup>69</sup> scheduled for completion in 2008, which will facilitate value added production and reduce the cost of production of sugar. The expansion of this sector at a time when ‘King Sugar’ is now hostage to the European Community<sup>70</sup> in the new global trading environment has been questioned. What ever may be its merits, the acquisition of the resources to undertake such a project must be hailed a diplomatic success. Having regard to the state of sugar in the global economy, the continuous need for supreme diplomatic effort cannot be underestimated. Here again, the bilateral co-operation between Guyana and Brazil may prove mutually beneficial, particularly because of Brazil’s experience and expertise in alternative energy and ethanol production.

In looking to the future the Government has outlined a vision to restructure the economy including, strengthening the traditional sectors; developing a strong vibrant, diversified and globally competitive manufacturing sector; promotion of the tourism sector; encouraging development and expansion of the livestock, seafood and aquaculture, and forestry sectors, focusing more effort in the emerging IT sector and preparation for the effects of Global warming. Additionally, much expectation is placed on the success

65 1991:5.9%; 1992: 7.7%; 1993: 8.3 %; 1994: 8.5%; 1995: 5.1%; 1996: 7.9%; 1997: 6.2%; 1998: -1.3%; 1999: 3.0%; See National Development Strategy p.22, para 4.I.6.

66 Ferguson, (1995) Structural Adjustment and Good Governance: The case of Guyana.

67 NDS, p.23, para, 4.I.13.

68 Budget Speech 2007, p.24.

69 The Construction of a new massive Sugar refinery in the Berbice area.

70 See, Reform of the European Union Sugar Regime: ACP Sugar Industries Under Threat, A compilation of Speeches and Articles, Printed Ministry of Foreign Affairs: Pavnick Pess (2005).

of oil exploration, especially after the satisfactory conclusion of the dispute with Suriname over the North Eastern maritime boundary.

Whether this will satisfy the requirements of diversification is still to be seen. Two points need be restated. First, a political solution is essential for lasting economic progress in Guyana; secondly, effective diplomacy is essential to economic success.

## Foreign policy and relations

Guyana's objectives upon attainment of independence included preservation of the country's territorial integrity; forging national unity and realizing economic development<sup>71</sup>. Its independent status necessitated new political and economic relationships and the restructuring of old and traditional associations. Consequently, between 1964 and 1992, Guyana's diplomacy straddled the ideological divide and embraced Third World and Caribbean countries. Naturally, the association with the region had economic and other objectives, such as surviving in a hostile Cold War environment and facilitating active support for the independence of southern Africa, but the priority of preservation of territory was a major determinant. As Prime Minister Burnham once mused, *"you have to have territory before you can talk about developing it"* Membership Associations with the Non-Aligned Movement, the Group of 77 and the United Nations were also considered important in the context of developing alliances to forestall the violation of Guyana's territorial integrity.

For example, membership of the Non-Aligned Movement obviously emboldened Prime Minister, Forbes Burnham to announce annual financial contributions to the Liberation Movements of Southern Africa at its 3<sup>rd</sup> Summit in Lusaka, Zambia (1970).

Guyana's principled position on the Liberation struggle of Africa, and indeed, the liberation struggle worldwide, was informed not by narrow domestic considerations, but by its principled foreign policy of the right of peoples to self determination and the principle of non-intervention in the internal affairs of independent states. It was this principled position that made it easy for

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<sup>71</sup> See, Rashleigh Jackson (2003), *Guyana's Diplomacy: Reflections Of a Former Foreign Minister*, Free Press Georgetown, ISBN: 976-8178-11-6, Foreword by Dr. Cedric Grant, p. vii.

Guyana to condemn the invasion of Grenada by the United States, equally as it condemned the USSR intervention into Czechoslovakia, illustrating Prime Minister Burnham's earlier statement that, "*We shall be pawns of neither East nor West.*". Similarly, when the Falklands Island issue arose, and a sister South American country faced conflict with a major power of the North, it was difficult for Guyana to revert from its principled position. First, to do so would have put in jeopardy its own position with respect to its two border controversies, that is, that border issues settled in the past should not be reopened, and second, the principled position of peaceful resolution of conflicts.

It was not the first time that the self-interest of countries of the region came into conflict, nor was it the last. The self-interest of Brazil, Guyana and another sister Caricom country clashed in 1985 over the election of a Judge for the International Court Of Justice<sup>72</sup>. Yet, because of good diplomatic efforts, such temporary differences of positions did not lead to permanent friction in diplomatic relations. It is in such situations that the true mettle and quality of foreign affairs officials are tested and, perhaps, the reason why Brazil has paid so much attention to the training of its diplomatic staff.

## Caribbean or continental destiny

Guyana's geo-cultural circumstances have given rise to debate about where our first loyalties ought to lie insofar as relations with other states are concerned. Adherents of what is described as Guyana's 'continental destiny' contend that geography or, if you will, proximity, ought to be the primary determinant of our diplomatic ties. There are those, on the other hand, who contend that the experience of British colonialism, which we share with the Caribbean and the consequential social, economic and cultural commonalities, have bequeathed to us a Caribbean destiny.

What both schools of thought have perhaps ignored is the fact that Guyana's 'geo-cultural circumstances position the country to embrace both 'destinies' – so to speak – without compromising either one or the other. Indeed, the reality that is increasingly emerging is that of a Guyana that serves

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<sup>72</sup> Dr. Mohamed Shahabuddeen, former Attorney General of Guyana was Guyana's candidate and he was elected; the other candidates were an incumbent Brazilian Judge and a candidate from Jamaica; see, Jackson, (2003) at p. 9.



as a bridge between the Caribbean and the continent. That, in my opinion, is the reality that Guyana must embrace. Indeed, with the advent of Suriname and Haiti to Caricom, the movement has lost its commonality of language that used to be its hallmark.

The achievements of the Caribbean Community (Caricom) – and Guyana’s considerable contribution thereto – in forging a common foreign policy position on issues of shared interest among its members, more than justifies Guyana’s relations with the Caribbean. The recent emergence of a CARICOM Single Market promises to be one of the signal achievements of the Community<sup>73</sup>. Moreover, the relevance of both Caricom and the African, Caribbean and Pacific Group, (ACP) best understood in the context of the current efforts to salvage the regional sugar market in the once protected environment of the European Community.

Guyana’s relationship with the continent has been hindered by a colonial policy that dictated bilateral relationships between colonies and the imperial power. Even in the immediate post-colonial period the reality of ‘colonial bilateralism’ which embraced commercial, political and human relations continued to discourage any aggressive reaching out to our neighbors on the continent.

## The future

While the main determinants of Guyana’s foreign policy are unlikely to change, there will be changes in areas of emphasis in context of the changing global circumstances. Climate change and the implications for the environment have become matters of utmost global importance. Of course, the importance of the environment was recognized several years ago when one million hectares of our rain forests was bequeathed to the world as a huge environmental laboratory for careful use and study.

The terms of international trade as reflected by the recent and current DOHA negotiations<sup>74</sup>, and the other troubled agenda of the W.T.O., tourism

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73 See, Hall, Kenneth O (ed.) (2001), *The Caribbean Community: Beyond Survival*, Ian Randle Publishers, University of West Indies, Mona Campus, ISBN 976-637-047-8.

74 Doha Development Agenda (DDA); see also, President Jagdeo’s Speech to Rio Summit, Georgetown, (2007).

and the promotion of new investments will assume greater priority on Guyana's foreign policy agenda<sup>75</sup>.

## Guyana-Brazil relations

I hope that I will be forgiven by participants from other countries of the continent for devoting special attention to Brazil/Guyana relations, but the reality is that I am in Rio. In 1968, Guyana and Brazil established diplomatic relations. Since then, several high level delegations have been exchanged, commencing with the visit of Deputy Prime Minister of Guyana, Dr. P.A. Reid. The establishment of the Brazilian Embassy and the Brazilian Cultural Centre in Georgetown followed that visit. Guyana's pursuit of active relations with Brazil, however, began in earnest during the late 1970's and, according to Dr, Mark Kirton<sup>76</sup>, arose out of *"the need for diversification of international contacts as well as the prospects for new economic and diplomatic opportunities in Latin America."*

Another factor that delayed close bilateral relations between Guyana and Brazil during the first decade of Guyana's independence was the anti-communist hysteria driven by the United States that frowned on the socialist policies of government of Guyana. Indeed, the most difficult period in relations between Guyana and Brazil coincided with the use of Guyana's territory for refueling Cuban planes en route to Angola during the war of liberation in that country.

The flowering of relations between Guyana and Brazil began in earnest around 1978 when, according to Dr. Kirton, the Brazilian Government commenced *"a new foreign policy approach... in the region in general and in relation to Guyana in particular and a reduction in the mutual mistrust and suspicion which had characterized those relations before this period."* In fact, it was in 1977 that signs first began to appear of a realigning of Brazil's hemispheric foreign policy. This was a period during which Brazil began to see its own development much more in tandem with that of the rest of the continent and when the influence of Non-Alignment caused it to espouse the concept of 'South-South Cooperation.'

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<sup>75</sup> See, President Jagdeo's speech to Rio Summit, Georgetown, (2007).

<sup>76</sup> One of Guyana's foremost students of Guyana-Brazil relations.

These modifications in Brazil's foreign policy, which, incidentally, were also influenced by its search for new economic allies in the hemisphere, coincided with the establishment of closer relations with Guyana.

The signing of the Treaty of Amazonian Cooperation in 1978 promoted bilateral cooperation in a wide range of areas including scientific and technical research, economic and social development as well as consultation on the development of frontier areas, the development of transport, communication, tourism and health. Generally, developments during the period of late 1970's including the flowering of Non-Alignment, created a platform that allowed Brazil, Guyana and several other developing countries to fashion foreign policies that were more independent of Washington.

The inaugural meeting of the Guyana-Brazil Joint Commission in January 1979 witnessed the signing of several agreements<sup>77</sup>; Much more was achieved after the visit to Guyana by the then Brazilian Foreign Minister Ramiro Saraiva Guerreiro, (January 1982) followed by a state visit to Brazil by President Forbes Burnham in the same year. It is significant that four of six Executive Presidents of Guyana have visited Brazil. These were not mere diplomatic excursions. They reflected a recognition of the importance of Brazil as a strategically significant neighbour.

It is, of course, entirely accidental that my visit here coincides almost exactly with the 25<sup>th</sup> anniversary of the signing in 1982 of the inter-connection agreement between Guyana and Brazil on the establishment of a highway between the two countries. This occasion, however, affords me the opportunity to reflect on the visionary nature of Guyana foreign policy which, all those years ago, thought through the role of such a highway in further cementing relations with Brazil. It is a tribute to both countries that the bridging of the Takatu River is almost complete.

Early in his tenure as Burnham's successor, the late President Hugh Desmond Hoyte, noted that "*Guyana's foreign relations with its neighbors and with Brazil in particular have become priorities in Guyana's foreign policy.*" The Hoyte administration's emphasis on free enterprise created greater scope for bilateral economic cooperation. It was President Jose Sarney, I believe, who made the point during his tenure that:

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<sup>77</sup> The Agreements embraced the training of Guyanese technicians, the provision of pharmaceutical and hospital equipment to Guyana and the development of the agricultural and industrial sectors in Guyana.

*“Brazil’s relations with Latin America and the Caribbean and especially with all of its immediate neighbors are among our major priorities. Our Magna Carta has enshrined regional interaction as a constitutional imperative.”*

What was also significant about the period between the mid-1960’s – when Guyana secured its independence – and the mid 1980’s was the significant increase in economic activity between the two countries. One can scarcely believe, for example, that in 1967 Guyana’s imports from Brazil amounted to a mere US\$183,000.00. By 1980 that figure had reached US\$6.6m, which, though still miniscule, serves to illustrate some movement in economic and trading relations, which a little more than a decade earlier had been virtually non-existent. During the same period, Guyana’s exports to Brazil moved from US\$48,000.00 in 1967 to US\$2,48m in 1980. Again, the numbers are far less relevant in themselves than in the story they tell about the emergence of a gradual strengthening of Guyana-Brazil relations. For example, it is noteworthy that the Brazilian government provided valuable funding, through the Export Promotion Financing Agency in the Brazilian Central Bank (CACEX), for the construction of the road linking Georgetown and Boa Vista.

The early years of the twenty-first century have witnessed a flurry of diplomatic activity, beginning with the First Meeting of Mechanism for Bilateral Political Cooperation<sup>78</sup>; the completion of another phase of the ongoing joint border markers exercise by the Guyana-Brazil Mixed Border Commission; and the second meeting of the Guyana/Brazil Group on Consular Cooperation held in Georgetown (2005).

The outcomes of the visit to Guyana in November 2005 by President Luis Ignacio Lula Da Silva are fully documented in the Joint Communiqué issued at the conclusion of that visit and which I am tendering as an appendix to my presentation. President Lula Da Silva’s visit was a signal development in relations between the two countries.

There are challenges, however, some of which I will allude to briefly. First, there are the barriers of language and culture that will persist until there is significant acceleration in the movement of peoples in both directions across the border.

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78 June 2004.

Second, there are the security implications of increased trans-border movement, some of which are already manifesting themselves in Guyana.

Third, there is Guyana's apparent lack of capacity to take full advantage of the bilateral assistance forthcoming from Brazil.

Fourth, there are the challenges that the Guyana productive sector will face in responding to the significant market opportunities that will arrive with the completion and use of the road link.

Fifth, there is the challenge of ensuring that both countries recognize and responsibly execute their obligation to the protection of their indigenous peoples, their ancestral lands and the shared environmental resources.

It is important that both governments address the need to establish a mechanism to examine those challenges ahead of the completion of the road link.

The new opportunities that are emerging for relations between Guyana and Brazil can, and, in my view, will impact on continental relations as a whole and will create new linkages between South America and the Caribbean. Both Guyana and Brazil, therefore, seem set to make an impact of regional and hemispheric international relations in a manner that transcends the boundaries of both countries. That, in my view, promises to be an awesome achievement.

## Conclusion

In examining the problems and challenges faced by Guyana in pursuit of economic development to provide a better life for its people, it is clear that the foreign policy and relations have significantly influenced their solution. The role of the diplomatic service in creating the environment for international assistance has been clearly illustrated in the examples cited in this presentation such as, the Economic Recovery Programme, arrangements with International Financial institutions, the Skeldon sugar project and, more recently, in the huge debt write-offs. The impact of the association with Caricom and other Organisations such as the ACP are also highlighted in the common approach to negotiation with the EEC on sugar and the establishment of the Caribbean joint negotiation machinery.

Similarly, the benefits of international relations in preservation of territorial integrity should also be obvious. The involvement in the Commonwealth, Caricom and the Carter Center are also illustrative of the impact of foreign policy and relations on domestic issues such as conflict resolution.

Time constraints prevented more elaboration on some of these issues but I hope that sufficient has been said to provide an informed basis for any evaluation or assessment of the situation in Guyana and to aid any diplomat wishing to prepare for an assignment in Guyana.

Finally, I wish to conclude by pointing out that I have been unable to paint other angles to the sketch of Guyana in this short discourse. One writer describes the country as, “a land of contradictions and superlatives”. He was referring to, what he described as, the true beauty and subtle spirit that can only be experienced by journeying to the hinterland. A hinterland that is also the home of the giant otter, the jaguar, the largest open – toed sloth and the Arapaima, the world’s largest freshwater fish. There too can be found the biologically diverse tropical rainforest ecosystem that is part of the Amazonia. It has been disclosed that 6,100 species of plant, 1000 species of tree, 450 types of bird, 400 species of fish, 120 species of amphibians and 180 species of mammals have been recorded so far in area that is some 80% of country.

When one adds to this, the unique cultural and religious mix that gives expression in the cuisine and national celebration of Christian, Hindu, Muslim, African, Indian and other festivals and occasions, and, the fact that a period is set aside in each year for the recognition of the various ethnic groups, a wider picture emerges.

Guyana, another writer states, presents “*a tabula rasa, a clean slate on which to write your vision of paradise, miraculously transforming the way you view your existence on earth*”.

I submit, however, that, with the myriad problems and challenges being experienced, the people have long passed the stage of wanting to write their vision of paradise. They want their paradise manifested here on earth now, and not in their dreams. **DEP**

# Paraguay: identities, substitutions, and transformations

*Bartomeu Melià, s.j.\**

**I**n its current form, Paraguay originated in a colonial process that cannot as yet be seen as completed. Modern colonization, including Spanish colonization since the 16<sup>th</sup> century, seems to have pursued identical objectives, adopted similar structures, and obeyed equally similar processes. Yet, it displays particular forms owing not so much to the colonizer's actions as to the ways of those to be colonized – the existing Guaraní substratum, in Paraguay's case.

The historical colonial process may be characterized in different ways, based on the form of contact between two or among more than two peoples and on the outcome of such contact. The imaginary effects of history are well known. History is always selective memory. In history, causes are generally projections of contemporary ideas.

Processes and results, it is true, change meaning according to the ideological prism through which they are seen. The idea held by the colonizer, who has in his possession or at his disposal documents and images that are in turn reinterpreted

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in light of his own system, is different from the view and imagery held by the colonized societies that saw and suffered the new form of life presented to and often imposed on them. The new power not only affected a person's individual freedom but also extended to that person's linguistic, religious, and economic system, to name just a few of the more fundamental aspects.

Conventionally, Paraguay's history and colonial process are divided into a Guaraní "pre-history", a colonial phase (1537-1811), and a period of independence. Although this division is firmly rooted in the popular mind and in culture – as this has been transmitted by ideologue historians and officially taught in school – it must be asked whether it does not act as opium fumes that prevents one from facing the new, decisive forms of more recent colonialism – not only those introduced after the so-called Great War of 1865-1870 but also the latest form, which started after the Itaipu Treaty (1973).

## The colonial scaffolding

The arrival of others triggered processes that may be schematically categorized as follows:

1. Destruction;
2. Cover up;
3. Substitution;
4. Transformation; and
5. Creation.

None of these processes is complete in itself or acts entirely by itself. Each, though, is sufficiently determinantal to be taken as a specific indicator. This scheme is applied to the colonial world by *antonomasia*, but its categories may transcend time and be recurrent.

### 1. Destruction

Of nearly all the peoples and societies found in the early days of the conquest, only the memory of their names remain and no information exists



about their language or the kind of society in which they lived. The breath of the novel European presence was the harbinger of irreversible death. It is difficult to guess the extent of the disaster and the magnitude of the genocide. Although one may fall prey to exaggeration, either downward or upward, the fact is sufficiently serious to alert one to the consequences of the colonialist adventure. The so-called Western peoples hardly seem aware of these destructive results; it seems to them that their “civilizing” project justified and still justifies these “collateral” damages.

The destruction of the peoples of the River Plate and other regions covered a wide spectrum. What happened to the Arachane and the Carijó? Where are the Chandule, the Querandi, the Charrua, the Yaro, the Boahane, the Chane, and the Mepenes? How did the famous Agace and Payagua upstream disappear? One could add the endless list of indigenous peoples mentioned in the conquest reports. True, not all of them vanished right at the beginning, but vanished before the close of the colonial cycle, most of them before the 20<sup>th</sup> century. Often only their names disappeared, as some of these Chaco societies reemerged later under other names, as will be seen.

There are some who answer this question with the levity and flippancy so typical of a mentality that still prevails to this day, saying that the indigenous peoples are “naturally” destined to die.

*“As the Spanish advanced, all these generations declined noticeably to the point that some disappeared while the others merged with more vigorous races. Some formed settlements under the Seraphic [Franciscan] priests.”* (Cayetano BRUNO, *Historia de la Iglesia en la Argentina*, Buenos Aires, 1966, p. 37).

In respect of languages alone, as can be seen from the indigenous languages catalogue prepared by Cestmir Loukotka (1968) and Antonio Tovar (1984), losses were enormous and irreparable. The same occurred in relation to the indigenous cultures, whose value we still refuse to admit, owing to the time distance, oblivion, and disdain. As it happened, millenary peoples could not resist even for a few days the colonial contact, when epidemics and wars broke out, accompanied by mistreatment. Their end was not inevitable and no cultural, economic, or political theory could justify it. The destruction is a historical and thus human fact, and man has to shoulder the responsibility for it.

On the other hand, the fact that some indigenous peoples escaped total destruction, as is the case of the Guarani, only reinforces the appreciation and recognition of the worth of their contributions to the future. Not only their language but also their indigenous way of being – their *teko* – seen from an economic, political, and religious aspect are increasingly proving to be more modern in a world whose values are being fast eroded and becoming unsustainable. Indigenous problems are not a problem but a solution.

## 2. Cover-up

Although colonial cover-up was less cruel than destruction, it had similar, though ambiguous effects. The discoverer becomes the coverer-up. He insists on not seeing, not knowing how to look at, or on concealing that which he nevertheless often beholds, torn between admiration and fear.

In several of her works, such as *Los aborígenes del Paraguay I y III/ 1*, subtitled *Etnología de Chaco Boreal y su periferia (Siglos XVI y XVII)* and *Etnohistoria de los chaqueños (1650-1910)*, Dr. Branislava Susnik describes in great detail how the Chaco Indians remained on the margin of the Paraguayan colonial process, which they shunned and from which they fled as they could, repeatedly threatening it and into which they were never fully integrated. Concealing themselves for centuries, they reappeared, attracted by the quebracho tannin industry and by the incipient cattle ranches, where they worked under a regime close to slavery, or contacted by religious organizations not completely alien to colonization's interests, such as the British Mission among the Enlhet Indians. *Los indios del Paraguay* (Madrid, 1995) by Branislava Susnik and Miguel Chase-Sardi, provides a more concise summary of this same process so marked by cover-up and disdain, which explains why Paraguay was practically ignorant of the existence of these peoples and why it has never consciously assimilated any of their values, not even in respect of ecology, in which they are masters. It can be said that, at least at first sight, the Paraguayan culture has absorbed nothing from these Chaco peoples, whose roots and development have remained so unfamiliar to us.

As regards the Guarani, the situation is more complex. It is thought that the Guarani stock is the common substratum of Paraguay's identity and that the Guarani culture has been assimilated by Paraguayans, who have transformed it and made it their own. This is a way of covering up reality. "Tribal" Guarani

consist of six different peoples, are alive, and in good cultural health. This reality must not be concealed or covered up, as is done. Paraguay ignores the free Guaraní, discriminates against them and marginalizes them. Yet, a Guaraní world cannot be constructed without the contribution of the Guaraní peoples of Paraguay. It is precisely owing to this contribution that the Guaraní world can still be useful to the Paraguayan world and give it meaning.

The cover-up often results from our structural incapacity to look at and understand systems that are alien to us. Only attention to and admiration for what is alien could partially lift the veil that conceals a reality from which all of us could learn.

I have addressed this “cover-up,” its mechanisms and ramifications in the essays “El encubrimiento de América” (*Razón y Fe* 1.108, Madrid, February 1991: 159-167) and “El quid pro quo del descubrimiento-encubrimiento de América” (*Fronteiras, Revista Catarinense de História*, no. 8. Universidade Federal de Santa Catarina. Florianópolis 2000: 9-31), an idea that has been taken up by Augusto Roa Bastos in chapter XLVI of *La vigilia del almirante* (Madrid: Alfaguara, 1992: 331-333).

In this connection, attention should be called to the inconsistency and even foolishness of the task often undertaken by the national society in wanting to legislate on realities almost completely concealed from it, and still worse, which it has concealed itself.

### 3. Substitution

Upon arrival, the colonizer occupies a space from which he little by little excludes the previous inhabitants, uprooting populations from their lands, luring them into Spanish dominion or pushing them out to more or less distant, marginal areas. Instead of attacking, the Indians flee.

Displaced from their habitat, people find that things are different elsewhere, and this occurs particularly with indigenous and peasant societies.

With colonization, the transfer and displacement of points of reference was considerable. On the one hand, the city was an enclave where the indigenous society had no place. Nakedness was substituted by dress, days and hours by a new calendar and compulsory tasks, the reciprocity-based

economy by the vindictive price of things. Gradually, the “naturals” (as the indigenous people were called) were forced to leave their lands, increasingly occupied by implacable cows.

*“[The cows] damage the crops and plantings of the Indians around this city, causing them to suffer need and hunger, and forcing them to leave their traditional homes and move to remote areas, thereby becoming separated from Christian doctrine and from service to the Spaniards to whom they have been entrusted”* (Order by Juan de Garay of October 17, 1578, in Aguirre, *Diario I*, 1<sup>st</sup> part: 197-98)

The Altos reducción originated in 1580 as a cultural and social answer for protecting the Guarani farmers from Spanish cattle raisers (see Necker 1970:64).

*“As the Spaniards got nearer the Indians to establish their ranches and [found that they] were divided into groups... they took one group into a reducción in an area located in a village called Los Altos to this day”* (“Report of 1618” in Enrique de Gandía, “Orígenes del franciscanismo en el Paraguay y Río de la Plata,” *Revista del Instituto de Ciencias Genealógicas*, año 5, n. 6-7, Buenos Aires, 1946-47: 48-82, p. 60).

Domingo Martínez de Irala saw the problem quite clearly as a decline in productivity:

*“no one may disturb them in respect of their lands, fields, pastures, hunting grounds, fisheries, foundation of towns, and boundaries they own and have owned through usage and custom [...]”*(Order by Irala 1556, quoted by Susnik 1979-1980:112).

The disarrangement of the ecological panorama and of space, in addition to being a violation of human rights was both culturally and economically counterproductive. The substitution of physical and cultural spaces is still practiced today, with the same nefarious effects.

Substitution, consistently sought after but not always achieved, was meant to extend to all aspects of life and culture. In positing miscegenation as the key for interpreting the colonial process, Paraguayan historiography leads to the assumption that spaces were respected and that the new society was formed by sound inclusion and without traumatic exclusion. The Guaranis’ frequent revolts and escapes from the colonial setting warrant a different conclusion.

#### 4. Transformation

Historic reticence before the killing and destruction of so many people and forms of life and the ideological need to create a homogeneous society of citizens that are equal before the law have set up the cultural miscegenation model as the comprehensive interpretation of the Paraguayan people's formation. The choice of partial data and some naïve, poorly documented interpretations fed the illusion of something original. The generalization of the use of the Guarani language by all segments of Paraguayan society reinforced such stance.

The Guarani were not destroyed, covered up, or substituted: they were simply transformed into a harmonious blood and cultural mix. Of course, the Spaniards did not disappear, either, and their presence is felt everywhere. This has been the predominant thesis to this day, although one does not know precisely which science would account for this transformation. We guess it and look for arguments to support it. This "report" should produce proofs thereof and will do it, although with a critical intent, by examining the questionable passage between substitution and transformation. This is the crux of the matter.

In addressing miscegenation, one cannot disregard demographic statistics, although such statistics for the colonial era are no more than a "guessing science," as noted by Silvio Zavala (1977:138).

In any case, the successive polls and censuses showing the low density of the Spanish population do not indicate the intense miscegenation, particularly if one bears in mind that in the Indian villages – ruled by clergymen, Franciscans or Jesuits – where most of the province's population lived, the habitants were exclusively indigenous. Nor should one forget the high percentage of "browns," who accounted for 11.1 percent of a total population of 96,526 in 1782, on the eve of independence, while in Asunción they accounted for 24.9 percent of a population of 4,941. In general, they lived in coexistence and in social and cultural communication, with their particular conflicts. Ultimately, transformation – or substitution – never occurs on the basis of genetics or biology, but of imagination, persistent and aggressive, associated with physical traits and color, in other words, on the basis of racism, from which we are seldom free.

Around 1782, “Spaniards” made up slightly over half the Paraguayan population: 55,616, or 57.8 percent. In Asunción, there were only 82 native Spaniards (1.7 percent) and colony-born Spaniards numbered 2,038 (41.2 percent).

In colonial times, those who we now suppose to have been of mixed race identified themselves as American-born Spaniards, as opposed to the peninsular minority. Leaving aside their birth place, the sharpest difference between them was probably the fact that the former spoke almost exclusively Guarani, while the latter spoke no or very little Guarani. Society was not bilingual, although “official” administration used Spanish (in relations with the mother country and other provinces, in the juridical area, and to a certain extent in religious matters). This bilingualism gives the measure of the cultural changes that occurred.

A genetic change also occurred, which did not affect cultural – economic, social, and political – practices with the same mechanical biological symmetry. The mestizo is a product of destruction, substitution, and transformation, which cannot be generally but only individually applied. Many of these changes occur also in the colonized indigenous society. Coloniality tends to be pervasive wherever it takes hold, although not always to the same degree or extent.

Cultural changes in Paraguay follow what we might call isobaric lines according to specific colonial, relatively homogeneous pressures. The development of these pressures in Paraguay has been neither constant nor uniform, but as we look back, we can visualize a map with well defined regions.

The first stage of the conquest, which we may place between 1537 and 1556, and its continuation from 1556 to 1610, experienced a tremendous, horrendous drop in the Guarani population, from 200,000 to no more than 20,000, a very plausible assumption for the area under Spanish influence (See Necker 1979: 145-46). Only the reducciones or villages established by the Franciscans around 1580 (ibid: 62) managed to stabilize the population, which instead of declining maintained a nearly horizontal line, with decline and recovery points, according to the location and to the years.

If we flash back to around 1650, when the conquest had already been interrupted, we see a few Spanish towns and three classes of indigenous peoples: those recruited by the secular clergy, Franciscans, and Jesuits, and an assumed

free indigenous population in the wilderness, both in the East and in the Chaco region. This scenario points to the complexity of the Paraguayan colony.

Miscegenation, more of an imaginary and cultural construction than a biological fact, may be accepted as an appropriate, good-humored summary that seems to have prevented social tensions for a while. This model could be applied with relative success to different epochs, although the ratio of its elements varied greatly.

After the expulsion of the Jesuits (1768), a series of events occurred, among which Independence in 1811 was a minor one, whose meaning would materialize in the dictatorship of José Gaspar Rodríguez de Francia. For the 19<sup>th</sup>-century French and English travelers, Paraguay's exotic vision did not fail to have its charm; but it also displayed the irreversible substitutions and transformations that had taken place. To the foreigner arriving between 1811 and 1853, Paraguay offered a romantic image (Nagy 1990), which to this day remains as a nostalgic reference to a lost Paraguay.

This paper attempts to examine in detail the drastic rupture that took place after the Great War, which ended in 1870, leaving a fragmented country under the illusion of a democracy based on parties with a liberal ideology.

## 5. Creation

Transformation is a movement that creates new forms through dialogue between two or among more elements that come into contact, which in its various relations, even if conflictive, leads to a new way of being. Transformation opens the way for the invention of new realities that in turn lead to creation. The Paraguayan people's formation may be considered from this angle, which though ambiguous and deceiving, should not be discarded. Even substitutions can be creative and surpass the original subjects. Creation is distinguished by qualitative jumps allowed by free, imaginative action. This is why there are relative and specific creativity conditions that occur on some occasions and not on others. Where and how did the Paraguayan people's creativity originate?

There are many forms of creativity, according to the dialogues carried out, which this paper purports to examine.

## The Paraguayan Guarani world

If we look for the Guarani world in the Paraguayan world while excluding the language, we find ourselves in a garden where paths intersect each other, leading to no certain destination. Here, echoes seem to shatter themselves into a thousand fragments that fail to form a clearly intelligible phrase.

Paraguay has been defined – and defines itself – as a mestizo, bilingual country. These images result from a synthesis of opposites, although these opposites preclude any possible synthesis, unless it is a fake one.

In Paraguay, the so-called Creole is mestizo, and a mestizo passes for a Creole. This invention goes back to Azara's time, in late 18<sup>th</sup> century: a type of person that will be called Paraguayan, capable of sustaining quite well an independent Paraguayan nationality.

The Paraguayan process that ultimately imposed itself was that of a population that was mostly Guarani by descent and language, physiognomic traits, way of being, and culture, in which the political and economic systems had been unhurriedly but steadily, noticeably but not drastically divested from their Guarani legacy. The class of *encomenderos* and the military officers, their successors, gave origin to the peasant condition with which traditional Paraguay has identified itself.

A new colonialism began in Paraguay in the 20<sup>th</sup> century, announced in many ways but which decidedly asserted itself since the Treaty of Itaipu (1973). Modernity, projected and promised by its attendant capitalist mechanisms, brought no progress or development to the country. Society thus feels “misplaced,” according to Luis A. Galeano (2002), among the hunters – the image is appropriate – and the farmers, whose labor is “hunted” for under a system that creates exclusion, through new, massive internal and external migration, for instance, as well as through poverty and frustration.

The ongoing colonization process in which we are submerged affects particularly the peasant majority, which has suddenly abandoned its condition by migrating to the urban centers. There is a pressing need to understand this new process. The fast deforestation to which today's Paraguay is being submitted is not only an ecological disaster and an unsustainable form of economy, but also a troubling metaphor of disasters and impasses of every kind.



Must one accept a radical break between Paraguay prior to 1870 and the Paraguay that has emerged in the 20<sup>th</sup> century? Admitting that it is a case of a new colonization, is this colonization the same kind of that that anteceded the Great War?

It seems today that the place for culture is located in a mythical and mystic hiding place with a narrow gate that can be entered only by “experts in *Paraguayidad*.” These experts, though, do not come with something significant and communicable in their hand. Identity dies as a weak anecdote, something traditional and folkloric, of no interest to others. Identity would be a shameful attitude hidden behind doors, which does not dare to claim its place in the sun.

Indeed, the process follows a historical continuous line, with one part of society keeping its distance from the other, the two being united only by the frail threads of an alleged common heritage – the Guaraní heritage.

But this very Guaraní world, even when better known, is relegated to a remote past, alien and strange. The virtues of the Guaraní world, though very real and dynamic, have no part in the construction of the country, whether in the economic or in the political areas. The very Guaraní words that refer to these areas – *karai*, *mburuvichá*, *jopói*, *tepy* – have undergone such radical changes that their origin and meaning have become unrecognizable. It is an illusion to think of reclaiming and reasserting the Guaraní world in today’s Paraguay. Just look at the conditions of the two most authentically Guaraní experiences: the indigenous villages and the Jesuit ruins. In no way do they serve as valid reference for the nation’s construction.

Since the beginning of the 21<sup>st</sup> century, Paraguay has been exposed to the most extensive and radical colonizing process of its history. At no previous time had Paraguay so “generously” opened up (let pass the irony) its territory to colonization. The lands that are now the property of large enterprises – Industrial Paraguay, Carlos Casado, Mate Laranjeira – have fared better in the hands of the proprietors that owned and exploited them; they did indeed degrade them, but did not colonize them in the real sense.

Since the Mennonite colonization, timidly begun in 1927, with a small contingent of some 1,250 people, and the Brazilian, whose beginning can be dated to the opening of the Friendship Bridge on March 27, 1965, colonialism has assumed a different guise. What was Paraguayan, however this may be understood,

does not count, not even as a reference; neither does the State as such. But it is not only a question of these communities that are in Paraguay but are not Paraguayan, but of a varied economic society segment, supposedly modern as regards the management of technology and products – livestock, soybeans, data processing, to cite only the most notorious – that harks back to a model of retrograde, paralyzing colonialism that is both active and efficient. For this sector, the Guaraní world and its different manifestations are but a residual element.

In cultural terms, this tendency excludes as a remnant – a vestige still to be overcome – the Guaraní world, with its language and way of being. It is allowed to come to view only travestied as something exotic and as history of a Paraguayan ‘peculiarity’ now concentrated in the old population nuclei, marginalized and inclined to emigrate.

## Some biographical notes

In the intricate jungle of titles about indigenous, Jesuit, colonial, and contemporary Paraguay listed in *Mundo Guaraní* (Bartomeu Melià, Asunción, 2006, p. 187-261) one can find Carlos PASTORE, 1972, *La Lucha por la tierra en el Paraguay*. Montevideo: 526 p., and the literature by some foreign researchers – albeit of little influence in Paraguay – such as Jan M. G. KLEINPENNING, 1992, *Rural Paraguay, 1870-1932*, (Amsterdam: CEDLA, 1992, 528 p.) and *Paraguay 1515-1870: A Thematic Geography of its Development* (2 vols., Madrid, Frankfurt am Main: Iberoamericana-Vervuert, 2003, 1820 p), as well as more recent studies about the entry of Brazilians in Paraguay, such as that of Sylvain Souchaud, *Pionniers brésiliens au Paraguay* (Paris: Karthala, 2002, 406 p.), now available in Spanish. It addresses mobility and the reshaping of a map in the process of being developed, which seems typical of Paraguay today – land without men and men without land – and, rather than politics, the work focuses on the play of typically colonial economic and cultural interests in which we are submerged. In view of the lack of relevant historical and sociological studies, one should resort to the specialized field of economics and population, without neglecting fiction literature. The Second Paraguayan Congress on Population, 16-18 November 2005, *Memorias* (Asunción: UNFPA/ADEPO, 2007, 178 p.), for example, is of utmost interest in this respect. The sparse institutional university output on Paraguayan reality is regrettable.

It is not surprising that some international organizations are willing to undertake studies about the Paraguayan's identity and his Guaraní heritage, with special emphasis on the mestizo segment of the peasant and urban population, separately from the Guaraní language, which would lead to a revision of policies being currently implemented by the pertinent institutions; to an identification of gaps and contradictions in policies, legislation, and institutional organization; and to the conception of a realistic, viable cultural policy proposal. This policy should include the following elements, among others: recovery of Paraguayans' Guaraní identity; valorization of this identity and adoption of the requisite measures for ensuring its valorization, inclusive in the areas of education, advertising, and means of communication, as well as the necessary rules and incentives for this purpose; identification of Paraguay as the hub of the Guaraní World before the international community; and definition of the Guaraní identity's role in the citizens' coexistence; definition of the different roles of the central and provincial government, the private sector, civilian society, the indigenous peoples, and other ethnic minorities in the implementation of said policy. **DEP**

Translation: João Coelho

# Peru: electoral surprises and the pending exclusion agenda

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## Summary

**I**n Peru, 2006 was an election year, during which elected authorities were replaced. The most salient event was Alan García's victory at the presidential elections; also surprising was the ascent and subsequent plunge of Ollanta Humala, the anti-establishment candidate, between the April presidential elections and the regional and municipal November elections. Retired army officer Ollanta Humala's anti-establishment discourse and the authority image he projects elicited broad voters support, whose geographic distribution brought into relief some of the social rifts countrywide. The April election returns made

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social inclusion the central issue on the political agenda. However, owing to the weakness of the opposition to García's government the issue gradually lost force, although the fundamental reasons for its continued relevance still prevail.

## 1. Situation

In Peru, 2006 was an election year, during which popularly elected authorities were replaced, namely, the President of the Republic and members of Congress; the regional presidents, provincial and district mayors and their respective councils. The most salient event was Allan García's victory at the presidential elections, despite the bad memories of this first administration (1985-1990). His victory became possible because he succeeded in placing his candidacy at the center of political debate as an alternative to both the National Unity's 'candidate of the rich,' Lourdes Flores, and the radical anti-establishment candidate Ollanta Humala, whose irruption onto the electoral scene was unexpected. Humala won the highest number of votes at the April round (30 percent), but despite having won 47.4 percent of the votes at the second round in June, he was defeated by García, who had 52.6 percent of the votes. His anti-establishment discourse and the image of authority he projected won retired army officer Ollanta Humala broad voters' support, whose geographical distribution brought into relief some of the social rifts countrywide. Outsider Humala scored his highest number of votes in the southern Andean regions, in the poorest, most neglected areas, and in localities with minority ethnic groups. García won in Lima and in more modern cities forming part of the more dynamic economic circuits, located on the coast.

This outcome made social inclusion the central issue on the political agenda. Although the economy in general is doing well, as shown by favorable economic indicators and there is an incipient perception of optimism about the country's future, Peru remains a country with half the population living in poverty. The economy has grown for sixty consecutive months, gross domestic product (GDP) is expected to grow at 7.7 percent in 2007, as compared with 2006, and tax revenues in 2007 are expected to grow 98 percent as compared with 2001.<sup>1</sup> Yet, poverty and unemployment indicators and salary and wage levels have not improved in recent years. However, the combination of a relatively favorable

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<sup>1</sup> Source: Central Bank of Peru, 2005 Report and Apoyo Consultoría SAC.

economic situation, increased fiscal revenue, prudent political management, and the opposition's weakness explain why the first seven months of Alan García's government have been characterized by relative stability.

On the international front, the most relevant issues included the so far unsuccessful efforts of both the Alejandro Toledo and the Alan García governments to secure the approval of the Free Trade Agreement with the United States; Hugo Chávez's intervention in the presidential campaign in favor of Ollanta Humala, which has muddled bilateral relations in view of García's victory; and the recurrent tensions in bilateral relations with Chile (in respect of the definition of maritime boundaries, for instance), which personal contact between Presidents García and Bachelet are attempting to improve.

There follows an overview of the most important political events of 2006 and of 2007 so far, as well as the ongoing political processes likely to open new prospects for the country.

## 2. Institutional changes

The change of government has not meant a drastic change in public policies or a significant alteration in the functioning of Peruvian institutions. The new administration that came into office in July 2006 is starting to make some decisions aimed at reforming the State, with emphasis on austerity and greater efficiency. The previous government introduced some changes in the electoral system and in the parties' legislation, which applied to the 2006 electoral process. The November 2003 party law set minimum requirements for political organizations interested in presenting candidates, while the October 2005 law on electoral barrier sought to prevent the parliament's extreme fragmentation. The outcome of the elections showed that partial changes alone do not solve the weakness of the party system. Neither was the number of candidates smaller this year, nor consolidated party blocs have been formed in Congress.

## 3. Elections

Three types of elections were held in 2006: presidential; congressional; and regional and municipal. The presidential election, which was won by Alan García Pérez, was in two rounds – the first on April 9 and the runoff on June 4.

The Peruvian electoral system requires that the winner of presidential elections has to have at least 50 percent of the votes plus one valid vote. Otherwise, the candidates that have received the most votes enter a runoff election. Ollanta Humala, the Union for Peru candidate, who topped the others with 30 percent of votes, had to compete with Alan García, leader of APRA, the country's oldest party, and former president of the Republic (1985-1990).

Ollanta Humala attempted to run under a new party, the Peruvian Nationalist Party (PNP) but, as he was unable to register, his candidacy was sponsored by the Union for Peru party. Humala presented himself as a leader of the radical opposition to neoliberal policies, the candidate that embodied a "turn to the left," similarly to what was happening in Venezuela and Bolivia, whose presidents publicly expressed their political support for his candidacy.<sup>2</sup> Humala won the first round. García won by a narrow margin over Lourdes Flores, but their votes combined defeated Humala at the runoff elections. Returns were unexpected in view of campaign developments. Lourdes was ahead in the voters' preference until February 2006, but was thrown out of the race by losing one percentage point to the APRA candidate. Another surprise was the Alliance for the Future, the group of Fujimori adepts, which ranked fourth, despite the events that forced Fujimori to step down as President in 2001 and the legal proceedings started against him. Martha Chávez won more votes than Valentín Paniagua, the Center Front candidate, notwithstanding the positive view of his administration as transitional president in 2000-2001.

The distribution of first round votes shows in general terms that Humala won in most regions, Lourdes Flores only in Lima, and García on the north coast. Humala's votes exceeded the average in the southern Andean regions, where the majority of the population of indigenous origin lives and where the highest levels of poverty are recorded. The sectors more closely linked to the economic circuits backed more moderate political options.

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<sup>2</sup> As expressed at Humala's Caracas meeting in March 2006 with Bolivia's Evo Morales and Venezuela's Hugo Chávez.

**Table 1 – Percentage of votes at presidential elections**

Candidates (#20)	1st round (April 9)	2nd round (June 4)
Ollanta Humala (UPP)	30.62	47.4
Alan García (APRA)	24.32	52.6
Lourdes Flores (UN)	23.81	—
Martha Chávez (Alianza por el Futuro)	7.43	—
Valentín Paniagua (Frente de Centro)	5.75	—
Other candidates (less than 5% of votes)	8.06	—
Total	100.00	100.00

**Chart 1 – Returns of presidential elections by regions – 1st round**

Congressional elections, which coincide with presidential elections, were also held on April 9. The Peruvian Congress is unicameral, with 120 legislators elected in 25 electoral districts by proportionate voting. Each district has from one to seven wards; Lima, the largest district has 35 wards. Each voter votes for

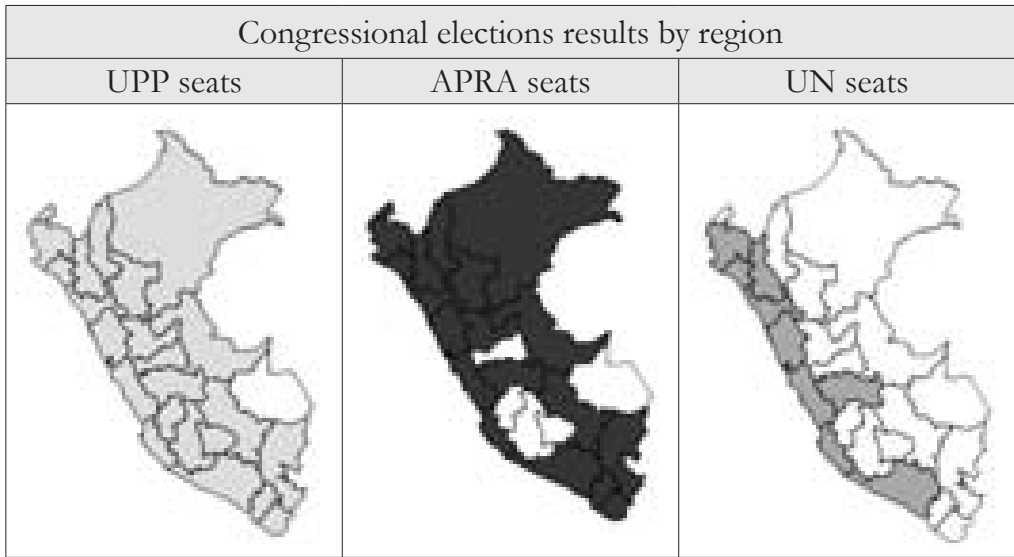


one of the lists competing in his district and then can vote specifically for one of the candidates on the list (preferential vote). The UPP-PNP alliance won the largest number of wards represented in Congress (45 seats), followed by APRA, with 36 seats. It should be noted that although both political camps garnered 21 percent of the votes (2,213,623 and 2,274,797, respectively) the national distribution of their votes gave UPP a much higher number of wards.

**Table 2 – Votes percentage and number of seats won by the different political groups in the 2006 congressional elections**

Political Party	Unión por el Perú		Partido Aprista		Unidad Nacional		Alianza por el Futuro		Frente de Centro		Perú Posible		Restauración Nacional		Others 1/		Total	
	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss	% votes	n° wardss
Amazonas	23	1	22	1	10	0	10	0	18	0	3	0	3	0	12	0	100	2
Ancash	21	2	26	2	13	1	7	0	4	0	3	0	4	0	21	0	100	5
Apurímac	34	2	17	0	9	0	3	0	5	0	1	0	4	0	27	0	100	2
Arequipa	35	3	14	1	14	1	10	0	4	0	2	0	0	0	22	0	100	5
Ayacucho	54	3	6	0	8	0	11	0	4	0	1	0	0	0	16	0	100	3
Cajamarca	20	2	18	1	12	1	17	1	7	0	2	0	2	0	20	0	100	5
Callao	14	1	26	2	22	1	12	0	5	0	5	0	5	0	9	0	100	4
Cusco	39	4	19	1	7	0	4	0	8	0	1	0	3	0	19	0	100	5
Huancavelica	46	2	11	0	8	0	17	0	6	0	3	0	0	0	10	0	100	2
Huánuco	36	2	13	1	8	0	6	0	7	0	2	0	9	0	20	0	100	3
Ica	22	1	25	2	22	1	6	0	5	0	4	0	3	0	13	0	100	4
Junín	29	2	18	1	13	1	15	1	6	0	2	0	0	0	16	0	100	5
La Libertad	10	1	45	5	11	1	7	0	2	0	2	0	4	0	19	0	100	7
Lambayeque	16	1	32	2	11	1	13	1	5	0	1	0	3	0	19	0	100	5
Lima	14	6	17	7	20	8	19	8	8	3	7	2	5	1	10	0	100	35
Loreto	22	1	15	1	10	0	2	0	17	1	1	0	14	0	19	0	100	3
Madre de Dios	20	0	12	0	15	0	3	0	4	0	14	0	21	1	12	0	100	1
Moquegua	30	1	22	1	14	0	3	0	14	0	2	0	2	0	13	0	100	2
Pasco	18	1	1	0	8	0	20	1	10	0	3	0	6	0	35	0	100	2
Piura	19	2	28	1	13	1	9	0	7	0	5	0	4	0	15	0	100	6
Puno	36	3	12	3	7	0	7	0	9	1	3	0	4	0	22	0	100	5
San Martín	29	1	21	1	13	0	17	1	7	0	1	0	6	0	6	0	100	3
Tacna	32	1	20	1	12	0	3	0	11	0	1	0	0	0	20	0	100	2
Tumbes	19	1	22	1	14	0	11	0	11	0	5	0	8	0	11	0	100	2
Ucayali	22	1	21	1	12	0	5	0	10	0	1	0	4	0	25	0	100	2
Total	21	45	21	36	15	17	13	13	7	5	4	2	4	2	15	0	100	120

1/ Less than 4 percent of valid votes



UPP-PN has congressmen in all regions, except for Madre de Dios; APRA elected congressmen in 21 of the 25 regions, with a higher number of votes in La Libertad, Piura and Ancash. Unidad Nacional, the third political force in Congress, fared better on the coast and in Lima (highest number of votes in Lima, Callao, and Ica). Although seven groups elected representatives, it should be recalled that 24 lists were presented.

Regional and municipal elections were held only five months after general elections, in November 2006. Twenty-five representatives were elected for 25 regional governments, 195 for provincial municipalities, and 1,830 for district municipalities. Regional governments with elected authorities were created in 2002 in the course of the regionalization process. They were based on the departments' circumscription, which during Fujimori's government functioned under the authority of Regional Administration Transitional Councils (CTAR) appointed by the Executive.

**Table 3 – Percentage of valid votes, posts won, and candidates presented by political organization at the regional and provincial elections**

Political organizations	Regional Presidents (#25)			Provincial Mayors (#195)		
	% valid votes	% posts won	% candidates presented	% valid votes	% posts won	% candidates presented
Partido Aprista Peruano	18%	8% (2)	100% (25)	14%	9% (18)	94% (184)
Partido Nacionalista	8%	0% (0)	100% (25)	6%	5% (10)	79% (155)
Unión por el Peru	6%	4% (1)	68% (17)	5%	9% (17)	72% (140)
Unidad Nacional	3%	0% (0)	36% (9)	17%	2% (4)	26% (51)
Restauración Nacional	3%	0% (0)	40% (10)	7%	4% (7)	35% (69)
Fuerza Democrática	3%	4% (1)	16% (4)	1%	2% (4)	15% (29)
Partido Movimiento Humanista Peruano	3%	4% (1)	8% (2)	0%	0% (0)	4% (8)
Si Cumple	2%	0% (0)	64% (16)	3%	1% (1)	36% (71)
Acción Popular	2%	0% (0)	40% (10)	4%	5% (9)	51% (100)
Avanza País - Partido de Integración Social	2%	4% (1)	16% (4)	1%	0% (0)	7% (14)
Perú Posible	2%	0% (0)	24% (6)	0%	1% (2)	12% (23)
Other Political Parties 1/	6%	4% (1)	—	12%	12% (23)	—
Independents 2/	43%	72% (18)	—	30%	51% (100)	—
Total	100%	100% (25)		100%	100% (195)	

1/ Less than 2 percent of total valid votes at the regional elections.

2/ Eighty-one independent organizations presented candidates at the regional elections and 217 at the provincial elections.

The results corroborate the dispersive nature of the Peruvian party system and point to regional scenarios disconnected from each other and with little inner cohesion. In seven of the twenty-five regions, candidates backed by some national political party won, while the other twenty-eight remained in the hands of ‘independent’ regional political organizations. This means that on the political map, there is a predominance of independent leaders without any formal political ties to other regional presidencies and that belong to political organizations without national expression. As to APRA, although the percentage of votes it won in the April presidential election did not significantly decline, it lost nine of the regional presidencies it had won in 2002, so that its representation was reduced solely to the Piura and La Libertad regions,

its traditional ‘electoral bastions.’ As to the other political groups, this time Ollanta Humala’s Nationalist Party and Union for Peru went their separate ways. They got 8 percent and 6 percent of the valid votes, respectively, while at the first presidential elections round Union for Peru obtained 30 percent of votes and 21 percent of valid votes at the congressional elections. The other national parties practically vanish at the regional and local level, where independent leaders predominate.

What could be said about the great diversity of regional movements? Here are some observations: only one of those elected in 2002 managed to be reelected; many of the elected had already run at the 2002 elections; in some regions, the winning movement also won the provincial mayor offices, while in others there was marked dissociation between the regional and the provincial spheres; many regional presidents have political and administrative experience, differently from those elected in 2002, which warrants some hope that they will perform well. But some presidents with no significant experience were elected by narrow margins or with a low percentage of votes, which could create governability problems in a fragmented regional context.

**Table 4 – Percentage of valid votes and percentage difference with the second position in regional elections**

Region	Regional Presidents elected	% valid votes	% difference with the 2nd position
Puno	Pablo Fuentes (Avanza País - Partido de Integración Social)	18.8	0.4
Lima	Nelson Chui (Concertación para el Desarrollo Regional Lima)	20.3	0.0
Piura	César Trelles (APRA)	24.7	2.5
Ayacucho	Isaac Molina (Frente Independiente Innovación Regional)	25.2	6.2
Pasco	Félix Serrano (Movimiento Nueva Izquierda)	25.5	5.2
Junín	Vladimiro Huaroc (CONREDES)	25.8	8.1
Huancavelica	Federico Salas (PICO)	26.6	1.2
Amazonas	Oscar Altamirano (Fuerza Democrática)	26.8	6.1
Moquegua	Jaime Rodríguez (Movimiento Independiente Nuestro Ilo-Moquegua)	26.9	0.5
Huánuco	Jorge Espinoza (Frente Amplio Regional)	27.0	9.1

Region	Regional Presidents elected	% valid votes	% difference with the 2nd position
Apurímac	David Salazar (Frente Popular Llapanchik)	27.0	4.2
Ancash	Cesar Álvarez (Movimiento Independente Regional Cuenta Conmigo)	28.3	10.8
Cajamarca	Jesús Coronel (Fuerza Social)	29.2	11.8
Ica	Rómulo Triveño (PRI)	32.1	10.1
Cusco	Hugo Gonzales (Unión Por el Perú)	32.6	5.1
Tacna	Hugo Ordoñez (Alianza por Tacna)	32.7	13.1
Tumbes	Wilmer Dios (Movimiento Independente Regional Faena)	32.8	1.3
Madre de Dios	Santos Kaway (Movimiento Independente Obras Siempre Obras)	33.5	18.1
Ucayali	Jorge Portocarrero (Integrando Ucayali)	34.1	3.5
Arequipa	Juan Guillén (Arequipa, tradición y futuro)	34.9	14.7
Lambayeque	Yehude Simon (Partido Movimiento Humanista Peruano)	39.6	20.9
Loreto	Yvan Vasquez (Fuerza Loretana)	42.0	17.1
San Martín	César Villanueva (Nueva Amazonía)	44.5	21.8
La Libertad	José Murgia (APRA)	48.0	34.1
Callao	Alexander Kouri (Chimpun Callao)	49.6	16.3

In all the 2006 electoral processes, voter participation exceeded 85 percent: 88.71 percent in the general elections (presidential and congressional); 87.71 percent in the presidential runoff; and 87.41 in the regional and municipal elections. In previous years, voter participation was slightly higher – 84 percent<sup>3</sup> in the 2002 regional elections, for example. It should be noted that in Peru voting is compulsory up to the age of seventy; failure to vote is subject to a fine. The voters' registry consists of the population aged 18-70 enrolled in the Peruvian civil registry (RENIEC). Since 2005, members of the Armed Forces and the National Police are also eligible to vote.

<sup>3</sup> 12,800,000 out of 15,298,237 eligible voters, according to the National Electoral Office-ONPE's 2002 voters' registry.

**Table 5 – Voter participation in the 2006 elections**

2006 elections	Presidential elections 1st round (April 9)	Congressional elections (April 9)	Presidential elections Runoff (June 4)	Regional and municipal elections (November 19)
Total votes cast	14,632,003	14,625,000	14,468,278	14,505,647
% voter participation (1/and 2/)	88.71	88.66	87.71	87.41

1/ Eligible voters participating in the presidential and congressional elections: 16,494,906

2/ Eligible voters participating in the regional and municipal elections: 16,594,824

As to the representation of groups at a disadvantage, the number of congresswomen is now 35, while in 2001 only 22 women got elected. In the Executive, there are six women among the 16 ministers appointed by the new APRA government.<sup>4</sup> This situation is not replicated in the case of the new regional and local authorities. No woman was elected regional president and only four provincial mayors are women (2 percent), while 46 women were elected district mayors (3 percent).<sup>5</sup> Women's participation in politics is now ensured by a gender quota regulation in force at the last elections, which requires that 30 percent of the list of congressional, regional, and local candidates must consist of women.<sup>6</sup> The regulation does not specify what position women should occupy on the list.

#### 4. The Executive

The Executive has sixteen ministries, whose Councils are appointed and dismissed by the President of the Republic, according to the Constitution. The President can also appoint the other ministers on a proposal and with the approval of the Council President.<sup>7</sup> Alan García Pérez took office July 28, 2006 and appointed Jorge del Castillo, an APRA member of his confidence, as President of the Council of Ministers. The cabinet has a pluralist makeup:

4 Pilar Mazzeti, Minister of the Interior, has been since dismissed and replaced by Luis Alva Castro.

5 Transparencia, electoral data no. 27.

6 Resolutions 1230-2006-JNE; 1247-2006-JNE; and 1234-2006-JNE.

7 1993 Peruvian Constitution.

there APRA members and independents of various orientations, who in their ensemble project a professional image.

**Table 6 – Cabinet at the beginning of Alan García Pérez government (July 28, 2006)**

Ministry	Name	Party	Birth date	Profession
President of the Council of Ministers	Jorge del Castillo	APRA	2 July 1950	Lawyer
Agriculture	Juan José Salazar	APRA	—	Agronomist
Foreign Trade and Tourism	Mercedes Aráoz	Independent	5 August 1971	Economics
Defense	Alan Wagner Tizón	Independent	7 February 1942	International Relations
Economy and Finance	Luis Carranza	Independent	21 December 1966	Economics
Elucidation	José Antonio Chang	Independent	19 May 1958	Industrial Engineer
Energy and Mines	Juan Valdivia	APRA	6 February 1948	Architect
Interior	Pilar Mazzetti Soler	Independent	9 September 1946	Medical Surgeon
Justice	María Zavala	Independent	15 January 1956	Lawyer
Women's and Social Development	Virginia Borra Toledo	APRA	—	Economics
Production	Rafael Rey Rey	Renovación Nacional	26 February 1954	Industrial Engineer
Foreign Affairs	José A. García Belaúnde	Independent	16 March 1948	Diplomat
Health	Carlos Vallejos	APRA	—	Medical Surgeon
Labor	Susana Pinilla	Independent	31 May 1954	Anthropology
Transport and Communications	Verónica Zavala	Independent	1968	Administration and Law
Housing and Construction	Hernán Garrido Lecca	APRA	1960	Economics

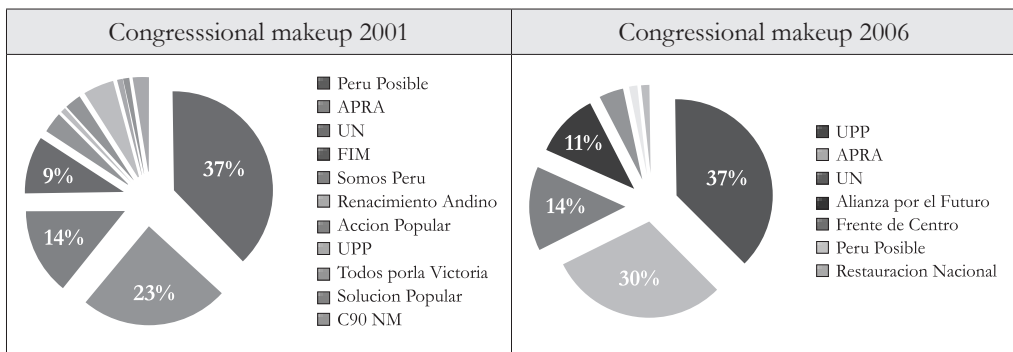
In addition to the President of the Republic and the President of the Council of Ministers, the Legislative may also dismiss ministers. The Constitution provides that “any motion of censorship against the Council of Ministers or any minister must be endorsed by no less than 25 percent of the legal number of Congress members. Their approval requires the vote of more than half the legal number of Congress members. A censored Council of Ministers or Minister shall resign.”<sup>8</sup> This is indicative of the weight the Legislative has vis-à-vis the Executive.

<sup>8</sup> 1993 Peruvian Constitution, Art. 132.

As to the functioning of the Council of Ministers presided by Jorge del Castillo and its relations with the President's Office, we notice that President Alan García's style emphasizes the President's leading role, while the Council of Ministers plays a subordinate role. In his first months in office, García showed himself to be 'above' the Council of Ministers's mistakes and inner conflicts, and set himself up as a conciliator. So far, this seems to be working, as indicated by the high rates of approval of his administration, above that of his ministers, and by the fact that some scandals that attained the legitimacy of some of his Ministers have not touched him.

## 5. The Legislative

The 2006-2011 legislature begins with a Congress in which the UPP holds the largest number of seats (45) but does not have a majority. Some of the elected Congress members were working with UPP, while others were working with Ollanta Humala's PNP. The alliance between these two forces in Congress soon broke, though, and the UPP suffered additional desertions.<sup>9</sup> The President's party won only 36 seats, or 30 percent of the total. A comparison with the 2001-2006 Congress shows the current one as less fragmented. In addition, the 2001-2006 Congress was plagued by serious internal discipline problems: for example, Perú Posible (PP) suffered from many desertions, to the point that in the last year of the Toledo administration its number of seats had dropped from 47 to 34. Likewise, Unidad Nacional had trouble in maintaining unity in 2001-2006 and lost six of its original 17 congressmen.



<sup>9</sup> There were three desertions: Gustavo Dacio Espinoza, Rocío de María Gonzales, and Carlos Alberto Torres Caro.



The most influential political parties in Congress in the last two legislatures have been UPP, APRA, UN, and PP. UPP, founded in 1994 by former United Nations Secretary-General Javier Pérez de Cuéllar, participated in the 1995 elections against Fujimore. Soon after, Pérez de Cuéllar left the party and joined the Nationalist Party to support Ollanta Humala's candidacy. He forms part of the center-left political tendency. APRA is Peru's oldest party. It was founded in 1924 by Víctor Raúl Haya de la Torre, who never became President of Peru. The first APRA government was headed by García (1985-1990), when his administration could be classified as center-right. Perú Posible was founded in 1999 and its candidate Alejandro Toledo ran against Fujimore at the questionable 2000 elections. Toledo was elected President in 2001 when he competed with Alan García at the runoff. PP could be considered a center party.

Congress is structured into 25 ordinary commissions (in addition to ad hoc investigation, special, and ethics commissions). These commissions debate bills submitted to Congress. After a favorable report by the Commissions, bills are discussed at a plenary session, where their approval requires a majority. The 2001-2006 Congress approved 4,116 laws; so far, the 2006-2011 Congress has approved 117, which seems to indicate that efficiency in passing laws has increased in comparison with previous legislatures.

As to the current Government, although APRA does not have a majority in Congress, it has nevertheless succeeded in achieving a majority by associating with UPP, UN or AF, depending on the issues under discussion. The general perception is that there is currently no significant opposition to the Government.

## **6. Relations between the Executive and the different levels of government**

A combination of a relatively favorable economic situation, fiscal bonanza, and a weak opposition has allowed García to exercise his political leadership comfortably so far. Some worrisome signs include the persistent gap between the nation's capital, where García's popularity is on the rise, and the rest of the country, where it holds or declines; the continuously high poverty and exclusion levels, while no major reform initiatives are visible as yet; lastly, certain social

unease in some sectors of the country, as, despite economic growth and increased budgetary resources, the families' situation is not changing, which could lead to protests. In a context of weak parties, such manifestations tend to proceed through ways that are neither structured nor institutional and that are quite prone to resorting to violence. For now, the García government is not concerned over Congress or the regional governments and provincial mayors, even though it does not have a majority at those levels. The main conflicts that are currently posing difficulties to his government are the inner fights in his party, which the President administers so as to come out always as the decisive power.

## 7. General assessment of the functioning and quality of democracy

Democracy in Peru seems to be at a crossroads, as graphically illustrated by the results of the last presidential elections. On one side, a more integrated, modern, basically Limean and coastal country, that looks expectantly to the current economic growth cycle and prefers gradual corrections to the political and economic model followed in the country in recent years; on the other side, a country marked by poverty and inequality, located basically on the sierra and in the rainforest, which sees that the benefits of growth do not reach it, mistrusts institutions and the political and social elites, and thinks that a radical change and a refounding of institutions is what the country needs to move forward. These two visions displayed parallel forces at the April and June presidential election rounds. In the end, the former vision prevailed, thereby distancing Peru from the course that Venezuela, Bolivia, and Ecuador seem to be following, and rather approaching the path followed by Colombia today, for instance. On the fate of the García government depends Peru's consolidation of this course or its fall into polarization and instability as in other examples, including of its own history.

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# The Suriname Republic and regional integration

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## General information

**S**uriname is located in the north of South America bordering French Guyana in the east, Brazil in the south, Guyana in the west, and the Atlantic Ocean in the north. It is the smallest South American country in surface area and population. 80% of its 163,820 km<sup>2</sup> are covered by tropical rainforest. At the end of 2006, the country's population was 498,000. 220,000 people live in the capital city, Paramaribo. The official language is Dutch, however, Sranan tongo, a local dialect, is also used, along with Hindustani, Javanese, and English. Due to a strong presence of Brazilians and Chinese, Portuguese and Chinese are also spoken in the country. The country has a parliamentary democracy, meaning that the people elect the members of parliament for the National Assembly and they, in turn, elect the President and Vice-President. The President is the Head of State and Government.

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The name Suriname comes from an indigenous tribe, the *Surinen*, and Paramaribo is a variation of *Parmurbo*, an indigenous village formerly located in the current capital city. The country was discovered by the Spanish in the 16<sup>th</sup> century and since the 17<sup>th</sup> century many attempts were made by the Dutch and English to colonize the country. With the Treaty of Breda, in 1667, Suriname was definitively handed over to Holland. At that time, Suriname belonged to England who made a trade with Holland for New Amsterdam, currently New York. Slaves were brought in from Africa to work on sugar and cotton plantations but were very mistreated by farmers. Many fled to the forest and began attacking the plantations. These fugitives were called *Marrons* and their actions contributed to the abolition of slavery in Suriname in 1863.

To replace the field workers, the Dutch brought in workers from China and later hired workers from India and Java.

This explains the diversity in the composition of Suriname's population:

- 37% of Indian origin,
- 31% of African origin,
- 15% of Javanese origin,
- 10% *marron*,
- 2% indigenous,
- 2% Chinese, and
- 3% European and others.

These figures must be adjusted because it is estimated that in the last years somewhere between 30,000 and 40,000 Brazilians moved to Suriname to live and work, especially in the clandestine mines. Also, many Chinese migrated to Suriname and are mainly working in trade.

The Surinamese are:

- 27% Hindu,
- 25% Protestant,
- 23% Catholic,
- 20% Mohammedan, and
- 5% traditional and others.

The most important aspect derived from this mixture is mutual acceptance. Suriname is described as a small United Nations because of its diversified unity.

## Politics

Suriname gained partial autonomy in 1954 and its independence was declared on November 25, 1975. The country underwent a military coup d'état in 1980 and democracy was restored in 1987 through general elections. A new coup occurred in 1990, and once again democracy was restored in 1991. Suriname's last elections were in 2005 and the next will be in 2010. The current government is composed of a coalition of 8 political parties. In the 2005 elections, a coalition of 4 traditional parties had a decrease in its participation from 33 to 23 seats in Parliament out of 51. A new, mainly marron based party received 5 seats and the old coalition signed a cooperation agreement with this party.

Soon after, another member of parliament joined the coalition and the government then had 29 seats in Parliament. Consequently, the largest political party, with 15 seats, became an opposing party. The main representative of this party led the two military coup d'états.

It is worth mentioning that this military officer was convicted by the Dutch legal system for illegal drug trafficking and is wanted by Interpol.

## Economy

Suriname is going through a growth period with improvements in its economic principals. In the October 2006 Eclac Annual Report, Suriname is referred to as a country with continued growth. The real GDP grew 8% in 2004 due to new investments in mining. In 2005 the GDP was US\$ 1.4 billion, a 5% increase compared to the previous year. That same year inflation rates went up to 17% because of the increase in the price of oil. The annual economic growth in the last 5 years was 4.2%. The *per capita* income was US\$ 4,300 in 2004. The 2005 trade balance had a US\$ 42 million *deficit* whereas in 2006 it had a US\$ 96 million positive balance. This result came as a consequence of an improvement in the price of our commodities such as oil, aluminum and gold, and a significant increase in tourism.

Suriname has great potential. Amongst its products for trade are: gold, bauxite, wood, rice, banana, oil, and fish. Eco-tourism and agriculture also offer great opportunities leading the World Bank to conclude that Suriname

is one of the wealthiest countries in terms of its natural resources. Currently, the country is very dependant on mining: from 70% to 80% of Suriname's exports come from ore. The 2005 oil production reached 4.4 million barrels, a 5% increase compared to 2004. Alumina exports reached US\$ 450 million in 2005 and increased to US\$ 643 million in 2006. In 2005, the official gold production was 2,500kg and it increased to 16,000 kg in 2006, although accurate data is hard to obtain due to a large number of clandestine miners that illegally remove gold from the country. The agricultural sector contributed with 5% of the GDP and 7.5% of the exports (fish, rice, and banana).

Tourism has become a priority sector due to the contribution it gives to economic diversification. The amount of tourists increased from 100,000 in 2000 to 138,000 in 2004 with an 8% average increase per year. 160,000 tourists visited the country in 2006 and lately Suriname has become a stop for eco-tourism cruise ships.

According to this data, with all its potential and small population, Suriname has all the necessary conditions to become a rich country. But why is there no sustainable development in Suriname?

One explanation is that there is a very unequal distribution of income. A small part of the population has a large part of the wealth. However, a more balanced redistribution of wealth requires political will, which is not always easy.

Another explanation is that the State does not benefit much from its national resources because foreign companies dominate the important sectors such as bauxite and gold due to unfavorable agreements signed in the past during inexperienced negotiations with transnational companies.

International market price fluctuation of our commodities also affects the country's trade balance. The fact that Suriname had a positive trade balance last year is a consequence of better prices in gold and alumina, and not greater production.

World trade liberalization consequent of globalization and the elimination of traditional preferences such as tax preference agreements with the European Union have also pressured our competitiveness. All of this means that the world is changing, and apparently, not in favor of smaller countries.

## A world under transformation

Contemporary events restate the existence of a new global order.

Some characteristics of this new order are:

- The new political and economic context consequence of the globalization process;
- Neoliberal practices imposed on international economic relations;
- The creation of regional blocks;
- The elimination of preferences present in traditional preferential agreements;
- The growing importance of telecommunications at a global level;
- The effects of the September 11, 2001 attacks leading to greater attention given to security and terrorism combat in the agendas of developed countries;
- The weakening of multilateralism and the manifestation of unilateralism, and
- The appearance of emerging countries such as Brazil, Russia, India, and China.

I began mentioning that the world is changing and mentioned some characteristics of this change. An example of this change can be found in current global trade. The commodities share in global trade decreased from 23% in 1985 to 12% in 2000. Manufactured goods produced with natural resources dropped from 20% to 16% in the same period. However, the basic and intermediary technology products share increased from 43% to 46%, and high technology products increased from 12% to 23%. This means that over two thirds of global exports are made of technology products and the high-tech product share is growing rapidly. Commodities and semi-manufactured exports are still the most important income source for our countries but we cannot produce commodities forever. We must reach a higher technology level to continue participating in foreign trade.

Another example of this change is the growth in services in the global economy going from US\$ 400 billion in 1980 to US\$ 1.6 trillion in 2002. Sectors such as tourism, information and communication technologies,



and outsourcing are taking more room in the global economy. Therefore, a change in the composition of global economy trade is occurring going from commodities and products based on natural resources to technological products and services. What we must do is transform our commodities based economy into an economy with technological products. We must also develop specialized services. It is extremely important that our countries take these trends into consideration and try to create an opportunity to ensure our national interests.

But how much opportunity do we have as developing countries? The WTO must ensure the compliance of norms and regulations destined towards global trade liberalization. Every country, be it large or small, strong or weak, rich or poor, must follow these regulations to participate in foreign trade. A more detailed study demonstrates that the wealthiest countries are fully interested in the rigorous compliance of the WTO regulations. From the point of view of developing countries, advantages will be greater for the bigger and more industrialized countries such as Brazil, India, China, South Korea, South Africa, etc. that have greater access to foreign markets thanks to a larger productive base. Smaller countries do not have the necessary conditions and are greatly dependent on preferences that are being eliminated.

Smaller countries also have underdeveloped industries that will not survive global competition. Simultaneously, tax collection on exports will decrease due to foreign trade liberalization. Requests made by these countries for special and different treatment go by unheard. Another important fact is that a large part of these countries rely on agricultural product exports to rich countries as their most important source of income. Therefore, the liberalization of the agricultural sector could open opportunities for these small countries. However, this is precisely the sector for which rich countries deny opening their internal markets.

## Suriname's foreign policy

The following are the guiding principles of Suriname's foreign policy:

- Respect the dignity of Suriname and the Surinamese;
- Maintain relations with other countries based on mutual respect and benefit, trust, and sovereignty;

- The maintenance, promotion, and expansion of national, regional, and international security;
- The promotion of cooperation aimed at sustainable growth and development;
- Respect the principles of democracy and the rule of law;
- Respect of human rights, and
- Environmental protection.

The main objectives of foreign policy are:

- Sustainable economic development where trade based on honest competition is seen as an important instrument;
- Participation in integration processes relevant to Suriname;
- Cooperation relations with partner countries and multilateral organisms, and
- Regulation of migratory traffic and defense of the interests of Surinamese citizens abroad.

“Trade diplomacy”, that is, diplomacy guided towards development, is an important instrument for foreign policy. This means that the Surinamese diplomatic representations and Honorary Consuls abroad disseminate what Suriname has to offer, contributing to socio-economic development. The Surinamese contribution in the Diaspora is also important within this context.

With regards to the bordering countries, foreign policy is based on the principles of good neighborhood relations, cooperation, and peaceful dispute settlement. The following are considered bordering countries: Brazil, Guyana, French Guyana, and Venezuela. The relations with these countries will be intensified and cooperation will be based on the specific needs in the fields of trade and investments, education, health, agriculture, justice, defense, culture, and technical assistance.

Importance is given to the relation with Brazil due to:

- its geographic location as a bordering country;
- the substantial presence of Brazilian citizens in Suriname;
- Brazil’s political, commercial/economic, military, technological, and cultural leadership;

- the bilateral cooperation potential, not only in technical aspects, but also in combating international crime;
- the cooperation within the context of the South American Community of Nations (CASA), Amazon Cooperation Treaty Organization (ACTO), and the Initiative for the Integration of Regional Infrastructure in South America (Iirsa), and
- Brazil's support in gaining access to the Mercosur market (the North), as was the case with the rice agreement signed in 2005 when Suriname had the opportunity of exporting rice to the north of Brazil.

The importance of the cooperation with Guyana must be put into the following context:

- its geographic location as a bordering country;
- its similar/identical situation in various sectors such as production, trade, exports, and infrastructure;
- intense migratory flows consequent of better access to territory in both countries;
- cooperation within Caricom, CASA, ACTO and Iirsa, and
- the existence of a border dispute in the northern and southern borders.

With regards to the northern border dispute, it is important to mention that in 2004 Guyana filed a lawsuit against Suriname. The arbitration within the context of the "United Nations Convention on the Law of the Sea" to determine the maritime border between both countries is about to be concluded and a decision will be made in June (with respect to the northern border). As to the southern border dispute, both countries seek to settle this matter through dialogue.

Suriname also aims at improving its relations with French Guyana, which belongs to France. This is due to:

- its geographic location as a bordering country;
- migratory flows;
- the presence of many Surinamese citizens in French Guyana;

- the fact that French Guyana is part of Europe;
- the cooperation with France within the context of the EU-ACP;
- France's interest in contributing to the development of the border area, and
- the possibility of having through the French Guyana a land connection with the rest of the continent.

The relation with Venezuela is also important due to:

- the geographic location of this country;
- the already existing cooperation within the CASA, ACTO and Iirsa, and
- existent cooperation in fishery and oil.

Priority is also given to the integration of Suriname in the region in the implementation of its foreign policy.

As a frail economy, Suriname must continuously maintain itself up to speed with international developments in order to protect its interests. As to the integration process occurring globally, Suriname is seeking to participate in regional economic and political blocks.

Suriname's participation in Caricom since 1995 and in the South American Community of Nations since 2004 must be understood within this context. Attention will continue to be guided towards integration in the Caribbean region, especially due to the establishment of the Caribbean Single Market and Economy, when formulating the implementation of foreign policy. Suriname is an active participant in the ACTO and Iirsa as well as the South American Community of Nations – CASA. A possible participation in the Aladi – Association for Latin American Integration will be analyzed since it will be used to access the free trade zone of the CASA. Within this context, Suriname's commitments with Caricom will also be considered. Suriname's integration policy will not limit itself to financial and economic aspects since physical infrastructure, energy, and telecommunications integrations will be an integral part of this policy. Suriname is placed in a strategic position since both Guyana and French Guyana are accessible through the East-West connection. A permanent connection by building a bridge over the Marowijne and Corantijn rivers and a connection by land to Brazil are also objectives to be carried out.

Since Suriname is a small economy, it must closely and continuously follow-up the international developments so as to defend and ensure its national interests. Global trends such as the development of blocks, international trade liberalization, terrorism combat, the threat to the environment, etc. and their consequences are so broad and drastic that constant monitoring and adaptation are required. Reality forces us to acknowledge that based on individuality, Suriname will not be able to face these challenges and that the best response is to intensify bilateral and multilateral relations and the participation in regional and extra-regional blocks and agreements.

With the signed declaration by the Heads of State of the Caribbean Community to establish the Caricom Single Market (CSM) during its formal launching on January 30, 2006, the process for the Caricom Single Economy in 2008 was initiated. Suriname's participation in Caricom since 1995, ACTO, Iirsa, and CASA must also be inserted in this context. The intensification of relations with French Guyana, that is, with France, is also included in this integration strategy. This way, Suriname's position in the center of trade routes between the Caribbean, South America, and Europe through French Guyana will be optimized.

With its active participation in Caricom, CASA, and Iirsa, Suriname tries to function as a bridge between the Caribbean, South America, and Europe.

Another strategy is to identify strategic partners and sectors. National development objectives are a starting point to identify strategic sectors that in the short term can contribute to improve the life conditions of citizens. During this phase, the following sectors are identified: oil, gold, services, fishery, agriculture, bauxite and byproducts, information and communication technologies, tourism, and wood. Our foreign relations aim at maintaining close cooperation relations with external partners such as the United States, Europe, Brazil, Japan, Canada, Caricom, India, China, etc., all partners who can contribute to reach our development.

Examples:

Data from the US Geological Survey from the United States Geology Department show that Suriname has a gas reserve of 15 billion barrels, the third largest in the regions after Campos Basin and Maracaibo Lake in Venezuela. Three companies from Spain, Denmark, and the United States have executed

exploring activities in Suriname's off-shore area and are currently preparing for production. Canada has great experience in gold and for that reason a Canadian company was licensed to explore gold in Suriname. I can also say that recently the Vale do Rio Doce Company also demonstrated interest in Suriname's mining sector.

In fishery we have a tradition of cooperation with Japan and taking into consideration our positive experience, this bilateral cooperation will be expanded and intensified.

It is clear that the climate and geographic similarities make Brazil Suriname's best partner to develop the agricultural sector. Brazil has great experience in agricultural research and is a global leader in some sectors, such as coffee and ethanol. Embrapa is known throughout the world and has signed a cooperation agreement with Suriname's Ministry of Agriculture to share Brazil's experiences.

India has a good reputation with regards to information and communication technologies. Suriname is very glad to have a historical and intense relation with this country. Following the examples of Jamaica and Barbados, with economies that take more and more advantage of outsourcing and data processing, Suriname can choose to have India as a partner to develop this sector.

I intend to demonstrate with these examples that Suriname conscientiously promotes closer cooperation with partner countries that can contribute to our economic development, in other words, diplomacy for development. We are not saying that the relations with other countries do not contribute to our development, but we have reached the conclusion that equal cooperation agreements with many countries do not lead to the desired development. Therefore, for greater efficacy and efficiency, sectoral cooperation agreements will be concluded after assessing strong and weak points.

Along with identifying strategic partners, Suriname must also identify strategic products that can become catalysts for economic development. Alumina is still the most important export product. For a long time, bauxite drove the economy, however, its production and export is in the hands of transnational companies. Suriname is unable to influence volumes and production and export prices and for that reason this sector cannot be a catalyst.

Rice and banana exports were never able to bring long-lasting economic development, and currently, these sectors face grave problems due to the elimination of preferences granted by the European Union.

However, there are other products to drive Suriname's economy forward. As was already mentioned, Suriname has great oil reserves and the high prices in the international market might transform this sector into a catalyst of economic development. The biggest problem is that Suriname has a very small production (13,000 barrels a day). An increase in production in the short term with foreign technology and capital is an urgent necessity.

Suriname also has large amounts of gold. Exports totaled over 15 tons last year, but no one knows how much gold was smuggled by thousands of clandestine miners. The price of gold has increased substantially, but the State is not taking advantage of this due to an unfavorable agreement with a transnational company. We are currently assessing our options to increase our profitability through a renegotiation of the agreement and combating smuggling.

Two other products that in medium term offer good perspectives to Suriname are ethanol and soybean. Ethanol is seen as the energy source of the future and soybean as white gold. Brazil has great experience and know-how in both and has already declared itself willing to share this experience with other countries in the region. Suriname was formerly a plantation colony and these old plantations maintain good infrastructure. With little effort, they can be transformed to plant sugar cane and soybean.

I have already mentioned that the Surinamese territory is covered by tropical rainforest. Much is said nowadays of carbon credit as a source of income for countries with a lot of forest coverage. This is a new modality to preserve the forests and simultaneously make money out of it, say the protagonists. However, critics say that the proposal is a setup so that developed countries might continue polluting. Whichever the case, the proposal is worth studying. In Suriname, debates on this matter are just beginning.

In the beginning of this presentation I mentioned that services were just now taking a more important position in global economy. Suriname is aware that its current production structures are unable to compete internationally. Thus, it is necessary to direct attention towards the rendering of international

services. I have already mentioned the growing contribution tourism is making to the Surinamese economy, yet services are not limited to tourism. Outsourcing, data processing, offshore banking (with adequate monitoring) and services in the fields of security and telecommunications can also contribute to economic development.

In my point of view, these sectors and products offer good opportunities for economic growth in the short and medium terms. Suriname is still very dependent on commodities exports. Due to competition, low international market prices, and huge subsidies in rich countries, our export revenue has decreased considerably. Unfortunately, we are in no position to demand change. For this reason, collaboration with other countries and the diversification of our production and export infrastructure are important elements for Suriname to have a successful participation in global trade.

## Integration in South America

Everything that can be said for Suriname can also be said for most South American countries. We know South America has amongst others, a wealth in natural resources, a large internal market, and a relatively well instructed population, but we also have great differences amongst ourselves in terms of economic development, not very competitive economic structures, and great income inequalities.

Right now, our greatest challenge is to integrate our continent to the global economy taking these factors into account. We know that in South America, participating of the globalization process is a necessity. We are trying to adapt ourselves in the best way possible to contemporary circumstances through continental integration. Initiatives such as Mercosur, CAN, CASA, ACTO, and Iirsa, aim to harmonize and intensify political, economic, and technical cooperation between our countries to ensure our effective participation in global trade. The continent has two integration systems, Mercosur and CAN, and our leaders have committed themselves to integrating them to facilitate the development of a South American economic space. Mercosur is composed by five members who, together, are responsible for 75% of the South American GDP. CAN was greatly weakened by Venezuela's withdrawal since economically it was the most important



member of the block. On the one hand, Venezuela weakened CAN by withdrawing, on the other, its entrance in Mercosur is extremely important because of its geographic connection between the Amazon region and the Caribbean and due to its large gas and oil reserves. Uruguay recently signed a bilateral trade agreement with the United States. This fact will certainly not cause instability or take down Mercosur.

As part of the South American continent, it is important for Suriname to follow these events closely. We are not yet members of CAN or Mercosur. CAN is exclusively for Andean Community countries, to which Suriname does not belong, yet for other reasons, for example, within Iirsa, we are discussing our participation at the CAF. As for Mercosur, it is not that we do not want to be a part of it, but to do so would require further studies. A condition for this is Suriname's participation in Aladi, which is still not the case. On the other hand, Suriname is a full member of Caricom, where we also have obligations. Therefore, we must consider if our participation in Aladi will be compatible with our obligations at Caricom.

Mercosur and Caricom are negotiating a closer cooperation and we do not want to waste time, energy, and money seeking out a bilateral understanding with Mercosur. We will wait and see how these negotiations move along. Meanwhile, Aladi is very important to us. Without it we will be unable to participate in the economic integration process for the continent. We are working alongside the Aladi General Secretariat to prepare and facilitate Suriname's participation in this organization.

Our policy is guided towards maintaining our Caricom membership while simultaneously participating in the South American union. This strategy fits perfectly into our policy of connecting South America and the Caribbean.

Other events in the region call Suriname's attention. I am referring to the extra-regional relations such as ASPA (South America – Arab Countries), Afras (Africa – South America) and, soon, the Focalal (the Forum for East Asia and Latin America). Suriname is a member of CASA and therefore fully supports these initiatives based on the assumption that a small country has better bargaining opportunities and can gain more through a joint effort. Reality, however, forces us to closely examine our own interests. Within the CASA framework, Suriname does not speak loudly. It is the smallest member and it is expected that the larger members will have their own interests in mind

first. At first glance, Suriname's advantages in these initiatives are slim. On the other hand, Suriname already has intense cooperation with Arab countries because it is a member of the Organization of the Islamic Conference (OIC). As a result of this cooperation projects in the fields of education and health, for example, are already in execution phase. Historically, Suriname has had strong relations with Africa and the intensification of these bilateral relations is important for our foreign policy. The situation is not much different with Focalal. Bilateral relations with some Asian countries, especially the so-called "countries of origin", from where many of our ancestors came, are very good and have greatly contributed to our own development. We will certainly not risk a sure bilateral cooperation for a regional cooperation filled with uncertainties for us. Just to clarify, we support the initiatives destined towards bi-regional cooperation, yet the continuation of bilateral cooperation for our own development receives greater attention in our foreign policy. Of course, we want, and are ready to contribute to the integration of the South American continent; however, we still have a long path ahead of us.

As we move forward we will face many difficulties. Integration, however, is a historic process and cannot be judged by events in a random moment. The European unification process did not move forward without problems and to date not all countries have accepted the Euro as a single currency. The South American unification process will also take a long time because the region is dealing with diverse interests, in some cases, even conflicting.

The current problems are part of a learning process for the continental integration. Along with the South American political and economic integration, is the problem of the economic asymmetries, which must also be dealt with. Special measures must be taken in order to give support to the economically weaker countries, as happened in the European Union. The long term development strategy must be the driving force of the economic integration instead of short term advantages for interest groups. We must not forget that the union is a "*conditio sine qua non*" for South America to ensure our rights. Negotiations carried out with weak and fragmented positions never lead to good results. During the FTAA negotiations, Mercosur demonstrated that it is an excellent vehicle to defend the South American interests, leading to the recommendation that cooperation within Mercosur be greater and possibly broadened.

## Conclusions

Globalization did not bring the results promised by the neoliberal protagonists. It seems that the rules for contemporary international trade only serve to defend the interests of the oligarchy. Only the large developing countries will be able to adapt to the new rules and enjoy the advantages of liberalization. Small developing countries are unable to respond to the challenges of globalization on their own. Their production and export structures are not competitive and their private sectors cannot drive forward their economic development. Therefore, the State will have to continue fulfilling an important role in the economic life of these countries. Our South American political leaders are aware of the fact that integration and intense cooperation are the best response to the globalization challenges. However, the continent is very fragmented and for continental integration to be successful we must first reduce economic asymmetries between the countries. We must also aim at a better income distribution, an improvement in production and export infrastructure, etc.

Suriname is trying to protect itself in the best way possible against the negative impacts of the international changes. Regional integration and the identification of cooperation sectors and partners offer new possibilities. It is a great challenge, but Suriname has enough potential to ensure prosperity and well-being to each citizen.

It is just a matter of making the right choices. **DEP**

# Uruguay: a brief overview of its economy and politics

*Alberto Couriel\**

## A. Uruguay, a different country

**U**ruguay is positioned as a sort of buffer State between Argentina and Brazil. It has an area of 178,000 sq km (about 68,000 sq mi) and a population of 3.3 million. Average per capita income measured by purchasing power parity is US\$12,300, as compared with US\$17,000 in Argentina, US\$13,800 in Chile, US\$9,500 in Brazil, and US\$7,400 in Venezuela. Life expectancy at birth is 76 years. Uruguay's history has been different from that of other Latin American countries because of its political and social stability, deep-rooted democracy, quality of life, and social integration.

This differentiation began in the first third of the 20<sup>th</sup> century, when Uruguay's economic growth was fueled by animal product exports produced by national livestock farmers countrywide, some of whom produced primary products with some degree of industrialization that imparted dynamism to the port city.

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A highly urbanized country, Uruguay had become a welfare state prior to the Nordic experience, offering pioneering free education, health care, and social security systems in the region. Another sign of the Uruguayan model's originality was the establishment of public enterprises in the areas of finance, energy, fuels, and railways. These economic and institutional components allowed a high degree of social integration with low illiteracy and mortality rates.

Moreover, Uruguay has been a country free of ethnic conflicts since the extermination of indigenous populations in the first half of the 19<sup>th</sup> century. The first half of the 20<sup>th</sup> century was marked by large waves of European immigrants, who brought with them their knowledge, values, and culture and became fully integrated into Uruguayan society, a further proof of the country's deep-rooted attachment to democracy and to respect and tolerance toward other values, cultures, and religions.

The nature of its exports, quite different from those of other countries of the region, and the creativity of its welfare State made possible a fair income distribution that is still maintained, as witness its 0.44 GINI index, one of the lowest in Latin America.

Throughout its history, Uruguay has been an open, receptive country – open to immigrants, including those from Argentina, Brazil, Paraguay, and Bolivia seeking political exile; and open to financial planning, as it has for long endeavored to maintain a financial environment that has been characterized since 1974 by unrestricted freedom of capital movements. It is a country free of border conflicts, enjoying a reasonable degree of public security and a democratic culture. As Carlos Real de Azúa has said, it is “a neighborhoods country,” where everybody knows everybody else, everything is close by, and personal relations among the different social segments are distinguished by a high degree of equality. In comparison with other countries of the region, it enjoys an elevated cultural level greatly influenced by Europe, to the point that the secondary education curriculum is the same as France's.

It is a stable country, where changes are gradual and where the degree of social integration has facilitated both implicit and explicit social pacts and a culture of political agreements, characteristic of its history of bipartisan coexistence.

## B. Brief economic overview

Uruguay experienced significant outward growth fueled by the dynamism of its export sector until the 1929 crisis. Similarly to other countries of the region that had set out on the path of industrialization, it continued to grow by emphasizing its manufacturing industry during World War II. Taking advantage of the higher prices owing to the Korean War, it sustained its dynamism until 1955, when the industrialization process stalled and the country entered a stagnation phase that lasted over twenty years. Capital inflows, which had favored growth in the second half of the seventies, were affected by an inadequate exchange policy, known as '*la tablita*,'<sup>1</sup> which triggered intense capital flight, heavy external indebtedness, and severe financial crises. The eighties are known in Uruguay and in most Latin American countries as the lost decade. Economic policy was focused on ensuring the payment of the foreign debt service in accordance with IMF's classic prescriptions: sharp devaluations and contraction of internal demand through credit, fiscal, and salary policies, so as to ensure trade balance surpluses. The sharp devaluations triggered inflation, while the restrictions on internal demand affected economic activity and growth. The costs of the foreign debt were paid exclusively by the debtor countries through net transfers of about 4 percent of GDP.

In the nineties, growth was resumed, thanks to new capital inflows. That was the decade of neoliberalism's apogee, when it sought to minimize the role of the State, as it was maintained that the private sector and the market were capable of solving economic problems and social conflicts. That was the era of privatizations, trade and financial liberalization, economic deregulation, and labor flexibility. In Uruguay's case, trade liberalization was intensified, with unilateral outward opening beyond Mercosur, whereas financial liberalization had already been accomplished in 1974, ensuring unrestricted freedom of capital movements. The classical privatization process could not be carried out, as a 1992 referendum prevented the privatization of the State's communications enterprise. The economic policy was focused on ensuring the stability of the financial environment and on advancing toward prices stabilization through the adoption of an exchange anchor, similarly to the convertibility law in Argentina. The exchange lags in Argentina, Brazil and Uruguay between

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1 N.T. Preannounced mini-devaluations.

1994 and 1998 intensified trade within Mercosur. In 1998, the destination of 53 percent of Uruguay's exports was Mercosur countries. The Brazilian devaluation in January 1999 exposed Argentina's and Uruguay's exchange lags, causing difficulties for the integration process, difficulties that persist to this day. The development style permitted growth, albeit with productive crises, especially in the manufacturing sector, and with social crises that culminated in a severe financial crisis in 2002.

### C. Main political features

The Uruguayan political system and society have strong leanings toward democracy, freedom, and justice, universal suffrage and a multiparty system, guarantee of human rights, and an independent Judiciary for ensuring the rule of law. Democracy is deeply rooted in Uruguayan society, which is well informed, politicized, and participative. Uruguayans like to vote and there are norms that encourage forms of direct democracy. The Constitution admits the possibility of contestation, through a referendum, of any law passed by the authorities. Referendum was the means for contesting privatizations and for the approval of a recent law voiding the defense of members of the military who violated human rights during the dictatorship to which the country was subjected from 1973 to 1985. That dictatorial regime coincided with similar regimes in various countries of the region, where, under the leadership of the United States, international communism and guerrilla actions with alleged links to the Cuban revolution were combated. For a country with an intensely democratic culture, that dictatorship period was an exception to the rule. In the thirties there had been another break in democracy, but without Armed Forces' intervention.

Political institutions have the following characteristics:

- (a) The Executive consists of a President of the Republic directly elected by universal suffrage and the Council of Ministers. To be elected President, the candidate has to have 50 percent plus one vote of the total number of votes, a system adopted in 1996 lest the left might win the elections. At the 1999 elections, the Frente Amplio [Broad Front] scored a victory at the first round, but as it failed to achieve absolute majority, runoff elections were held. This time, the Blanco

and the Colorado parties joined together and won. At the following elections, in 2004, the Frente Amplio won at the first round, as it surpassed the required 50 percent of votes. Historically, Uruguay has had an Executive based on collegiate regimes; this and social cohesion earned the country the epithet of “America’s Switzerland.”

- (b) The Legislative is bicameral, with little differentiation of functions between the two Chambers. Legislators are directly elected by universal suffrage, according to a list, and are designated on a proportional base, according to the total number of votes cast.
- (c) The Executive has preponderance over the Legislative because it has the power of veto, of dissolving the Chambers, and of taking exclusive initiatives, such as granting tax exoneration or imposing limits to budgetary expenditures. The Legislative is subordinated to the Executive in so far as, for example, it does not have its own information system and, in respect of economic policy, only the fiscal policy passes through it. In essence, the Executive is more directly linked to power factors, including on the international front; this enhances its constitutionally established predominance. Save for interpellations, parliamentary debate is scarce. Great debates are actually carried out through the means of communication.

Political parties enjoy a high degree of stability. The two traditional parties – the Blanco and the Colorado – have existed for one century and a half and governed the country up to Frente Amplio’s victory at the 2004 elections. The parties, encompassing various classes and representing different ideologies, have had a determinant influence on the nation’s construction. In essence, a bipartisan regime has prevailed throughout, with the Colorados in power, except for 1959-1967 and 1990-1995, when the Blancos ruled.

The major political change occurred with the fracturing of the bipartisan system at the 1971 elections, when Frente Amplio won 18 percent of the votes. Frente Amplio is both a coalition and a movement that came into being with the participation of the Communist, Socialist, and Christian Democratic Parties, sectors of the Blanco and the Colorado Parties, and independent sectors. The main reasons for the founding of Frente Amplio were as follows:



- (a) In the sixties, social conflicts and political clashes became more intense. That was a period of economic crisis, stagnation of production, capital flight, financial crises, and extremely high inflation. Inflation stemmed from economic stagnation, which entailed strong competition for income distribution, basically between the cattle ranchers and exporters sector and the unionized urban workers;
- (b) Labor unity in the mid-sixties was a relevant factor that helped unite the left;
- (c) The profound crisis of the traditional parties, unable to find appropriate formulas for overcoming the economic crisis;
- (d) The urban guerrilla multiplied conflicts, although it was also represented at the founding of Frente Amplio; and
- (e) Frente Amplio's founding was immensely helped by distinguished personalities such as Líber Seregni, Zelmar Michelini, Rodney Arismendi, Juan Pablo Terra, Héctor Rodríguez, and José Pedro Cardozo, among others.

Frente Amplio was much persecuted under the dictatorship and had to face prison, torture, exile, and death. This intensified the unity of the left, which won 21 percent of the votes in 1984, although Líber Seregni, its main leader, could not run as candidate. Neither could Wilson Ferreira Aldunate, the National Party's leading figure, who also had to suffer many years of exile, nor Jorge Batlle, for the Colorado Party. In 1989, after an internal split, Frente Amplio once again won 21 percent of the votes and for the first time secured the Montevideo Department's government, a position it still holds. In 1994, it won over 30 percent of the votes, closely behind the winner. This led to a constitutional reform to require runoff elections if no candidate secures 50 percent of the votes plus one vote. In 1999, it won the first round with 40 percent of the votes, but lost the runoff. Finally, in 2004, it won the national elections with over 50 percent of the votes at the first round. In addition, it won the elections for governor in eight departments.

## D. The current situation

The Frente Amplio government inaugurated March 1, 2005 inherited a country ridden with critical problems: a heavy foreign debt equivalent to 100 percent of GDP, stemming from the severe 2002 financial crisis; a social situation in which nearly one third of the overall population was living in poverty; a 13-percent rate of open unemployment; average real salaries 22 percent lower than in 2000; and a marked migratory outflow of the youngest and the best qualified. To this should be added a high degree of informality and precariousness that had increased in the nineties and been aggravated by the 2002 crisis, triggering a process of social disintegration that put an end to the history of an integrated, socially cohesive Uruguay. The existence of wealthy ghettos and especially of ghettos of the poor, with differentiated values and motives, imbued with a poverty culture – that will take a long time to be overcome – unveiled a new Uruguay.

The new government received a State undermined by the previous governments and by neoliberalism, with poorly qualified personnel unable to reflect and to guide – a State that had lost sight of its basic functions, together with social integration and income distribution. Public enterprises had deteriorated and were full of irregularities and bloated owing to the political parties' patronage policy. One of the few institutions that still maintain a degree of professionalism is the Central Bank, at which ideologies imported from international financial organizations predominate.

Power relations bear the marks of the influence of international factors, particularly of the United States's hegemony, on the financial system, the means of communications, the Armed Forces, the transnational enterprises operating in the country, and even on the ideological field, as occurred in the discussion of the Free Trade Agreement with the United States. Force relations constitute a first tier of financial power, with the predominance of international banks, the owners of the means of communication, the transnational companies with operations in the country and their national allies. The second tier would consist of the different productive and trade associations with limited influence capacity, the labor unions, which were seriously affected in the nineties, and even the Armed Forces, which have steadily weakened since the democratic opening. Also to be noted is the low prestige accorded the intellectuals and

the universities, which have lost their capacity of producing specific proposals for the region and have limited research possibilities.

The 2002 crisis and the left's 2004 victory clearly point to the country's high degree of political stability and to the strength of the democratic institutions. During the election years, when the victory of the left was anticipated, the country experienced no capital flight, no speculative or inflationary processes, but economic recovery at an accelerated pace instead.

## E. The Frente Amplio government

Significant economic growth occurred in 2005, 2006 and the first three quarters of 2007, far exceeding expectations and the record of Uruguay's past fifty years. GDP grew 6.6 percent in 2005, 7 percent in 2006, and 6.2 percent in the first half of 2007 – very impressive rates indeed. The determinant factors of this growth have been the favorable behavior of international prices of exports as a result of the demand fueled by China's and India's dynamism, significantly higher investment in the construction sector with external financing, and the government's capacity to inspire confidence and trust in the economic agents. This has permitted the improvement of real salaries, a marked decline in open unemployment, now at 8.5 percent, which in turn permits social betterment. Inflation holds at one digit, and although the debt is still heavy, it has been adequately rescheduled.

In the social area, negotiations between entrepreneurs and workers have resumed through collective bargaining, salary councils have been reestablished, and unions have gained greater negotiation power. Unionization has increased, as has the number of unions. This has reestablished balanced relations of forces between capital and labor. An interim social emergency plan has been introduced, particularly to address indigence, similar to plans adopted in several countries of the region. Poverty, which still stands at 24 percent, has declined and so have indigence and child mortality.

A major achievement of the new government has been in the field of human rights. The remains of persons that had been arrested and then disappeared have been sought and identified, and notorious Army figures guilty of violating human rights are now in prison.

Structural reforms have been started. In 2006 a tax reform was approved, with the introduction of the personal income tax, although on a dual pattern that differentiates income from work and from capital gains, which are taxed at different rates. The reform eliminated a series of taxes of high administrative cost, without increasing the tax burden. Congress is currently considering a major health reform, which should maintain a mixed system, decentralizing public hospitals and attempting to solve the problems of private sector pensioners that have rendered a major contribution to the country. In as much as the tax reform did not contemplate health reform financing, a contribution system has been introduced, which adversely affects relations between active workers and retirees. Active workers feel affected by the low birth rate and emigration, while the number of retirees rises owing to longer life expectancy. In addition, under the contribution systems that have been relevant for Uruguay's social security and national health insurance systems, most workers had formal jobs and contributed to their respective pension schemes. Today, over 50 percent of the population do not participate in the social security and national health insurance systems owing to informality and open unemployment, and their only possibility of receiving care is through public institutions.

Short-term economic policy preserves some orthodox traits, particularly in the monetary and exchange areas. The exchange policy is not implemented because of the requirements of competitiveness and tends to repeat blatant errors, such as "*la tablita*" of the late seventies and early eighties and the exchange lag of the nineties, all of which led to severe financial crises.

## F. International policy and Mercosur

International policy has reflected Uruguay's historical characteristics and is focused on international peace and on the principles of self-determination and nonintervention. Very good relations are maintained with the United States, which helped the country during the 2002 financial crisis, facing up to the IMF, which favored default on the debt, and became one of Uruguay's major importers, especially of beef, owing to the mad-cow disease in Canada and the foot-and-mouth disease in Argentina and Brazil. Nevertheless, it also attempted to drive a wedge into Mercosur by seeking a bilateral Free Trade

Treaty with Uruguay. Reality elicited different responses within the Uruguayan government: some sectors that advocated the FTT with the United States tried to add to Mercosur problems by aggressive statements, while others were against the FTT and sought to improve the possibilities offered by the regional integration process. As it happened, the FTT with the United States did not materialize – as it was not permitted under Mercosur's Customs Union. Uruguay then joined the Group of 20 headed by Brazil in the area of trade, for addressing the problems caused by the developed countries' farm subsidies.

The international situation makes the formation of a regional bloc indispensable. We live in a world of globalized finances, technology, and communications, with strong economic blocs, especially the blocs of North America, headed by the United States, and of the European Union. In addition to the military domain, the United States exercise a clear hegemony also in the financial area, given the importance of the Federal Reserve's policies and of the New York financial center, as well as in the field of communications, as about 80 percent of the images seen the world over originate in the United States. This ensures that country a marked predominance in the political sphere, which has been affected by the international repudiation of Iraq's invasion.

There is a crucial need for a Latin American bloc to guarantee regional integration, based on shared proposals and maximum political cooperation for negotiating with the developed world. Negotiations involve both political and economic issues, especially negotiations pertaining to trade, finances, and production.

Negotiations are essential in matters of trade to counter the farm subsidies of the developed countries and the various forms of nontariff protection and economic policy measures that affect the terms of trade for the region's countries. As Latin America has only a 5-percent share of world trade, the banding together of allies is crucial, as occurred with the incorporation of China, India, and South Africa into the G-20.

On the financial plane, negotiations are important for changing the conditionalities imposed by the international financial organizations, for regulating speculative capital movements, 90 percent of which are for less than a week, and for designing new mechanisms to solve with greater equanimity the foreign debt problems of the countries of the region.

In the field of production, it would be useful to undertake joint negotiations with transnational enterprises to conciliate their interests with national and regional interests and to counter attempts such as the one aimed at a Multilateral Investment Agreement.

The regional integration process provides a series of economic potentialities, such as the following:

- (a) Energetic integration based on Bolivia's and Venezuela's oil and gas reserves;
- (b) Infrastructure works for transport and energetic integration;
- (c) Financial integration, which is emerging as a new phenomenon in the region. The high international prices of export products and better terms of trade for some countries have made possible a considerable increase of international reserves and some autonomy in relation to the IMF. To this should be added the existence of financial institutions, such as the Andean Development Corporation-CAF and the establishment of new ones, such as Banco del Sur, for extending development credit and helping the countries of the region to be in better condition for facing eventual financial crises.
- (d) Production integration is a key component of the integration process, an area in which progress has been rather limited. Basically, there has been a sort of passive integration under which tariffs are lowered, and the private sector and the market define trade relations. Integration has to become a more active process and this requires strategic lineaments to guide the establishment of productive structures based on competitiveness and employment as part of the countries' national projects. Our history shows that our productive specialization and thus the productive structure have been determined from outside to meet the needs of the developed countries. The hour has come for the countries of the region to move forward toward national projects to determine their new productive structures. These strategic lineaments should be coordinated and consistent and lead to regional projects capable of addressing current asymmetries, thereby benefiting the relatively less developed or smaller countries. These countries could then participate in dynamic productive processes and benefit from measures aimed at helping them to trade

goods with a higher aggregated value and technological content. New productive structures should be flexible and open so as to keep up with the pace of technological changes on the international plane. A good example of possible new forms of productive complementarity relates to Brazil's demands. Brazil demands special regimes or higher tariffs on capital goods, data processing items, and the automobile industry. Uruguay can agree to Brazil's needs but should be able to participate with some degree of specialization in the production and exportation of these products or in part of their production.

The integration process has problems. Two major steps forward were taken in 1994 and in 1998, when Brazil, Argentina, and Uruguay had considerable exchange lags, which intensified trade among them. The January 1999 devaluation exposed Argentina's and Uruguay's lags, giving rise to disputes and complaints among the Mercosur members, a situation that was aggravated by subsequent financial crises. There are some political conflicts, as the current one between Argentina and Uruguay about the pulp plants built in Uruguay. There are no community, supranational institutions, no application of decisions of arbitration courts, and there are nontariff barriers, often imposed by the states, that affect the normal course of the integration process. Limited trade relations among the various countries hinder the coordination of macroeconomic policies, such as was possible in the European Union. There is some ideological criticism on the part of those who never accepted the integration process because they believed that it would cause trade distortions; they thus advocate unilateral opening, especially toward developed countries. Power relations also affect the integration process, such as the weight of the big transnational corporations, whose specific interests often differ from what the countries may have agreed. Ideological and political motives also lead some to criticize the integration process because it purports to achieve bilateral free trade agreements with the United States, particularly on the Pacific coast.

In essence, the future of integration depends on pertinent political agreements but also on the capacity of eliciting emotions, values, and motivations conducive to a regional consciousness, which is still very limited, as well as to forms of regional identity. **DEP**

Translation: João Coelho

# The rule of law and social justice under the Bolivarian Alternative for America and the Caribbean-ALBA

*Isaías Rodríguez\**

**A**n announcer in Venezuela always starts the newscast with a reference to the “planet earth” as if the earth were a “spaceship”. The spaceship earth metaphor originated with Kenneth Ewart Boulding, a highly respected economist, ecologist, and active pacifist.

As in any spaceship, according to Boulding, survival depends on the equilibrium between its load capacity and the requirements of its passengers. To achieve equilibrium, it is not enough to have the justice of the lone gunman of American westerns, which is meted out through shots and is subject to no other rule than the gunman’s own.

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Only society as a whole – and not a lone gunman – can guarantee peace and harmony. This is what some call equilibrium and equilibrium is nothing other than the humanity of our acts and the exact opposite of what the *lone gunman* knows under the label of merchandise.

Both the International Covenant on Civil and Political Rights and the Covenant on Economic, Social, and Cultural Rights (signed in San José, Costa Rica on November 22, 1969 and in San Salvador on November 17, 1988, respectively) advanced positive law to counteract any structures, whether State or otherwise, that constitute serious threats to human rights. A mythology made into doctrine, which dates back to Hobbes's *The Leviathan*, maintains that the State is the only being capable of violating human rights.

This mythology, embraced as ideology now as then, sees the State as the only body that poses a threat to individual freedom and this is why, since Locke, the liberal human rights doctrine has sought to make us believe that “the only” permanent requirement to protect the individual from the State is to make solely the State, and not private individuals, accountable for the violations of individual or collective human rights.

Time has past by and two issues have arisen, which seem to have eluded the drafters of the two aforementioned international covenants.

One, worth reflection, makes clear that the State, in addition to supposedly being a threat to human rights, is also the guarantor of these rights. A second issue leads to the conclusion that, similarly to the State, private economic organizations can perfectly raise obstructions and challenges and definitely pose serious threats to human rights, to the point of interfering with and resisting everything that has to do with the citizen's rights embodied in the two covenants.

Despite the correctness of the liberal view that the States act or can act against these unalienable conquests of mankind, any such action accounts for an almost insignificant share of the problems citizens have to face for effectively exercising their human rights.

Edgardo Lander, a Venezuelan scholar concerned with this topic, calls such situations an “expression of the minimal State”, taking into account the fact that what is at stake is not the State as a body that sponsors violations, but the State as the intermediary of some rules not always set by itself, which

are communicating vessels whereby “the private property of capital and the means of production” generates a superstructure that harm these rights.

According to Lander, this manipulation is in itself a clear, definite interference in State policies and a visible and tangible violation of human rights perpetrated, not necessarily just by the State as the only one accountable for such policies.

It is evident that this one way of thinking has hallowed private property above freedom and this has introduced the concept of property in these policies.

With the intention of confusing or simply manipulating, [this concept] places on an equal footing “goods for personal consumption” and “production goods”, although this does not correspond to reality.

Goods acquired through the owner’s labor (such as a home, a TV set, a car, or a refrigerator) are thoroughly distinct from goods obtained through capital accumulation. They are accorded a different, less privileged treatment than goods obtained through capital accumulation and exploitation, which also derive from labor, but from subordinate labor bought for a salary by whoever directs labor as a subordinate activity.

These goods do not result from the personal work of those who produce them but from the sweat and the effort of others, whose fatigue is exploited. Examples abound: a textile enterprise, a trademark used to exploit others, a metalmechanic industry, and the blest “intellectual property” under which personal labor is expropriated, as when laboratories pack drugs and medicines on which our health and nearly always the life of the poorer depend.

Some neoliberal theoreticians (and, of course, the practitioners of the indiscriminate use of workers’ exploitation) may find it strange that an Attorney General, whose competence lies in dealing with criminal matters, should speak about these issues.

One of the functions vested in the Public Attorney’s Office under the Constitution of the Bolivarian Republic of Venezuela is “to see to the strict compliance with the Constitution and the laws”; art. 285 adds: “to guarantee, in court proceedings, respect for constitutional rights and guarantees as well as for international treaties, covenants, and agreements.”

Avoiding what occurred to the drafters of the aforementioned covenants on civil, economic, social, and cultural rights, the clear wisdom of the

Venezuelan Constitution writers was such that, admitting that the functions assigned the Attorney General's Office might over time be enfeebled, they made a clearly enunciated addition, which the international covenants lack: "and any other functions that may be established by this Constitution and by law."

On this basis, we have dared to address the issue and to invoke the 1962 United Nations General Assembly's Resolution 1803, which reads as follows:

*"The right of peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of their national development and of the well-being of the people of the State concerned." And: "The free and beneficial exercise of the sovereignty of peoples and nations over their natural resources must be furthered by the mutual respect of States based on their sovereign equality."*

On the same basis, we also invoke the 1974 UN General Assembly's Charter of Economic Rights and Duties of States, which states that:

*"Every State has the sovereign and inalienable right to choose its economic system as well as its political, social and cultural systems in accordance with the will of its people, without outside interference, coercion or threat in any form whatsoever."*

And Art. 2 provides that each State has the right:

*"a) To regulate and exercise authority over foreign investment within its national jurisdiction in accordance with its laws and regulations and in conformity with its national objectives and priorities..." and*

*"b) To regulate and supervise the activities of transnational corporations within its national jurisdiction and take measures to ensure that such activities comply with its laws..."*

The Charter also states that *"All States have the right to associate in organizations of primary commodity producers in order to develop their national economies..."*

Today, slightly over forty years after the adoption of these international agreements or covenants, we are under the obligation to look at and analyze all the different universes entailed by the development of these national economies.

Santiago Ramentol, a Spanish sociologist at the Barcelona University, identifies six such universes: (1) Imperial globalism (which Robert Kagan considers benevolent); (2) Worldwide liberalism; (3) Automatist expansionism; (4) Post-industrialism; (5) Information society; and (6) the so-called shock of civilizations.

Up to now, we have moved in one of these universes, namely, that of “imperial globalism”. In it, liberal representative democracy has lived in an allegedly tranquil relationship with the market.

But this “tranquility” is not really complete. There have been long periods in which “our countries’ freedom has not existed” or been reconciled to liberal society’s allegedly democratic structure.

Nor is it true that imperialism has been a benefactor or that the market has benevolently regulated the fair sharing of wealth.

This is what Santiago Ramentol has called “multiuniverse II”, in which “imperial globalism” benefits, basically and essentially, the transnational corporations.

In this multiuniverse II power is exercised on a planetary scale: the role of the United Nations is dismissed and the authority of the International Penal Court is rejected. In it, the public sphere has changed, as has the scope of the human rights addressed by the aforementioned international covenants; human rights have been transformed into a mere “client-enterprise” relation of a thoroughly mercantile nature.

This multiuniverse is where the “juridical-cultural” concept of every known notion of law has been almost completely depoliticized. In this respect, the logic of commercial law has prevailed over the logic of democratic rights and particularly over the logic of economic, social, and cultural human rights.

Neoliberalism, or “imperial globalism”, has literally trampled underfoot, or demeaned economic, social, and cultural rights, tactically ranking them – with a skill more appropriate to better causes – below the so-called “civil and political rights”.

Neoliberals have given rise to a current that maintains that the nature of social rights is different from that of civil and political rights and go as far as positing first, second, and third generation rights, so as to classify “economic,

social, and cultural rights” as “second generation” rights – I wonder whether they mean “second generation” or “second in importance”.

Be as it may, the intention here is to maintain that “only civil and political rights are justiciable”, as the covenant that recognized economic, social, and cultural rights provides only for the “possibility” of achieving their full realization... to the maximum of each State’s available resources.” In other words, a State is not under obligation to realize them if it lacks the requisite resources, whereas it is obligated to come up with the resources for the realization of the other rights.

But the just expounded concept is not enough, as the realization of these rights under international law is voluntary or optional, while under commercial law (as is certainly the case of rights recognized by international civil covenants) they are not compulsorily claimable but have rather been institutionalized through international treaties that can be implemented through coercive mechanisms.

The international commercial law instruments, according to Edgardo Lander, have ever greater capacity to impose rules to be compulsorily followed in nearly every country.

Liberal commercial law is becoming a sort of “universal law” or even a kind of “parallel global constitutional law.”

We should in full conscience deny that trade agreements are covenants under which “one achieves some gains and sustains some losses.” This is not correct. The issue before us encompasses a highly significant part of our countries’ and our citizens’ human rights.

The fact that, as the United States did not succeed at the World Trade Organization the unanimous, worldwide recognition of the priority of “commercial rights” over human rights, it has done everything possible to achieve this at the regional level and, with its usual skill, has invented the Free Trade Area of the Americas – FTAA.

What is the FTAA?

It consists in trade treaties that envisage a free trade area. The apparent objective is to eliminate customs barriers and duties on imports among countries.

The FTAA encompasses agriculture but treat it as “an international trade discipline”, as trade in goods, and accordingly ties it to foreign investment protection.

The FTAA was launched in 1994 and the proposal was later formalized after the 1998 Presidential Summit in Santiago.

Why was it formalized at that time and not earlier?

Because the U.S. President needs authorization from the U.S. Congress to sign such commercial treaties and this authorization had been denied then President Bill Clinton. After the 2001 Presidential Summit in Quebec, George W. Bush requested this authorization, which was granted by Congress in 2002.

Why, after formalization, has this enterprise not been fully implemented?

Because of agriculture. Agriculture is what has trammled the FTAA. The United States maintains a system of domestic farm subsidies, which also include farm exports subsidies.

But this is not the only reason.

Since 1980, world grain production has grown at a slower pace than the population in view of the restrictions imposed by the great powers to prevent grain prices from falling. Nothing has mattered to these great powers as long as they could maintain the asymmetric distribution of agricultural wealth.

Mercosur, Caricom, and the Andean Community of Nations have refused to negotiate under these conditions not only the agricultural issue but also all other issues as long as an equitable, adequate solution is not found for the question of subsidies.

Mercosur, with a few exceptions owing to political and economic pressure, has stood by its refusal to negotiate free trade agreements with the United States as long as unequal economic conditions prevail in the region. Brazil, for instance, has been tactful and diplomatic in negotiations, consistently favoring regional integration.

Accordingly, we find it regrettable that Colombia and Peru have signed a Free Trade Agreement with the United States. These two countries' markets will be absorbed by U.S. corporations, “deregulation” will be surely imposed, and this will inescapably affect public revenues of the Peruvian and Colombian States.

Most liberals, as a Spanish essayist says, do not practice their religion. Their faith is rather fickle. Their protection measures are in flagrant opposition to their neoliberal rhetoric and religion. At the 2003 WTO Meeting in Cancun, for example, the United States refused to cut down its 3.3 billion dollars in subsidies to its cotton producers.

The same thing was done by Europe and Japan in November 2005. It is widely known that in every situation the rich countries impose their commercial interests on poor countries and that the modest advances in respect of agriculture have been nullified by the road roller of services and industrial tariffs that affect and hinder the development of poor countries.

Europe, Japan, and the United States have refused to open their markets in areas in which the poorer countries could exceptionally compete, and agreed on tariff exemption for their products in all those areas in which they could not compete at all. We have a word for this in Venezuela: *caradurismo* [brazenfacedness].

Indeed, while tariffs on manufactures (from rich countries, of course) dropped from 40 percent in 1950 to 4 percent in 2001, these countries have maintained tariffs on farm products from poor countries above 40 percent.

But this is not the only problem. The United States complement their protection measures with the so-called *antidumping laws* and their only too well known *compensatory rights*. And if these were not enough, the United States also claims the unassailable faculty to apply its own laws under the jurisdiction of its own courts.

This makes for grotesque, immoral economic and commercial asymmetry. On top of this, all of our poor countries are forced to make concessions, but not the United States.

This is what Héctor Moncayo calls “recolonization through free trade agreements.”

But even more serious is the fact that, to ensure the survival of human beings (eight billion people by 2020), globalization is devising a terrible, sophisticated extermination plan to bring the world’s population down to four billion inhabitants by 2020.

Protectionism in favor of certain products from rich countries could be an expression of this “sophistication” aimed at killing off the poor, because

for neoliberalism “the growth of the poor alone” jeopardizes the planet’s future. It is certain that by 2050 the world would be unable to feed so many people and thus the neoliberal solution is “to kill the poor.”

Scientific data show that the per capita cultivated area in the world in 2002 was 0.26 hectare. By 2050, this figure is expected to drop to 0.15, while there will be an additional 2 billion people on earth, living with less water and this craziness of climate change, which is no different from what is being called “nuclear winter.”

For imperial globalization, the extermination plan is the only way to save mankind, or rather “*its* mankind.”

All this has to do with a fundamental, essential right of people: the right to food security, i.e., the right to food.

It should be born in mind that production is not restricted to the production of goods; it is a way of life that implies, among other things, the preservation of culture and the relationship with nature, and this has to do with our people’s security and sovereignty.

There is thus a sharp contradiction – or flagrant hypocrisy – when the United States establishes a human rights doctrine while at the same time it establishes a “free trade treaty” doctrine. The latter nullifies the former.

This inconsistency has been pointed out by Colombian jurists. In Colombia, our sister country, the Constitutional Court has established that:

*“...international human rights treaties and not economic treaties are constitutional; the former have preeminence over the latter and over any other kind of treaty.”*

Accordingly, we say that Colombia will be affected by the Free Trade Treaty it has recently signed with the United States. Moreover, in the view of its jurists, Colombia has violated its Constitution in signing this treaty, as its own Constitutional Court has declared.

The Colombian Constitutional Court’s sovereign decision has led people to disqualify it, calling it irresponsible and ignorant, and to accuse it of “obligating the Colombian State to a presumptive public expenditure that does not take into account the country’s macroeconomic conditions.”



One cannot say whose ignorance it is, or what the limits to cynicism, impudence, insolence, affront, and the rank insolence of immorality are.

The preceding does not mean nor warrants the conclusion that trade treaties should not be signed or that we should shut ourselves into an absurd isolationism, cut ourselves off from the world, cease communication with our neighbors, go into seclusion like hermits, and live as a lone society.

Not at all! It means that we must reaffirm the right assured us under the 1974 United Nations Charter of Economic Rights and Duties of States, which states that *“Every State has the sovereign and inalienable right to choose its economic system as well as its political, social and cultural systems in accordance with the will of its people, without outside interference, coercion or threat in any form whatsoever.”*

The Bolivarian Alternative for the Americas and the Caribbean – ALBA has been proposed by Venezuela to counter the FTAA. ALBA is a tool to overcome the obstacles to integration, including: (a) poverty; (b) inequalities and asymmetries among countries; (c) unfair trade; (d) the burden of an unpayable foreign debt; (e) the imposition of structural readjustment policies by the IMF, the World Bank, and the WTO, which undeniably undermines the base of our States’ social and political support.

ALBA is a strategy to clear the obstacles that prevent our access to information and the related technology under intellectual property agreements, among others.

ALBA provides guidance on how to address with firmness deregulation, privatization, and the dismantling of the institutional apparatus, supposedly conceived by the international organizations submitted to the empire, for “economic success”, which has been unquestionably proven false.

ALBA is a proposal centered on the fight against social exclusion. It is a set of basic criteria to make solidarity into an emblematic flag under which we will defend the State’s role against the laws of the jungle, on behalf of our sovereignty, development, and integration.

Noam Chomsky has expressed this quite well by this transformational-generative grammar theory, saying that the grammar of any language consists of a system of rules that make possible the formation of understandable sentences.

This grammar has a deep and a superficial structure. Let us look at the deep structure in ALBA and forget for a moment its superficial structure.

For Chomsky, grammar's structure is universal; it is lodged in the human brain and is inherited. Children learn to speak spontaneously. They have a natural predisposition for communication. They build their sentences intuitively. All of them begin to say "dad", "mommy", and "water" without any prior experience.

Let us, like Chomsky's children, begin to say "dad", "mommy", and "water" starting from integration and let us dare to give a sovereign answer against an unjust system that is unequal, distorting, arbitrary, and absurdly hegemonic.

The fight for democracy is a worthy cause. We must give reality to the new forms prompted by humanism. The defense of these rights requires that we exorcise the danger that a supposedly educated elite might make decisions for us, thereby impinging on our freedom and sovereignty.

Democracy is noble, but frail. It is always at risk. It has to be pampered, nourished, strengthened, and above all perfected to keep it from becoming the shelter of those that only wish to maintain and consolidate power, which is blind to majorities, looks askance at peace, and sneers at our desire to be sovereign and to determine our own juridical, cultural, economic, and political system.

Norman Mailer, a great writer, will assist us in summing up these scattered ideas with which we have attempted to translate our concerns about the frailty of our democracy. No one has expressed these concerns better than him.

Speaking in San Francisco, he expressed with the force of strong conviction the idea that "Real democracy comes out of many subtle individual human battles that are fought over decades and finally over centuries, battles that succeed in building traditions. The only defenses of democracy, finally, are the traditions of democracy."

According to him, "Democracy is perishable. The only defenses of democracy, finally, are the traditions of democracy which have been socially and democratically built with patience and perseverance. "Democracy is a state of grace that is attained only by those countries that have a host of individuals not only ready to enjoy freedom but to undergo the heavy labor of maintaining it."

I would only add that besides working hard so as to be able to enjoy and maintain our liberties, we must have the courage and the political will to foster our people's unity and fraternity. **DEP**

Translation: João Coelho





## Koki Ruiz

“**I** was born in the countryside among simple working folks: carpenters, masons, and farmers – lords of their own time, masters of their satisfying daily chores... Life-sustaining women, strong and gentle... Children in unbarred houses, vast schoolyards, and bird-filled plazas...”

In my childhood I met every one of the future subjects of my pictures: carpenters powdered with sawdust, callous hands wielding nail, hammer, and saw... Busy masons building little houses, mixing lime, sand, and bricks... Tanned harvesters in the sun, loading mountains onto wagons...

Gleeful musicians made of wine and passion, merry-making in nightspots... Expecting mothers riding buses or in hospital waiting rooms, at market or at Sunday mass... Faces roughened by life... Tender babies nestled in their mothers' warm bosom...

Children rounds, a whirlwind of white aprons streaming out of school...

Kite flying or ball games at any time of the day...

In memory hues I paint my childhood village.

I paint my village today in the colors of its dreams and hopes.”

(Koki Ruiz)

## Curriculum

1957 Born in San Ignacio, Misiones, Paraguay

1977-1978 Attended Plastic Arts Studios at Mackenzie University, São Paulo, Brazil, where he participated in his first group shows

1985 First solo shows, Propuesta Gallery, Asunción, Paraguay and El Viejo Salón Gallery, San Bernardino, Paraguay

1986 Participated in “Arco 86”, Spain’s major contemporary art show, Madrid, Spain

1987 Canning House, London, England

\_\_\_\_\_ Juscelino Kubitschek Memorial, Brasília, Brazil

\_\_\_\_\_ Las Malvinas Foundation, Buenos Aires, Argentina

\_\_\_\_\_ Düsseldorf Hotel, Düsseldorf, Germany

1988 Itinerant exhibit, Rabo Bank, The Netherlands

1990 Michelle Malingue Gallery, Asunción, Paraguay

1992 Pueblo Blanco Gallery, Punta del Este, Uruguay

1993 Galerie de France, Miami, United States

1995 Montalbán Gallery, Madrid, Spain

\_\_\_\_\_ Della Rovere Gallery, Madrid, Spain

\_\_\_\_\_ El Escorial Cultural Center, San Lorenzo del Escorial, Spain

1997 Scorpio Salón, Punta del Este, Uruguay

1998 Second Latin American Art Salon, Mexican Cultural Center, New York, USA

1999 Le Latina Renoir Gallery, Paris, France

2000 La Perrine Museum, Laval, France

2001 Amalfi Gallery, Punta del Este, Uruguay

2002 World Cup Painters, Busam, Chon JU, and Seoul, Korea

\_\_\_\_\_ Mailletz Gallery, Paris, France

## Monuments, sculptures, and events

*Tañarandy, “El arte con la gente”*

Founder of the *Tañarandy* Project in the San Ignacio Tañarandy community in 1992 – a nonprofit initiative for social development through the arts, carried out with community participation.

Tañarandy resembles an open-air popular art gallery. The recognizable painted signs on the house fronts indicate the activity carried out inside and the name of the family that lives there.

Tañarandy is the scene of the *Good Friday ‘Estacioneros,’*<sup>1</sup> a major art installation, internationally known as *The ephemeral baroque*, which combines elements of folk religiosity and universal art: the *estacioneros’* mournful singing, bitter-orange lamps, baroque music, and the living tableaux of great works of universal art by members of the community.

*The Mill Theatre*, another Koki nonprofit initiative occupies an old rice mill that provides theater lovers of any age a space of their own.

<sup>1</sup> Estacioneros are community members who reenact the Stations of the Cross during Holy Week.

## Monuments

El Reloj Solar [The Sundial], located at the entrance of San Ignacio, Misiones, Paraguay, the first mission founded by the Jesuits.

El Reloj Solar celebrates the Indians who defended their culture against foreign invasion, an event symbolized by a sundial and “the good use of time.” The resisting Indians look toward the rising sun as the symbol of life, while those that gave in look at the setting sun.

La Caballería del 70 [The 70s Cavalry], San Ignacio, Misiones, Paraguay.

La Fuente de los Reducidos [The Fountain of the Catechized Indians], a stone monument, Santa Rosa’s central plaza, Misiones, Paraguay.

El Kurupi [The Kurupi – a mythological forest imp], Santa Rosa plaza, Misiones, Paraguay.

El Kurupi II, Latin American Art Park, Seoul, Korea.

## Reviews

*Koki Ruiz’s works are immersed in a post-impressionism drenched in primary colors. His ‘Motherhoods’ are shaped as women charged with vitality and primitivism. In his well-resolved Trades series he sanctifies work, playing with contrasts with black and other dark tones, giving bodies an expressionistic cast, merely suggesting with a stroke of a finger or a spatula, for he shies away from precise contours.*

(Carlos García Osuna, Diario ABC, Madrid).

*Paraguayan Koki Ruiz’s subjects move on the canvasses in island colors and innocent, rhythm-charged games, through the lights and shadows of now soft now broad, bold strokes, in an environment fraught with expectation.*

(Lidia Garrido, El Siglo Magazine, Spain).

*Koki Ruiz’s exhibit unveils an art full of force and color. His painting shows another way of handling the brush and another way of using the force of color to bring out a small*

*detail hidden behind other colors. Devoid of difficult, affected forms and displaying a perfect combination of simplicity and luminosity, his painting brings to the fore both distant and near worlds, at once similar and different. These qualities and the singularity of his work account for Ruiz's successful appearance in San Lorenzo del Escorial.*

(Margarita Martín, El Mundo, Sierra Magazine, Madrid).

*Koki Ruiz knows the virtue of silence. This personal aptitude, this pause amidst the events of the world, allows him to capture reality with intuitive clarity.*

*His subjects – though alive, recognizable, and quotidian – stray from mere representation and come to us transformed, charged with mutation, after having traveled the vast space of his interior time.*

*In the territory of his recent experience, there emerge the secret love and complicity of mother and child; the nakedness of a woman whose forms strongly reflect an adolescent, violent, and brazen eroticism struggling to come free of taboos and impositions.*

*The honest practice of his craft without heeding cultural fashion is a characteristic of Ruiz's work. The artist elects man as the object of his conceptual concerns and places him in a particular environment in sound harmony with his bodily expressions, the rhythm of his activities, and his chromatic universe.*

(Adriana Almada, journalist. Asunción, Paraguay).

*Allegedly man has not changed in over two thousand years and nothing can be said about his condition and conflicts that has not been said by the Greeks.*

*Allegedly, nothing new can be said in the arts that take man as their subject. Although this may be true, there is the possibility of choosing the form of stating what is said, written, or painted – or, more precisely, the possibility of renewing themes and revitalizing questionings, according to the keenness or individualism of the discourse. The artist elects man as the object of his conceptual concerns and places him in a particular environment in sound harmony with his bodily expressions, the rhythm of his activities, and his chromatic universe.*

*This is brought to mind by Koki Ruiz's painting, its language that is difficult to situate in time and the simply classical concept of its theme.*

(Juan Manuel Prieto, art critic, photographer, and journalist  
Asunción, Paraguay). **DBP**





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# Construtora Norberto Odebrecht

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## Odebrecht's 2007 highlights in South America

**O**debrecht's commitment to socioeconomic development in South American countries goes back to 1979, when the enterprise began the internationalization of its operations. The first, successful projects abroad were the construction of the Charcani V hydroelectric power plant in Peru, and the deviation of the Maule River to the Colbún-Machicura hydroelectric system in Chile. These first contracts marked the beginning of Odebrecht's interaction with other nations, cultures, and technologies. This dynamic process has lent support to the development of the enterprise's workforce and yielded economic fruits for Brazil and the client countries. In addition, these initiatives laid the groundwork for the establishment of the trusting relationship Odebrecht maintains with its South American clients, paved the way for long-term partnerships, and opened up new opportunities for the enterprise and its contracting parties.

In 1987, Odebrecht started its operations in Ecuador with the development of the Santa Elena irrigation project in the Guayaquil region.

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In 1989, it constructed the Pichi-Picún-Leufú hydroelectric power plant in Patagonia, its first project in Argentina. In the 1990s, Odebrecht extended its operations to North America and Asia, expanded its presence in Africa, and decisively increased its activity in Latin American countries. In Peru, it implemented the second phase of the Chavimochic project, begun in 1990, for the irrigation of desert areas. In 1992, it began operations in Venezuela with the building of the Centro Lago Mall; in Uruguay, with the implementation of the Montevideo sanitation system; and in Mexico, with the construction of the multipurpose Los Huites dam. In 1993, it extended its activity to two other countries, after its successful bid to build the La Loma-Santa Marta railway in Colombia and the Santa Cruz de la Sierra-Trinidad highway in Bolivia.

Currently, Odebrecht operates projects on four continents, employing 46,000 people of twenty different nationalities practicing five religion and speaking a couple of dozen languages. In the last five years it entered four new markets – the Dominican Republic, the United Arab Emirates, Panama, and Libya. Notwithstanding the enterprise's projection overseas, South America remains its main market, where it has consolidated its strongest bonds with clients and the communities it serves. Consistently with the global macro-tendency of economic growth and international trade promotion, the South American region increasingly demands that it be provided with an infrastructure grid conducive to increased production and better transport. Demand for these essential factors for integrating regional productive chains, creating economies of scale, and improving the South American products' competitiveness conditions, has opened to Odebrecht new work opportunities in 2007 as well as further possibilities of reaffirming its leadership in the civil engineering sector in South America.

In 2007, Odebrecht completed twenty years of operations in Ecuador. In this period, we have implemented ten large-scale projects in the areas of transport, irrigation, energy, and sanitation. In June 2007, the Ecuadorian government received the delivery of the San Francisco Hydroelectric Power Plant, Odebrecht's most recently concluded project in that country. The plant uses the turbinated discharge from the Agoyán hydroelectric power dam and has a 230 MW installed capacity. The two turbines are generating 1,446 GW/hour a year, which accounts for 12 percent of all the energy available in Ecuador.



San Francisco Hydroelectric Power Plant in Ecuador

San Francisco is an impressive project, as it consists entirely of tunnels, galleries, and underground caverns. This makes it invisible to those driving by on the highway that follows the course of the Pastaza River, leading to the Ecuadorian Amazon a short distance ahead. At the peak of construction, approximately one thousand workers were local. Another 600 lived in two lodgings – one near the worksite and one in the city of Baños de Agua Santa (pop. 10,000).

Currently, hydroelectric power accounts for 52 percent of Ecuador's energy matrix. To meet the remaining demand, Ecuador resorts to thermoelectric plants, which hinders greater diversification of its energy matrix. But even with recourse to such alternative sources, the country still needs to import electricity from Colombia and Peru. Under this scenario, the San Francisco Hydroelectric Power Project imposes itself as a strategic undertaking to offset the current electric power deficit in Ecuador.

In 2000, twelve South American Heads of State meeting in Brasilia signed a commitment to build nine integration axes on the continent, under a project known as Initiative for Regional Infrastructure Integration in South America-Iirsa. Four of the contemplated axes cross the Peruvian territory. Odebrecht

actively participates in this undertaking, by constructing the Inter-Ocean Axis, the 2,603-km long South Corridor, known as Iirsa South, which connects Urcos to Iñapari; and the Multimodal Amazon North, known as Iirsa North, consisting of a 955-km highway linking the Paita Port on the Peruvian coast to the Yurimaguas river port in Peru's Amazon region, where it connects to the waterways leading to Iquitos and Manaus.

In July, some stretches of the highways under construction were open to the Peruvian population. On the South Inter-Ocean Corridor – an undertaking that will benefit ten Peruvian departments (30 percent of the national territory) and six million people (20 percent of the Peruvian population) – Odebrecht delivered part of the first phase of stretch 2. The work consisted in paving 42 kilometers of roadway and in the construction of 42 bridges, among other works, in the districts of Ccatca and Ocongate, in Cusco. It also concluded the first phase of stretch 3 on the road linking Ponte Inambari to Iñapari, which consisted in paving 60 kilometers of roadway and in 162 meters of bridges and retaining walls, among other works. On the North Road Corridor, work was completed on stretch 1, between Yurimaguas and Tarapoto, and on stretches 5 and 6 on the Paita-Piura-Olmos highway.

The work under way has yielded social and environmental benefits for the population. The team working on the South Inter-Ocean Highway Corridor has implemented the *Estrategia Integral de Acción y Contribución Socio Ambiental* and designed plans of action to be implemented in 2006-2010, as follows: (1) Social Issues Management Plan, consisting in the following programs: “Community Relations,” “Hiring of Local Labor,” “Land Negotiations,” and “Incentive to Local Production;” and (2) Social Responsibility Plan, consisting in the “Tourism and Hotel Administration Training Program” and the “Mobile Health and Education Support Program.” As a result of these initiatives, 11,500 people benefited from the mobile program, for which over 60 percent of the hired workforce was local, and from the issuing of identity documents to over 4,000 children and young people, among other benefits.



Workmanships in execution in the South Iirsa, Stretch 2, in Peru

In addition to these initiatives, Odebrecht is proceeding with the implementation of the Olmos Project for irrigation and energy generation, by building a system for siphoning water through the Transandino Tunnel into the Limón reservoir. There is also the Pampa Melchorrita LPG Plant and the Iquitos potable water system. Today Odebrecht is Brazil's largest exporter of engineering services to Peru, where it has operated for thirty years and implemented over fifty projects.

In Argentina, Odebrecht has recently begun work on the expansion of the Argentine Gas Transportation System, under two contracts for the construction of loops, i.e., new stretches of gas pipelines parallel to existing ones. In connection with the Cammesa gas pipeline, 979 kilometers of pipeline and 12 compression stations will be constructed. The Albanesi gas pipeline will be 648-km long and will have three compression stations. The two pipelines will cut the country from the farthest south to the north; after completion, they will increase the capacity of the Argentine gas transportation system by 15 million cu m/day.

In Venezuela, Odebrecht has completed fifteen years of operations. In 2007, the main highlight was the construction of a third bridge over the Orinoco River. This bridge will be 4.8-km long, with towers reaching a height of 137 meters, and a railway running in the lower deck; it will connect the municipalities of Caicara del Orinoco, in the state of Bolívar, and Cabruta, in the state of Guárico. Work started in 2007 and will include one 3.5-km long north viaduct and one 2.5-km long south viaduct.

Equally important was the successful bid for the construction of the Manuel Piar Hydroelectric Power Plant in Tocoma; this will be Odebrecht's first project in the energy sector in Venezuela. Work started also 2007, in Tocoma, 15 km downstream from the Simón Bolívar Hydroelectric Power Plant in Guayana, the last location of exploitation of the hydroelectric complex on the Lower Caroní, Venezuela's second largest river. Upon completion, the Tocoma hydroelectric power plant will have an installed capacity of 2,160 MW.

Also important was the beginning of the construction of the Caracas Metro's Line 5, which will extend for 7.5 km, with six new stations to be connected to the existing two. This line will carry from 227,000 to 300,000 passengers per day; it forms part of the transportation system that begun with the construction of Line 4 in 1998 and of Line 3 (which is under way,

will extend for 5.9 km, with four stations, and carry 240,000 passengers per day). Still in 2007, work has also started on the extension of the Los Teques Metro, with the construction of a new 12.1-km line and six stations in that municipality of Greater Caracas.



Workmanships of the Highway El Cármen – Arroyo Concepción, Bioceánico Corridor, in Bolivia

In Bolivia, Odebrecht is building the El Cármen-Arroyo Concepción 102-km highway and working on stretch 5, which links Santa Cruz de la Sierra to Puerto Suárez. The construction work employs of 900 people – 95 percent of them members of the local community. The finished highway will link Brazil and Bolivia. Stretch 5, contracted out by Administradora Boliviana de Carreteras-ABC and financed by the Andean Development Corporation-CAF with a total US\$75 million, forms part of the Two-Ocean Corridor that will establish a land connection between Brazilian seaports, such as Santos, to the Peruvian and the Chilean coasts. This will facilitate transportation and



reduce transportation costs between Mercosur and the Andean Community. In addition, the construction will significantly improve transport conditions between the Brazilian border and the Santa Cruz province, bringing down the number of hours required by train, car, or bus travel to eight hours after the road's completion in 2008.

Odebrecht's undertakings in Bolivia extend to the communities adjacent to its worksites. This is the case of the Yacuces town, which has seen its main square reformed and provided with lighting, and benefited from a social and medical assistance program, including free consultation with doctors. There, Odebrecht has already helped 3,000 Bolivians through its social assistance initiatives. These initiatives range from the hauling of tons of garbage from an empty tract of land to doctor's assistance to the community members at request.

These highlights illustrate South America's relevance to Odebrecht, as well as the contribution of infrastructure engineering services not only to South American countries' development but also to improving life quality for the citizens of our continent. Since the launching of its international operations, Odebrecht has completed over 700 projects on four continents. South America has rendered a major contribution to these achievements.

Currently, over 65 percent of Odebrecht's gross annual receipts come from abroad, while in 1985 no more than 30 percent of the enterprise's contracts were with other countries. At end-2006, the number of its employees abroad exceeded for the first time the number of its employees in Brazil. Today Odebrecht has over 26,000 employees in foreign lands and almost 20,000 in its homeland. These figures, coupled with the above-mentioned achievements and realizations, show that 2007 has meant another important step forward in the enterprise's internationalization, a dynamic process that further contributes to the South American nations' integrated development and inspires us to go on serving as best as we can the communities of which we are a part.

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# Grupo Andrade Gutierrez

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## South America: the challenge of the infrastructure

**U**nder the current Brazilian government's foreign policy priority is given to South America, whose integration is viewed as a political project that far exceeds the notion of mere economic coordination among the countries of the region. This emphasis on our geographical surroundings does not imply the abandonment of the long-standing ideal of Latin American solidarity but rather gives it a more pragmatic direction, so as to better identify what is possible to do in each area.

This becomes clearer through the observation of our approach of international affairs since early in the current government rather than simply through the interpretation of the public statements of our highest authorities during the 2002 electoral campaign or at the beginning of this Administration. There is thus a marked interest in maintaining closer relations with Mexico as well as with Central American and Caribbean countries, in addition to a growing presence of Brazilian enterprises in the area. Owing to feasibility considerations, though, the grand political integration project is seemingly circumscribed to South America, as it would be unrealistic to extend it to countries already bound to the United States by legal ties of an economic

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nature. But this does not mean that we are not developing or do not intend to develop a strong Brazilian presence in those countries.

It might be said that in its basic discourse the Lula government has seemingly embraced with even greater emphasis the regional vision of Fernando Henrique Cardoso's, at whose initiative the first summit of South American countries was convened. In an article published at that time in *Carta Internacional*,<sup>1</sup> Luiz Felipe Lampreia, Cardoso's Foreign Minister, made it clear that a decision not to include countries that were "more closely and directly linked to North America, and to the United States in particular" had been made at a meeting that envisioned a "pragmatic project for organizing the South American space." Notwithstanding possible differences of means and styles, continuity can be observed in connection with the establishment on the continent of a new kind of regionalism, namely South-Americanism, different from both Monroe's Pan-Americanism and the traditional Latin-Americanism of remote Bolivarian inspiration. This new kind of regionalism can better identify the most appropriate approach to each region without excluding but rather seeking to reinforce ties to other countries of the Americas.

The current orientation would thus seek – without clashes or attrition with the northern "hyperpower" – to circumvent the engulfing Pan-Americanism that can, owing to the dynamics of prevailing forces, more or less formally draw all the countries of the continent into Washington's orbit. The intention, as expressed by Celso Amorim, our current Foreign Minister, is to develop a mature, more strategic relationship with the United States, in which our country would be seen as "a partner indispensable to the stability of South America and even of Africa." The objective, then, is to assert our geopolitical position in South America, while taking a qualitative jump in our relations with the United States, and thus avoid a more delicate management situation by leaving in a kind of constructive indefiniteness the specific form of relationship with the area that is already de facto particularly linked to the United States. In rather simplified terms, our geopolitical view of the continent unfolds in concentric circles: first comes South America, which we wish to see as a close-knit community of democratic States; then, in terms of prior definition of our future action, come Mexico, Central America, and the Caribbean, where

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<sup>1</sup> "Cúpula da América do Sul", *Carta Internacional*, No. 87, ano VIII, May 2000.



Binational Usina of Itaipu (Brazil - Paraguay)

our capability for diplomatic action would be less significant, not the least because of that area's strong ties to the United States; lastly, the United States and Canada, with which our relations would have a clearly distinct character from our relations with the other regions just mentioned.

Thus, instead of the more comprehensive and somewhat vague options offered by Pan-Americanism and Latin-Americanism, which have made little progress in the past, what the Brazilian regional policy proposes today is to give emphasis to South American integration, based on an already existing integration project, namely, Mercosur, despite its flaws and limitations. To this end, Mercosur must be strengthened so as to become the nucleus of a future subcontinental, integrated bloc. The ultimate objective is thus the integration of South America as a whole, and Mercosur would be a first stage or a requisite instrument for achieving this goal.

This is a highly positive project for both Brazil and all of South America, as systematic, wide-ranging cooperation among all of our countries will make possible the exploitation of potential, so far latent or neglected synergies. This positive character is due not only to the clearly growing political projection of the countries involved but also, in a more restricted, specific sense, to areas such as environmental protection and the development of regional infrastructure, both of which are essential to the area's full, sustainable economic development. It remains to be seen whether such a scheme is feasible or, more specifically, in what timeframe it could be accomplished.

The very nature of the project requires that the first stage should be the strengthening of the structure created under the Treaty of Asunción, as the cornerstone of Brasília's South American project would be a Mercosur deserving of its name as a Southern Common Market. As this stage would partially consist in the fulfillment of commitments already undertaken under that international instrument, two questions immediately come up. The first question is why, after about seventeen years since the treaty's signing, so few of these commitments have been actually fulfilled. The second question is whether there are now conditions to establish within a reasonable timeframe a common market and the requisite institutional framework for its functioning. In other words, whether the four signatories of the Treaty of Asunción believe that they can now do what they had, in 1991, promised to do but have been unable to do so far.

In economic, demographic, and territorial terms, Brazil and Argentina make up 95 percent of Mercosur. In this respect, the two countries practically *are* Mercosur. Overall progress thus presupposes a far-reaching, stable understanding between these two major parties about what they think this political and economic grouping should represent for its member countries, both at home and abroad. As long as one or both see the Treaty of Asunción as a mere trade agreement or as just an element of their subregional policy; as long as Brasília and Buenos Aires fail to have a common perception or at least converging perceptions about how a genuine integration of the Mercosur countries (and ultimately of all South America) will enhance the international image and foster the sustainable development of each country, and that the two countries' must thus work in coordination and solidarity on the external front; and as long as this situation prevails, it will be impossible to achieve effective political commitments and institutional changes capable of making

Mercosur into more than a mini-Aladi. And, still worse: there is the risk that – as it is apparently happening already – that its relevance for the States Parties themselves will decline instead of increasing.

Converging political perceptions between Brazil and Argentina are thus crucial to Mercosur's progress – but not enough. The advance of a political and economic grouping presupposes equal functioning to a certain degree to ensure that the smaller partners will wish to contribute to the progress of all. Today, neither Paraguayans nor Uruguayans seem to believe that the integration process in which they are participating is ensuring this equity or that Mercosur's current institutional framework is capable of redressing perceived injustices, or of sufficiently reducing divergences among its Member States. In Paraguay's case, it is quite significant that in a recent interview to a Brazilian newspaper<sup>2</sup> Mrs. Bianca Ovelar, who is running for President of her country at next April elections, referred to a pervading feeling among Paraguayans against "Brazil's historic unilateralism when dealing with bilateral issues." She added that although this feeling "has significantly changed under President Lula's government... we still have a long way to go to arrive at an entirely just relationship." This is not the place to determine whether these claims are justified or not. The point is that if public opinion in the neighboring country did not have such a strong perception of injustice – whether well-grounded or not – such statements would not have been made by someone running for President of Paraguay. As regards Uruguay, it has clearly expressed its interest in celebrating a bilateral trade agreement with the United States – which would certainly have a negative impact on the system established by the Treaty of Asunción – as well as its dissatisfaction with Mercosur as it exists today. Moreover, the controversy with Argentina over Uruguay's construction of a pulp plant near the Argentine border evidences a lack of proper regulation in such a key area as environmental protection and the ineffectiveness of common market institutions in solving divergences about issues that are relevant to regional integration.

Such divergences and feelings of frustration are common to all integration schemes where there are marked asymmetries among the Member States. Accordingly, it is essential to solve them and to prevent justified or unjustified perceptions of injustice from undermining the stability of the desired integration. Mercosur cannot escape this rule.

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<sup>2</sup> *O Globo*, 10 February 2008, p. 37.

So far we have dealt basically with issues that are directly connected to Mercosur, although we have made it clear that Mercosur is only the first step on the long way toward the ultimate objective of South American integration. With the specificities of each national situation, the problems mentioned here by way of illustration will tend to multiply as the scope of integration widens.

In a vast integration area characterized by major internal asymmetries, as is the case of South America, two issues inevitably come up. The first is the need for some degree of harmonization of the positions and perceptions of the major partners as regards the main lineaments and objectives of integration. This harmonization is essential for keeping at manageable levels the inevitable differences that arise when the decision-making bodies are at work, so as to allow the main players to act in consonance with each other, thereby ensuring the advancement of their common project. A classical example is the cooperation between France and Germany in building today's Europe, which made it possible for them to move from a past of bloody conflicts to the construction of the European Union. A second issue is the establishment of a working system that ensures a minimum structural equity in the distribution of integration's benefits among all participants so that even the smaller partners may feel that the necessary punctual concessions are more than offset by the advantages of their successful common project. Once again, the European Union provides a cogent example, as its construction required the adoption of mechanisms capable of promoting the prosperity of less endowed regions, without prejudice to economic and trade integration. Such mechanisms permitted the integration of some of the world's most advanced economies with other economies that were relatively poor at the time of their accession, and greatly helped expand the Europe of Six (the signatories of the Treaty of Rome) to the twenty-seven that comprise the European Union today.

The situations mentioned in the preceding by way of example, which illustrate the two types of difficulties pointed out in respect of Mercosur, tend to multiply and to aggravate with the endeavor to extend the integration process to all of South America. This is already noticeable in countries that are only associates of or in the process of being admitted into Mercosur. Without going deeper into an analysis or into the merit of their respective positions, it is easy to see that the Venezuelan government's foreign policy approach and activism, for example, substantially differ from the stance of some other

countries of the region while approaching or influencing the stance of some others. But this should not make us forget that Venezuela is a key piece in any general scheme of South American integration. It is also equally valid to point out that during the negotiations for full membership, a country such as Bolivia, now a Mercosur associate, will have sound arguments for demanding provisions aimed at offsetting some of its economic disadvantages.

The problem is particularly complex because although it may fall into one of the general categories pointed out, each national situation has peculiarities that make extremely difficult a satisfactory solution according to the general formulas applicable to all Member States. It may be relatively simple to formulate general equity or compensation principles regarding situations of flagrant asymmetry but it is much more difficult to move on to operational formulas capable of offsetting actual or perceived equity flaws. Hence, the great difficulty in making operational such a comprehensive instrument as the Treaty of Asunción through full compliance with the commitments and good intentions embodied in it. This would be even more difficult in relation to a still hypothetical, similar instrument encompassing all of South America, if and when such an instrument could be adopted.

In brief, we have a valid regional policy goal, whose achievement could enhance the international presence of the countries involved and lead to the solution of common regional problems, and which is accepted by all potential participants, as no South American country is avowedly opposed to our subcontinent's integration. The great problem is that, understandably, different countries have different perceptions as to what integration should be in practice. Reconciling these differences so as to make possible the establishment of an integration system acceptable to all the countries of the region and which at the same time goes beyond a set of good intentions and commitments that remain on paper will probably be achieved only in a very long run. And to borrow Keynes dictum, in the long run, we are all dead...

What should we do? Abandon a worthy political project only because it cannot be fully achieved within the foreseeable future? Attempt to carry out the premature negotiation of a grand integration scheme in a quixotic effort likely to discredit a desirable objective? Or to move on to undertakings of a lesser scope and thus more realistic, capable of actually bringing South



American countries closer together and of directly or indirectly contributing to the achievement of the ultimate objective of regional integration?

In principle, any understanding that involves more than one South American country in the achievement of a common objective helps cultivate cooperation habits. This in turn can facilitate, if modestly and indirectly, a greater effort toward regional integration. Certain areas should be contemplated in any integration scheme, in which transnational actions of a limited scope will have a more direct effect on the final objective. Such actions might include arrangements aimed at facilitating trade between neighboring countries; binational or plurinational understandings on environmental protection; or undertakings related to regional infrastructure or even to national infrastructure in which entities of more than one country are involved. Regional infrastructure is of utmost relevance as it is essential for the physical integration of South American countries, without which the wished-for political and economic integration will be little more than a rhetorical expression. It is obvious that without proper highways, railways, and waterways as well as an adequate communications network, even the most carefully conceived integration treaty will be worth little more than the paper on which it is written. Diplomacy and civil engineering must thus walk hand in hand if we wish to make into a reality the major objective of South American integration.

Brazil finds itself in a particularly favorable situation to carry out such actions. As South America's largest, most developed economy, with a population of 180 million, it is a particularly attractive market for the neighboring countries. It may, with greater likelihood of success than most of the other countries, promote geographically limited arrangements that can, even without having the substantive coverage of an integration scheme, take into account possible asymmetries and foster its own sustained development as well as that of its partners.

At the same time, our country's vast territory that borders on all South American countries except two and the advanced stage of our civil engineering industry make it important for us to develop a regional transportation and communications network and enable us to render a significant contribution to its construction. It may be recalled that the only Latin American enterprises on a list of the world's fifty largest civil construction companies are Brazilian. This explains the strong presence of Brazilian enterprises such as Andrade

Gutierrez and other major companies in several South American countries, including Argentina, Ecuador, Peru, and Venezuela. In the last analysis, the participation of Brazilian private enterprises in the implementation of large-scale infrastructure projects of interest to our neighbors creates cooperation habits among countries and contributes to South America's physical integration, which is essential for achieving the unanimously endorsed objective of political and economic integration.

The importance attached by the subcontinent governments to the development of an adequate infrastructure is demonstrated by the launching and unanimous approval of the Initiative for the Integration of Regional Infrastructure in South America-Iirsa in Brasília in August 2000. Iirsa provides a forum for dialogue among the authorities responsible for transportation, communications, and energy infrastructure in the twelve South American countries. Its objective is the development of the region's infrastructure to facilitate the participating countries' physical integration and promote a model of equitable and sustainable territorial development. Iirsa's central body is the Executive Steering Committee-CDE, made up of senior representatives from national agencies deemed competent in this field by each government. The Technical Coordination Committee, subordinated to the CDE, consists of representatives from the governments and from the three international financial organizations directly involved in the initiative, namely, the Inter-American Development Bank-IADB, the Andean Development Corporation-CAF, and the Fund for the Development of the River Plate Basin-Fonplata. Iirsa has adopted a 2005-2010 Consensual Implementation Agenda consisting of a first set of thirty-one projects, mainly in the area of transportation, already approved by the participating governments.

It may be too early for assessing Iirsa's actual contribution to the development of physical integration in South America, as by nature infrastructure projects take a long time. But the work done so far – including both the plurinational coordination effort and the specific projects executed by major engineering companies such as Andrade Gutierrez – seems to reinforce this article's contention about the convenience of concentrating efforts on undertakings that though substantively and geographically limited can significantly contribute to any more comprehensive integration scheme. This does not mean abandoning the more ambitious idea of the South American



Interoceánica road (Iirsa)

countries' political and economic integration but simply drawing practical conclusions from facts that seem incontestable. Although desirable, the grand project for integrating all of South America involves, by its magnitude, much greater difficulties and its realization requires much more time. Meanwhile, competing or conflicting initiatives could emerge, making the completion of the grand subcontinental project even more problematic. In a way, this is what happened with the Initiative for the Americas launched by President Bush (father), which led to the much more specific proposal of a Free Trade Area of the Americas-FTAA. The least that can be said is that this process distracted the Latin American countries' attention from the idea of their own integration with the mirage of an unrestricted opening up of the immense United States market. In the case of South America, it did even more, seducing countries that were part or associates of an existing subregional system with the prospect of bilateral agreements with Washington, considered more attractive than integration with the much more modest markets of our subcontinent. A second conclusion is that we can contribute to the success of the final project

by making progress in less controversial areas with undertakings that, although also requiring time and effort, such as the aforementioned construction of a regional infrastructure network, must be carried out anyway before or after the political decision on subcontinental integration is formalized.

In brief, the idea is to keep alive the objective of South American integration but to do so realistically, attaching priority to those areas in which we have competitive advantage and which are more relevant to the ultimate objective, such as the building of a regional transportation and communications network, as well as to areas in which the scale and relative development of our economy place us in a natural, especially privileged position in South America.



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# Embraer – Empresa Brasileira de Aeronáutica S.A.

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## Embraer goes international

### **I**ntroduction

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

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on a single foundation – our clients’ satisfaction, the source of the results that will ensure our stakeholders’ gains and the enterprise’s continuity over time. These pillars are as follows:

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



Legacy 600

- *Global industry:* low output and the high cost of production makes the aeronautic industry an exporting and global concern by nature, as regards both its client and supplier base and the financial institutions that back it. The same Embraer 170 aircraft that operates under the flag of Finnair, Finland's airline, in the severe Scandinavian winter must also stand the high humidity and temperature levels of southern United States, where it operates under United Express's flag. In both cases, Embraer must be permanently available to its clients, providing local technical support and immediate access to parts and components, thereby honoring its commitment to the success of their business and aiming always at their full satisfaction, which will in turn ensure additional orders in the future. At the same time, Embraer must experience the different environments in which it operates, so as to detect positive or negative tendencies and changes in the scenarios and to be able to provide a speedy response.



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

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

## **Embraer goes international**

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

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

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

## **United States and Europe: consolidated presence**

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



Phenom 100 and Phenom 300

The two units have had and continue to have a vital role in the expansion of its operations in those two main commercial aviation markets in the world. Including Brazil, 950 commercial jets, in addition to 800 turboprop planes as well as military planes made by Embraer are now flying. The U.S. and the European markets account for 95 percent of its total exports.

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

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

## China and Pacific-Asia: strategic markets

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

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

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

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

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

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

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

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



Embraer's Headquarters. São José dos Campos

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

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

## **Expansion of Embraer's client services and support base**

Embraer plans to continue expanding its client services sector not only to ensure that its clients will achieve excellent dispatchability rates for their aircraft fleet but also to provide them with other services, such as aircraft maintenance and repair, to their full satisfaction, which is essential for the achievement of our goals and the growth of our operations.

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

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

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

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

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

## **Preserving culture, values, and attitudes – an enduring challenge**

The velocity of Embraer's expansion since 1996, when its ERJ 145 aircraft went into operation, has brought with it formidable challenges in respect of the preservation of culture, values, and attitudes, a concern that continues to guide the enterprise's actions.



EMBRAER 170/190 family

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

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

The main element for the achievement of this intent is the so-called Management Methodology through Action Plan. Each year Embraer prepares an Action Plan based on a five-year perspective and follows a strategic planning model that takes into consideration markets, competitors, the enterprise's capabilities, opportunities, and risks, priorities, and results, among other factors.

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

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

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

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

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

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

Translation: João Coelho





# DEP

DIPLOMACIA      ESTRATÉGIA      POLÍTICA  
Number 7      July / September      2007

## Summary

---

7 The recovery of Argentina's economy  
*Aldo Ferrer*

---

25 The Bolivian economy: diagnosis and plans for 2008  
*Luís Alberto Arce Catacora*

---

47 A qualitative approach of the Brazilian economy  
*João Paulo de Almeida Magalhães*

---

78 Chile's economy and development challenges  
*Mauricio Jelvez M.*

---

90 The Colombian economy: a critical approach  
*Darío Germán Umaña Mendoza*

---

112 The Ecuadorian economy: overview and a new concept  
of development  
*Fander Falconí Benítez*

---

141 The Guyana economy, review and prospect  
*Rajendra Rampersaud*

---

---

156 Paraguayan economy at a slow pace: current situation  
and outlook

*Dionisio Borda*

---

171 The Peruvian economy and the challenge of growth with  
social inclusion

*Enrique Cornejo Ramírez*

---

192 Surinam: macroeconomic evolution

*André E. Telting*

---

206 The Uruguayan economy: an entrepreneurial standpoint

*Jorge Abuchalja*

---

217 The present growth period of the Venezuelan economy

*Nelson Merentes*

---

235 Philip Moore: an ancient soul in a modern body

*Agnes Jones*

---

# DEP

DIPLOMACIA  
Number 6

ESTRATÉGIA POLÍTICA  
April / June 2007

## Summary

---

5 Reality of Argentina and the region  
*Cristina Fernández de Kirchner*

---

15 Diplomacy for life  
*Pablo Solón*

---

35 Brazil 2007: ready to grow again  
*Guido Mantega*

---

48 Regional integration: factor of sustainable development  
*Emílio Odebrecht*

---

59 The quest for development with equity  
*Ricardo Ffrench-Davis*

---

73 Colombia: challenges until 2010  
*Álvaro Uribe Vélez*

---

88 A plan for Ecuador  
*Rafael Correa Delgado*

---

- 
- 94 Cultural identity & *creolization* in Guyana  
*Prem Misir*
- 
- 105 Paraguay: State patronage and clientelism  
*Milda Rivarola*
- 
- 127 Coloniality of power, globalization and democracy  
*Anibal Quijano*
- 
- 173 Drug traffic combat in Suriname  
*Subhaas Punwasi*
- 
- 186 Mercosur: project and perspectives  
*Luis Alberto Lacalle de Herrera*
- 
- 194 About the utmost importance of a party  
*Hugo Chávez*
- 
- 221 Guayasamín by himself
-

# DEP

DIPLOMACIA  
Number 5

ESTRATÉGIA POLÍTICA  
January / March 2007

## Summary

---

5 Ideas, ideologies, and foreign policy in Argentina  
*José Paradiso*

---

25 Infrastructure integration in South America:  
stimulating sustainable development and regional  
integration  
*Enrique García*

---

35 Elections and patience  
*Antônio Delfim Netto*

---

39 The outlook for Chile-Bolivia relations  
*Luis Maira*

---

54 Colombia's strengths  
*Fernando Cepeda Ulloa*

---

74 Foreign policy and democratic and human security  
*Diego Ribadeneira Espinosa*

---

82 Cheddi Jagan's global human order  
*Ralph Ramkharan*

---

---

88 Paraguay's economic situation and prospects  
*Dionisio Borda*

---

103 A strategic regional view of Peru's foreign policy  
*José Antonio García Belaunde*

---

123 Suriname by its authors  
*Jerome Egger*

---

137 Mercosur: *quo vadis?*  
*Gerardo Caetano*

---

171 *Full Petroleum Sovereignty*  
*Rafael Ramírez*

---

179 Silvano Cuéllar – *Allegory of the Nation*  
*María Victoria de Robayo*

---

# DEP

DIPLOMACIA  
Number 4

ESTRATÉGIA POLÍTICA  
April / June 2006

## Summary

---

5 Objectives and challenges of Argentina's foreign policy  
*Jorge Taiana*

---

16 Bolivia, a force for integration  
*Evo Morales*

---

27 The Brazilian economy's challenges and prospects  
*Paulo Skaf*

---

44 Program of government (2006-2010)  
*Michelle Bachelet*

---

66 The trap of bilateralism  
*Germán Umaña Mendoza*

---

84 The Amazonian Cooperation Treaty Organisation  
(Acto): a constant challenge  
*Rosalía Arteaga Serrano*

---

100 Guyana – linking Brazil with the Caribbean:  
potential meets opportunity  
*Peter R. Ramsaroop*  
*Eric M. Phillips*

---



- 
- 118 Paraguay's political crossroads  
*Pedro Fadul*
- 
- 131 The great transformation  
*Ollanta Humala*
- 
- 151 Suriname: macro-economic overview, challenges  
and prospects  
*André E. Telting*
- 
- 164 Uruguay's insertion into the world economy:  
a political and strategic view  
*Sergio Abreu*
- 
- 200 "There is another world and it is in this one"  
*José Vicente Rangel*
- 
- 226 *Pedro Lira*  
*Milan Ivelic*
-

# DEP

DIPLOMACIA    ESTRATÉGIA    POLÍTICA  
Volume I    Number 3    April / June    2005

## Summary

---

5 Argentina, towards another kind of country  
*Roberto Lavagna*

---

12 The indigenous movements in Bolívia  
*Álvaro García Linera*

---

31 Twenty years of democracy  
*José Sarney*

---

42 Election prospects in Chile. Are we heading to a fourth 'Concertación' government?  
*Carlos Huneeus*

---

67 The real challenge of the current peace process in Colombia: the implementation of the law of truth, justice, and reparation  
*Marta Lucía Ramírez de Rincón*

---

80 Ecuadorian democracy's governability problems  
*Oswaldo Hurtado*

---

93 Guyana – between history and reality  
*Christopher Ram*

---

---

103 Objectives and challenges of the paraguayan economy  
*Ernst Ferdinand Bergen Schmidt*

---

115 The peruvian economy: overview, prospects, and proposals  
*Enrique Cornejo Ramírez*

---

136 Brasil-Suriname relations: a businessman's view  
*Robert J. Bromet*

---

144 Uruguay: basic criteria for a left project  
*Alberto Couriel*

---

171 Can democracy be imposed?  
*Alfredo Toro Hardy*

---

184 Documents  
Letter of the Presidents Hugo Chávez and  
Tabaré Vázquez to the Presidents of South America

---

189 Reinventing reality  
*Ferreira Gullar*

---

# DEP

DIPLOMACIA ESTRATÉGIA POLÍTICA  
Volume I Number 2 January / March 2005

## Summary

---

5 Mercosur Perspectives  
*Eduardo Dubalde*

---

29 Education and culture in Bolivia  
*Fernando Cajías de la Vega*

---

42 Argentine - Brazilian alliance  
*Hélio Jaguaribe*

---

53 Overview of security in South America  
*Francisco Rojas Aravena*

---

78 Drugs, conflict and the United States.  
Colombia at the turn of the century  
*León Valencia*

---

104 Petroleum policy and the future  
of the Ecuadorian Amazon  
*Guillaume Fontaine*

---

119 A constitutional odyssey  
*David de Caires*

---

---

135 The failure of politics in  
democracy and the imprint of reality  
*Carlos Mateo Balmelli*

---

156 Andean Community: integration for  
development with globalization  
*Allan Wagner Tizón*

---

174 The electoral system of Republic of Suriname  
*Samuel Polanen*

---

180 An integrated Uruguay  
*Tabaré Vázquez*

---

195 Venezuela: from one political system to another  
*Carlos A. Romero*

---

222 Gil Imaná Garrón  
*José Bedoya Sáenz*

---

# DEP

DIPLOMACIA ESTRATÉGIA POLÍTICA  
Volume I Number 1 October / December 2004

## Summary

---

5 The Argentine foreign policy in the context  
of regional integration  
*Rafael Bielsa*

---

22 The Bolivia's new foreign policy  
*Juan Ignacio Siles del Valle*

---

40 Concepts and strategies for diplomacy  
in the Lula government  
*Celso Amorim*

---

48 The Chile's foreign policy at the dawn of the millennium  
*María Soledad Alvear Valenzuela*

---

66 The Colombia's foreign policy: democratic  
governance, shared responsibility,  
and solidarity  
*Carolina Barco*

---

89 The Ecuador's foreign policy  
*Patricio Zuquilanda-Duque*

---

110 The Guyana's foreign policy: Responses  
to a changing world environment  
*Samuel Rudolph Insannally*

---

---

123 The foreign policy of the Republic of Paraguay  
*Leila Rachid*

---

135 The Peru's foreign policy: A national option in  
the global process  
*Manuel Rodríguez Cuadros*

---

167 The foreign policy of the Republic of Suriname  
*Maria Levens*

---

175 The Uruguay's foreign policy  
*Didier Opertti Badán*

---

199 Venezuelans and their democracy  
*Jesús Arnaldo Pérez*

---

219 Antonio Berni – *First Steps*  
*Alberto G. Bellucci*

---