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Argentina-Brazil: a desirable, possible project?

*Roberto Lavagna**

The convergence of initiatives between Argentina and Brazil has made significant progress since the 1986 agreements. At that time, negative tendencies toward conflictive competition and the less visible but no less negative tendencies toward mutual indifference were brought to a halt, although they have not completely disappeared. The two attitudes and stances can be overcome only through a common political decision and strategic plans that converge to a point where strategy becomes a regional project.

The achievement of the objectives of a regional project and thus the advance of the qualitative jump taken in 1986 faces two considerable obstacles that should be acknowledged:

- (i) the tendency observed at least since the early eighties to adopt, in respect of the economy and foreign policy, conducts that did not coincide in time, and

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- (ii) the lack, in bilateral relations, of a more thorough discussion about the strategy for development and for the countries integration into the region and the world scene.

This would be an impossible, useless task, as might be argued by many pragmatically-minded people, for whom laying roads or erecting power lines, or trade increase are much more effective and are worth more, both internally and at the regional level, than abstract discussions about the coordination of economic policy phases or the even more remote discussions about strategic visions. Those who argue thus adduce realities and trade or infrastructural gains in contrast to the tedium of bureaucratic discussions that fail to address specific interests and needs.

I would both agree and disagree with such an argument.

It is true that often in our region – why not say in the world as well – there are more discussions and speculations than actual work and decisions anchored in reality and in our people's immediate needs.

However, such pragmatism could not by itself alone take the place of a “vision” of whither we are headed, whither the world is going, and of how we can adapt to and effectively integrate into this world.

The European Union example reminds us of the twofold need of *action based on reflection*. What would have happened to the European project if a more profound motivation had not underlain the conception of the European Coal and Steel Community encompassing two strategic sectors? In this case, the extra-economic motivation was the determination to lay the foundations for a *European pax* that would make impossible a repetition of confrontations such as World Wars I and II. On that occasion, the pursuit of enduring peace conditions was supported by the matrix of a project soon realized through political agreements pertaining to coal and steel, as well as to agriculture.

It might not be too absurd to wonder if the current difficulties faced by the construction of the European Union are not due precisely to the loss of vision and profundity and to the fact that its geographic expansion may be happening at the price of greater superficiality, given that it is dictated by exclusively economic interests.

Although necessary, pragmatism is in no way sufficient. It is thus worth analyzing the two obstacles that are hampering our integration process.

I. Dissimilar behaviors

It is possible to identify three periods in the last twenty-five years when Argentina's and Brazil's behaviors did not coincide in their reading of economic reality or international policy.

The first occurrence took place at the time of the Mexican debt crisis in 1982. For a decade the major international banks had recycled the windfall resources the oil-producing countries had derived from the first shock of the high prices of oil and oil products in 1973. During this recycling period, Latin American countries took advantage of the supply of credit on markedly more flexible terms, thereby significantly increasing their foreign indebtedness.

When the crisis broke out, it elicited two different interpretations: according to one, we were faced with a "liquidity" crisis, while the other pointed to a more serious crisis, namely, one of "solvency."

The central countries and the major international banks that had acted as lenders supported the liquidity thesis and their stance was to avoid outright haircuts and favor as an alternative a rescheduling scheme that implied some small reductions of the debt. The "solvency" theory, on the other hand, claimed that the debt was unsustainable and that more explicit, extensive haircuts were needed, under risk of mortgaging the growth of many countries.

The choice of one or the other possibility did not depend on the decision of individual countries, as there was the risk of a domino effect. Had the debtor countries, or at least those of greater weight, been able to make prevail the idea of a solvency crisis, it might have been possible not only to reschedule but also to alleviate considerably their foreign debt.

But this did not happen. While Funaro, the Brazilian Minister of Finance under the Sarney administration was inclined toward a concerted action based on the solvency theory, the Argentine government, during the Alfonsín-Sourrouille administration, preferred to subscribe to the liquidity theory and engage in a process of debt rescheduling instead of its effective reduction.

The second occurrence took place in the nineties. Argentina, under the Menem-Cavallo administration, engaged in a generalized process of financial liberalization, privatizations, and drastic revaluation of the national currency, as well as adopting the rigid exchange regime of "convertibility," which operated practically as a currency board. Under the Fernando Henrique

Cardoso-Malan administration during those years, Brazil maintained instead a more autonomous monetary, exchange, and economic policy in general. This disparity between economic policies, which widened over the years, especially as of 1995 and during the post-Tequila period, hindered the formulation of common strategies. Furthermore, Argentina wrapped up its economic policies in an international alignment sharply inclined toward the United States, under the doctrine known in Argentina as one of “carnal relations,” in the words of the Argentine foreign minister at the time.

Argentina became fashionable on the international markets, was designated a NATO South-Atlantic partner, took part in the Gulf War, and acted as the Washington Consensus’s best student. This extremely close alignment was not shared by Brazil and although this did not give rise to open conflict, it did lead to mistrust and even unnecessary competition.

The third occurrence has taken place in the current decade. The fall of “convertibility” coincided with Argentina’s loss of social and political confidence in the Washington Consensus’s orthodox policies. Argentina experienced then its worse economic and social crisis in a century, owing to the financial system’s failure to honor its obligations in 2001, under the De la Rúa-Cavallo administration, and to the subsequent, inevitable default on the debt, decreed with extreme levity by a transitory government that lasted only a few days (Rodríguez Saa administration).

The renegotiation of the debt afterwards, with a substantial haircut, under the Duhalde-Lavagna and the Kirchner-Lavagna administrations, and the implementation of a new economic policy that deviated from the orthodox recommendations of the International Monetary Fund-IMF and the World Bank-WB occurred when Brazil opted for more conventional policies. Flexibility and the undervaluation of the Argentine peso coincided with a steady revaluation of the Brazilian currency. For a while, Argentina’s low interest rates coincided with high basic interest rates in Brazil under the Lula-Palocci/Mantega administration.

Argentina spearheaded worldwide the debt reduction policy with the IMF and the World Bank. In addition, with the World Bank and the Inter-American Development Bank-IADB, Argentina decided to revert from the structural adjustment programs to loans for infrastructure projects. Brazil took longer to adjust to the idea of debt reduction; rather, the Brazilian representatives

defended the maintenance of the structural adjustment programs, which in our view meant further, unacceptable meddling in internal policies. On this occasion, Argentina preserved its monetary policy's autonomy, while Brazil adopted a more rigid inflation targets scheme.

Today, the wave is in favor of Brazil and clearly to the detriment of Argentina. It would be impossible to discuss here the pertinence of one or the other of these positions. Our point is to stress that there was no synchrony in the choice of policies, which in addition were adopted without any consultation between the two partners. While one of them was flexible, less orthodox, and thus more independent from external factors, the other preferred to remain orthodox and attach top priority to the opinion of the markets.

II. Development strategy and regional participation and integration

The second obstacle is the lack of a development strategy that does not reflect only national decisions but has a regional scope.

As in the preceding case, some may counter this claim. Examples of strategic development could be adduced, such as the nuclear industry, the pharmaceutical sector or the introduction of soybeans in Argentina. In Brazil, one cannot ignore the no less spectacular expansion of soybeans, the biofuels program, the development of the aeronautic industry, or the medium-term policies in the oil sector, which have converted Brazil from being a nearly net oil importer into one of the world reserves.

Further examples could be cited in each country and seen as a reflection of national policies that have an indirect impact on the region.

However, I do not think that this is the point. Obviously, each country has strategic plans. But “plans” is a plural word and do not mean the same as one global, integrated “plan.” Plans refer to specific sectors or areas and can be demonstrably successful and change important segments of national reality. But unless one thinks that the mere sum of plans makes a strategic plan from a global standpoint, partial successes can coexist with global insufficiency.

This is also the position of the Brazilian government's Minister for Strategic Affairs, who has recently stated that “the point is that there is no

debate about our respective national development strategies; we do not have an intellectual community, but we should.”

Once again, the European example is appropriate. Other than open internal boundaries, especially trade boundaries, there are numerous scientific, technological, industrial development and services programs for the ensemble or for subgroups of countries. This, and not only a common external tariff, differentiates a free trade project from a common market and economic union project. Precisely for this reason, the current project looks more like a free trade zone in the Nafta style than the original project.

Along these same lines, former Brazilian president Sarney, says: “But we made a mistake in respect of our integration process when, in July 1990, Brazil and Argentina signed the Buenos Aires Act and decided to change course and, instead of focusing on a common market, attached priority to the establishment of a free trade area and a customs union within five years, thereby assuming the risks implicit in this new approach.”

From a global perspective, one could wonder and demonstrate whether this sum of plans has not changed our countries’ most serious internal problem, namely, the acute inequality in income distribution and of opportunities. Social fragmentation, the Latin American countries’ most salient evil, has not changed, and compensatory initiatives through social plans do no more than alleviate current needs without modifying future conditions.

Argentina could hardly argue that it has a global vision, as within one decade it has moved from an economy based on the overvaluation of the national currency and on hyper-indebtedness to an economy based on an undervalued currency and the pursuit of unindebtedness as the essential objective. No strategic plan could justify these variations, which, in addition, have reflected on international relations. In the last ten years, we moved from an uncritical adherence to the policies of the central countries and multilateral organizations to a kind of “*light leftism*,” sharply opposed to the multilateral organizations.

Brazil also could hardly explain why, notwithstanding the compliments received and the investments attracted, it has been the one among the “continental size” countries and the emerging powers (BRIC) that has grown the least. It is possible that such a great difference in respect of China, Russia, and India – a category Brazil aspires to join – is related to the fact that the

Central Bank's overnight lending rate (Selic) and the free capital movements have had a greater influence on the country's authorities and private sector than on the gross product growth rate.

Gross domestic product Yearly average growth rate

Period	Brazil	China	India	Russia*
1980-1989	2.98	9.71	5.57	n.a.
1990-1999	1.72	9.99	5.65	-3.80
2000-2007	3.44	9.85	7.10	7.03

* Average 1993-1999

III. Obstacles to be overcome

In brief, the basic issues that have hindered progress and still continue to do so are as follows:

- *Solvency or liquidity* as alternative concepts for diagnosing financial crises;
- *Overvaluation or undervaluation* in relation to exchange worldwide;
- *Macro-sustainability or markets acceptability*, and
- *Strategic planning or a sum of plans*, i.e., a global vision that modifies the fundamental issues of the social apparatus and of economic dynamics or a partial vision, expressed in a sum of plans in relevant areas.

Obviously, there are other issues that can hinder the integration process but in my view those addressed here are relevant and certainly not just theoretical. It would be useful to reflect about them, as they affect the social and economic fabric and thus have fundamental political consequences.

IV. Development strategy and integration into a globalized world

A country's isolating itself from an increasingly more globalized world is equivalent to falling into backwardness and irrelevance. A country's opening itself up without a national and regional strategy, though, is tantamount to renouncing the possibility of growth and distribution.

If one wished to express globalization graphically, one would certainly use a sphere. This is an ideal vision, as globalization can be represented by a smooth, perfect sphere, on which the shortest distance between two points has only one solution. In addition, a sphere is rigid, so that any action incident upon it never changes. Reality, though, may be better represented by another kind of sphere. A walnut is also spherical, but it is rugose and the shortest distance between two points on it may have more than one solution. It is also sufficiently porous, so that an action incident upon it may change certain conditions.

This difference in representation could also be the observed between a *passive* acceptance of just one way – that of globalization – and an *active* acceptance of the globalized world, that recognizes that there may be more than one way to become part of it.

The economic and social orthodoxy established in the developed world's intellectual centers and in the multilateral organizations, and particularly in the International Monetary Fund and the World Bank, usually expresses the interests and wishes of the G-7, favoring a “perfect” image of globalization. The basic principle is that anything that resists the free movement of goods, services, and capital is negative and entails the loss of growth possibilities. But this predominant thinking encompasses one, no minor exception. Globalization is no longer perfect, it begins to become rugose, apt for defining national solutions, finding new ways in respect of the movement of persons. In this case, barriers, controls, and restrictive and selective policies are advocated and implemented with increasing rigor. Walls are raised against unqualified workers but tend to open for people qualified at universities and training centers of the developed world.

Some major developing countries, as India, for example, have assumed a different position at international forums such as the World Trade Organization as a negotiation strategy: controls on the international trade in goods and services, and free movement of persons, i.e., controls on goods but not on production factors, or ultimately free movement of both.

Notwithstanding this often repeated discussion at major international conferences, the actual reality of the developing world gains from the acceptance of the idea that *rugose globalization* is closer to its interests. This is so because it allows the recognition of different development stages; the possibility of attempting to develop new sectors and of a gradual adaptation of

productivity to international standards, as well as of countering policies, such as those that favor the importation of unprocessed goods by the developed world and discriminate against goods with aggregated value through an inverted tariff schedule, and so on and so forth.

Once this principle of joining globalization with maneuvering room is accepted, the big difference is whether the principle will be expressed through punctual, ad hoc policies for the short run or whether policies will be part of a country's global policy. A big difference, indeed.

The problem with sheer pragmatism and the casuistic nature of punctual policies is that they remain in the hands of entrepreneurs avid for profits, corruption spreads owing to connivance with sectoral interests, and the value of the State's technical structures tends to decline. However, when a stable national policy is adopted, with well-defined objectives and perspectives, the earning capacity of profit seekers is fast restricted and the fight against corruption is endowed with two powerful instruments – the development of highly qualified technical teams and the possibility of balancing concrete results against the objectives envisaged by the strategic plan.

Many are the voices raised against globalization, from those that sound decidedly negative and those that surround the phenomenon with warnings and caveats. According to French novelist and essayist Viviane Forrester, “We are not living in the fatal grip of globalization but under the yoke of a sole, planet-encompassing, unrecognized regime: ultraliberalism, which governs globalization and exploits it to the detriment of the great majorities. This dictatorship without a dictator does not aspire to take over power but to direct those who exercise it.”¹

As Harvard economist Dani Rodrik said in an interview: “What I don't like and which sometimes happens is that some end up immensely rich while the situation of others worsens; and globalization definitely plays a role, contributing to this second consequence.”²

And closer to us, Aldo Ferrer states that “globalization is selective and encompasses the areas in which the interests of the more powerful countries predominate.”³

1 *Una extraña dictadura.*

2 Interview. *Clarín*, 04/13/2008.

3 *De Cristóbal Colón a Internet: América Latina y la globalización.*

Both sides are right, but as a technological phenomenon globalization is here to stay and there is little likelihood of a retrocession. Thus, three possibilities are open:

- To reject it and remain on the margin of the worldwide flows of technology, trade, and investment;
- To accept it passively and restrict the benefits that can be derived from it, or
- To accept it actively, limiting the risks and maximizing possibilities.

To take further the definition of *active integration*, it helps to think of the basic factors of comparative and competitive advantages. In this respect, four major competitiveness factors should be exploited:

- (i) lower labor costs;
- (ii) natural endowment (climate, land, mineral resources);
- (iii) large scales of production, and
- (iv) differentiation of goods and services associated with the availability of better product and/or processes technology.

Low labor costs are typical of countries with great availability of labor, which is defined in economy as abundance of one of the production factors, namely, labor. This has been one of the major assets of countries such as China and India and to a less extent of other developing countries such as Indonesia. Natural endowment means privileged conditions of land, climate, water, and mineral resources.

Large scales of production allow a significant reduction of fixed costs, from product and processes research and development to marketing, including intermediate stages, such as advertising, design, service chains associated to the product, etc. The achievement of these scales depends on a large domestic market as regards population and purchasing power and/or decisive penetration into relatively open international markets.

Lastly, it is necessary to have technologies to ensure that the variety, usefulness, and quality of goods and services and the renovation cycle are a differential in relation to what is available on the world markets.

Today there are countries that can count on several of these elements on which competitiveness depends; others, only on one.

Countries, such as *China*, are formidable in respect of competitiveness because they have vast low-cost labor resources, operate with large scales of production, and, more recently, have begun to produce goods on a technological basis.

Others, usually the *developed countries*, can meet high labor and social security costs. This is because they have advanced technologies, which allow them to enter deregulated world markets with goods (capital goods and equipment in general, medicinal drugs, etc.) and/or services with aggregated value (software and audiovisual materials, for example), and thus consolidate large scales of production.

Low development economies (Africa) with a low degree of integration, diversification, and internal linkage (oil-producing countries) only operate on markets based on natural resources, particularly minerals.

Then, there are *countries specializing in highly differentiated goods*, particularly goods with aggregated value (Israel, in security equipment; Italy, in leather, among others) or services (finance and portfolio administration, as is the case of several European countries).

This being the overall picture, Argentina and Brazil should define their national strategies accordingly.

In light of the preceding, the following observations are in order:

- Argentina has a small population and Brazil has a population of medium size as compared with the countries of Southeast Asia;
- We can count on natural conditions and on significant entrepreneurial development in productive agricultural and livestock and fisheries sector, as well as major mineral resources;
- Except for some intermediate, or exceptionally final products (agricultural and livestock goods), our scales of production are small in Argentina and medium in Brazil, and
- Despite smaller scales of production, our incorporation into the world economy can be based on differentiated products. These may range from products of high technology, such as capital goods, to food products of high quality, and thus differentiated on a world scale, to finely designed consumer goods, or services with aggregated value, such as software, contents, etc.

Thus, our active incorporation into the world economy, with some exceptions, should be on the basis of natural resources, most of which are renewable (food products) and of specialization in differentiated goods and services. To a large extent, this differentiation forms part of the value aggregating chain, starting with agro-industrial goods or natural resources in general.

However, in the case of natural or acquired resources (agriculture and livestock), market access is limited by policies of countries that subsidize or exaggeratedly protect their local production. This combination of subsidies and protection is actively adopted by no less than the United States, the European Union, and Japan, i.e., by markets with high purchasing power.

Obviously, the Argentine and the Brazilian situations are not identical. Suffice it to note that limitations regarding population and abundance of available labor have a much stronger weight in Argentina than in Brazil. The same thing applies to efficient scales of production, as Brazil's size is two to three times larger.

While Brazil has this relative advantage, Argentina has the advantage of having to develop a much smaller economic and employment apparatus, which makes it easier to achieve an occupational, and thus social, equilibrium.

Regardless of these differences, the important thing is that today neither Argentina nor Brazil has the advantage of a developed country's productive system or of human resources reserves comparable to those of Southeast Asia.

Particularly in respect of population, Argentina is a small country that cannot and should not compete on the basis of low salaries or little or no social protection. Neither can it count on large scales of production, except in the agricultural and livestock sector. It can count only on exports by the agricultural, livestock, and fisheries sectors and must face the challenge of winning access to markets on the basis of differentiated goods and services.

Whether the country will be capable of finding a way of active incorporation into the globalization process will depend on the combination of the primary sector's scale of production, product differentiation, and dynamic technological progress.

A model of this kind implies real salaries and substantial social benefits as in developed countries. To be sustainable, this requires one thing, namely, technological progress. Progress may be achieved through a combination of

adoption of technologies available in the world, adaptation of technologies, or to a limited extent, on the development of our own technological solutions. *This is possible only in a country that assigns a central role to education at all levels, including vocational, scientific, and technological training. The manufacturing of a candy, an object's design, the treatment accorded agricultural inputs, the building of a nuclear plant or an aircraft, data processing goods or services, etc. are unattainable without a population capable of absorbing methods, of copying, adapting, and innovating.*

Unless we implement substantial educational programs, we will not be able to take advantage of globalization. This applies to both differentiated products and services and to the primary sector. Even in the latter case, an intensive educational effort is necessary for acquiring the technological advantages that make possible large scales of production.

Summing up:

- The globalization phenomenon *cannot* be denied;
- Preparation, definition of a country strategy, a clear idea of direction and of what to do in the face of this technologically irreversible phenomenon *are a must*;
- It must be recognized that there is room for a *regional strategy*, under which the Argentine and the Brazilian alternatives differ more in respect of “degree” than of substance, although this does not minimize differences or alternatives, and
- Ascribe to *education* in the broadest sense *an absolutely fundamental role*. **DEP**

Translation: João Coelho

Keys for understanding Bolivia

*Pablo Solón**

May 24, 2008. Since last night, groups of young people with pieces of wood and dynamite sticks slash out on peasants coming to welcome the President. It is the eve of the city of Sucre's 199th anniversary. The Army and the Police fall back so as not to respond to the provocation of young Sucre University students that are seeking a bloody confrontation. President Evo Morales cancels his trip. With bloodied, terrified face, Angel Vallejos, mayor of Mojocaya, and some thirty peasants are dragged under blows to Sucre's main plaza. With bared chests, they are forced on their knees and made to kiss Sucre's flag, while fascist youths burn a "whipala"¹ and a red poncho.

To understand today's Bolivia it is necessary to keep in sight this territory's long history. Bolivia is a country where dilemmas of more than five hundred years ago still persist. It is a territory in permanent rebellion.

History has too many paths. What is occurring in Bolivia has many aspects that cannot be covered by these pages. It is clear, though, that the country is experiencing a drastic polarization, with the elites ejected from government reviving racism, regionalism, and fascist slogans in an attempt to survive.

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¹ Flag and symbol of the indigenous peoples.

Evo Morales assumed power on the strength of 54 percent of the ballots. No President in the last decades had been elected by an absolute majority. All of them had to enter into pacts to be inaugurated as Presidents. History since 1985 has been a history of pacts involving three or four neoliberal parties that have alternated in power. Evo's rise meant a double rupture owing to the emergence of the indigenous peoples and to the incipient dismantling of the neoliberal model.

True, other indigenous individuals had arrived at government positions, but never as Presidents and even less with an identity and a proposal of their own as an alternative to the dictates of the dominant classes.

Evo Morales could have been a Mandela, but chose to be Evo Morales. Had he limited himself to claiming the original indigenous identity and to just making some adjustments to the neoliberal model agreed with the old dominant classes, he would certainly be now in a comfortable situation. But he chose change and rejected pacts in the traditional style, i.e., the allotment of power shares and perquisites to coopt adversaries.

Why did Evo Morales choose this course? Why has he not changed his discourse once in office? Why has he not done as all candidates do after they become Presidents?

Evo Morales is the expression of a very deep process of change that comes from far away and from the inside. He is the result of a series of axis that converge in the heart of South America.

Tupaj Katari's return

The indigenous peoples were overpowered but not exterminated by the colony. Some experts estimate that together the Aztecs, Mayas, and Incas totaled between seventy and ninety million at the time of the Conquest. One century and a half after conquest and colonization, only three and one half millions of them remain – a mere five percent of the original population of these lands.

Arriving missionaries had different ideas about converting the Indians. Some thought only of destroying their temples, prohibiting ancient rituals, and punishing those that insisted on practicing them. Others believed that

they should be convinced through preaching and example, and endeavored to learn the language and costumes of each people.

This gave rise to a mix of domination and resistance: cathedrals were built over ancient sacred sites, and indigenous celebrations assumed the guise of Catholic rituals.

The shock between two cultures over five hundred years ago was uneven and painful. The conquest was an irreversible fact against which the peoples' resistance was of no avail. The territory belonging to some was seized by others. The Christians' God of love forgot the other; the greed for gold flashed in the dusk on a vast continent. However, neither the sword nor the cross managed to exterminate the Indians or to bring them down to their knees.

From the beginning, numerous rebellions occurred. One of the strangest was the dancing disease, or "Taqui Onkoy." Quechuas and Aymaras danced themselves to death to escape this "new world" they could not understand. In 1780, various indigenous rebellions broke out on the Andes against the Spanish colony.

Tupaj Katari besieged the city of La Paz on two occasions for more than one hundred seventy days, mobilizing an army of forty thousand Indians. Nobody and nothing entered or left the besieged city. The Spaniards suffered from hunger and despair until reinforcements arrived and permitted them to break the siege.

Tupaj Katari was betrayed by one of his aides as he was rallying new troops on the margins of Lake Titicaca. In November 1781, he was quartered by four horses in Peñas, a locality situated on the vast altiplano of what is known today as Bolivia. His body, quartered and torn apart by horses, was displayed throughout the territory as "an example to rebellious Indians." As he was dying, the Aymara leader pronounced a now famous phrase: "I shall return and I will be millions."

The Spaniards broke Tupaj Katari's siege but did not extinguish the Aymaras' and the Quechuas' long memory. According to the legend, Tupaj Katari's severed members are coming together under the earth and when his body is once again whole, he will return in the form of millions.

True, this is but a legend, but it expresses the deeper feelings toward the changes Bolivia is undergoing. After Evo, this territory's history will never be

the same. The indigenous peoples have reencountered themselves; they have discovered their strength, their identity, and their fortitude. It is no longer possible to think of a Bolivia controlled by white and mestizo elites dominating submissive Indians. “The shitty Indians,” as the rich and mighty usually refer to them, including some of indigenous origin, no longer wish to wait on tables; they want to sit at table, be taken into account, and even govern!!! This is too much of a pretension for a “society” that has always looked down its nose on them and that for centuries debated about how to get rid of, exterminate, or convert this “infirm race.”

To live well

To be taken into account, to be treated as equals, and to govern is unpalatable enough to the elites who have exercised hegemonic power in the last centuries. But to have these Indians deprive them of their privileges – this is unacceptable! At bottom, what is at stake in Bolivia is the new sharing of the pie around transnational enterprises, dominant classes, regional elites, higher middle classes, popular sectors, social movements, and indigenous peoples.

The indigenous peoples’ and social movements’ proposal is summed up in the slogan “To Live Well,” as opposed to the never-ending pursuit of “better living,” which implies an unceasing competition to go one better than the other. It is a proposal that aspires at establishing harmony among human beings, the environment, regions, and the world, instead of competitiveness and the law of the strongest that governs the world markets. According to this view, one should not “live better” at the expense of exploiting one’s neighbor or at the cost of nature or of solidarity and harmony.

The indigenous view does not seek the elimination of the other but rather the redefinition of a new, more equitable equilibrium that necessarily implies income redistribution and reduction of the privileges and exorbitant profits of the more powerful sectors – true negotiation, instead of just crumbs.

Europe’s most equitable country is Austria, where the poorer twenty percent of the population earn three times less than the richer twenty percent. In Switzerland, the richer earn up to seven times more than the poorest. In Bolivia, this ratio is abysmally higher: the population’s richer twenty percent earn nearly sixty percent more than the poorer twenty percent.

Nationalization

Nationalization and recovery of state resources and enterprises is the lever of this redistribution. In 2004, before the nationalization of hydrocarbons, State revenues from tax and royalties totaled 293 million dollars; in 2007, this amount jumped to 1,393 billion dollars.

In 2005, state revenues from taxes and royalties on hydrocarbons totaled 350 million dollars; in 2007, this total reached 1.47 billion dollars – this was the impact of the recovery of hydrocarbons' ownership and the renegotiation of more than forty contracts with transnational enterprises. "Partners, not bosses" is this change process's basic premise. The Evo government recognizes the importance of foreign investment, but of genuine investment that is not just in search of easy, enormous gains based on the meting out of crumbs to the ruling power circles. This does not please the multinationals and sets a bad example, which if replicated around the world, would be devastating to their profits. But in the end they accept it because it is better to earn lower profits than no profits at all.

Nevertheless, relations with transnationals are tense. Some of them, longing for a return to the past, postpone their investments in an attempt to bring the government down to its knees. But Evo's government will not be brought down to its knees; on the contrary, it forges ahead, recovering all enterprises of the gas and oil productive chain, as well as other sectors, such as telecommunications, foundries, and water.

Under the new draft Constitution, both the basic services in the areas of education, health, water, energy, and telecommunications, and the strategic hydrocarbons and mining sectors as well as other sectors are under State control; in some cases, services and construction contracts may be awarded, but always preserving state ownership.

The higher revenues are being used first to improve public finances. In 2006, for the first time since 1940, Bolivia recorded a 3,664,000-dollar surplus. Secondly, children and the aged have benefited from school and old-age universal grants, respectively; thirdly, the State hydrocarbons enterprise (YPFB) has been restored to its condition as concession contracts administrator; lastly, the departments have seen their revenues double or triple owing to the redistribution of hydrocarbons tax revenue and royalties.

The fight for land

Bolivia is a country with a vast territory – 1,098,581 km² and with a population of 9.5 million people, which results in a density of 6.7 per/km², quite lower than France's (109 per/km²) and the United States' (29 per/km²). The problem is the unequal distribution of land.

Bolivia undertook an Agrarian Reform in 1953, which partly resolved the problem, but created another. On the altiplano and in the valleys, it abolished “pongueaje”² and gave land to peasants and communities. Thus, lands became the property of “those who worked them,” with the drawback that they eventually became insufficient as the indigenous population grew and hereditary rights gave rise to “minifundia” and even to “furrowfundia.”³

In eastern Bolivia, the land problem was just the opposite. First, the Agrarian Reform Law did not recognize the existence of the indigenous peoples of the East. It considered them as rainforest peoples who needed State protection and care. Secondly, the law allowed the President to give them up to 50,000 hectares in the East. Thirdly, successive governments and the military dictatorships of the seventies in particular freely donated eastern lands to their relatives and political supporters, and repaid favors with tens of thousands of hectares. This originated new latifundia that were in the hands of a group of families that used their lands for speculation and for mortgaging, expanding, leasing, or selling them.

Large and medium entrepreneurs obtained more than 51 percent of the lands distributed between 1953 and 2002, while peasants and small farmers were allotted no more than 5 percent. Today, the majority of poor, small farmers own only 1.4 percent of cultivated lands, while rich estate proprietors own 85 percent of them.⁴

In 2002, the National Agrarian Reform Institute-INRA Law was enacted. This law had the merit of recognizing the existence of the indigenous peoples of the East and the Original Community Land Grants, but from the World Bank's concept of market-assisted agrarian reform, which sought to do the

2 “Pongos” were a sort of serfs attached to the land, which they worked without pay for the boss or estate owner in exchange for access to a plot of land.

3 “Surcofundio,” or “furrowfundium” results when land division reaches such an extreme that one of the children inherits only one furrow.

4 Ministry of Rural, Livestock, and Environmental Development, Land Directorate.

“saneamiento,” or regularization of lands (solving conflicts over boundaries, location, double titles, and other legal flaws) so as to prepare them for the land market. The INRA legislation’s great shortcoming was the fact that it did not establish an effective mechanism to recover the latifundia but instead defined a procedure that rather favored their legalization.

The INRA Law provided for the reversal of lands with indemnification only in the case of “abandoned” lands. “Abandonment” was declared for nonpayment of land taxes for two years. Thus, to prevent reversal owing to “abandonment,” a latifundium owner who never even set foot on those lands only had to pay taxes based on his own “self-assessment” of his land.⁵

Between 1996 and 2005, 36,815 hectares were distributed, an average of 3,681 hectares a year. In the first two years of Evo Morales’s government, 697,882 hectares were distributed in the departments of La Paz, Pando, Santa Cruz, and Tarija, or 350,000 hectares a year. Between 1996-2007, a total of 734,697 hectares of government land were distributed, 95 percent of them under Evo Morales’ administration.

The difference between land redistribution under the 1953 and the 1996 agrarian reforms should be pointed out: the new grants are not to individuals but to communities; they provide access to financing for productive and services provision programs; and they contemplate the sustainable management of forest areas.

Between 1996 and 2005, the Sánchez de Lozada, Banzer, Quiroga, Mesa, and Rodríguez governments regularized 9.2 million hectares; in the first two years of the MAS government, 10.2 million hectares were regularized. While between 1996 and 2005 one thousand hectares per year were regularized, in the period 2005-2007 a total of 5.1 million hectares per year were regularized.⁶

The ejection of the elites

Bolivia has always been a country of extreme concentration of wealth in few hands. Before the 1952 revolution, Bolivia was under the dominion of

5 Article Four of the INRA Law (Tax Base and Exemptions). I. The tax base for assessing taxes on agrarian property shall be established by the owner in accordance with the value attributed to his property.

6 Viceministerio de Tierras.

three Tin Barons. One of them, Simón Patiño, known as the Tin King at one point, was one of the world's richest men. The 1952 nationalization of the tin barons' mines did not lead to the development of a national entrepreneurial bourgeoisie. On the contrary, what emerged was a parasitic bourgeoisie and middle class, a bureaucratic dominant class that lived and still wants to live from perquisites, contracts, quotas, consultancies, arrangements, and crumbs from foreign enterprises.

A survey⁷ shows that in 2002, only 10 percent of the entire population, approximately 830,000 people, accounted for over 46 percent of total income generated in the country, while the poorest 10 percent had to make to with less than 0.17 percent of total income.

This means that in the division of 100 bolivianos among 100 Bolivians, the richest 10 percent would receive up to 46 bolivianos, while the 10 poorest would received only 17 centavos, i.e., 270 times less.

In Bolivia, no national bourgeoisie with a country vision has ever developed. The development of an economic sector supported by the strength of a productive apparatus practically never existed. The new dominant sectors took form in the shade of transnationals and the State. Theirs was an immediate, family project devoid of a country vision.

Since democratic freedoms were recovered in 1982, this bourgeoisie and middle class subsidiary to the State had alternated in power under different pacts among neoliberal parties. After the fall of the Berlin Wall, a large portion of the middle class's militant left, which to a certain extent had ties to the dominant political sectors, joined the establishment. From inside the government, they dismantled the State capitalist regime that had existed since 1952. Hydrocarbons, electric power, tin smelting, air transport, telecommunications, pension funds – everything was privatized. Nine years before the WTO Uruguay Round, Bolivia had already started to implement free trade policies. The market was enshrined as a god and the governing elites adopted a neoliberal discourse with a vengeance.

Neoliberalism did not bring the proclaimed foreign investment but rather the auctioning off of the natural resources and state enterprises. The great majority of the dominant sectors did not bet on the productive entrepreneurial

7 Comisión Episcopal de Pastoral Social Caritas de Bolivia. Research done by Alfred Gugler.

sector and continued to live from the State and transnationals as parasites. Social differences and dissatisfaction continued to increase until the irruption of the social movements with the so-called Water War in 2002. This marked the beginning of the rise of social movements and of Evo Morales.

When the MAS government began in 2006⁸, the elites suffered a profound blow. The government fixed the President's salary at approximately 2,000 U.S. dollars and determined that no one in government (Executive, Legislative, and Judiciary) could earn more than the President. Consultancies totaling hundreds of thousands of dollars were dropped. Contracts that were damaging to the State were suspended or cancelled. Evo Morales took in earnest the principle that public servants should serve the people, not be served by the people. For the first time in decades, families whose grandparents, parents, and children had always lived from the State were ejected. These elites then entrenched themselves in the departments' government, civic committees, and in some municipal governments. The banner of the departments' autonomy, which in itself was no more than the continuation of the decentralization under way, was hoisted to oppose a supposed centralism of the Evo Morales administration. The media that belonged to the dominant elites were used for organizing the opposition that had been dealt a severe blow by the 54 percent of the votes won by MAS and by the growing support of nationalization.

Regionalism and racism as confrontation strategy

The Evo Morales government set itself the task of waging a democratic and cultural revolution in the context of democratic institutionality. Nationalizations took place within the law and a Constituting Assembly was to be convened so that the structural changes could be consolidated at the constitutional level.

Owing to ingenuity and political misjudgment, MAS negotiated the holding of elections for a Constituent Assembly, which would be impossible to win, much less with 90 percent of the votes. In each electoral jurisdiction, the party that ranked first would have the right to appoint two Assembly

8 Movement to Socialism, whose actual name was Political Instrument for Peoples' Sovereignty, the electoral political arm of peasant and indigenous organizations that kept growing to the point of encompassing most of the social movements.

delegates, while the second-placed would be entitled to one delegate, even if it had won only 2 percent of the votes.⁹ MAS won nearly all departments, including Santa Cruz, but did not obtain, nor could it ever have obtained, the required two thirds for approving the new Constitution.

MAS thus bet on negotiation. It believed that the other forces would negotiate a new Constitution, but what happened from the very first moment was sabotage, a systematic boycotting of the possibility of a new Constitution – first, under the argument that any agreement at any of the Constituent Assembly’s bodies would have to be approved by two thirds majority, and then under the argument of “*capitalía plena*” [full capital status] for Sucre.¹⁰

On the day of the election of representatives to the Constituent Assembly, a referendum was also held to determine which departments wanted autonomy. In Santa Cruz, Beni, and Pando, those voting for autonomy won.

The strategy of the elites ejected from government and the State’s central apparatus was clear from that moment on: to arouse and incite the regionalist feelings against the Evo government’s central power. The regionalism of the eastern departments combined with the exacerbation of racism against the indigenous populations, whose majority had come from the western altiplano. The Cruceñista Youth Union¹¹ took to the streets beating indigenous persons and dissidents in Santa Cruz, creating a climate of threats and fear for the population.

With the Constituent Assembly paralyzed and blocked by the demand of “*capitalía plena*” and surrounded by mobilizations staged by university students and city government employees that prevented the latter’s functioning, the government opted for guaranteeing the holding of the sessions at a military school a few kilometers from Sucre. Groups of the Cruceñista Youth Union took themselves to Sucre. Some broadcasting stations and the university channel in particular called on the population to occupy the hall where the Constituent Assembly was convened. On the way, there were some clashes with the police. The media started talking of a massacre and exacerbated the

9 At the department level, the first majority would be entitled to only two delegates of the five in the contest, while the second-, third-, and fourth-placed would have been entitled to one delegate each.

10 Sucre is Bolivia’s capital but the seat only of the Supreme Court of Justice. “*Capitalía plena*” implied the transfer of the Executive and the Legislative from La Paz to the city of Sucre.

11 Groups of Santa Cruz young people with fascist and racist characteristics, who are part of the Santa Cruz Department’s Civic Committee.

population's feelings. The Constituents approved the general draft Constitution and left so as to avoid greater confrontations. The mob in the city set fire to the police headquarters, the prison, the mayor's home, and several cars. During the confrontation, three people died.

The Constituent Assembly finished its sessions in the city of Oruro. The new constitutional text was approved in detail in the absence of the opposition. The constitutional draft included the issues that had been agreed by consensus in the commissions. The opposition did not recognize the new draft Constitution and in forty-eight hours drafted an Autonomy Statute for Santa Cruz.

The government expressed the intent to reconcile the new draft Constitution and the Autonomy Statute. The opposition governors opposed this and convened referendums in the four departments where those voting for autonomy had won. The referendums were not convened by Congress as required by the Referendum Law and the phrasing of the question was deceitful, as it posited the approval and immediate implementation of the Autonomy Statute, when it is known that the State's Political Constitution in force does not contemplate the existence of department autonomy. The government did not recognize the legality of the referendums and classified them as expensive consultations without binding authority. The Constitutional Tribunal has not handed down an opinion yet because so far the opposition at the Senate has blocked the appointment of the court's missing members.

The tension increased as the day of the first referendum in Santa Cruz approached. Aggressions, threats, and confrontations promoted basically by the Cruceñista Youth Union continued. The objective was to provoke the government so that it would resort to the public forces to impose the state of siege and prevent the holding of the referendum. The national government did not respond to the provocation. The consultation took place with a significant abstention of 38 percent. The Autonomy Statute won the approval of 85 percent of the valid votes cast. In varying degrees, the situation was replicated in the other three departments.¹²

The day after the "referendums," the Statutes could not enter into effect as they were not covered by the country's current national juridical order. The

12 In Beni, abstention was 31 percent and approval was 80.5 percent; In Pando, the respective figures were 45 percent and 78 percent; and in Tarija, 39 percent and 78 percent.

“Prefectos” had themselves renamed as Governors, but legally they are still “Prefectos.”

Throughout this whole process, the government insisted on the need to agree first on the chapter pertaining to the departments’ autonomy in the new constitutional draft. That was the correct way: to give birth first to the mother (the new Constitution) and then to the children (the Autonomy Statutes). But the opposition’s strategy was not to come to an agreement but to destabilize and discredit the government in the hope that it would react to the provocation in violent confrontations, and that chaos would ensue, causing the fall of the government or its thorough debilitation.

The “opposition” to the government is not a well-integrated whole. It involves some of the “prefectos” and civic committees of some departments and the neoliberal parties that have majority in the Senate. Among prefectos and civic and political leaders there is a constant struggle for heading the opposition. These discrepancies arose when the opposition in the Senate approved the law calling for a referendum on recalling the President, the Vice-Presidents and the Prefectos, which the government had proposed months before, without thinking that some prefectos might lose and be destituted.

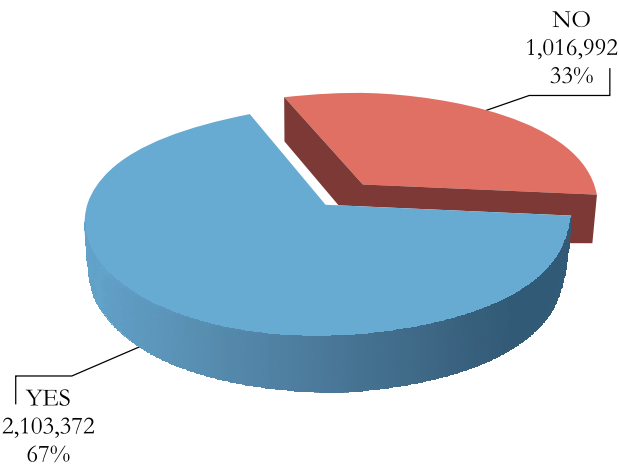
Perhaps they thought that the President would veto such a law for fear of defeat after the results of the so-called “referendum” of Santa Cruz. But on that very day, Evo welcomed the decision to consult the people’s will and to drop violent provocation and to go the polls in a legal, democratic way.

Referendum results

On August 10, a Recall Referendum for President, Vice-President, and Governors was held, with the participation of observers missions from the Organization of American States, Unasur, Mercosur, and different countries from Europe, Asia, and Latin America. The election was preceded by various actions of provocation and violence that even prevented the visit of the Presidents of Argentina and Venezuela to Tarija on August 5.

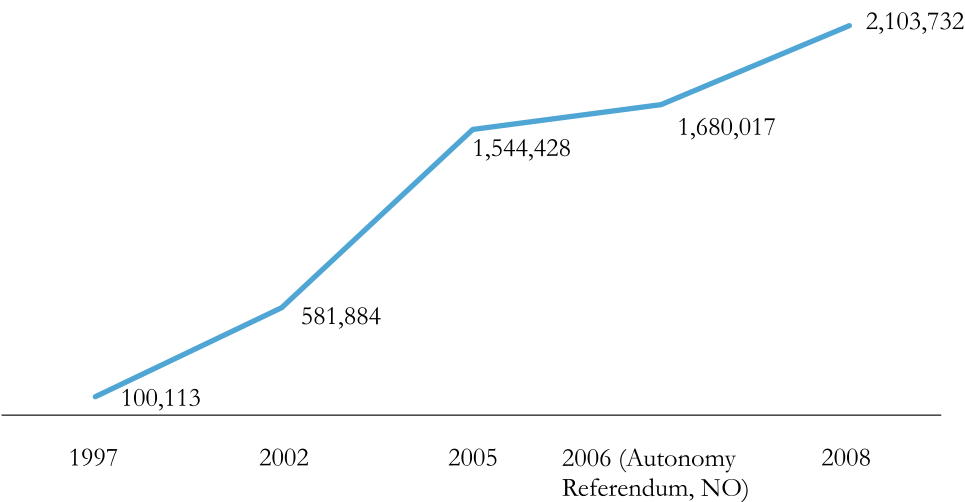
The results were overwhelming, and the President and Vice-President of the Republic were ratified by 67.41 percent of the votes, or 2,103,732 votes.

Do you agree to the continuity of the change process led by President Evo Morales Ayma and Vice-President Alvaro García Linera?

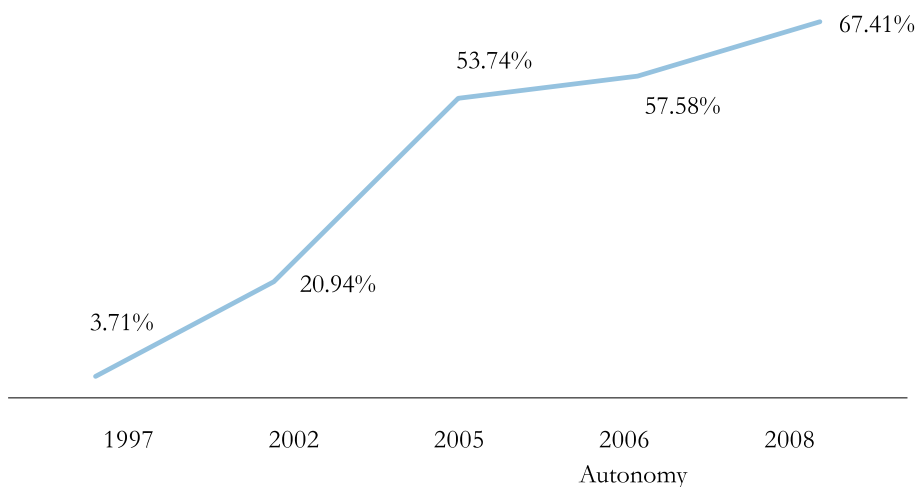


In eleven years, MAS votes increased by over 2,000,000. The percentage of votes won by MAS steadily rose from 3.7 percent to 67.4 percent.

Number of votes to the Movement to Socialism
1997-2008

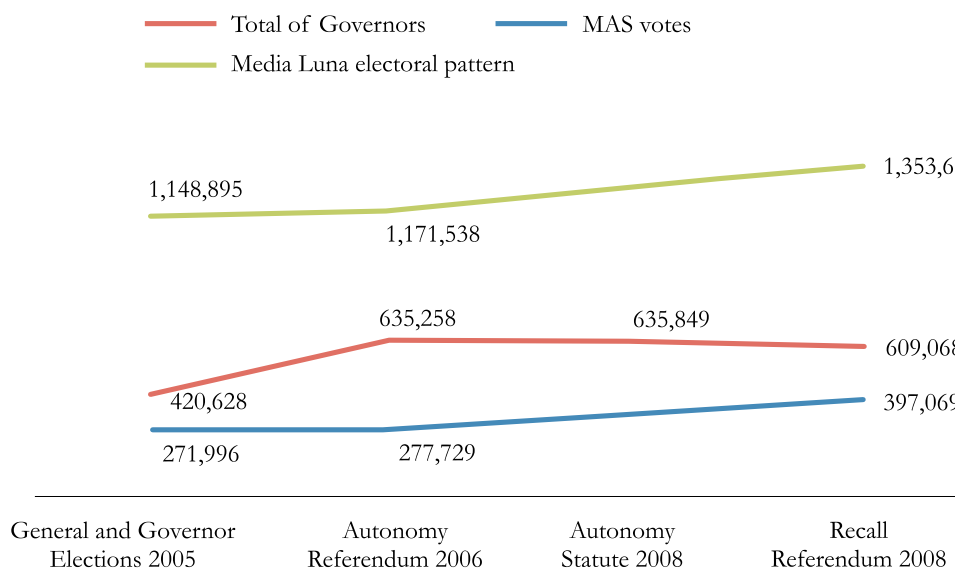


Percentage of votes won by the Movement to Socialism 1997-2008



The governors of the so-called Media Luna [Half Moon], on the other hand, lost 26,190 votes between the 2006 and the 2008 referendums, while the number of votes for MAS in that same region and period rose by 182,116.

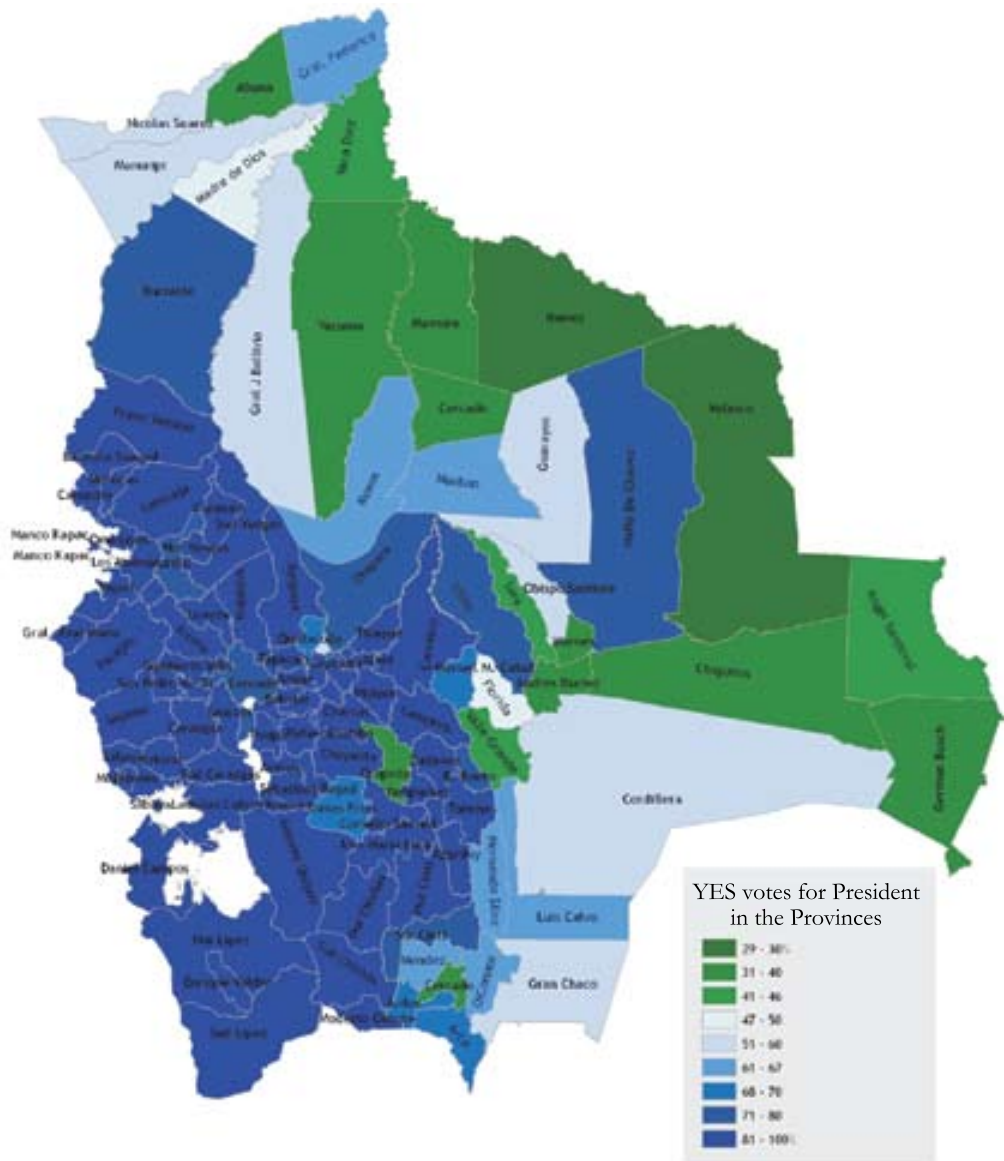
MAS votes vs. Governors in the Media Luna Region



MAS not only won more than two thirds of the votes but also won 95 of the 112 provinces, thereby showing that the so-called “half moon” resembles rather a “waning moon.”



The referendum results cornered the opposition but at the same time radicalized it, making it much more violent and desperate. The more violent factions assumed its leadership, precluding any possibility of dialogue, as it realizes that any future referendum on the new Constitution would be at a disadvantage.



DEP

Translation: João Coelho

United States, South America, and Brazil: six topics for discussion

*José Luís Fiori**

1. As the twenty-first century begins, it becomes increasingly clear that the dispute between the great powers did not end in 1991. It just decelerated – temporarily – as it used to happen after a great war or an overwhelming victory, as was the case of the North American victory in the Cold War. In this case there was no explicit surrendering of the defeated or a “peace agreement” among the victors heralding a new world order, similarly to what happened after World War II. This time, there was no other power with the might and capacity to negotiate or limit the United States unilateral will and the Americans were little willing to negotiate or limit their new power position in the world. The international projection of U.S. power began soon after the country’s independence and continued without interruption throughout the nineteenth and twentieth centuries. It was only in the second half of the twentieth century, though, after the “70s crisis,” that the United States

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adopted an explicit imperial strategy¹ that achieved a crushing victory in 1991, fueling the dream of absolute global power, of a world empire. After 2001, this victorious strategy took on a warlike character, and after 2004 met with successive reversals. This, coupled with the expansion of China and India and the rebirth of Germany and Russia, reinserted competition and conflicts among the great powers into the core of the world system.

This reversal is usually associated with the United States's impasse in the Middle East and the failure of its "global war" against terrorism. Underlying this temporary situation, though, it is also possible to detect a long-range structural change brought about in large measure by the very global projection of American power. It can be said that the United States recent foreign policy has been responsible for two inconclusive wars and for the failure of its project for a "Grand Middle East." At the same time, though, it can be said that American expansionism has also – paradoxically – been responsible for the economic success of China and India, as well as of the entire world economy after 2001, and that it is this success that is strengthening the United States main competitors within the inter-State system. That is, the hegemonic power's expansionist policy ends up by activating and deepening the world system's contradictions and strengthening the resistance of States that are challenged by the United States advance and at the same time are fortified by the American economy's success.

Obviously, these international changes are not the work of the United States alone; they involve political decisions of other countries and processes that are outside American control. However, there is no doubt that the United States's ambitious expansionism and recent upsets are very important for understanding the international situation since the onset of the twenty-first century. The exponential increase of competitive pressures is affecting all regions of the world, fueling hegemonic disputes, and signaling a new

1 The Reagan government, combining Carter's anticommunist messianism with Nixon's economic liberalism, intended to eliminate the Soviet Union and build a new political and economic world order under the uncontested command of the United States. It is clear today that this strategy adopted in the 1980s under the leadership of the United States and Great Britain hastened the turnabout in the world system's organization and functioning that had been aborning for at least two decades. Little by little, the world system left behind a "regulated" model of "global governance" under the United States's benevolent hegemony and moved toward a new world order with more imperial than hegemonic characteristics." "O poder global dos Estados Unidos: formação, expansão e limites" [The United States's global power: genesis, expansion, and limits] in J. L. Fiori (Org.) *O Poder Americano*, Editora Vozes, Petrópolis. 2004, pp. 93-94.

imperialist race among the great powers. In sum, the expansion of the United States's power after the crisis of the seventies and particularly after the end of the Cold War, coupled with its project/process of economic globalization, has reignited the hegemonic contest among the national States and economies in nearly every region of the inter-State capitalist system.

On the other hand, governments are reasserting their role in economic life, raising protectionist barriers, and assuming command of their national development strategies with their enterprises and "sovereign wealth funds." Nearly all countries are again regulating their markets somehow, including the American financial market.² There is no longer talk of "world regimes" and "world governance" and there is no longer any consensus on "international ethics."³

2. As regards South America, the impact of this systemic, global competitive pressure takes on particular characteristics because South America is a continent where there has been no outright hegemonic dispute among national States. It was first a colony; after independence, it remained under Anglo-Saxon tutelage: of Great Britain until the end of the nineteenth century, and of the United States until the beginning of the twenty-first century.⁴ In these two centuries of independent life, political and territorial disputes in South America never reached the intensity or had the same effects as in Europe. Nor did an integrated, competitive system of States and national economies emerge, as was the case in Asia after decolonization. As a result,

2 National barriers are being raised even on the Internet, the symbol of a world without frontiers. Internet was conceived to be outside the reach of governments, transferring power to individuals or private organizations. Now, under pressure by Russia, China, India, and Saudi Arabia, the U.S. company that assigns Internet addresses is working on ways for countries to use the alphabet of their mother tongue. "We're facing a step-by-step Balkanization of the global Internet. It's becoming a series of national networks" according to Columbia University law Professor Tim Wu." Bob Davis, "Rise of nationalism frays global ties," *The Wall Street Journal*, as reprinted in *Valor Económico*, April 29, 2008.

3 Carr, E.H. *The Twenty Years' Crisis, 1919-1939*. Perennial, New York, p. 150.

4 In August 1823, George Canning, British Foreign Secretary proposed to Richard Rush, U.S. Ambassador in London, a joint declaration opposing intervention by Continental powers in Latin America. President James Monroe, backed by his State Secretary John Quincy Adams, declined the British invitation. Three months later, though, Monroe himself proposed to the U.S. Congress a national strategy that was nearly identical to the British proposal. This is how the Monroe Doctrine was born on December 2, 1823. As it was to be expected, the Europeans considered Monroe's proposal impertinent and without importance, as it came from a still irrelevant State in the international context. And they were right. Suffice it to say that the United States recognized the independence of the first Latin American countries to declare it only after the approval of England, France, and Russia. Even after Monroe's address, Europeans refused to meet the intervention requests from the independent governments of Argentina, Brazil, Chile, Colombia, and Mexico. This is why early on the Europeans and the Latin Americans themselves realized that the Monroe Doctrine was conceived and would be upheld nearly throughout the entire nineteenth century by the force of the British navy and capital.

Latin American States have never played an important role in the world system's major geopolitical disputes; it functioned throughout the nineteenth century as a sort of laboratory for experimentation of "free trade imperialism." After World War II and during the Cold War, South American governments aligned themselves with the U.S. side, with the exception of Cuba after 1959.⁵

After the Cold War, in the nineties, once again most of the region's governments adhered to the neoliberal policies and reforms prescribed by the United States. Beginning in 2001, though, the continent's political situation changed with the victory of the nationalist, developmentist,⁶ and socialist political forces in nearly every South American country. A great novelty was the fact that this "turn to the left" coincided with the world economy's new growth cycle. After 2001, a resumption of economic growth occurred in all the South American countries in tandem with the world economy's expansive cycle. The new element in this South American growth cycle was the decisive weight of Asian pressure on the Continent's economy. This applies particularly to China, which has become the major buyer of South American exports,

5 After 1991 and the end of the USSR and the Cold War, the United States kept up and intensified their offensive against Cuba, while maintaining friendly relations with Vietnam and China. At the peak of the economic crisis caused by the end of the preferential relations with the Soviet economy, between 1989 and 1993, the George Bush and the Bill Clinton administrations attempted a checkmate against Cuba, forbidding U.S. transnational companies abroad to negotiate with Cuba, then imposing penalties on foreign companies doing business with the Island under the 1996 Helms-Burton Law. For now, this fixed stance on the part of the United States does not betoken much hope of changes in the two countries. From the Americans' viewpoint, Cuba belongs to them and lies within their "security zone." Accordingly, the United States main objective in any prospective negotiations will be the weakening and destruction of the hardcore of Cuban power.

6 Fernando Lugo's 2008 election as Paraguay's President meant another victory of left political forces, following upon the election of Hugo Chávez, Luiz Inácio da Silva, Michele Bachelet, Nestor and Cristina Kirchner, Tabaré Vázquez, and Rafael Correa. This political-electoral change brought back some "national-popular" and "national-developmentist" ideas and policies that had been laid aside during the neoliberal nineties. In a way, these ideas and policies hark back to the Mexican Revolution, particularly to the program adopted by President Lázaro Cárdenas's government in the thirties. Cárdenas was a nationalist and his government undertook a radical agrarian reform, nationalized oil production, set up Latin America's first industrial development and foreign trade state banks, invested in the building of infrastructure, implemented industrialization and domestic market protection policies, introduced labor legislation, and adopted an independent, anti-imperialist foreign policy. After Cárdenas, this program became the common denominator of several Latin American governments that, as a rule, were neither socialist nor even of the left. Even so, his ideas, policies, and international positions became a major reference for Latin American left thinking and left forces. Suffice it to recall the 1952 Bolivian peasant revolution; Jacobo Arbenz's leftist democratic government in Guatemala, 1951-1954; the first phase of the Cuban revolution, 1959-1962; and the military-reformist government of general Velasco Alvarado in Peru, 1968-1975. In 1970, these ideas resurfaced in the program of Salvador Allende's Popular Unit government, intent on the radicalization of the "Mexican model" by speeding up agrarian reform and the nationalization of foreign copper companies, while advocating the establishment of a state-owned "strategic industrial nucleus" meant to be the embryo of a future socialist economy.

especially minerals, energy, and grain, while steadily increasing its exports to the region. In addition, the new prices of international commodities have reinforced the States' fiscal capacity and are now financing the policies geared to the Continent's energetic and transport infrastructure integration. The new prices of energy and minerals have also permitted the establishment of reserves in strong currencies, thereby decreasing the region's external vulnerability and enhancing its power of resistance and international negotiation. Venezuela's huge reserves in strong currency have allowed it to act twice as lender of last resort to Argentina and Paraguay. In every respect, China is playing a new, fundamental role in South American economy, but it is unlikely that it will get involved in regional geopolitics. The important thing is that this expansive cycle of the world economy has pressured the South American economies and strengthened their national States. There is no longer any possibility of shunning competition; at the same time, the current economic success is potentiating the South American States' internal and external power. South America's prolonged "assisted adolescence" is coming to an end, although the price of this change in the medium term could be the intensification of conflicts within the region itself, as well as the hegemonic competition between Brazil and the United States for supremacy in South America – unless Brazil chooses and strives to maintain its status as "junior partner" within the hegemonic space and the United States "supranational economic territory," as Canada and Mexico have done in North America.

3. In Brazil's case, its past weighs heavily on its future position, as a country that never entertained expansionist designs and never disputed for hegemony over South America with Great Britain, or the United States for that matter. After 1850, Brazil no longer knew any civil war or threats of internal secession and, after the Paraguayan war in the 1860s it had only a punctual participation in World War II, in Italy, and some participation in the United Nations and the OAS "peace forces" thereafter. Its relations with its South American neighbors after 1870 have been consistently peaceful, with little competitiveness or political and economic integration. During the entire twentieth century, Brazil's position on the continent was that of an assistant partner of U.S. continental hegemony. After World War II, Brazil had no major part in the Cold War, but despite its alignment with the United States it began to implement a slightly more independent foreign policy as of the sixties. In the seventies, particularly under general Ernesto Geisel's government,

Brazil assigned itself the role of an “intermediate power,” deepened its developmentist economic strategy, rescinded its military agreement with the United States, expanded its relations with Africa and Asia, and signed an atomic agreement with Germany. The economic crisis it endured in the eighties and the end of the military regime took the steam out of this pattern, which was completely laid aside in the nineties, when Brazil once again aligned itself with the United States and its FTAA project. More recently, after 2002, Brazilian foreign policy changed course and assumed a more aggressive stance of assertion of its interests and leadership both in South America and in the international sphere. This is illustrated by the priority being attached to South American integration and to closer relations with some countries of Africa and Asia, particularly with China, India, and South Africa. However, Brazil still faces major limitations to expanding its international power: first, owing to the strategic refusal to recognize the existence of a competitor or adversary in the struggle for hegemony in South America, simply because this inevitable competitor is none other than the United States of America; secondly, owing to the lack of strategic organization of its economic growth, which precisely for this reason has been very meager in the last two decades; thirdly, owing to its limited capacity to coordinate public and private investment abroad, particularly in South America; and, finally, due to the political force of the stance propitious to keeping Brazil as a junior partner within the U.S. hegemonic space and “supranational territory” that prevails within the Brazilian elites and within the very foreign policy establishment.

4. As to the United States’ position in the hemisphere, attention should be paid to the U.S. 2008 Presidential elections, as they are already part of a process of realignment of U.S. international strategy. This process should take a few years but there is little likelihood that the United States will give up the three self-assigned “intervention rights” that guided its hemispheric policy in the twentieth century: (i) in case of “outside threat;” (ii) in case of “economic disorder;” and (iii) in case of “threat to good democracy.” During the Cold War, the United States sponsored civil wars, military interventions, and dictatorial regimes throughout the Continent against an alleged “external enemy.” After the Cold War ended, it sponsored – in the same countries – financial interventions and neoliberal economic reforms to check an alleged “internal economic disorder” and to guarantee that South America would honor its international financial commitments. Finally, since 2001, the United

States has clearly encouraged conservative political forces and public opinion against governments it considers “authoritarian-populist,” which would allegedly pose a threat to democracy.

5. At this crossroads at which the United States finds itself, it is interesting to recall and ponder the lofty principles that guided U.S. foreign policy toward South America in the second half of the twentieth century. Those principles were formulated by the principal American “geostrategist in the century, who was born in Amsterdam in 1893 and died in the United States in 1943, namely, Nicholas J. Spykman. He died still young, at 49, and left only two books on U.S. foreign policy: *America’s Strategy in World Politics*, published in 1942, and *The Geography of the Peace*, published in 1944, one year after his death. These two books became the cornerstone of American strategic thinking in the second half of the twentieth and the beginning of the twenty-first century. The spacious room he devoted to discussing South America, and particularly “the struggle for South America” strikes the attention. He starts from a radical separation between the Anglo-Saxons’ America and the Latins’ America. According to him, “the lands below the Rio Grande represent a different world, the world of Latin America. It is perhaps unfortunate that the English and Latin speaking parts of the continent should both be called America, thereby unconsciously evoking an expectation of similarity which does not exist.” (p. 46)⁷. He then proposes to divide the “Latin world” into two regions from the American strategic viewpoint: a “Mediterranean” region, which would include Mexico, Central America, the Caribbean, Colombia, and Venezuela; and one that would encompass all of South America south of Colombia and Venezuela. Spykman proceeds thusly: “The American Mediterranean is today a zone in which the United States holds a position of unquestioned naval and air supremacy. This body of water is now to all intents and purposes a closed sea to which the United States holds the keys... Even the countries of large size like Mexico, Colombia, and Venezuela are precluded by topography, climate, and absence of strategic raw materials from becoming great naval powers. The supremacy of the United States in this area can, therefore, be challenged only by forces from outside the zone, either in South America or in Europe or Asia” (p. 60). Thus, any threat to U.S. hegemony in South America would be exerted over the South, particularly over Argentina, Brazil, and Chile, the

7 Spykman, N. *American Strategy in World Politics*, Harcourt, Brace and Company, New York, 1942.

“ABC region.” As he says, “To our neighbors below the Rio Grande we remain the ‘Colossus of the North’ which in a world of power politics can mean only one thing, danger.” (p. 64). And concludes: “The A.B.C. states represent a region in the hemisphere where our hegemony, if challenged, can be asserted only at the cost of war.” (p. 62). The interesting point is that if these analyses, predictions, and warnings had not come from Nicholas Spykman, they would sound like boasting from some of these Latin American populists that invent external enemies and proliferate like mushrooms, in accordance with the conservative idiocy.

6. After Nicholas Spykman, Henry Kissinger was the intellectual that played the most important role in the formulation and implementation of U.S. foreign policy in the sixties and seventies. He decisively participated in South America’s internal political life. Suffice it to read the official U.S. documents now declassified and the various journalistic and academic surveys that point to the former U.S. Secretary of State’s direct involvement in the preparation and staging of the violent military coups that toppled the elected governments of Uruguay and Chile in 1973 and of Argentina in 1976. In addition, there are numerous judicial proceedings in several countries⁸ involving Henry Kissinger with the Condor Operation⁹ carried out by the intelligence services of the Armed Forces of Argentina, Brazil, Chile, Paraguay, and Uruguay, which kidnapped, tortured, and assassinated political opposition figures. Analysts have always been perplexed at the support lent by Kissinger and American diplomacy to these “military interventions” characterized by extraordinary truculence. But it is not difficult to understand what happened if one looks at the U.S. strategic interests and its defense of South America from a long-range perspective, as outlined by Nicholas Spykman in 1942. Spykman defined the American continent from a geopolitical standpoint, as a first and last line of defense of

8 In France, Henry Kissinger was summoned by Judge Le Loire to testify in the proceedings in the death of French citizens under the Condor Operation and the Chilean dictatorship. In Spain, he was also called by Judge Juan Guzmán to testify and in Washington he had also to testify about the death of U.S. journalist Charles Horman under the Chilean dictatorship. In Argentina, Kissinger is also being investigated by Judge Rodolfo Canicoba for his involvement with the Condor Operation and, in Washington, he is being accused before a federal court of having given the order for the assassination of General Schneider, Commander in Chief of the Chilean Armed Forces in 1970.

9 Interest on the subject has been recently rekindled by journalist Christopher Hitchens’ *The Trial of Henry Kissinger* (2003) and by Kenneth Maxwell’s review of Peter Kornbluh’s article “The Pinochet file: a Declassified Dossier on Atrocity and Accountability” in the *Foreign Affairs* of December 23 on Kissinger’s relations with Augusto Pinochet’s regime, and particularly with the 1976 assassination of Chilean diplomat Orlando Letelier in Washington.

U.S. world hegemony. In this hemisphere, he thought it unlikely that a direct challenge to U.S. supremacy would be posed by “Mediterranean America,” in which he included Mexico, Central America, and the Caribbean, as well as Colombia and Venezuela. He thought, though, that such a challenge could come from the ABC region in America’s Southern Cone. If this happened, recourse to war would be inevitable. The ABC acronym refers to Argentina, Brazil, and Chile but the ABC region also encompasses the territories of Uruguay and Paraguay, thus covering precisely the five countries involved in the Condor Operation. It might thus be said that Henry Kissinger strictly followed Nicholas Spykman’s recommendations regarding the control of this geopolitical region. His only personal contribution was replacing the “external war” proposed by Spykman by “the internal war” waged by the local Armed Forces against sectors of their own national populations. But even in this regard Kissinger was not original: he resorted to the method that had been used by the British in India for two hundred years, as well as in all the places where Great Britain dominated the weak, by utilizing divided and subordinate elites to control their own local populations.

In the eighties and nineties, Henry Kissinger withdrew from the direct exercise of diplomacy by maintained his personal and intellectual influence on the American establishment and on South American conservative elites. In 2001, he published a book about the geopolitical future and the defense of American interests around the world.¹⁰ In respect of South America, Kissinger attenuated Spykman’s form but maintained his “spirit,” asserting that South America remains essential to U.S. interests and should be kept under U.S. hegemony. Today, though, the threat to this hegemony no longer comes from Germany or the Soviet Union, but from inside the continent itself – on the economic plane, it comes from regional integration projects that exclude the FTAA; and on the political plane, from the populisms and nationalisms that are reemerging on the continent. **DEP**

Translation: João Coelho

10 Kissinger, H. *Does America Need a Foreign Policy?: Toward a Diplomacy for the 21st Century*, Simon & Schuster, New York, (2001).

Changes in the sociopolitical matrix and development in Chile

*Manuel A. Garretón M.**

Chile around the 1950s

In the early twentieth century, Chile began to gestate what we call Latin America's classic sociopolitical matrix: a state, national, popular, democratic, and, in Chile's case, parties-based matrix. Up to that time, the economic and social model was based on a free market system known as the model of outward development grounded on the more orthodox free trade paradigm. The orthodox economic model was associated with an oligarchic system of democracy limited by considerable political and social exclusion. The State played a minimal role during this period of the cities' capitalist expansion spurred by the mining and industrial development that attracted major migratory flows from the rural areas and the center of the country. This resulted in grave social problems that brought to the fore the oligarchic model's crisis,

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which definitively collapsed with the 1929 world crisis, entailing a decisive change in the development strategy and heralding a new era in which the State assumed a role for the first time.

The so-called “social question” of the twenties, which had to do with the unsustainable exclusion of the new proletariat, created a propitious environment for major social changes. Between 1880 and the 1920s important progressive political groups of the middle class were formed, coupled with the emergence of a labor movement that reached a significant level of organization by 1922, with the founding of the Communist Party. Although they did not have much political significance before the twenties, the progressive groups did help the inclusion of new issues on the social agenda and made considerable progress under the liberal candidacy of Arturo Alessandri Palma, who was elected president in 1920.

Under the Alessandri Administration, a new Constitution was drafted in 1925, strongly influenced by the constitutional social doctrines that prevailed in the twentieth century, and based on the outstanding fundamental charts that were the Mexican and the Soviet Constitutions (1917 and 1918, respectively). Chile's new Constitution was thus aimed at ensuring a minimum degree of well-being for the citizens, including explicit protection of labor, industry, and social welfare. In 1931, the Labor Code, a sanitary code, was drafted on the basis of the institutional groundwork laid down by the 1925 Constitution. This Constitution established a presidential system of government, leaving behind the traumatic parliamentary system that had led to serious institutional crises in the late nineteenth century; a new electoral system that incorporated proportionality as the governing principle of representation in Congress; and the separation of Church and State. The Central Bank was created, new banking and budgetary legislation was enacted, and the Office of the Controller General of the Republic was established.

The 1925 Constitution laid the institutional foundation for the subsequent development of the social processes (to be addressed further on), which helped shape the classical sociopolitical matrix supported by elements such as a relatively modern economic institutionality, political democratization, social protection, an strong role played by the State, and laicism. All of this, though, in a relatively precarious balance subject to some backsliding owing, until the sixties, to the exclusion of the peasants and the urban poor, as well as to the existence of oligarchic and economic enclaves such as foreign ownership of the

mining industry, in addition to the lack of stable center-left political coalitions and of political expression by the middle and popular sectors.

The Great 1929 Depression ruthlessly affected Chile, more so than any other countries in Latin America or elsewhere, as nitrate and copper exports plunged, slashing fiscal revenues and reserves, and leading to default on the external debt by 1931. The strategy to overcome the crisis was import-substitution industrialization (ISI), which together with the adoption of domestic demand expansion and exchange rate control policies, reduced imports. The gold standard was abandoned and a series of measures was adopted to strengthen production and internal demand, in view of the closing of international markets owing to the application of quotas and tariffs, coupled with anti-cyclical monetary and fiscal policies.

The application of the ISI model resulted in the development of a national industry promoted and protected by the State through institutions such as the Production Promotion Corporation (Corfo), established in 1939, which gave origin to a symbiotic relationship between an entrepreneurial State and a heavily subsidized private sector. The basis of the capitalist system remained unquestioned until the fifties, thanks to a circumstantial adaptation to the 1929 crisis in the first place and then to the consolidation of a concept or model of a “Compromise State,” a Latin American version of the welfare state that was never consolidated in Chile.

At first, the application of these measures was a natural, rational response to the crisis, as there was no other way out owing to the international financial disaster and then to World War II. Toward the end of the war, though, these measures were buttressed by the emergence of a Latin American ideology grounded on the Eclac development or structuralism theory in the mid-forties.

A state-national-popular-democratic-parties-based matrix

The Chilean social model or prevailing sociopolitical matrix in the twentieth century can be defined as a state, democratic, popular, national, and political-party one, characterized by the interaction between politics and civil society, including the economy, and the preponderant, coordinating role played by the ensemble of political actors, or party system, in relation to the State.

It was a question of a national community's affirmation of its identity through the work and struggles of the actors that represented it in the political field. This implied an effort toward comprehensive social incorporation and the solution of conflicts within an institutional framework rather than by force or coercion and exclusion.

At the center of the political scene, which had always been the main expression of the national-state-democratic-popular-party idea, were the 1925 Constitution and institutions concerned with ensuring respect for the law and freedoms, as well as State and civil service accountability. From this time, date the social legislation, universal suffrage, and, since 1920, the incorporation of masses into politics. This provided the basis for the projects of the Radical Party and the parties on the left of the Popular Front, with the integration of the middle class and of popular segments, the *Patria Joven* [Youth's Homeland] and the *Revolución en Libertad* [Revolution with Freedom] of the Christian Democrat project of the sixties and of the *Via Chilena al Socialismo* [the Chilean Way toward Socialism], headed by the Popular Unity and president Allende between 1970 and 1973. In the socioeconomic sphere, this project took the form of industrialization under the State's leading role, free public education, universities throughout the country, agrarian reform, and further on nationalizations and the National Health Service, among many other significant accomplishments. Up to a certain point, military service played also a role in national integration.

The Popular Front movements from 1938 to 1952 ensured a strong phase of social reforms and industrial growth owing to policies aimed at laying down the infrastructure for production and a social protection system for the working and middle classes. Between 1940 and 1953, industry grew an average of 7.5 percent a year. Its GDP share rose from 7.9 percent in 1929 to 23.0 percent in 1955.

Developments in this period indicate that, independently from the political or ideological orientation of the governments that succeeded each other for over forty years, there was basic political and social consensus regarding the industrialization effort and the State's role as the fundamental development axis through institutions such as Corfo, which accounted for 30 percent of total investments in capital goods, 25 percent of public investments, and 18 percent of total gross investment. Nevertheless, agreement about the role of

the State did not preclude the existence of economic and political divergences in the right's camp or of different social views in the democratic-popular or center-left camps. The industrialization and foreign trade disincentive policy involved also an implicit political discussion related to the workers' movements represented in the State's and parties' structures. These workers movements established alliances with the new industrial entrepreneurial sector, to the detriment of the agricultural sector more oriented to exports; this would become a conflict factor when the import-substitution model fell into crisis.

In the late fifties, the model began to collapse. Inflation and unemployment were symptoms of serious problems stemming from the adoption of protection measures in the economy, despite improved indicators of quality of life and the population's access to services, and augured a grim future scenario. The conservative government of Carlos Ibáñez del Campo, elected in 1952, attempted in vain to reform the Eclac model based on the recommendations of the Klein-Saks U.S. mission (1955) to cut down the money supply and public spending, which could not be implemented in view of their recessive results.

The import-substitution model did not yield the expected results. Critics claimed that this model gave rise to an excessive, inefficient bureaucratic apparatus that proved incapable of maintaining the social benefits infrastructure, and to inefficient productive sectors. This did not lead to the desired independence from the external sector, owing to increased dependence on capital goods and raw material imports to feed domestic production; it did entail price distortions caused by subsidies and the lack of competitiveness, all of which led to higher prices and unemployment rates. These developments intensified the questioning of the model, sharpening the ideological confrontation between the advocates of the Eclac model and its detractors, who were for neoliberal modernization.

In 1958, as Conservative Jorge Alessandri Rodríguez took office, a modernizing capitalist reform was attempted, based on the effort to make the private sector into the development engine, while maintaining an active fiscal policy à la Keynes. A nominal exchange rate was set as a kind of anchor – a Keynesian fiscal indebtedness policy to stimulate domestic demand through fiscal spending. Although appropriate, the reforms did not produce the expected results, nor were results sufficient to support the growth of production or price controls, as the modernizing strategy lacked medium-term consistence

with the contemplated adjustment measures and price controls, owing to the containment of Alessandri measures, which had but a momentary effect in controlling inflation. In addition, these measures were not supported by the entrepreneurial sector or by a consistent political majority.

Eduardo Frei Montalva's democratic government (1964) set in motion a reform process according to a plan known as *Revolution with Freedom*, based on gradual, nonrecessive exchange stabilization, agrarian reform, intensive promotion of peasant labor unions, industrial modernization impelled by the State's active role in promoting the telecommunications and the petrochemical industries, as well as the beginning of the nationalization of copper (the so-called "Chilenization") to be completed later by the Popular Unit government.

Between 1965 and 1973, reformist tendencies gained force. Their main platform was closer economic, political, and social integration of the poorest popular segments of the agrarian and urban worlds. Under Eduardo Frei's government, reforms became more gradual, while under Allende the strategy adopted was that of radical changes, particularly in respect of economic and social organization. Except for the expansion of citizenship rights, no reforms of the political and institutional system were undertaken under any of the reformist governments.

The main economic reforms (agrarian reform, nationalization of the copper sector) were related to the system of ownership of the sectors considered strategic for development. The reforms aimed at democratic expansion were centered on social organization and the extension of suffrage to peasants, young people, and the illiterate. Under these governments, the rural workers' unionization law was passed, which contributed to the rural sector's incorporation into political life, a segment for centuries deprived of social and political rights; the right to vote was extended to illiterate persons; and the voting age was reduced from 21 to 18 years. The two Administrations ensured strict respect for the Constitution, the regular functioning of democratic institutions, and the unrestricted prevalence of public freedoms and the Rule of Law.

The political spectrum underwent a twofold change: on the one hand, expansion owing to the emergence of leftist parties split off from Christian Democracy; on the other hand, polarization and rigidity owing to the right's unification into a more nationalistic, authoritarian party (National Party) and the autonomy achieved by the more ideological center, which had its own

alternative project (Christian Democracy) and the left's rallying round a Marxist-Leninist matrix and a radically more anti-capitalist project.

From the 1929 crisis thru 1973, the State played a central role not only in development's orientation and in the "ordering" of the economic and social actors under a common development model, but also as the prime social and political coordinator. The governments in place – of the right, center, and the left – maintained the economic measures aimed at protecting the national industry, subsidizing the economic agents (low credit interest rates), and systematically and gradually redistributing income, assuming salary and price regulation functions as well as increasing budgetary appropriations for social services, including education, health, and housing. Their social investment is today recognized as one of developmentism's enduring effects and seen as the foundation without which the Chilean economy's current growth would not have been possible. The economic achievements of the period under consideration could be seen in the moderate but sustained trends of economic growth, low unemployment, and reasonable investment rates, although accompanied by high inflation, which reflected the rather political character of the 1973 overturn of democracy.

The classic matrix's main characteristic is the centrality of politics. This is so not only in respect of economic processes, but also of the social actors' makeup and of cultural orientations, notwithstanding the latter's autonomy. Cultural orientations did indeed value education, equality, and solidarity; the nation's collective projects; the dominance of the middle class; but meritocratic, class-oriented, and oligarchic elements were not lacking either, owing to the influence of the culture of the rural sector or of the haciendas. But politics was the central axis around which Chilean identity and the collective identities within it were forged. Politics, then, meant far more than the processes that determine the government and its decisions. Politics was the particular way whereby society formed itself, a form of social life. It provided the main locus where to look for answers for questions about meaning, and the institutions were the main channel for these answers, which were enshrouded in perpetual ambiguity or hypocrisy, oscillating between acceptance of the norm and doubt about its intrinsic value.

The peculiarity of Chilean politics was that it had a stronger party connotation than a personalistic or populist character as was the case in other

Latin American countries. The existence of a full ideological party spectrum before the masses began their active participation in social and political life imparted to this centrality of politics a highly ideological character that became radicalized in the sixties, combining abstract ideology and concrete demands.

Despite its achievements, the national-popular, democratic-state, party-political model described in rapid strokes in the preceding displayed major contradictions and limitations, including the marginalization or subordination and tardy incorporation of peasants, urban dwellers, women, and regional segments. To this was added the exclusion and vassalage of various cultural expressions and identities unrelated to politics, especially as regards the original peoples. A consistent sectarianism in the appropriation and application of the popular national idea by a given social, political or cultural sector excluded all other segments, segregating instead of integrating them. There prevailed a culture that instead of encouraging individual creativity and diversity, favored an apparent homogeneity that concealed mediocrity, discrimination, classism, and hypocrisy. Lastly, there was excessive dependence of the economy on politics instead of on elements of a more markedly technical nature.

It was precisely these contradictions and the difficulty in overcoming them that created the propitious conditions for a crisis that was taken advantage of by the dominant economic sectors and the Armed Forces to implement their own socioeconomic and political project, totally alien to the principles on which the preceding model was based.

In 1970, a crisis broke out about the legitimacy of the capitalist development model and its consequences, but not about the democratic regime. In the 1970-1973 period, though, a crisis concerning democratic legitimacy broke out, leading to the collapse of the political system.

Popular Unity and the political and economic crisis

The ensemble of Chile's leftist parties grouped into the Popular Unity under Salvador Allende's leadership shared with Chilean political forces at any point of the ideological spectrum the revolutionary aspiration to a radical, thorough change in society. The left understood this change in the socialist sense, as a substitution of the capitalist society, but differently from most Latin American countries, within a democratic regime framework. On the other

hand, as regards content, the transformation of the capitalist model and the beginning of the transition to socialism paid the price of the predominant views at the time, such as the economic determinism of social and political life, the ideological constructs based on relatively monolithic thinking and, above all, the lack of referential models for leftist thinking other than the historical or real socialisms or the Marxist-Leninist revolutionary matrix.

This notwithstanding, it was possible to formulate a distinctive view, the “Chilean way to socialism,” which found its best doctrinaire expression in Salvador Allende’s first presidential Message to Congress, in 1971, as he stressed the relation between political democracy and economic and social democracy. The Popular Unity program also referred to certain goals and strategic formulations as well as to specific measures aimed basically at redistribution and at satisfying the needs of the large majorities. The connection between them was the expropriation of monopolies, which would provide the State with the requisite surpluses to redirect the productive apparatus toward meeting those needs.

In a highly anticapitalist spirit, the Popular Front’s economic program was centered on a redistributive policy aimed at economic democracy based on structural changes regarding property, through a nationalization program directed at the copper, nitrate, iron, and coal mining sector, the banking system, foreign trade, and strategic monopolies. Private distribution enterprises considered strategic suffered intervention, while others were arbitrarily taken over by workers’ organizations, as were the agricultural estates that had not been affected by the agrarian reform in the preceding period. Public tariffs were reduced and salaries were increased, based on Central Bank emissions that fueled inflation, which reached 293 percent in 1973.

In addition to the theoretical and programmatic shortcomings of the Popular Unity’s project and of a discourse that put exaggerated emphasis on the popular social actors, endowing them with an exclusive, confrontational profile, what was sought was the squaring of the circle – making a revolution with nonrevolutionary, democratic means, without counting on the institutional majority that, in Chile, is achieved only through the political parties. The need for a strategy to ensure a majority, for whose lack Social Democracy had also been liable, is a major lesson of the period. Indeed, the *Concertación de Partidos por la Democracia* that followed the military regime in 1990 cannot be explained

only by the need to fight against the military dictatorship, but also by the learning of this lesson. Be as it may, to analyze the reality of the 1970-1973 period and its culmination in the 1972 coup d'état in terms of a failure owing to the weakness and unfeasibility of a project and its strategy would betray a lack of knowledge. Those three years were marked by a political struggle, whose defeat a segment of the opposition to the Popular Front and to the Allende government pursued from the very beginning, an objective equally pursued by the U.S. Government at the time.

The authoritarian neoliberal project

Between 1973 and 1989, the de facto military government under Augusto Pinochet's leadership interrupted the democratic regime. The coup d'état put an end to the institutional normality the country had experienced with but brief interruptions in over 150 years of republican life, with the dissolution of Congress; the assumption of the legislative power by a Government Junta; the prohibition of political parties; the suspension of electoral mechanisms; the virtual elimination of public freedoms; the massive, systematic repression of those suspected of being supporters of the previous government and opponents of the new regime; and the subordination of the Judiciary to the de facto government. The authoritarian regime's institutional model was consolidated by a fraudulent plebiscite, while the 1980 Constitution supported a process of authoritarian institutionalization that would lead eight years later to the 1988 plebiscite.

What occurred was a counter-revolutionary project. The history of the Chilean military regime from 1973 through 1981/1982 is the history of a twofold process. On the one hand, repression and deactivation of the previously established actors, which given the way those actors had come onto the stage, started with the suppression of the parties' political activity, initially under the Church's aegis. On the other hand, the embodiment of political and military power in general Pinochet, combining personal dictatorship and institutional regime features. A hegemonic nucleus came then into being, combining this personalized political power and the socioeconomic conduction of the State by a technocratic team soon associated with financial capitalism and known as the Chicago Boys.

The main thrust of the civilian-military project was reversing relations between the economy and the State. The State was restricted to the extent possible to its integrating and redistributing tasks and to its role related to collective action, while being used for coercive tasks and for implementation of the model. Another objective was to trigger a series of social and institutional changes, known as “modernization,” whose main result was the atomization of social relations, which were reduced to market mechanisms and dissociated from political action.

The authoritarian-neoliberal formula was a radical change from the preceding formulas – the traditional capitalist formula, the mixed formula of the sixties, and the Popular Unity’s socialist orientation. By suppressing politics, the military regime could make the changes deemed necessary by the technocratic team, which were imposed by the state without social inputs. The social costs of the adjustment have been exhaustively analyzed and its effects on society now and in the future will be felt for a long time. The neoliberal formula meant not only economic restructuring but also intervention in politics, which established the regime’s institutional model fashioned after the 1980 Constitution; a social reordering that brought to the fore the entrepreneurial actor and caused the dissolution of the popular, social actors; and produced changes in the cultural orientation of the social and political actors.

The military Government’s stabilizing, re-foundational economic plan was based on the disarticulation of the Compromise State of the classic sociopolitical matrix and on the construction of a new project that, from our analytical point of view, would convert itself into a neoliberal matrix. First, policies were adopted to address macroeconomic disequilibria as the top priority for controlling hyperinflation, and then to embrace unilateral, indiscriminate trade opening, and the liberalization of prices and the financial market. In addition, the state apparatus began to be dismantled, just as the state enterprises system had been through privatizations, including some areas that had traditionally belonged to the State, such as the pension system and health care. Foreign borrowing was a fundamental pillar to support the new economy’s reforms – a two-edged weapon that led the Chilean banking system to defaulting at the time of the worldwide debt crisis.

In addition to introducing radical changes in the economy (liberalization, outward opening, and privatization), the military government also changed

social policies. These changes occurred in six major areas: drastic reduction of resources, which affected with particular intensity the housing, health, and educational sectors (and within these sectors, even sharper reduction of investment and remuneration of personnel); transfer of executive functions, reassignment of services to the private sector, and geographical decentralization of ministries and services; introduction of market mechanisms to allocate public funds (subsidized demand); implementation of specific measures aimed at literally reducing universal programs and redirection of public funds to poorer segments of the population; development of compensatory social programs aimed at extreme poverty situations; and weakening of the power of workers and unions, accompanied by rigid control of collective manifestation of social demands.

Despite the absence of a consistent “package of administrative reforms,” from the very beginning of the first policy adjustment in 1975, the military government adopted a series of measures that drastically changed the State apparatus. These measures included the wholesale privatization of public enterprises – although some privatizations were left “pending” and the copper mining sector was exempted – as well as the privatization of public services, especially social security; transfer of public services functions; transfer of the municipalities’ fiscal deficit in the areas of education and health; sharp reduction in the number of government employees and elimination of agencies; restructuring and weakening of “social” ministries and modernization of “economic” ones; new regionalization of the country with a military cast; administrative legislation that led to increasing instability; and issuing of a Constitutional Organic Law that made changes to this legal instrument extremely difficult.

In practice, despite some initial measures of financial and administrative rationalization, the result was a pronounced deterioration of public administration, as the military regime’s economic authorities considered the State inefficient by definition. The constant arbitrariness, authoritarianism, and devaluing of public functions played havoc with the bureaucrats’ morale. Their salaries were disproportionately reduced by the fiscal adjustments. Obsessed with privatizations, the Pinochet government delivered public functionaries to their fate.

All of this gave rise to an extremely negative concept of the role of the State and to the identification of modernization and efficient administration with

the private sector. The dominant political thinking associated the public sector with obsolete, bureaucratic, and anachronistic ideas and images. Accordingly, all civil servants were unfairly considered inefficient. This biased view, which disdained the functions and effectiveness of public policies, persisted in the subsequent democratic governments among political groups of the right and entrepreneurs. Underlying these arguments was an interest in preventing the adoption of regulation strategies as well as in privatizing all available public capital and services. But a major ideological, political element was also at play – the penalization of a sector seen as being responsible for the 1973 crisis and the elimination of State intervention, seen as the main cause of society's politicization. Neoliberals and neoconservatives, stressing the inefficiency of State action and its alleged damaging effects on economic growth, did indeed reined in the endogenous modernization of public administration, opposing various reform initiatives attempted by the democratic governments.

In 1981-1982, the debt crisis led to a crisis of the economic model, which in turn led to the outbreak of public protests by the population and the opposition. Only in 1986 was the regime able to partially restore its economic model and pave the way for the 1988 plebiscite, in which the opposition accepted to participate, so as to change it from a projection mechanism for the regime into a mechanism for triggering a process that would bring the dictatorship to an end and initiate the transition to a democratic regime.

The military regime did manage to impose a new development model, but only after the resounding failure of 1981-1982. The new model meant regressive growth for a while and a degree of recovery as of 1986. Thus, there is no sense in speaking of a Chilean economic miracle. The recovery, however, did not encompass any social indicator, if compared with the seventies.

In brief, the military dictatorship and its neoliberal model changed the Chilean sociopolitical matrix; but instead of creating a new one, it basically just dismantled the old one.

Democracy and a hybrid matrix

The political transition in Chile was spurred by the 1988 plebiscite, when the possibility of an authoritarian relapse was definitively eliminated, despite the clearly undemocratic intentions of Pinochet's civilian and military

regime. The transition ended with the inauguration of the first democratic government in March 1990. Since then, there have been four governments of the *Concertación de Partidos por la Democracia*, a center-left coalition formed by the Christian Democrats, the Socialist Party, the Party for Democracy (PPD), and the lesser Radical Social Democratic Party. There have been two Christian Democrat presidents (Patricio Aylwin, 1990-1994; Eduardo Frei, 1994-2000) and two Socialist (PPD) presidents (Ricardo Lagos, 2000-2006; Michelle Bachelet, 2006-2010). Thus was partially solved one of the Chilean society's major problems in the twentieth century: the intertwining of social actors and the party system that occurred in each progressive democratic party, which with the exception of the Popular Front of the late thirties, had never led to a progressive democratic coalition uniting the center and the left. The problem was only partially solved because the social actors' makeup had changed so much that they could no longer be totally represented by the party system.

The first democratic government – Patricio Aylwin's – defined the national task in terms of “transition to democracy” and pointed to the idea of “growth with equity,” while maintaining the macroeconomic equilibriums and seeking to redress the social effects of the economic model. It also adopted a method of negotiations and punctual agreements it called “consensuses democracy.” The truth is that a transition was no longer under way nor were there any real consensuses. Be as it may, whatever criticism is leveled at these definitions as being partial or insufficient, it must be recognized that there were goals and directions and that on their basis the government made progress. It must be recalled that during the second Concertación government, despite very good economic performance until 1997 and major progress in terms of public works and of reforms in the areas of the Judiciary and education, projects and orientation, and objectives susceptible of mobilizing social and cultural energies, the country became adrift, without a shared compass, and thus without political conduction. Under Ricardo Lagos, presidential leadership was recovered: the envisaged goal was to make Chile into a development country by its second centennial as an independent nation. Despite the great progress made in the areas of infrastructure, social reforms, and international integration, this goal is far from being achieved and the social actors and politicians do not seem to be clearly moving in the same direction either. Under the Bachelet government – Latin America's first government whose Executive is equally shared by men and women and headed by a woman – whose term in office is only four years

as established by the 2005 constitutional reform, the main concern during its first ten months, as was the case during the campaign, has been the idea of a new, so-called “citizenship” style. This is defined by an agenda of specific measures but seems to lack a political project or horizon to give meaning to government action, except for the generic proposal of a protection system to be achieved through social security reform, as announced at the end of 2006. But the government has been overwhelmed by unforeseen problems, the most significant of which was the secondary students’ movement.

The end of transition did not mean that under genuinely democratic governments the political regime and society actually had real democracy. The incomplete transition led to a limited, low-quality democracy interspersed with authoritarian enclaves. The task called for was neither going on with transition, as it was finished, nor consolidating the new, post-authoritarian regime, as it had already been consolidated in so far as no relapse into authoritarianism was possible. The task called for was a thorough reform of this new regime and the creation of an authentic political democracy under which limits to popular will and sovereignty are not set by the powers that be or by political minorities. In other words, it was necessary to solve the transition problems that were left unsolved.

The relative successes of Chile’s political democratization paid a high price, as can be seen in the great unsolved problems, i.e., in the failures stemming not from the nature of the process itself, but to political conduction.

There has been much insistence on the consensual character of Chilean transition, but what was foremost was the lack of debate about the great issues that define society and the foundations of democracy, disguised only by the illusion of consensus. In reality, there was consensus only about getting rid of the dictatorship. What followed were circumstantial or punctual agreements between government and opposition. But no one anywhere would have dared to call these agreements “consensual democracy.” The inexistence of real consensus about the basic elements of reconstruction of the post-dictatorship society is explained in part by the veto of the minority and the actual powers (entrepreneurial organizations, economic groups that controlled the means of communication, and even the Armed Forces); and in part by the Judiciary, the voting minority of the right with veto capacity owing to the electoral system; and because there had been no debate about crucial issues or because debate

had been stifled by the requirements of economic and political stability. Lastly, because a trauma of dissent, conflict, and confrontation, which are demonized or seen as pathological. Basic societal consensus can be achieved only through debate and conflict.

The main problems about some of which there was limited debate that failed to lead to any consensus were the question of justice regarding the violation of human rights under the dictatorship; regional reform; the Mapuche problem; the issue of equality and redistribution; issues related to living together and reproduction, vetoed by the Church; the constitutional model; the reformulation of the development model vis-à-vis globalization, etc. It should be noted, though, that there was a degree of consensus about the primacy of education, which led to the educational reform under the Frei government but which showed its limitations in the 2006 student mobilization that in turn led to a new debate and new consensus mechanisms, equally partial and precarious; the fight against hunger, which required the setting-up of the National Commission against Poverty, although redistribution was omitted from the debate; the modernization of the Judiciary and reform of the Penal Code, accompanied by the establishment of the Public Attorney's Office and oral proceedings. All of these achievements meant undeniable progress.

There is no denying either that Chile's democratization policy was successful to the extent that it put an end to dictatorship, prevented society's disintegration by controlling macroeconomic variables, and made possible a government based on a democratic majority coalition. But one cannot speak of an "exemplary" or "successful" transition if one considers the result of this process and the quality of the democratic regime. The latter is characterized by precarious institutions, the existence of factual powers, and the weakness of representation owing to the tensions between political actors and society, as well as by the fragility of its cultural base stemming from the absence of basic consensus and from the lack of societal cohesion, unity, and direction that resulted from the State's weakness.

The inexistence of a world economic crisis in the beginning, which in many other transition cases altered the correlation of pro-democracy forces and led to destabilization or de-legitimization caused by factual powers or by the alienation of the middle class and of popular segments, did not force the first democratic governments to adopt unpopular or regressive policies to

solve an inherited circumstantial crisis. They had not inherited a crisis but a model, which is a much more serious structural problem, something that had to be replaced, not corrected.

Regrettably, the opportunity to concentrate on political aspects to complete the transition, overcoming the authoritarian enclaves, was not exploited, and the absolute priority ascribed to economic stability discouraged the forming and the activity of social movements and actors, to the detriment of their relation with politics and the parties.

True, Chile has stood out in the last decade among its Latin American peers as a remarkable emerging economy and because its indicators related to income, growth, and poverty reduction, reflected in the human development indicators, are the region's best. However, problems persist in relation to the socioeconomic model to be mentioned further on, susceptible of not only undermining growth's dynamism but also of jeopardizing the progress achieved and the country's very existence as a community on the social plane. This has been at the root of discussions about correcting or changing the economic model, carried out during the 2005 presidential campaign, particularly by the left outside the Concertación.

The first of these problems had to do with economic development's pace, kind, and targets. One target was making Chile into a developed country by 2010, something impossible in terms of both per capita income and a "developed" distribution of the fruits of growth. Here lies the core problem. The world's growth model based on the major role played by the transnational market forces and by what is called the new economy has ceased to be a development model. Growth and development are no longer inseparable and the employment structure problem is the best illustration of this, requiring direct interventions by the State and society in the economy. Despite the celebration of extremely important international economic agreements and socioeconomic reforms such as the *Auge en Salud Plan* [Maximum Health Plan] or *Chile Solidario* [Chile in Solidarity] pertaining to combating poverty, these are clearly insufficient. The debate about the very nature of the growth model based on exports without high aggregated value and accompanied by a seemingly structural unemployment rate has been only attempted and soon abandoned, as apparently the only voices that influence and even set the agenda of public agencies are the voices of the major entrepreneurial

groups and organizations, their class associations and and the media at their disposal.

This is also the second problem that has not been solved by the Chilean socioeconomic model – the problem of who are the development's actors. On the one hand, the country has lived in a cyclic climate of relations between the government and the entrepreneurial sectors, which move from verbal guerrilla and recrimination on the part of the government and threats from the entrepreneurial sector to declarations of absolute mutual confidence and support, especially when the economic policy yields positive results. The truth is that despite significant exceptions the degree of ideologizing and the generalized, unbounded greed for profit at all costs prevent Chile from relying on one of the requisite engines of economic development under the current economic model prevailing in the world, namely, a responsible entrepreneurial class committed not to profits at all costs or to its extra-economic whims but to the country. To this end, this class must think in terms of the country and of its own role as a development agent in constant cooperation and association with the State.

On the other hand, a critical or timid attitude persists in relation to a more active role of State in its leading and mobilizing capacity. True, in a highly globalized economy as Chile's, in comparison, for example, with the major Mercosur partners, the formulation of active economic policies is very difficult. But it is also true that, excepting for public works, the State is still lagging and constrained by the self-limitations imposed by the neoliberal ideology, as regards its role in redistributing resources and wealth and ensuring equality, as well as in promoting essential areas, such as research or the environment. Although it has made significant progress in data processing and in attention to users, the State's modernization has not escaped from measuring itself by the indicators of the private sector or the market. Restoring the State's role as leader, regulator, and protector remains a priority task, without which the problem of inequality cannot be solved. It should be recalled that the State's share in the national output is very small and that there is a long way to go from a liberal to a social democratic model without affecting growth.

The third problem has to do with the consequences of the economic situation in the social area. They include a relative stagnation, especially as regards employment, socioeconomic inequalities, and the most affected social groups' capacity to act.

In respect of employment, although there has been undeniable progress, including the introduction of unemployment insurance and the creation of new work posts by the State, and though unemployment has declined in the past year, the fundamental issue remains: growth has ceased to mean development, social integration, and, in ILO's expression, "decent work for all." This calls for modifications in the growth model or for complementary initiatives that may contradict some premises or presuppositions, so as to restore the link between growth and development.

As to socioeconomic inequalities, it should be recalled that this is Chilean society's Achilles' heel. Poverty, at least in statistical terms, has significantly declined owing in large measure to growth and to the State's effective social policies. In the 2005-2006 presidential campaign, though, the inequality issue surfaced again as Chilean society's major problem, which was addressed by all candidates, including those on the right. Yet, the main element to ensure greater equality, namely, redistribution, for which a tax reform is absolutely necessary, has been absent from the programs of both the opposition right and the Concertación, as well from government initiatives. The only measure adopted in this regard was a highly regressive VAT increase.

Thus, just as the previous development model based on industrialization and the State had some intrinsic flaws that required outside correction, the current model also has perversities that are part of its nature. Indeed, the prevailing economic model does not favor, as industrialization and the State did in other decades, the laying of material and institutional foundations on which social actors could properly organize the new demands and express themselves or negotiate with the political sector, i.e., with the parties. As collective action is dismantled, the action of the corporative sector, which is linked to economic power, is favored, giving rise to sporadic defensive actions. To this should be added the absence of adequate institutionality as regards both norms and regulations and the State's organization for addressing conflicts and demands, as demonstrated by the scandals involving perquisites and fraud in the public sector in 2002 and 2003, which led to significant partial reforms that nevertheless left untouched the State's structure and its relations with society.

The imbalance between social organizations, particularly those of the more vulnerable segments, and the more powerful actors that act on

the economy, seems to have aggravated instead of declining. This forces the weakened social actors to set as their sole objective the solution of their particular problems, to the detriment of their concern over major national issues and heightens their purely corporative demands. This is reinforced by the fact that they cannot count, as in another time, on a party system under which the social sectors felt that they were heard and taken in by the political class, with the exception of the right, which represents solely the interests of the entrepreneurs and the military, or of the Communist Party, without much political influence to embody dissatisfaction with the Concertación governments.

An area in which the Chilean economic model seems to have been successful is its integration into the globalization process. It is evident that globalization had a stronger impact on Chile's economy than on other economies of the continent. One of the reasons was its traditional dependence on external factors in every respect, coupled with the fact that it is more open by nature, partly because its opening and adjustments took place before globalization established itself as the central phenomenon of the twentieth century. Over fifty percent of Chile's GDP is linked to the external sector.

As regards poverty, the Concertación governments' policy has included among other measures a steady increase of social spending, the establishment of special agencies, such as Social Investment and Solidarity Fund-Fosis, the actors' own projects, and the National Commission for the Eradication of Poverty, the Chile Solidario and the Puente Programs, all of which call for significant direct assistance to all indigent families. There have been also recent social policies that go beyond the aspects mentioned to include respect for and guarantee of legally protected rights under the aegis of a protector state, as exemplified by the Maximum Health Plan, the expansion of pre-school programs, and the contemplated social security reform.

It is worth pointing out that the last National Socioeconomic Survey-Casen data, released in June 2007, indicate improvement of the poverty and indigence situation as a result of the aforementioned programs.

Two observations are in order in this respect, though. First, there is a debate about the method of calculating poverty: if the value of the basic basket is recalculated on the basis of current prices, poverty figures will be twice those obtained by the Casen Survey; this does not negate the positive trend but makes statistics relative. On the other hand, it is obvious that whatever

the calculation method, what varies is a statistical line, not a sociological line, i.e., it is possible for people to fall below the line at a given moment or not to have the structural conditions to sustain a situation of no poverty – this means that people can continue to be sociologically poor, even though they may be above the poverty line at a given moment.

As to income distribution, some improvement has been achieved only recently, although this is more apparent than real, if one calculates the difference in terms of deciles or percentiles. It should be noted also that autonomous income distribution improves considerably in favor of the poorest when the State intervenes with aide and subsidies.

Summary and conclusions

Chile's classic sociopolitical matrix favored the coordination and integration of social forces and political parties. It was the parties, of both the center and the left, acting together in the thirties and separately in the sixties, which played a "redistributive coalition" role, as was manifest in politics' central role in the definition and in the application of the development model.

The military regime and the socioeconomic changes impelled by it, which basically meant moving toward a new development model, had a more profound meaning than just the dismantling of the society that predominated until the seventies. The attempt was made to replace that society with another. In essence, it was a question of a neoliberal project that, rather than making the economy autonomous in relation to politics, implied the utopian subordination of the latter to the former. The market mechanisms were supposed to be the "new backbone" consisting of social actors, which had replaced both the system of party representation and the State's key referential role.

From the standpoint of the dismantling of the previous matrix, the military regime was successful. From the standpoint of its replacement with the neoliberal matrix, it failed. Neither did the old socioeconomic model remain nor was the neoliberal one consistently applied in respect of growth strategy, at least not since a democratic regime was established, poor as its quality may have been. Despite the disintegration of the previous model, some of its elements persist in a new coordination scheme that has some features of the neoliberal project as well as some new features borrowed from neither model.

Thus, post-transition Chile inverts Anibal Pinto's thesis applicable to the classical matrix, which expressed a basic contradiction between an atrophied economy and a developed cultural, institutional, and political system. This weakness of the economic system favored the severing of the economy's ties to politics. Today, the problem is just the opposite: an economy that has taken off, at least until the mid-nineties, and recovered its pace by 2005, dissociated from the country and from society. In contrast to this, an atrophied political, institutional, and cultural system. Suffice it to recall the authoritarian enclaves (Constitution and unconstitutionality, a climate of impunity for the violation of human rights under the dictatorship, and partial solution to matters of justice, the existence of nondemocratic actors whose expression is 'political Pinochet-ism'); the debility of decentralization and regionalization; the crisis of the educational system and the collapse of higher education; the social actors' acute weakness, especially for negotiating with the economic power; the only recently overcome lag of institutionality in regard to family organization; and the difficulties in redefining a new role for the State as leader and protector. Without downplaying the progress achieved by the democratic regime in several of these areas, progress has always been incomplete because it remains circumscribed by the inherited institutional framework. In addition, at moments of crisis, such as in 1998 and 1999, the socioeconomic model has prevented reliance on institutional resources capable of addressing it.

Thus, it seems that we are faced with a sociopolitical matrix or a society of a hybrid type in relation to the prevailing model in most of the twentieth century. This matrix displays both continuation and rupture features, in addition to independent, emerging elements.

The rupture consists in the fact that the economy has become independent from politics and apparently follows its own development dynamics, while the State sets boundaries but not direction. This does not mean that the economy obeys the dynamics of national development, but only that this autonomy vis-à-vis politics or the State coincides with a new subordination or dependence, now to the markets' transnational forces. The key point is perhaps the fact that the socioeconomic growth model has ceased to be a development model, or in other words, that the economy alone cannot ensure social integration, as can be seen in the case of employment.

The social conflicts seem to reflect the contradiction between a country that solves relatively well its short-term economic problems but has left pending

or unresolved its institutional, political, and cultural problems, as well as those related to a development model that is socially sustainable in the long term. Thus, the central problem is social inequality. Faced with the development formulas followed by the military dictatorship and with the neoliberal model, the democratic governments defined their strategy as development with equity. Both in the economic field until the 1997-1998 crisis and in respect of poverty elimination and the State's social spending, there has been significant progress. Nevertheless, socioeconomic inequalities persist and even increase in some cases.

Obviously, the Chilean problem is no longer "transition to democracy and to a market economy," as pointed out in the early nineties. As the democracy achieved is incomplete and of precarious quality but is democracy nevertheless, we are no longer in a transition situation but faced with the need for a profound political reform. On the other hand, the neoliberal market economy model, or "privatizing model," has exhausted itself as the basis for integrated, sustainable national development, here and the world over. The world moves with difficulty today between globalizing trends and the need to restore the guiding role of the national States' and their alliances.

Without going back to the former subordination of the economy to politics, which would be practically impossible anyway, we should seek alternatives to current formulas, so as to restore the State's guiding role in respect of development, both internally and in supranational blocs, and to establish normative, regulatory frameworks for the market forces and ensure the citizens' control over these frameworks and forces. In other words, recognizing that politics and the economy are two different things independent from each other, we must also introduce democracy's ethic principles into the functioning of the markets.

What will be at stake in the next few years is the country's existence as a real community, in which plurality and diversity have a place. The country's project, its forms of community life, its identities, and its autonomous integration into the globalized world are the substance of politics today.

Thus, the country's post-transition problems have to do with the organization of the *polis*, the conduction capacity, the ability to ensure that cultural and social issues are expressed in politics and that the economy is linked to society's overall development. This means that there is no politics

and legitimacy crisis as such, not even among the young people. But there is a crisis as to the political capacity and activity to address political issues instead of becoming an end in itself. In the long run, there is a risk that this might lead to a real crisis.

Under the present circumstances, the freezing-up of the political and institutional dimension vis-à-vis an economic base that is dependent on the transnational economy might be explained by two factors: the existence of authoritarian institutional enclaves defended by the rightist opposition, heir to the military regime; and the lack of alternative political and cultural models and projects, owing among other things to the Concentración governments' very success. In this void, the transnational economy's "natural forces" predominate.

It might be too soon for settling the question as to whether we are faced with an emerging matrix of relations between the State and society or whether we are living a transition to another as yet unknown model. The open questions about the world economy and the future of globalization and economic integration further reinforce this incognita.

Be as it may, the future of Chilean society depends on its capacity to build a sociopolitical system that recovers the idea of a national community that is not reduced to a market or to a series of instruments and techniques. What the country needs is no longer an "economic miracle" but a great political, institutional, and cultural jump forward.

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Colombia: foreign policy, economy and the conflict

*Marta Lucía Ramírez**

1. The Colombian conflict and its regional and international repercussions

Antecedents

The current Colombian conflict should not be looked at from today's perspective. It results from a prolonged process of territorial fragmentation, political exclusion, poverty, and a traditional political polarization. It should thus be seen as being of medium duration. The illegal armed groups active in the country today use historical factors to legitimize their actions, combat the State, and attack the country's political and economic elites. Some people even claim that Colombia's armed conflict is the outcome of Colombians' historical inclination toward belligerence, thereby ignoring the achievements and significant conquests of national institutionality, as illustrated by the fact that Colombian democracy is the oldest on the South American

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continent and by the nearly total absence of authoritarian dictatorships in the twentieth century.

Beginning in the 1830s, after Gran Colombia's dissolution, the new nation became immersed in a series of political and ideological disputes and struggles for power that pitched not only Liberals against Conservatives but also entire regions against each other. Between 1899 and 1903, the so-called Thousand Days War occurred.¹ This last war ended with the Liberals' defeat and introduced a long period of Conservative governments. But the real outcome of that war and of all internal wars was the fragmentation of the territory, the reigning in of the country's economic development, and the precariousness of a central State. The most visible consequence of this situation was the loss of the Panama isthmus, heretofore a Colombian territory.

In April 1948, Presidential candidate Jorge Eliecer Gaitán, a charismatic popular leader was assassinated. Conspiracy theories, mutual accusations, and despair unleashed the fury of the popular classes nationwide and polarized the country still further. This event introduced the blood-drenched period known as "The Violence," seen by many as the birth of Colombia's current conflict. During those years, the two political parties – the Conservative and the Liberal – once again took up arms to solve their differences. It should be made clear that this time it is not the case of a civil war similar to the nineteenth century wars. In today's case, the initiatives came also from Colombian society and the peasantry. These are violent ways of solving economic, land tenure, and political exclusion problems, among others, framed in ideological differences. This is allegedly an undeclared war involving serious political persecution on the part of both the conservative government and the liberal's self-defense. The figure of a *bandolero* emerges – a staunch liberal peasant fleeing political persecution, who seeks inhospitable lands in the country's southwest, where he establishes his own communities apart from the central government and becomes the germ of the future guerrilla.

"The Violence" period is put to an end by the brief dictatorship of General Rojas Pinilla (1953-1957), the only dictator in Colombia's recent history. In 1957, the National Front came into being as a reaction to the dictatorship. To end the political disputes in the country, liberal and conservative leaders

¹ Acosta, Gutiérrez; Leonardo, Coronel (R). Conflicto Colombiano Historia y Contexto. Imprenta de las Fuerzas Militares del Ejército de Colombia.

agreed to the alternation of the parties in power for four Presidential terms. Although it managed to reduce the two-party polarization and the violence indicators, this agreement left out of the political arena many sectors that did not belong to the traditional parties' elites. This political exclusion was seen as another instance of the Colombian oligarchy's hold on power and led many of these sectors to assume more radical positions. This marked the beginning of the new guises of violence associated with the communism-oriented discourses, whose objective was also to carry out revolutionary changes in the State, incubating guerrillas such as the Colombian Revolutionary Armed Forces-FARC and the National Liberation Army-ELN, among others.

Other factors contributed to the emergence of these criminal organizations in the first half of the fifties and in the sixties, including the dynamics of the Cold War; the Cuban revolution; Colombia's internal and institutional crisis; the country's agrarian problems; youth's radicalization, particularly the students'; the remains of the liberal peasant self-defenses of the time of "The Violence;" and the tendency to political radicalism in some segments of the workers' leadership, all of which led to the consolidation of the guerrillas as we know them today.

Next, we shall proceed to review the emergence and the current state of the two most important guerrilla groups ever in Colombia, namely, the FARC and the ELN. We will ignore other guerrillas that emerged in the seventies, such as the EPL and the M-19, as they no longer exist and thus have no part in the current Colombian conflict.

The FARC-EP guerrilla

The FARC guerrilla formally emerged in 1964 through the merge of various bandolero groups that decided to forgo the general amnesty offered by President Alberto Lleras Camargo to all outlaw groups that had moved to the Colombian eastern plains. There they managed to establish a significant social basis that often filled the gap left by the State. They defined themselves as guerrilla groups of a Marxist-Leninist cast and, encouraged by Fidel Castro's victory in Cuba,² began striving for assuming power by militarily overthrowing the government.

2 Pizarro Leon-Gomez, Eduardo. "Marquetalia: el mito fundacional de las FARC." *Unimedios*, publication of Colombia's University, No. 57, May, 9, 2004.

The sixties and seventies went by without major changes in the FARC's. They were a group of armed peasants that appropriated themselves of remote lands that were cut off from national events. It was only in 1982, during their Seventh National Conference that the FARC's adopted a strategy that combined "all forms of fighting," that is, fighting on the political, economic, social, and military fronts. The organization adopted the acronym "EP," for *Ejército del Pueblo* [People's Army], whose strategy moves from defense to all-out offensive to assume political power, and thus became a constant threat to the Colombian State and to all legitimately elected governments until today.³

The ELN guerrilla⁴

The National Liberation Army-ELN made its appearance on the public stage in the sixties by attempting to overthrow the government through a Marxist-style revolution and a socialist type of system meant to eradicate capitalism from the Colombian State. From the beginning, the major difference between the ELN and the FARC's was that the former was started by university students inspired by the Cuban Revolution and under strong influence of the political theories of Ernesto "Che" Guevara as well as of the Liberation Theology.⁵ The FARC's, though, are a peasant movement born of the need for self-defense rather than of a real political purpose. Today, the FARC's are engaged in a peace process with the current government. Although the organization persists, it is fragmented and clearly debilitated by harsh military coups dealt on them by the Colombian Public Forces.

Expansion and consolidation of the guerrillas and emergence of paramilitary groups

During President Belisario Betancur's Administration (1982-1986), another peace process was started, which created conditions for a dialogue with the FARC's and other guerrilla groups. While several of these groups accepted the amnesty proffered, the FARC's and other guerrilla groups chose to expand and to assume control of some areas where the State's presence was

³ Ibid.

⁴ www.Semana.com/wf_ImprimirArticulo.aspx?Idart=100803&ver=COIXOxSMba April 14, 2008.

⁵ Rangel Suarez, Alfredo. *El conflicto armado en Colombia y la experiencia internacional*. Intermedio Editores, 2001, Cap. 6, Guerra Insurgente, p. 166.

scarcer; at the same time, the influence of drug-trafficking grew, particularly that of the Medellín cartel.

During this period, the first paramilitary groups began to organize themselves in those areas where the guerrilla was harassing the civilian population, especially the big cattle-raisers and merchants through kidnapping, extortion, and the stealing of goods and cattle. In the beginning, the paramilitary groups consisted of civilians and were formed allegedly to provide security for populations neglected by the State. Despite their rapid growth, they were treated as an isolated phenomenon and were not seen as a real threat to the State's stability.

These groups' expansion was due to various factors, including the support of civil society and of entrepreneurs, cattle-raisers, and merchants in the regions where they pushed back the guerrilla. The support of some members of the Public Forces was also important. The self-defense groups began to perform the "dirty" tasks that the forces of the State could not. They often acted independently, with the complacency of the Military Forces. It should be noted, however, that neither the creation of or the support to these groups were part of a State policy, as was the case in other countries, such as in Guatemala, where such groups were regulated during Ríos Montt's military government.

In 1991, a new political Constitution was drafted. Its main ideal was to bring together all those sectors that felt excluded from Colombia's political arena, through a democratic opening that created room for new sectors and new political parties.⁶ As Gaviria's government's priority was fighting the drug cartels, and particularly the Medellín Cartel headed by Pablo Escobar, the paramilitary organizations, which were already openly allying themselves with other drug lords, were neglected. The most famous case was that of "Los Pepes," an alleged alliance of the Castaño brothers, self-defense leaders, with the Cali cartel to dislodge Pablo Escobar, Colombia's major drug trafficking leader. The "Paras," as the paramilitary groups were called, further intensified the complexity of the internal conflict, as another source of violence. They disputed with other guerrilla groups and other drug cartels over the drug trade. Cold-bloodedly, they took control of entire regions that functioned as strategic corridors or where large-scale illicit crops were cultivated. As they advanced,

6 Gutiérrez Sanín, Francisco. Professor, Political and International Relations Studies Institute, University of Colombia, *Revista Análisis Político*, No. 57, Bogotá, May-August 2006, pp. 106-125.

these organizations weaved a series of mafia-like networks around the mid-nineties, intertwined with drug trafficking, allegedly to obtain resources for their campaign against subversion. Ultimately, drug trafficking proceeds were used to finance their local power and the incommensurate wealth of the main mafia leaders. The establishment of the United Self-defenses of Colombia-AUC in 1997 and the concealing of their drug-trafficking nature from public opinion, showed them at that time and until the beginning of the current decade as an organization with some political motivation, opposed to the guerrillas, which justified their emergence and persistence as an anti-subversion group.

Meanwhile, the FARC, which during the Public Force's drive against the main leaders of the Medellín cartel had moved from protecting the illicit crops and drug-processing laboratories to assuming control of all drug-trafficking phases, increased their numbers from 900 hundred men and nine combat fronts in the eighties to nearly 15,000 men and 60 combat fronts by the late nineties. At the same time, the ELN grew from 70 combatants and three action fronts to 3,500 men and 30 fronts. By the mid-eighties, these armed groups occupied 175 of Colombia's approximately 1,092 municipalities.

President Ernesto Samper's Administration

President Ernesto Samper Pizano's term (1994-1998) was seriously affected by the scandals connected with the infiltration of drug-trafficking money into his political Presidential campaign. This led the guerrilla groups to fight against the State, on grounds that the State was a drug-trafficker and illegitimate. The grave political crisis, coupled with the lack of legitimacy, led the Armed Forces and State action into paralysis.

President Andrés Pastrana's Administration

President Andrés Pastrana (1996-2002) agreed to withdraw from 42,000 sq km of the national territory as a condition of peace negotiations with the FARC. This strategy, as is well-known, resulted in a resounding failure owing to the guerrilla group's lack of political will and to the mutual mistrust between the parties. During those years, the FARC consolidated their hold on the country's Southwest and increased their drug-trafficking activity and the number of kidnappings. It was during this peace process that kidnapping of Presidential candidate Ingrid Betancourt and of most political hostages took place.

President Álvaro Uribe Vélez's Administration

The failed peace dialogue and the Colombian population's perception of the lack of political will on the part of some guerrilla groups catapulted Álvaro Uribe and his strong-hand policy toward these groups to the Presidency of the Republic (2002-2010). One of his flagship policies was the Colombian Plan, which forms part of his Democratic Security policy, to be explained in more detail further on.

The conflict after 11/9

In Colombia's internal context, the communism-oriented armed groups on the margin of the law should have lost their justification with the collapse of the Socialist world, coupled with the State's reorganization that started after the promulgation of the 1991 Constitution. And yet, the new forms of financing, such as extortions, drug trafficking, kidnappings, and the illicit traffic in weapons imparted further dynamism to the Colombian conflict from a financial and military viewpoint, thereby causing its prolongation.

After the terrorist attacks of September 2001 in the United States and the 11-M bombings in Spain, a new world order came into being, focused on combating terrorism in all its guises. Because they are drug-trafficking groups and employ terrorist methods against the civilian population, as well as being considered a threat to U.S. national security, the guerrillas and paramilitary are included on the European Union's and the United States's list of terrorist organizations.

Colombia's foreign policy and the new challenges

Colombian diplomacy has adapted to the new requirements of a globalized, interdependent world. It has instilled dynamism into bilateral relations with nearly all the countries of the American continent. It has conceived strategies for integration with the entire Latin American region, especially with the Andean countries. The concept of integrated development of the region, particularly of the Amazon regions, has been further developed. To this end, neighbors' commissions have been established with Brazil, Nicaragua, Panama, Peru, and Venezuela. The country has paid special attention to the cultural and economic potential of Caribbean and Central American countries, promoting cooperation with governments that until recently had not figured in the national interest.

Moreover, the Colombian Foreign Ministry has become the major player in the fight against drugs, drug trafficking, and the armed groups on the margin of the law. In association with the Presidency of the Republic, it has waged campaigns to disseminate the “Shared Responsibility” concept. The purpose of these campaigns is to make drug users aware of the devastating effects of “each line of cocaine inhaled, which is not only doing harm to yourself but also killing a Colombian.” The direct consequences of drug use in Europe and in the United States are an increase in organized crime, assassinations, kidnappings, and the destruction of the environment owing to the chemicals and herbicides used on the illicit crops.

The transnationalization of the Colombian armed conflict can no longer be ignored, particularly after the military operation that put an end to the life of aka “Raúl Reyes,” the FARC’s second in command, on Ecuadorian territory. The computers seized from his camp reveal these groups’ persistent infiltration and different activities in the Andean countries. Even more disturbing is the proven tolerance of some of our neighbors toward these groups, as shown by these and many other evidences gathered by the Colombian state and by international agencies. Countries that were involved in last March’s crisis and that criticized the Colombian government and military forces for Raúl Reyes’ death had been systematically warned of the situation by the Colombian intelligence services.⁷

The diplomatic crusade led by the Colombian Foreign Ministry has also yielded positive results. Today we have the firm support of governments determined to combat terrorism on their own territories. Such is the case of Brazil, with which we maintain close cooperation in matters related to drug trafficking and money laundering. Colombian foreign policy is also committed to fighting against the new global threats that affect not only our country by the entire hemisphere – drug trafficking, arms traffic, organized crime, environmental deterioration, natural disasters, poverty, and emigration, among others.⁸ Protection of human rights and international humanitarian law is also on Colombia’s internal agenda. Under the Uribe Administration, Colombia’s

7 The countries were warned – Bolivia, twice; Ecuador, 16 times; Venezuela, 10; Peru, 4; Argentina, 4; Brazil, 7 – about terrorist groups’ presence and contacts, the location of their camps, and even about their illicit activities in Ecuador, such as the radio stations on the latter’s territory.

8 Rojas Aravena, Francisco. *Seguridad en las Américas, los desafíos pos-conferencia: operacionalizar los consensos y articular los conceptos*. p. 7.

foreign policy has conceived programs to improve the living conditions of our fellow countrymen in different countries and to help with their inclusion into local societies. Agreements have been celebrated on labor, migration, education, social security and reduced cost of remittances from countries that receive Colombian immigrants, and these Colombians have been encouraged to save and buy their own homes.⁹ The Colombian government has thus converted a “foreign policy for the State into a foreign policy for society.”¹⁰

2. Defense and Democratic Security Policy

When Álvaro Uribe Vélez took office as President of the Republic in 2002, the FARC were revitalized and firmly entrenched in major areas of the country after its impressive strengthening during the peace conversations with the previous Andrés Pastrana government. The likelihood of a negotiated way out of the conflict was minimal.

Uribe Vélez led the formulation of a defense and democratic security policy grounded on the recovery of the national territory by the public forces and state institutions, and on the recognition of drug trafficking as a threat to the civilian population’s integrity and of terrorism as its main weapon.

The total success of this policy was due not only to the focus on the war’s military component and the strengthening of the armed forces but also on the recognition that without coordinated action by all the state bodies and the civilian population it would not be possible to maintain the territorial control achieved by the military forces. Uribe Vélez determined that, simultaneously with the military recovery of the territory, the state apparatus should step in bringing education and economic and social development to the regions, so as to strengthen the civilian population and thus win its cooperation in preventing the drug-trafficking terrorist groups to regain control of the area. This would also prove the most effective tool to prevent the recruiting of more civilians.

The Armed Forces adopted a policy aimed at fostering efficiency, transparency, and accountability to improve their finances. Their defense of

9 Conceptos Rectores de la Política Exterior Colombiana 2002-2006.

10 Ardila, Marta; Cardona, Diego; Tickner, Arlene B. *Prioridades y desafíos de la política exterior colombiana*. Bogotá. Fescol-Hans Seidel Stiftung. 2002.

human rights has been extremely important and has made the military one of the country's most legitimate institutions. These guarantees have elicited the civilian population's firm support of the Armed Forces and of the government as well.

The Armed Forces' finances are managed as follows

- "Sixty-two percent of resources are allocated to actions aimed at protecting the population through the enhancement of the military's capabilities, so as to ensure its presence throughout the national territory and to permit the economic and social development of regions traditionally affected by violence;
- Sixteen percent have been allocated to restoring governability conditions in areas previously under the influence of groups on the margin of the law and narcoterrorist organizations;
- Fourteen percent have made possible the maintenance of a suasion capacity in the face of external threats;
- Six percent have been allocated to combating illicit drugs production, and
- Two percent have been allocated to the establishment and maintenance of management and accountability systems through the strengthening of administrative systems."¹¹

Democratic Security policy results

As the democratic security policy rests on the implementation of the Comprehensive Action, to be carried out through the Political War understood in its full sense, is aimed at defeating the agents of violence in Colombia, including transnational threats such as terrorism, drug trafficking, and organized crime, its results are the same as those of the Comprehensive Action.

It should be recalled that when President Álvaro Uribe Vélez took office in 2002, over half of the national territory had no civilian authorities, as mayors, governors, deputies, and council members had been forced to resign because of death threats against them and their families and to seek refuge in the country's major cities. One of the first achievements of the President and his working

11 Ministerio de Defensa Nacional. *Memorias al Congreso 2005-2006: Camilo Ospina Bernal*. Bogotá, July 2006.

team was to return these officials to their respective regions, which had been left at the mercy of narcoterrorist groups and criminals without any State presence; as a result, the population had no alternative other than submitting itself to the command of the agents of violence. Today, all municipality seats can count on the presence of at least the National Police.

In his 2005-2006 Report to Congress, Camilo Ospina Bernal, the then-Minister of National Defense, summed up the excellent results of the democratic security policy aimed at “improving the country’s economic and social conditions,” as it had led to the “consolidation of authority, based on sound legitimacy, legality, and governability principles, which has permitted the recovery of control over most of the national territory, particularly in those areas where armed groups on the margin of the law were asserting their power and in zones of strategic importance to the country.”¹²

In respect of the specific objectives of the Political War and Comprehensive Action, the democratic security policy achieved the following results between 2002 and 2006: 9,897 individual and 30,635 group demobilizations of members of illegal armed groups; extensive protection of the civilian population owing to the reduction in the number of homicides (40.3 percent), massacres (63 percent), internal displacement (24 percent), and kidnappings (72 percent). The civilian Cooperating Network has proven a vitally important instrument for these achievements. A successful, major advance has been achieved against drug trafficking, the illegal groups’ ultimate source of funds and the fuel of violence in the country, owing to the implementation of mechanisms such as Forest Ranger Families and Action Families, also part the Comprehensive Action.

As to the social and economic component, for the first time since 1974-1978 the average quarterly growth reached 4.6 percent; investment rose from 8.61 percent to 15.23 percent of GDP; unemployment declined sharply in the last four years; school enrollment rose by 18.3 percent, equivalent to 1.4 million basic and secondary education students; eight million new beneficiaries were covered by subsidized health care; and poverty dropped from 57 percent to 49.2 percent.

12 Ministerio de Defensa Nacional. *Memorias al Congreso 2005-2006: Camilo Ospina Bernal*. Bogotá, July 2006.

No less important, the international community recognized the armed groups for what they really are: merely terrorist organizations devoid of political ideals to benefit the civilian population.¹³

In 2005, though, the Foreign Policy and the Fund for Peace nongovernmental organizations ranked Colombia as the 14th state on the Failed States index. The items that earned the highest (worst) rating were demographic pressures, human exodus, unequal development, and the State's loss of legitimacy.

In just one year, i.e., in 2006, Colombia rose to the 27th place, owing to significant improvement in its indicators. It should be noted that the State's loss of legitimacy indicator dropped from 9.8 to 8.7 on a scale of 1 to 10, 10 being the worst, while the overall indicator fell from 95 to 91.8 points.¹⁴

Considering that this index was developed precisely to measure the probability of a State's failure, whereby its territory becomes a source of insecurity for itself and for the international community, the improved classification shows how the State's action in these strategic areas has managed to reduce risks, thereby ensuring the preservation and guarantee of national security.

The last public opinion survey undertaken by Invamer-Gallup in Colombia, released in March 2007, which measured, in Mao Tse-tung words, the temperature of the water in which the fish swim, showed that 72 percent of Colombians approve President Álvaro Uribe Vélez's administration, 76 percent approve the military, and 72 percent approve the UN and the Colombia Plan, while The FARC, the ELN, and the Self-defense Forces are disapproved by 92 percent, 91 percent, and 86 percent, respectively.¹⁵

The triumph of institutionality is crushing as is notorious the failure of illegality in a political war whose main objective is to win over the civilian population, because, as President Álvaro Uribe said on June 2, 2006,

13 National Defense Minister Juan Manuel Santos. "Conquista de la paz; nueva fase de consolidación de la Política de Seguridad Democrática." Interview by Tarazona Estrada, Jacqueline. Bogotá. *Revista Ejército*, ed. 135, March 2007.

14 Fund for Peace and Foreign Policy. 2005 and 2006 Reports. http://www.redri.org/noticias/estados_falidos_2006_fundforpeace.htm.

15 Invamer-Gallup. March 2007. Survey among men and women over 18 in the cities of Bogotá, Medellín, Cali, and Barranquilla. Method used was random telephone calls. Has a 3-percent margin of error and 95 percent reliability.

“In the realm of opinion, the most important element for guaranteeing the citizenship’s security and the defeat terrorism is the citizens’ trust in the Public Forces.”

Democratic security’s consolidation policy

The democratic security’s consolidation policy was established for the defense sector for 2006-2010 under the national development plan known as “A community-based State: Development for all.” Changes were determined by the new strategic conditions in 2006, created by the successes of the defense and democratic security policy between 2002 and 2006. Some of these changes included the demobilization of the United Self-Defenses of Colombia under the Justice and Peace Law, and the FARC’s shifting from a war of movements to a war of positions.

The policy’s main objective also changed: instead of territorial control, which had to a large extent been already achieved, it became the social recovery of the territory through the State’s integrated action. This gave the policy a new name, as now control over the territory had to be consolidated.

To this end, the country was divided into three zones according to the degree of State control and the persisting threats: areas where the illegal armed groups were active, areas where the process of institutional recovery was under way, and already stabilized areas.

In the first zone, colored red on the map, the objective is to break up and expel the illegal armed groups and regain territorial control through intensive military action. In the second zone, colored yellow, where the institutional recovery process is ongoing, the objective is to maintain order and security within the community, while seeking to attract stable institutions, through an intensive police and military effort. In the green, stabilized areas, the State seeks to consolidate its authority and to establish state institutions and public services through intensive political and social action.

As to the fight against the drug traffic, the conflict’s main fuel as the terrorist groups’ prime source of funds, the emphasis shifted from spraying to the manual extirpation of crops.

In respect of citizens’ security, a strategy was adopted to dismember the groups and gangs responsible for serious crimes in the cities.

A crucial element of this policy is military education, accompanied by a comprehensive human rights policy, and the reform of institutions, such as the military penal system.

In essence, though, the consolidation policy is the continuation of the defense and democratic security policy, adapted to the new strategic conditions resulting from the great success of the former policy.

Preliminary 2006-2007 results

- Common homicide: 17,479 (2006) – 17,198 (2007).
- Assassination of labor union leaders: a 68 percent reduction between 2006 and 2007.
- Assassination of Indians: a 15.6 percent reduction.
- Assassination of journalists: a 66.7 percent reduction.
- Mass murders: 37 cases (2006) – 26 cases (2007).
- Kidnappings: 687 (2006) – 486 (2007).
- Illegal custody: 6 (2006) – 2 (2007) (177 in 2002).
- Terrorist attacks: 646 (2006) – 387(2007).
- Oil pipeline explosions: 106 (2006) – 57 (2007).
- Hectares of coca crops sprayed: 152,960.
- Hectares of manually eradicated coca crops: 43,054 (2006) – 66,396 (2007).
- Members of criminal gangs killed: 198 (2006) – 636 (2007).
- Members of subversive groups killed: 2,165 (2006) – 2,067 (2007).
- Individual demobilizations: 2,460 (2006) – 3,192 (2007).
- Displacements: 194,877 individual and 22,229 collective (2006) – 97,186 individual and 12,690 collective (2007).
- There were 2,581 combats in 2007, with a daily average of 27 counteractions.
- Members of the public forces killed in combat: 597 (2006) – 471 (2007).
- Antipersonnel mine victims: 795 military and 370 civilians (2006) – 693 military and 181 civilians (2007) – 10 percent of victims were minors.

- In 1998, two military for each guerrilla were killed; in 2002, one military for each three guerrillas; today, one military for each nine guerrillas.
- Today, the FARC's number 8,576 troops and approximately 3,000 militiamen (as compared with 17,000 troops and over 20,000 militiamen in 2002).
- The ELN has 2,140 troops today.
- The criminal gangs have 5,096 members.¹⁶

Democratic security as a State policy

The current administration's term will end in a little more than two years and nobody can assure that the next one will maintain the same line of national security and defense. Discontinuation of this policy would risk a retrocession, which Colombia can ill afford, as the country has no more lives to sacrifice to this struggle that has torn us apart for nearly five decades.

Hence, the importance of the bill establishing the National Security and Defense System, which I introduced in the Congress of the Republic a few months ago, and which in addition to regulating other fundamental defense issues, such as the reestablishment of the National Security and Defense Council, should ensure that the structural principles that led to the democratic security policy's resounding success will endure, thereby becoming a true State instead of a given government's policy subject to the mere will and whims of the administration in place. The bill does not aim at making this policy into law but rather at laying the foundation on which the national security and defense policy should rest and without which we would be plagued by uncertainty as to the continuation and sustainability of the victories won in the fight against violence in our country.

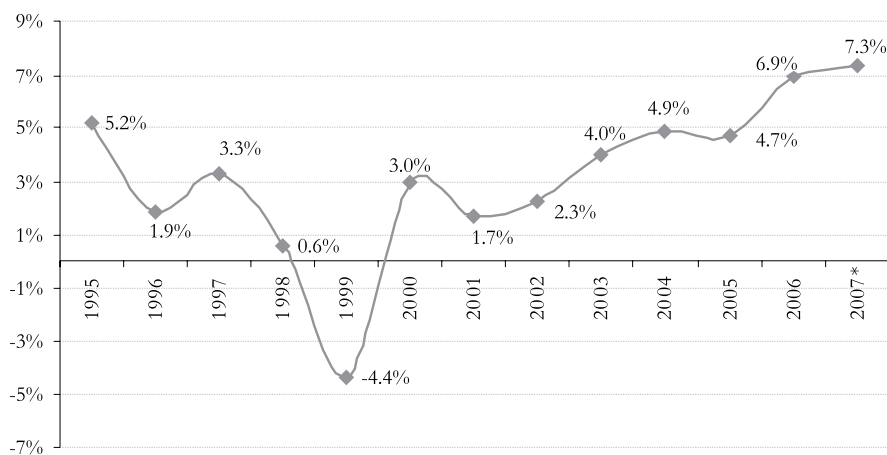
3. Colombia's economy

Current situation

Colombia's economy grew 6.6 percent in the third quarter of 2007, after growing seven consecutive quarters at a rate of over 5.5 percent.

¹⁶ National Defense Ministry figures: www.mindefensa.gov.co.

Chart I
Colombia's GDP growth variation



Both external and internal factors have contributed to Colombia's GDP growth: the influence of the world's largest economies, and factors inherent to the country's own development.

Internal factors included the surge of investments, household consumption, and the availability of credit to economic agents during 2007. The improved economic circumstances, resulting to a large extent from democratic security, have permitted the economic growth of recent years and the consumers' increased confidence in the economy.

Consumption plays a crucial role in the economy's current expansion phase. Household consumption (63 percent of GDP) grew at an annual rate of 6.2 percent in the third quarter of 2007. Durable goods grew at an annual rate of 22.1 percent (6.3 percent of GDP). Construction's growth was moderate: 12.2 percent a year between January and September 2007 (buildings, 1.6 percent a year; public works, 28 percent a year).

GDP growth was explained in part by an increase of 22 percent in investments, 6.4 percent in exports, and 16.6 percent in imports from January to September 2007, which resulted in an average growth of 7.3 percent in the third quarter.

Major external factors that had a positive effect on the Colombian economy included better terms of trade and the capital flows toward emerging

economies in 2007, which enhanced GDP's expansive cycles. Circumstances are changing, though, and will be less favorable in 2008, owing to the U.S. recession: for each 1 percent of less growth in the world economy, Colombia will grow 1.4 percent less.

In addition, world growth dropped from 3.9 percent in 2006 to 3.6 percent in 2007. This deceleration was led by the member countries of the Organization for Economic Cooperation and Development-OECD, whose GDP fell by 0.3 percent points to 2.5 percent last year.

The lower growth was more marked in the United States, where it dropped from 2.9 percent in 2006 to 2.2 percent in 2007, largely as a result of the weakening of the housing market, the rapid decline of investment, and the restriction of credit for both enterprises and consumers.

After four years of solid GDP and trade growth, the steady rise in the prices of basic products, the narrow margins on the bonds market, and the gradual variation in the relatively stable interest and exchange rates, the volatility of international markets aggravated.

Despite the propitious scenario, a current account deficit of -3.6 percent of GDP and a structural fiscal deficit of -4 percent of GDP still persist; inflationary pressures of about 6 percent also persist, as compared with the Bank of the Republic's 2007 target of 3.5 percent and 4.5 percent. The exchange rate's nominal appreciation of 10 percent a year seriously affects exports, increases imports, and widens the current account deficit; on the other hand, this reduces the foreign debt in dollars.

Projections

The Colombian economy's soundness in 2008 will depend on how far the U.S. crisis will go and on the maintenance of trade relations with other trading partners, including Venezuela and Ecuador.

Several Colombian economic entities, including ANIF, predict that the economy will grow about 5.5 percent in 2008, helped by an employment rate of less than 10 percent and an inflation rate of 4.4 percent. It is expected that the current account deficit will be 3.2 percent of GDP and that the Central Government's primary deficit will not exceed 1.7 percent of GDP.

Orientation and results of the national competitiveness policy¹⁷

The competitiveness and productivity policy aims at making Colombia into one of Latin America's three most competitive countries by 2032, with a per capita income equal to that of a country with high average per capita income, based on exports of high aggregate value goods and services; innovation; a propitious business environment for both local and foreign investment and regional convergence; better formal employment opportunities; better quality of life; and substantially lower poverty levels.

To realize this vision, the policy calls for the following: (a) development of world-class sectors; (b) a jump in productivity and jobs generation; and (c) labor and entrepreneurial formalization – all of which based on the development of science, technology, and innovation. These pillars are complemented with strategies aimed at the elimination of obstacles to competitiveness and (domestic and foreign) investment growth, which encompass different aspects, such as macroeconomic and judicial stability, education and labor skills, regulation and institutions at the service of production, physical infrastructure, provision of public services, and respect for property rights, quality of life, pleasant cities, and higher savings rate.

Colombia has had an average record in developing competitiveness and is proceeding with the hard work toward its consolidation as one of the region's most competitive nations. In 2007, the following results were achieved:

- Colombia managed to maintain the same position in terms of competitiveness only in relation to higher education and training, ranking 69th in both years. This failure, though, is offset by the advance toward higher competitiveness levels in the country; and
- Outstanding achievements in 2007-2008 include increased competitiveness under stable macroeconomic conditions, as the country climbed two notches over the previous year and rose from the 65th to the 63rd position, as well as climbing 24 notches in respect of health and elementary education, thanks to the national government's efforts to ensure universal coverage in the two areas. Nevertheless,

17 *Colombia construye y siembra futuro*. Política nacional al fomento de la investigación y la innovación. Colciencias. 2008.

Colombia still came down 6 notches in absolute terms as regards competitiveness, dropping from the 63rd to the 69th position between 2007 and 2008.

These were the reasons that drove Colombia to a lower competitiveness level:

- **Institutions:** Colombia came down 11 notches in respect of institutional efficiency, accountability, and transparency in the handling of markets and the national economy. This decline is associated with the parapolitical scandals the country experienced in 2007 and the intensification of lese humanity crimes (such as the assassination of Cali deputies). In 2006-2007, the country ranked 68th and dropped to the 79th position in 2007-2008.
- **Infrastructure:** Colombia went down 11 notches from the previous year in this respect. Trade and economic growth failed to be supported by infrastructure's performance, state, and investment. The World Economic Forum points to the infrastructure's ineptness for fostering national economy activity. In 2006-2007, Colombia ranked 75th but fell to the 86th position in 2007-2008.
- **Market efficiency:** this was the sharpest drop in the competitiveness index. Colombia dropped 34 positions from the previous year, from the 51st to the 85th position of the general ranking in 2007-2008.
- **Labor market efficiency:** Despite the country's economic development and increased output, investment, and savings, unemployment remained constant in 2007. In this respect, Colombia lost 9 positions, dropping from the 65th rank in 2006-2007 to the 74th in 2007-2008.
- **Business sophistication:** Colombia lost the entrepreneurial thrust to business sophistication, according to the WEF, dropping from the 48th position in 2006-2007 to the 65th in 2007-2008, coming down 17 notches.
- **Innovation:** Despite advances in science and technology, Colombia continues to lose positions in these vital areas for the country's competitiveness, dropping 13 notches, from the 59th position in 2006-2007 to the 72nd in 2007-2008.

Results of the economy's internationalization

To enhance the benefits derived from trade and by adopting economic and political strategies to fit into the globalized system, Colombia took the first step towards its economy's internationalization and integration by signing the 1969 Cartagena agreement that established the Andean Group, of which Bolivia, Chile, Ecuador, Peru, and Venezuela are also signatories.

The Cartagena Agreement had its beginning in 1966 with the Declaration of Bogotá and went into effect on October 16, 1969. This political instrument led to significantly closer trade integration among the members and to increased trade between countries.

In 1976, Chile withdrew from the Andean Group, turning its trade integration policy toward the Southern Cone and to Brazil. The reason for its withdrawal was its disagreement over the application of industrialization model based on imports substitution, the so-called Cepal model that was still adopted by the other signatories of the Agreement, in conjunction with strict control of foreign investment. In 2006, notwithstanding mediation attempts by the Andean countries, Venezuela also withdrew from the trade bloc.

But policies have changed in Colombia as well as in most Latin American countries, and Chile is now negotiating its return to the bloc. As a matter of fact, Chile became a CAN Associate Member last year.

As the next significant step toward internationalization, Colombia signed the 1980 Montevideo Treaty that established the Latin American Integration Association-LAIA.

This association's objective was to promote the region's integration and harmonious, balanced development with a view to establishing a Latin American common market. The agreement was signed by Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, México, Paraguay, Peru, and Venezuela. Cuba adhered to it recently.

The treaty contemplated various mechanisms for the achievement of national objectives – regional tariff preferences, regional scope agreements, and partial scope agreements.

This treaty was considered as a framework integration treaty, which allows the countries to adopt a wide range of integration strategies and to create and

regulate the requisite mechanisms. LAIA has thus provided a platform for Colombia's trade agreement negotiations.

In the eighties, Colombia negotiated several partial scope agreements with a view to intensify trade by granting tariff and nontariff preferences. Such agreements were then signed with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Since 1991, Colombia has made a major turnaround in respect of political and juridical matters. The Political Constitution was amended, to the effect that foreign policy should seek integration with other countries, and with Latin American countries in particular. Juridical changes reflect a profound change in the economic model adopted by the state and the beginning of the economy's opening with a view to the country's transformation and development. The Cepal model was left behind and replaced by a development model based on the country's enterprises' competitiveness and productivity.

Part of this policy in response to the globalization's challenge was the reduction of trade barriers, the opening to foreign investment, and the intensification of integration with countries of the region through the celebration of trade agreements.

Agreements were thus celebrated within the LAIA context, such as the Economic Complementation Agreement between Colombia and Chile signed in December 1993, and the agreements with Panama that same year and with Cuba in 2000, among others. Also worth pointing out was the signing of the Economic Complementation agreement by Colombia, Mexico, and Venezuela, known as the G3.

In 2004, a Free Trade Agreement was signed with the Can and the Mercosur member countries, thereby deepening Colombia's integration with South American countries.

Colombia's current internationalization strategy is focused on the negotiation of Free Trade Agreements that reflect major developments in this regard at the international level. These agreements assigned priority according to the importance of our trade partners.

This explains the negotiation of a Free trade Agreement with the United States, the agreement under consideration with the so-called *Northern Triangle* (El Salvador, Guatemala, and Honduras). Negotiations are also proceeding

in 2008 with Canada, the European Union, the EFTA countries (Iceland, Liechtenstein, the Kingdom of Norway, and the Swiss Confederation), and the APEC member countries, among others, as well as the Free trade Agreement with Chile, which is pending Presidential sanction.

Lastly, it should be mentioned that as part of its internationalization, Colombia joined the World Trade Organization in 1994. **DEP**

Translation: João Coelho

Ecuador, perspectives from an ex-President

*Rodrigo Borja**

Latin America

As they stepped for the first time on American soil, in 1492, the caravel navigators thought they had reached the west coast of India instead of a new, unknown continent. This is why Christopher Columbus and his adventure companions called *Indies* the lands they had discovered, a name born of a geographical mistake and maintained by Spain throughout the colonial period. Until then the Europeans knew about the existence of only three continents, i.e., their own continent, Africa, and Asia. They already maintained relations with Africa, quite intense neighborly, war, and trade relations. From Asia they imported china, silk, jewelry, aromatic plant substances, pearls, precious stones, gold, silver, spices, and other products. With the conquest of Constantinople by the Ottomans in 1453, the traditional route linking Europe to Asia Minor was cut off by the Turk conquerors, who extended their dominion over vast imperial territories, the Spanish and the Portuguese were forced to seek another route to reach the Eastern peoples and continue to ply their trade. It was under these circumstances that it occurred to Christopher Columbus

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to reach the East by way of the West, as he suspected the Earth to be round. After two and a half months of prolonged, exhausting sailing, he arrived on October 12, 1492 at an island the natives called *Guanahani*, which he renamed *San Salvador*, and at other islands he supposed to be part of the west coast of India, and for this reason called them *Indies*. Only twenty years later, after Balboa discovered the Pacific Ocean and Magellan and El Cano sailed its waters, did the Europeans realize that they had discovered a new continent – a *mundus novus* – about which an obscure Florentine navigator named Amerigo Vespucci had written to his Italian patrons, saying that those lands were not Asia; they were something else. They were so immensely vast, with such colossal valleys and mountains, such voluminous rivers, and such luxuriant, fertile soil, that the European notions of space and distance were totally inadequate here.

The name *America* occurred for the first time in 1507 in a small book titled *Cosmographie Introductio* that mistakenly attributed the discovery of the new lands to the Italian navigator Amerigo Vespucci. The name given the new lands caused much dissension later. Some found it inadmissible that an adventurer should lend his obscure corsair name to the vast lands discovered by Columbus in one of the most daring and impressive feats in history. The logical thing to do would be to call them *Colona*, *Colombia*, or *Columbia*, as some suggested, as a tribute to the intrepid navigator.

Arturo Ardao, in his *Génesis de la idea y el nombre de América* (1980), and Ignacio Hernando de Larramendi y Montiano, in his *Utopía de la Nueva América. Reflexiones para la Edad Universal* (1992) say that it was the Colombian José María Torres Caicedo who, well into the 19th century, first used the expression *Latin America* to refer to the ensemble of countries colonized by Spain, Portugal, and France on this part of the planet.

This brand new denomination was promptly adopted by the Vatican, which in 1862 changed the name of the *Colegio Americano del Sur* to *Instituto Eclesiástico de la América Latina*. Later, France and England also adopted the name, with a touch of hostility toward Spain. Subsequently, the name fell into general use.

And yet, I have often wondered: Why this name? Why the adjective *Latin* was chosen instead of another, considering France's colonial endeavors at that time? What led to such a denomination of this new world?

The reason was probably the colonizers' languages, all three derived from Latin, the dialect of the city of Rome, which spread beyond *Latium* and then to the Roman Empire's colonies in the Iberian Peninsula and in Gaul. There was the *cultivated* or *scholarly Latin*, used in the works of the admirable Roman literature and in the pieces of incomparable eloquence of its orators; and there was the *vulgar Latin*, spoken by the people and from which came the modern Romance languages, including Spanish, Portuguese, Italian, Romanian, Sardinian, Provençal, Rhaetian, and Dalmatian, among others.

The Latins were the inhabitants of *Latium*, the capital of which was Rome and whose language was Latin. During the Roman Empire, they dominated the territories that would eventually become France, Spain, and Portugal, which in turn would one day conquer part of America and, through blood and cultural intermingling, produce the so-called Latin American nations.

These nations differ in culture and language: the Iberian-American were conquered by Spain and Portugal and speak Spanish and Portuguese, while the others, conquered by France, speak French and the native languages of the indigenous populations.

The expression *Latin America* is neither precise nor felicitous, as it applies to a heterogeneous continent consisting of continental and insular, large and small countries with different political regimes that may or may not be democratic, different economic systems, and diverse ethnic groups, and at different stages of economic and social development. There is no such thing as Latin American homogeneity.

Ecuador

Geography

Situated in northwestern South America, Ecuador is a country with a surface area of 256,370 square kilometers. As it straddles the equator, it belongs to both the northern and the southern hemispheres. It shares borders in the north with Colombia, in the south and east with Peru, and on the west with the Pacific Ocean.

The Andes Cordillera, with two parallel ranges, runs from north to south, dividing the country into three well-defined continental regions – the coast, the Andean tablelands, or *altiplano*, and the Amazon – with a multiplicity of climates

and microclimates and great many ecosystems. Its territory encompasses also the Galapagos Islands, located a thousand kilometers off the coast.

The coastal area consists of fertile plains, sedimentary basins, and hills, crossed by the rivers that flow down from the Andes into the Pacific Ocean. The Guayas River basin is the most important, with about twelve tributary streams. This area has a shoreline of 640 km, with wide, beautiful beaches and attractive resorts. It is influenced by two oceanic phenomena: the warm, moist El Niño current from the north and the cold, dry Humboldt Current from the south. This region encompasses the provinces of Esmeraldas, Manabí, Guayas, Santa Elena, Los Ríos, and El Oro.

The region lying between the two Andean branches – the eastern and the western cordilleras – boasts many extremely beautiful and fertile valleys and dales at altitudes ranging between 800 and 3,000 meters. On the cordilleras are found the high, snow-capped volcanoes: the Chimborazo, 6,310 meters above sea level; the Cotopaxi, 5,897 m; the Cayambe, 5,790 m; the Antisana, 5,758 m; the Altar, 5,320 m; the Illiniza, 5,248 m; the Tungurahua, 5,023 m; and the Cotacachi, 4,944 m. They feed numerous rivers with deep beds, cascades, and falls. This sierra region encompasses the provinces of Carchi, Imbabura, Pichincha, Santo Domingo de los Tsáchilas, Cotopaxi, Bolívar, Tungurahua, Chimborazo, Cañar, Azuay, and Loja.

The dense Amazonian rainforest runs toward the east, a part of the largest tropical, humid rainforest in the world and the largest hydrographic system, which accounts for a fifth of the planet's fresh water reserves. Its biodiversity is so rich and varied that a square mile of the rainforest harbors more animal and plant species than the United States and Canada together. The Amazonian region encompasses the provinces of Sucumbíos, Napo, Pastaza, Orellana, Morona Santiago, and Zamora Chinchipe.

Each region is known for specific crops. The coastal region produces mainly cocoa, rice, maize, tropical fruit, farm-raised shrimp, seafood, and beef. The altiplano grows mainly wheat, barley, maize, flowers, legumes, vegetables, and a large variety of temperate climate fruit. In the Amazonian region are located the major oil and natural gas reserves.

The fourth region consists of the Galapagos Islands located on the Equator, 1,000 km off the coast. These volcanic islands emerged above sea

level approximately four million years ago, forming an archipelago with a surface area of 8,000 square kilometers, encompassing three islands and seventeen islets.

The Galapagos were discovered by Panamanian Archbishop Tomás de Berlanga in 1535 when sea currents took his ship off its route. They were shown for the first time on a navigation chart by Abraham Orteluis in 1570. The first scientific mission to reach the islands was sent by Spain's Emperor Charles V and was headed by Sicilian captain Alexander Malaspina.

The Ecuadorian government took possession of the islands on February 12, 1832 and called them *Archipiélago del Ecuador*. In 1979, Unesco added them to the list of World Heritage Sites.

These fascinating islands, where time seems to have stood still, were the main natural laboratory where the English scientist Charles Darwin established the foundations of his evolution theory, which he exposed in his *The Origin of Species*, published in 1859, of which 1,250 copies were sold on the same day of its release. Since then, the Galapagos have stirred the interest of the world scientific community.

Their isolation from the continent and other factors explain their extraordinarily high degree of endemism, unrivaled in the world. A third of the planet's plant, 90 percent of reptile, 80 percent of mammal, and 20 percent of fish species are endemic to them.

In 1992, to protect the ecosystems, biodiversity, and incomparable beauty of the island scenery, the Ecuadorian government introduced a comprehensive plan for managing the Galapagos marine and tourist resources.

History

The area that is Ecuador today was inhabited since approximately eleven thousand years ago by hordes, clans, and indigenous tribes at different stages of development. The most important were the Quitus, Shyris, Puruhaes, Cañaris, Mochas, Paltas, Zarsas, Huacas, Tuzas, Tulcanes, Quillasingas, Quinches, Chillos, Ambatos, Tiquizambis, Chimbos, and Caras. It was the Shyris that established the Kingdom of Quito on the lands belonging to the primitive aborigine societies.

In his *Historia General de la República del Ecuador*, published in various tomes in 1890, Archbishop Federico González Suárez, an Ecuadorian historian, says that the people who inhabited the area in antiquity “did not know writing and preserved the memory of the past in oral traditions subject to changes and alterations (...) not a history as such but a panorama drawn in large brush strokes is the only thing the indigenous nations that inhabited these provinces at the time of the Spaniards’ arrival can offer a historian.” However, he identifies two periods in the pre-history of the indigenous groups that lived and warred on these lands: “the period preceding the Incas’ dominion and the period after the Children of the Sun subdued the various nations that existed in this part of the American continent, subjecting them to the Cuzco Empire.” The first period was that of the Kingdom of Quito, established by the Shyris after they subdued the Quitus and other tribes; the second was that of Inca dominion, which lasted about a century and ended with Francisco Pizarro’s arrival in the Ecuadorian coast.

The conquest of the Kingdom of Quito by the Incas began in the second half of the 15th century under the monarch Túpac Yupanqui and continued under his son Huayna Cápac, who established the vast empire which he called *Tabuantinsuyo*. This empire ranged from the Pasto plains in the north to the border with the Araucanians in the south and from the Pacific in the west to the eastern Andes cordillera. It extended from today’s Colombia to Chile. Its main cities were Cuzco and Quito.

The *Tabuantinsuyo* was shaken by the civil war between Huáscar and Atahualpa, Huayna Cápac’s heirs. In his will, the father had left the northern part of the Empire to Huáscar and the southern part to Atahualpa. But soon, moved by their ambition to rule the *Tabuantinsuyo*, the brothers were embroiled in a dynastic civil war. Huáscar advanced toward Quito with his veterans’ army; Atahualpa went out against him and, after many protracted battles, carried the day and had his brother executed. But then the ‘bearded ones’ came and captured and killed Atahualpa. This marked the end of the Inca Empire and the beginning of the conquest and colonization of this part of the Americas.

By royal decree, Spain’s King Philip II established the Audiencia Real de Quito [Royal Audience of Quito], which included the Spanish possessions in what is today’s Ecuador. Audiencias were political and administrative units

with jurisdiction over well-defined areas, run by religious, political, and judicial authorities. The Audiencia's President was the highest political authority as representative of the Spanish monarch, while the *Oidores* [judges] were the highest judicial authorities.

The city of Quito, nestled on the foothills of the Pichincha volcano at 2,800 m above sea level, was founded by the Spaniards in 1534 on the same site where the Shyris had established their monarchy. From Quito issued the expedition organized by Gonzalo Pizarro, numbering 4,000 Indians and 220 Spaniards, in search of “*el Dorado*.” The expedition's second leader was Francisco de Orellana, who after a hard journey that lasted one year over 4,000 km discovered the Amazon River on February 12, 1542 and sailed down it all the way to its estuary on the Atlantic Ocean, accomplishing after unimaginable difficulties and human sacrifice one of history's most notable odysseys.

When the Spanish possessions secured their independence from Spain, they adopted as the criterion for delimitating their respective territories the *uti possidetis* doctrine of Roman Law, on which were based possessory actions – *interdicto* – to claim in summary proceedings real possession of something by someone that had possessed it without violence, concealment, or for a given period. Later, this doctrine was incorporated into International Law to solve problems of definition of boundaries between States.

The formula the former Spanish colonies used for territorial delimitation was the *uti possidetis, ita possideatis*, which means “that which you possess you shall continue to possess.” It provided the basis for defining the boundaries of the States that started independent life after the colonial period and assumed their territories according to the political-administrative divisions established by the colonial metropolis. The *uti possidetis* doctrine was taken up from Civil Law into International Law for the first time at the *Peace of Breda* celebrated between the Netherlands and England in 1667. It has been used since to regulate the territorial situation between states after a war or at the end of a colonial situation.

In the Hispanic-American Territorial Law, the *uti possidetis juris* gained much force in the 19th century in the determination of the territorial rights of the former Spanish colonies at independence, in accordance with the land deeds issued by the King of Spain. On the basis of this principle, States were formed on the territories assigned by the metropolitan authority to the

respective colonial circumscriptions until 1810, which was considered the emblematic year of independence from Spain.

As of the definitive victory of the independence forces over the Spanish army in 1822, what is today's Ecuador became part of the Gran Colombia State, established at that time under the inspiration and political leadership of Liberator Simón Bolívar. Gran Colombia encompassed three districts: Venezuela, Cundinamarca, and Quito, whose capitals were Caracas, Bogotá, and Quito, respectively. Its existence was ephemeral, though, as centrifugal forces were stronger than centripetal ones. On May 6, 1830 Venezuela separated itself and immediately convened a Constituent Assembly that gave birth to the new State. At that same time, an "Assembly of Notables" convened in Quito on May 13, 1830 proclaimed the South District's severance from Gran Colombia. On August 14 of the same year, a Constituent Assembly meeting in the city of Riobamba, south of Quito, drafted the first Constitution for the new State, which similarly to all the other contemporary Latin American Constitutions, was inspired on the 1787 United States Constitution.

Gran Colombia disintegrated under the separatist pressure of local leaders and thus vanished Bolívar's dream of establishing through integration a great, powerful State to steer South America's destiny.

Thus began Ecuador's independent life.

The historical center of Quito, the capital, is Hispanic America's most important and best preserved, with its narrow, steep streets, *plaza mayor*, monumental convents, and baroque churches built in the 16th and 17th centuries. In 1978, Unesco inscribed it as a World Heritage Site. Its emblematic center is the *Plaza Mayor* built on the traditional Andalusian model and on instructions from the metropolis. Here are located the government palace, the town hall, the cathedral, the archiepiscopal palace, and major mansions. In colonial times, common sights on the plaza were friars, pious women, carousers, water carriers, Indian sandals sellers, horse riders, night musicians – all of them characters that lived again on the pages of Latin American novels, such as *Manuela*, by Eugenio Díaz Castro; *María*, by Jorge Isaacs; *El Chulla Romero y Flores*, by Jorge Icaza, among many others who portrayed the protagonists of the Hispanic-American colonial plaza. Both in colonial and in Republican times, the Plaza Mayor, whose name was changed after independence to *Plaza de la Independencia*, was the meeting place, the public forum, and the main source of information

on the life of the community. At the “*hora del paseo*,” the strolling hour, the elegant gents of the ruling class gathered to discuss politics, conspire against the government, and exchange gossip. On festive days, the plaza was the scene of religious processions and military parades.

The Quiteña painting school was formed during the XVI, XVII and XVIII centuries, leaving wonderful testimonies to the arts. Those are exhibited particularly in museums, old churches and convents in Quito, in which the splendor of the Baroque, captured in its walls and ceilings, reached incredible heights.

The primarily religious Quiteño Baroque is a mestizo art resulting from the fusion of cultures. It is a blend of Spanish, Italian, Flemish, Byzantine, Mudejar, and Quiteño elements. Half imitation, half originality, the Quiteña school mixes European with American decorative elements in bombastic, heavy ornamentation applied to canvas, wood, stone, or walls. Many extremely talented Indian and mix-blood painters, image makers, and sculptors – such as Pedro Bedón, Alfonso Chacha, Francisco and Jerónimo Vilcacho, Cristóbal Naupa, Sebastián Gualoto, Diego de Robles, Bernardo Legarda, Manuel Chili, a.k.a. *Caspicara*, Miguel de Santiago, Nicolás de Goríbar, Bernardo Rodríguez, Hernando de la Cruz, Manuel Samaniego – left richly ornamented sculptures and paintings.

The Quiteña School, many works of which were anonymous, enjoyed prestige throughout Latin America and much has been written about it in works on painting and sculpture.

Ethnic and demographic makeup

Ecuador has a population of 13 million according to the 2001 census: fifty percent in rural zones and fifty percent in urban areas. Demographic density is fifty inhabitants per square kilometer.

It is an ethnically diverse country. Its population is composed of *cholos* and *mulatos* 83%, natives 8%, whites (or predominantly white) 7%, and blacks 2%.

As most States, Ecuador is plurinational. There are in the world about two thousand nations living in about two hundred States, so that most of the latter have a plurinational character. On Ecuadorian territory, many small indigenous nations coexist, the most important of which are the *quichua*, the

buaorani, the *shuar*, the *cofán*, the *siona*, the *secoya*, the *shinuar*, the *zápara*, the *epera*, the *awa*, the *chachi*, and the *tsáchila*. Most of them inhabit remote places of the Amazonian region, keeping their old, primitive religions and customs.

Miscegenation, according to philosopher of history Gabriel Cevallos García, is a major historical reality in Ecuador and the Andean peoples. According to him, the “blending of human types of various origins began thousands of years before the Spaniards set foot on American soil and started a new kind of miscegenation.” Our human types, culture, and historical profile are thus the result of the migratory waves that came to these lands thousands of years before the Incan armies conquered and dominated the Quiteños and before the caravel men landed here.

According to Peruvian historian Carlos Daniel Valcárcel, the term *cholo* comes from Quichua. The Inca Garcilaso de la Vega (1539-1616), though, an informed man about such things, said *cholo* comes from the Windward Islands, meaning “dog,” which was applied to the mulatto children as an insult.

The word has now various meanings. In some Hispanic-American countries, such as Chile and Costa Rica, it means a “civilized Indian.” In other countries, it means a brown-skinned person. In Chile, it may also mean a “coward,” probably as a vestige of the Pacific War. In some countries, the word has a pejorative meaning, but not in others. It may even be an endearing word in its diminutive form, as “cholito” or “cholita.” In the Andean countries – Ecuador, Peru, and Bolivia – it is applied to the offspring of an Indian and a white person, with visible indigenous traits. In these countries, the word is made into the verb “cholear,” pejoratively used to discriminate against someone, with the meaning of “to treat somebody as a cholo.” In Peru, though, the word does not have any pejorative meaning. There, “cholo” is the mixed-blood that rises on the social ladder and succeeds. A recent President of obvious mixed-blood origin took pride in being called the “Cholo Toledo.”

In general, in the Andean countries, the word has a pejorative meaning among upper-scale people. A “pure-blood White” often sees the Cholo as a complicated person, a mixture of social resentment and rebelliousness, with a violent, introverted, and contentious temperament. The Cholo, in turn, looks down on the Indian, even knowing that Indian blood runs in his veins, and dislikes the White, whom he sees as discriminating and abusive. The “one-eyed

Rodríguez” of Jorge Icaza’s novel *Huasiþungo* and the “Cisneros Cholo” of José María Argueda’s *Todas las sangres* come to mind. The Cholo’s perception is that the social system in which he lives – an unjust system with little mobility – denies him the opportunity for advancing in life and makes any change in life impossible. The system is too inflexible. This has nourished in him a strong, understandable feeling of inconformity.

The preceding might explain the political and social instability in the Andean countries.

From an Indian’s point of view, a Cholo is not trustworthy because he tends to sever himself from his roots and to assimilate with Whites, ultimately to serve his interests. The Bolivian Fausto Reinaga, the founder of the Bolivian Indian Party in 1962 and of the World Indian Community in 1977, thus advocates a radical “*Indianness*” with no room for Cholos or Whites. According to him, the “Indian revolution” will happen when the “Incan, Mayan, Aztec, Red Skin society will wake up and start moving” in search of “Indian power.” Reinaga mercilessly rails against the mestizo, accusing him of “racism” against the Indian. For him, the mestizo – the Cholo – whether he is a friar, a historian, an anthropologist, or a politician, is always a puppet in the service of the *Europeanization* of America’s Indian communities.

The movement advocating the values of miscegenation, which began with the Mexican Revolution, found an echo in Peru with José Carlos Mariátegui and with Jorge Icaza in Ecuador. At that time, in the Andean mestizo countries, a pitched battle was raging between the “Hispanists,” who sang the glories of Spain, and the “Indigenists,” who extolled the Inca Empire. Literature dramatized the dichotomy between the inhuman, savage White boss and the subjugated Indian. One speaks Spanish, the other speaks Quichua. The novels *El Tungsteno* (1931) by César Vallejo and *Huasiþungo* by Jorge Icaza were in Peru and in Ecuador a prime expression of this Manichaean world. The mestizo was until then the great absentee from the social reality and literature of the Andean countries. Indeed, photos and drawings of the early decades of the past century showed only mestizos with fish baskets and poncho-wrapped Indians. The mestizo had not yet entered the social scene. Even Marxist indigenism, which ascribed to the Indian the redemptive role Marx assigned the proletariat, forgot the mestizo. In the midst of this cross fire, the mestizo emerged as a fundamental

element of Andean and Mesoamerican social reality and as a protagonist of a denunciation literature. In his veins runs Indian and White blood. Peruvian historian Carlos Daniel Valcárcel writes that the mestizo “suffers under the twofold tragedy of two irreconcilable souls and the twofold rejection by those above and those below.” Nevertheless, the Cholo vigorously fights and struggles to win a place in social life, succeed culturally, make known his original view of life, and defend his rights. Ultimately, the great truth about the discovery of America is miscegenation, which is fraught with potential and originality.

Biodiversity

From a taxonomic standpoint, some places on the planet are richer than others in respect of species varieties. In his 1997 book titled *Megadiversity: Earth's biologically wealthiest nations* (1997), written after doing field work in over twenty tropical countries, Russell Mittermeier, then Conservation International's President, identified seventeen countries that concentrate the planet's greatest biodiversity. Nearly all of them are located in the Amazon basin. These countries have an impressive “megadiversity” in respect of plants, birds, mammals, amphibians, and river and marine ecosystems.

An ecosystem's biodiversity is measured by the *heterogeneity* of species, i.e., by the number of species in a given area and their relative abundance.

Ecuador boasts 324 species of mammals, 1,559 species of birds, 710 of fish, 409 of reptiles, and 402 of amphibians. This means that in a small country with a surface area of 256,370 square kilometers there are more bird species than in all of the United States, more fish species than in the seas of North America or Europe, and more amphibian species than in all of Europe. These figures do not include arthropods (insects, arachnids, and crustaceans). There are also 20,000 species of vascular plants. This means that although it accounts for only 0.17 percent of the Earth's surface, Ecuador harbors over 11 percent of the entire planet's vertebrate species (mammals, birds, amphibians, and reptiles). Ecuador's opulent megadiversity and wealth of sceneries, beauty, and ecosystems come from the fact that it straddles the Tropic of Cancer and is crossed by the Andes Cordillera that divides its continental territory into three major regions characterized by a multiplicity of climates and microclimates and a huge quantity of ecosystems.

Judiciary and political structure

Ecuador is a unitary State politically and administratively divided into twenty-four provinces, each one consisting of various cantons. The decentralization of administration and services does not affect the State's unitary condition.

Most populous cities are Guayaquil, Quito (the capital), Cuenca, Amato, and Santo Domingo.

The central government is republican and Presidential, consisting of three branches: the Legislative, whose function is discharged by the unicameral National Congress and whose members are elected by the provinces proportionately to their population; the Executive, headed by the President of the Republic and consisting of ministers of State and other civil servants; and the Judiciary, consisting of a Supreme Court of Justice, provincial courts, and judicatures.

The constitutionality of the laws is ensured by the Constitutional Tribunal, an independent body consisting of nine members appointed by the National Congress as follows: two chosen from a triple list submitted by the President of the Republic; two from a triple list submitted by the Supreme Court of Justice; two chosen by the National Congress among its members; one chosen from a triple list submitted by Provincial Prefects and municipal mayors; one chosen from a triple list submitted by labor, Indian, and peasant organizations; and one chosen from a triple list submitted by producers associations.

Authorities are elected by universal, direct, and secret vote: the President and the Vice-President of the Republic, and the legislators for a four-year term. Immediate reelection of the President and the Vice-President is prohibited.

The Supreme Electoral Tribunal and the provincial electoral tribunals, which enjoy administrative and economic autonomy, are in charge of organizing, directing, and monitoring the universal, direct electoral processes as well as the referendums called for in cases contemplated by the Constitution, the counting of returns and popular consultations; settling disputes and complaints arising in connection with these processes; and auditing the electoral expenditures of parties and political movements as well as the origin of their resources. The Supreme Electoral Tribunal consists of seven members elected by the National Congress.

The mandate of members of parliament, provincial prefects, and mayors can be revoked by popular initiative; for this a minimum of 30 percent of the electors in the respective circumscription is required.

The Constitution guarantees the functioning of political parties, whose establishment and operations are regulated by law. To be legally recognized, a party must adopt specific doctrinal principles that set it apart, have a program of action, a national organization, and the minimum number of members established by law. A party loses its rights if it does not obtain at least 5 percent of valid votes in two successive pluripersonal elections. To guarantee these political organizations' independence from pressure groups, the Political Parties Law provides them with State funding proportionate to the number of votes they obtain and grants them some tax exemptions but sets a ceiling on their electoral expenditures and prohibits them from receiving financial contributions from foreign States or enterprises and from individuals or institutions that have contracts with the State.

Supreme Court justices are appointed by the National Congress for life, but can be removed from office by Congress for reasons contemplated by the Constitution and the legislation.

Each province has a governor appointed by the President and a Provincial Council consisting of the Provincial Prefect, who is the executive authority, and a collegiate body made up of a variable number of provincial councilmen elected by the voters of their respective circumscriptions in proportion to the population.

One of the political rights is the right to vote; to exercise it a person must be an Ecuadorian citizen by birth or naturalization and be 18 years old and fully entitled to the enjoyment of his citizen rights. Members of the Armed Forces and the National Police cannot vote or run for elections. An individual sentenced to imprisonment will have his voting rights suspended for the duration of imprisonment.

Ecuador is a member of the United Nations-UN since its foundation in 1945, as well as a member of the Organization of American States-OAS, the Group of Rio, the Amazonian Treaty, the Organization of the Petroleum Exporting Countries-OPEC, the Andean Community of Nations-CAN, the Union of South American Nations-Unasur, and other international organizations.

Ecuador participates in the Andean economic integration process launched in May 1969 under the *Cartagena Agreement*, or *Andean Pact*, by Colombia, Ecuador, Peru, Bolivia, and Chile, to which Venezuela accessed in 1973 and from which Chile withdrew under Pinochet's dictatorship in 1976 and Venezuela in 2006.

Three phases can be identified in the Andean integration process. The first, which lasted through 1975, was very dynamic; during it, transnational bodies were created to conduct the process; customs exemption programs were introduced; a common regime was established for treating foreign investment, trademarks, and patents; and industrial development sectoral programs were implemented. There followed a phase of stagnation, when the process lost dynamism owing to the participating countries' financial difficulties; reciprocal trade decreased; and commitments undertaken went unfulfilled. Then came a phase of recovery and reactivation of the Andean Pact, which began in 1989, based on a decision adopted in Caracas by Presidents Virgilio Barco, Rodrigo Borja, Alan García, and Carlos Andrés Pérez to closely monitor the integration process and to meet twice a year as the Andean Presidential Council – the new highest instance created by them – to review the initiatives implemented in each semester. This injected great dynamism into the process and intensified subregional trade. According to Junac figures, between 1990 and 1995 the Andean group increased subregional trade by 27 percent a year. This increase was not uniform, though: Ecuador increased its sales from US\$188.5 million to US\$364 million, as compared with Bolivia's trade increase from US\$59.9 million to US\$199 million; Peru's increase from US\$214 to US\$412; Colombia's from US\$327.7 million to US\$1.805 billion; and Venezuela's from US\$493.6 million to US\$1.847 billion. This shows that Colombia and Venezuela benefited far more from integration, as they increased their sales on the Andean market fivefold and fourfold, respectively.

From a technical and institutional standpoint, the Andean integration process is, despite all hitches and limitations, the most successful to date in Latin America and the only one that has a common judicial instance – the Andean Tribunal of Justice – to settle disputes among member countries that may arise from or because of integration agreements.

In April 1966, the Presidents of the Andean countries, meeting in the city of Trujillo, Peru, adopted two formal resolutions: to replace the name

of *Andean Pact* by which this integration system had been known from the beginning to *Andean Community*, probably on the European model, and to create an intermediate instance for conducting the process, namely, the Andean Foreign Ministers Council.

The Presidents of the twelve South American States, meeting in Cuzco on December 8, 2004, decided to establish a Community of South American Nations “to create an integrated South American space encompassing the political, social, economic, environmental, and infrastructure spheres.” This decision was ratified at the Presidential summits held in Brasília in September 2005 and in Cochabamba in December 2006. At the latter summit, the Presidents declared that “South American integration is required not only to solve the great calamities affecting the region, such as persistent poverty, social exclusion, and inequality – which in the last few years have become a central concern of every national government – but also as a decisive step to develop a multipolar, balanced, fair multilateral world based on a culture of peace.” This initiative was made into reality on April 16, 2007 on Venezuela’s Margarita Island. At that time, the Presidents of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Suriname, Uruguay, and Venezuela established the *Union of South American Nations-Unasur*, with headquarters in Quito, and invited me to assume the new organization’s Secretariat.

I accepted this responsibility because of my integrationist vocation, which had led me, 28 years ago, to write a short essay on *the unionization of poor countries*, in which I earnestly advocated the union of our countries and the establishment of an international “union” capable of strengthening our position in the outside world.

I promptly offered the Presidents my views on what Unasur should do. The gist of my suggestions was to include in the new regional institution all the existing subregional entities so as to move on from subcontinental integration, to be carried out by the Andean Community of Nations-CAN and the Southern Common Market-Mercosur, toward South American continental integration, taking into account the experiences, accomplishments, and failures of the subregional systems. This seemed to be the way for achieving the South American countries’ development objective and fostering their full participation in post-Cold War’s implacably competitive world. The idea was to face – on the force intensified by union – the blocs of developed countries

and the constellation of transnational corporations that gained unprecedented power during the Cold War.

Endowing the project with appropriate instruments met with obstacles, though. The senior officials' commission appointed by the governments to draft the organization's statutes opted for creating another integrationist institution in addition to the existing ones. This, in my view, adversely affected the Presidents' project, conceived on the basis of a clear vision of the future.

Political life

Overview

The Ecuadorian political society is affected by internal political, economic, social, cultural, religious, ethnic, and regional differences and contradictions that militate against social cohesion. This is the source of a tempestuous history marked by an alternation of democratic governments and military dictatorships, coups d'état, different Constitutions, political instability, economic backwardness, and social injustice.

In Ecuador's 178 years as a Republic, only one revolution deserves this name: the *Alfarista Revolution* in the late 19th century, of a liberal-radical cast, which bisected Ecuadorian history. All other insurgent movements have been nothing but military successful complots under the cover of night, although their protagonists called them "revolutions." It has been a history plagued by abrupt changes of government, made possible by weak institutions. It has seen eighteen different constitutions – 1830, 1835, 1843, 1845, 1851, 1852, 1861, 1869, 1878, 1884, 1897, 1906, 1929, 1945, 1946, 1967, 1978, and 1998. Each one was drafted and promulgated by a different constituent assembly, except for the 1978 Constitution, which was approved by referendum. This constitutional "inflation" is due to the idea that a change of Constitutions will change political behavior. Obviously, this never happened. Constitutional norms have been conceived from above without being anchored in society. This very day, the nineteenth constituent assembly is meeting and by the end of the year it should bring forth a draft Constitution to be submitted to a referendum.

The truth is that in Latin America there have been many coups d'état but few revolutions. Perhaps the only changes that, owing to their depth and irreversibility, have had a revolutionary character were the 1895 *Alfarista*

revolution in Ecuador, the 1910 Mexican revolution, the 1952 Bolivian revolution, the 1959 Cuban revolution, and the 1979 *Sandinista* revolution in Nicaragua, although the latter lacked the characteristic irreversibility of a true revolution. The other disruptions of the constitutional order in Latin America's tortuous history have been nothing but coups d'état that have changed the people in government but kept intact the established economic and social order.

The liberal-radical revolutionary process of the late 19th century in Ecuador was led by general Eloy Alfaro – who earned his general braids fighting for freedom at the head of his popular army – it lasted three decades of guerrilla combat, or *montonera* combat as it was called then, and had as its objective to overthrow Ecuador's feudal *ancien régime*, under which the Catholic Church was the country's major landowner. The Church owned the best and largest estates on the Andean highlands as well as the Indians that worked on them. The children of the Indians also belonged to the Church. These “señores de misa y olla” [illiterate priests], as they were called by Ecuadorian writer Juan Montalvo, one of the best prose writers in Spanish in the 19th century, ran the country as their feudal domain. The revolutionary government of Alfaro issued a Beneficence Law in 1908 expropriating Church lands in favor of the State, which used them to establish a public welfare fund. The higher Catholic hierarchy did not wait long to protest, saying that “this law is a crime against Religion, an attempt against sound morals, an abuse of authority, and a violation of the rights on which the social order is grounded.” The protest ended thus: “Communism has been granted citizenship chart.”

The *Alfarist* revolution effected a profound institutional transformation in Ecuador. It replaced one social class with another in the exercise of power, separated Church and State, secularized the government, instituted religious tolerance, and proclaimed freedom of worship; abolished *concertaje* (a contract under which the Indians obligated themselves for life as well as their descendants to do farming work for the hacienda owner for no salary or for minimum wages); suppressed imprisonment for debt and failure to meet an obligation; eliminated the wool mills, the tax of three thousandths on farming land, and the payment of tithes and first production to the Church, as well as other feudal charges.

Although it was a liberal revolution, it introduced the first regulations on working days, obligatory rest, social security, work by women and minors, individual work contracts, accountability for work accidents, maternity protection, farming land distribution, and expropriation of idle lands. It also set other norms of a social nature, which were later embodied in the 1906 Constitution to endow the revolution accomplishments with an institutional character.

In the 20th century, instability was a constant in Ecuadorian history, owing to rebellions, coups d'état, dictatorships, removals from power, and resignations. There have been only brief periods of constitutional continuity, when elected governments alternated: from 1948 to 1961 and since 1979. In this last period, though, three Presidents were toppled: Bucaram in February 1998, Mahuad in January 2000, and Gutiérrez in April 2007 – at the first clamor on Independence Plaza they fled by the backdoor or over the Palace's roof, without displaying the elemental bravery of Mariano Ospina Pérez who, at the tumultuous time of the 1948 “bogatazo,” i.e., the riots that followed the assassination of Colombian President Jorge Eliécer Gaitán, when the out-of-control popular fury demanded his head, exclaimed: “a dead President is worth more to Colombia than a fugitive President; or of Salvador Allende, who preferred to blast his brains in the Presidential palace to being humiliated by Pinochet's henchmen.

In the past decade and a half the widening gap between politics and morals has entailed serious governability crises. Corruption, in Ecuador as elsewhere, poses a great obstacle to governability, as it makes rulers illegitimate, robs their credibility, and takes away their ethical credentials to order and to be obeyed. Power rests on a system of beliefs: to govern means to be believable, to have credibility, to inspire confidence.

The lack of these elements has led to a period of insubordination and social convulsion. Multitudes have taken to the streets to demand that rulers be ousted. The first was Bucaram, removed from power by Congress owing to his mental incapacity to govern, as provided under Art. 76 of the Constitution, which determines that: “The President of the Republic shall definitively forego his functions and vacate his office... if declared by the National Congress to be physically or mentally incapacitated.”

Evidently, “mental incapacity” under constitutional law does not mean the mental alienation or madness of psychiatry. That label is applicable to [a President] for misgovernment, ineptitude for governing, and constant absence from his office at the National Palace “for fear of ghosts,” as the incumbent frankly admitted himself. Five months proved enough to exhaust popular patience.

Similar cases occurred soon after with Jamil Mahuad and Lucio Gutiérrez. Mahuad harmed millions of Ecuadorians by freezing bank deposits, causing a macro-devaluation of the sucre five times, and adopting the dollarization of the economy. The people became furious and took to the streets. Gutiérrez displayed a monumental incapacity for governing and, in response to protests, ordered the police to shoot. The two fled the Palace when the people surged on the Independence Plaza, and sought refuge at Embassies: Mahuad at the Chilean and Gutiérrez at the Brazilian Embassy. The legal and political effect of diplomatic asylum is the safe-conduct and the exile’s departure from the country. In both cases, the Vice-President was called to complete the term of the incumbents.

The international press did not explain these events properly.

Political parties

The origin of political parties in Ecuador goes back to the times of the struggle for independence from Spain in the early 19th century. The Quiteño fathers of August 10, 1809 themselves, who were the first to shout for freedom in Spanish America, split soon after into monarchists and republicans.

Later on, divergences arose in Simón Bolívar’s political circle between those in favor of a President for life and even of a restoration of the monarchy and those who, imbued with the ideas of the French Encyclopedists, advocated a republican government and the expansion of liberties.

The Conservative Party – or what may be considered such – was founded in 1883 under the name of Catholic Republican Party, later changed to “Conservative Party,” although remaining a “party of Catholics.” The origin of the Liberal Party is less clear. It came into being by stages. There was an “advanced” thinking on the part of keener minds of the time, all of them drawing inspiration from the 18th century French Enlightenment. A convention meeting in Quito on 24 July, 1890 declared the new political party established.

Be as it may, both parties were “parties of notables,” quite characteristic of the times, which were not interested in attracting the masses but in appealing to socially or economically outstanding people. The “Conservative Party” belonged to the highland landowners and the clergy, and its strength was concentrated in Quito, while the “Liberal Party” consisted of representatives of the nascent trade and banking bourgeoisie on the Coast and had its bastion in Guayaquil.

Those were the seeds of the conservative-liberal two-party system that under one guise or another operated in the second half of the 19th century. Their two emblematic caudillos were, respectively, Gabriel García Moreno, the mid-century authoritarian theocrat; and the liberal revolutionary Eloy Alfaro, who took power in 1895 after nearly thirty years of guerrilla combat.

The Ecuadorian Socialist Party, of a Marxist-Leninist cast, was founded in 1926 as a small elite of first-rate intellectuals and artists, but had no effect on the dominating two-party system.

In the early 1930s, a *sui generis* political organization called National Labor Compact, consisting of workers, artisans, small traders, and peasants came into being to support the Presidential bid of Neftalí Bonifaz, a distinguished and cultivated landholder from the highlands. Bonifaz won the election but was disqualified by the National Congress because there were doubts about his being an Ecuadorian national, as in his “carefree youth” he had, as he used to say, used a Peruvian passport. Under the circumstances, a young lawyer called José María Velasco Ibarra, a notable speaker, filled the vacancy and, from Congress, was catapulted into political visibility. The movement behind him became known as “Velasquismo” and displayed, as is often the case with populist caudillismo, the most incongruent membership: from the so-called “Knights of Our Lady Immaculate,” of deep clerical and conservative roots, to philocommunists, all of them rallied round the figure of Dr. José María Velasco Ibarra, who was President of the Republic five times, although he succeeded in completing only one term in office (1952 to 1956). Out of the twenty years of his five Presidential mandates he exerted power for only eleven years for he was ousted several times.

In the 1950s, another populist organization came into being in Guayaquil, called “Popular Forces Concentration (CFP),” a blend of quite contradictory ideas, led by a charismatic, daring politician named Carlos Guevara Moreno,

who made his appearance around here claiming that he had fought in the Republican ranks during the Spanish civil war and been “bitten by the cruel Fascist grapesheet.” This group – which introduced into the country hitherto unknown mass mobilization techniques and employed in its political choreography hymns, marches, flags, and shock groups in the purest Mussolini style – managed to achieve strong political force at one point, even though its leader failed in his bid for election.

In 1951, Camilo Ponce, a distinguished leader of the Ecuadorian right, founded the Social Christian Movement, which started as just a small elitist circle of highly-placed personalities in society, but assumed power in 1956 with the help of Velasquismo.

In the early 1970s, I founded a movement of young people, called the Democratic Left, which soon became a large mass party of a socialist-democratic cast, with particular appeal in the cities’ poor neighborhoods and among peasants. In its declaration of principles, this movement defined itself as “a democratic, revolutionary party that expresses and promotes the desires, ideas, and aspirations of Ecuadorian intellectual and manual workers.” It was the first party to raise –nearly four decades ago – the economic issue in the political debate and to present new issues for public consideration, such as environmentalism, relations between the State and the market, human development, and international relations.

In 1988, the Democratic Left arrived at power under my leadership, after an impressive mobilization of masses.

In the early 1980s, Abdala Bucaram, a brother-in-law of President Jaime Roldós, who died in a plane crash in 1981, formed a populist group, which he called the Roldosista Party in a pretended tribute to the memory of the dead young President.

The movement founded by Camilo Ponce became later the Social Christian Party, which nearly disappeared after the death of its caudillo but was recovered from ruin in 1984 by an entrepreneur and politician from the Guayaquil Chamber of Industries, called León Febres-Cordero, who won the Presidential elections that year and governed from 1984 till 1988.

Political parties proliferated in Ecuador because there was no juridical regime to regulate their existence and operation. They were actually mini-parties

devoid of representativeness, consisting of some individuals, their typewriters, and press releases, formed in the heat of political opportunism and ideological delirium. It is long but of little significance the list of these tiny parties that did not dare to produce their own candidates but instead struck alliances with the big parties to secure bureaucratic advantages. Electoral volatility was deplorable. The leaders' practice of changing parties was scandalous. Ecuadorian political slang even coined the expression "change of undershirt" to refer to the politicians' party-changing in an analogy with what happens in professional soccer, when the player of a team is hired by another team for a new season.

In February 1979, though, the military dictatorship, in its last stages, anticipated consultations with the political leadership, and promulgated the Political Parties Law, which provided (1) that the political parties enjoy the protection of the state; (2) that only political parties may present a candidate to run in popular elections; (3) that to run for an elective office, a candidate must be affiliated with a party; and (4) that to be legally recognized and allowed to intervene in the State's public life a party must (a) subscribe to doctrinaire principles that individuate it; (b) have a program of action consistent with the democratic system; (c) have the minimum number of members established by law; and (d) have national coverage.

The law further provided for public funding of political parties from budgetary resources, in proportion to the number of votes obtained by each party in the previous pluripersonal elections, for which alliances were forbidden.

The law aimed at introducing some order into the chaotic world of parties but did not manage to prevent system deformations or abuse. Some parties had lost – or never had – internal democracy, ideological debate, or internal mobility. They were *caudillistas* without ideology, with populist leanings. This caused the encystment of their leadership and the parties' bureaucratization and conversion into a stranglehold that suffocated the wishes of the mid-level officials and base militants.

This led the media to unearth the term "partycracy" – which had been coined in postwar Europe to denounce the parties' decision-making power in political life and in the democratic reconstruction of Europe after the fall of Fascism – and to invest it with a pejorative meaning to denigrate all parties equally, without attenuations or differences, thereby creating a strong current of opinion against them.

Correa, the incumbent President, forging on with his infantry through the press's bombing finished the destruction of the parties, which have been reduced to their minimum expression.

I do not deny that there were motives for some criticism. Some parties restricted internal mobility and solidified in place their self-elected, authoritarian leadership or demanded from the government "power shares" for their leaders – the famous *lottazione* that was spoken of on the side wings of Italian politics – or did away with meritocracy in their members' promotion system, or incurred in corruption, or slid into populism. This is true. But this does not invalidate the assertion that political parties are indispensable to democracy in the contemporary world. There is no democracy without parties. Parties are intermediaries between society and government. They assimilate, enhance, and channel diffuse popular aspirations and present them to those that exercise public authority.

Nothing has been yet devised to replace political parties. Despite all their defects, they remain indispensable elements in democratic regimes and as intermediaries between the people and the government. Numerous associations have been formed – environmentalist, feminist, labor, religious, consumers, producers associations, and so on and so forth – but they cannot, either individually or collectively, take the place of the political parties with their comprehensive view of a country's problems. Associations are interest groups and as such have excessively partial, compartmentalized views. Indeed, labor unions, business corporations, pressure groups, nongovernmental organizations, the new social movements, and other entities that intervene in the public life of the State represent partial, sectoral interests within society and lack an overall view of a country's problems, as the parties do have or should have.

Economy

The Constitution defines the Ecuadorian economy as a "social market economy" that "shall organize itself and develop in coexistence and concurrence with the public and the private sectors." This concept was embraced in the postwar period by German economists of the Freiburg School – Alfred Müller-Armack, Walter Eucken, and Leonhard Miksch, among others – who added the word "social" to the expression "market economy" to establish the "principle

of market freedom linked with social compensation,” so as to find a “third way” between a free market economy of a liberal cast and a directed economy on a Marxist model. But although its proponents say that the social market economy is not a replication of *laissez faire*, the truth is that it is actually a market economy, i.e., a system whereby private economic agents plan and decide their actions in decentralized way.

The Ecuadorian economy has all the characteristics of capitalist systems: private ownership of the means of production, abstention of the state vis-à-vis the activity of the private economic agents, an open economy, exploitation of salaried labor, and submission of economic activity to the laws of the market, i.e., supply and demand, private initiative, entrepreneurial freedom, free competition, pursuit of profit, accumulation.

Fiscal recovery is accomplished on the basis of taxes, charges, and special contributions. Taxes are direct and indirect. Some are levied by the central government and others by provincial and local governments. Tax rates are relatively low.

In 1989 my government undertook a drastic reform of the tax system, reducing a tangle of over one hundred indirect taxes that yielded very little to three: income tax, value added tax (VAT), and special consumption tax (ICE). The reform broadened the income tax base and improved collections but exempted the middle class and the low-income segments of the population. Simultaneously, a thorough overhaul of the customs duties structure was undertaken, which corrected duties dispersion, lowered duties on some imports, and discouraged contraband. On the whole, these reforms have been maintained until today.

Ecuadorian economy is divided into the categories proposed by economist Colin G. Clark, which have become classic: primary, secondary, and tertiary sectors. As in any economically underdeveloped country, the activities that have made most progress in Ecuador fall into the primary category: mining, agriculture, cattle-raising, forest exploitation, and fishing, among others, which provide basic products for direct consumption, raw materials for industry, and primary products for export.

Industry and other secondary activities, similarly to the tertiary sector, which consists in the provision of services and not in the production of material

goods, are at an incipient stage of development. Trade, banking, finances, insurance, communications, data processing, administration, advertising, public relations, marketing, transportation, and professional services have not advanced very far and their share in the domestic product is very small.

Per capita indicators in Ecuador, as in the other Latin American countries, are very low and internet use is very limited.

Advertising abuse, typical of open economies, with its exacerbated publicity, subverted values, and alienation, has created a *consumer society* in Ecuador. The handling of advertising, as in other Latin American countries, has led to market manipulation, in opposition to the tenets of classic economists: instead of the market's telling producers what they should produce to meet consumers' needs, it is the producers who tell the market, through the magic of advertising, what consumers should consume.

Economic figures in Ecuador are as follows:

GDP (2007): US\$44.449 billion

GDP (per capita): US\$3,419

GDP (2008 proj.): US\$48.508 billion

Oil GDP declined from 0.1 percent in 2006 to 0.0 percent in 2007, while the non-oil sector decline by 0.1 percent in the same period.

Inflation in 2007 ran at 3.32 percent; in a dollarized economy, this is not a low rate. Inflation projected for 2008 is 4.25 percent.

GDP growth in 2008 is projected at 1.9 percent, according to international organizations.

Oil sector

Crude oil production between January and November 2007: 170,515,000 b/d, with a daily average of 509,000 barrels, 257,000 of which were produced by Petroecuador, a state enterprise, and 252,000 by private foreign companies.

In 2007, oil output dropped 5.4 percent as compared with 2006.

External sector

Ecuador's six major trade partners in 2007 were the following:

United States

Exports: US\$6.029,8 billion

Imports: US\$2.794,8 billion

Trade surplus: US\$3.235 billion

European Union

Exports: US\$1.753,9 billion

Imports: US\$1.245,8 billion

Trade surplus: US\$508.1 million

Peru

Exports: US\$1.491,9 billion

Imports: US\$481,1 million

Trade surplus: US\$1.010,8 billion

Chile

Exports: US\$658.1 million

Imports: US\$503.3 million

Trade surplus: US\$154.8 million

Colombia

Exports: US\$650.6 million

Imports: US\$1.458,8 billion

Trade deficit: US\$838.2 million

Venezuela

Exports: US\$484.1 million

Imports: US\$1.318,5 billion

Trade deficit: US\$834.4 million

Percentwise, the profile of foreign trade was as follows: US market, 43.6 percent exports and 20.5 percent imports; Aladi markets, 31.4 percent exports and 36.6 percent of imports; the rest of the Americas, 8.6 percent exports

and 5.9 percent imports; Europe, 10.9 exports and 10.6 imports; and Asia, 5.3 percent exports and 22.3 percent imports.

Within Aladi, the Andean Community (Venezuela, Colombia, Ecuador, Peru, and Bolivia) accounted for 20 percent of exports and 21.7 percent of imports.

Main export products are as follows:

- Crude oil;
- Banana and plantain;
- Oil byproducts;
- Shrimp;
- Metal manufactures;
- Cut flowers;
- Cocoa;
- Tuna;
- Coffee (processed), and
- Timber.

In 2007, FOB exports totaled US\$13.852,36 billion, of which US\$8.279,44 billion were from oil exports and US\$5.572,92 were from non-oil exports. FOB imports totaled US\$12.583,97, of which oil imports accounted for US\$2.588,28 billion and non-oil imports for US\$9.995,7 billion. Trade balance surplus was US\$1.268,39, as the oil surplus of US\$5.691,16 billion offset the non-oil deficit of US\$4.422,77 billion.

The growth rate of the main nontraditional exports has decelerated in recent years. Shrimp, seafood, cut flower, and metal manufacture exports growth rates have declined while those of processed cocoa have risen.

Foreign direct investment has remarkably increased, from US\$124.2 million in 2006 to US\$470.8 million in 2007.

Emigrant remittances totaled US\$2.259,6 billion in 2007.

Financial sector

The State's freely available international reserves totaled US\$3.481,1 billion as of December 31, 2007.

As of December 31, 2007 credit to the private sector totaled US\$11.372,1 billion.

Between January 2006 and October 2007, private banks attracted deposits totaling US\$10.096,909 billion, while demand deposits totaled US\$6.652,687 billion and term deposits totaled US\$3.082,725 billion.

In the same period, gross credit portfolio totaled US\$7.444,945 billion while the net portfolio totaled US\$6.994,173 billion.

2007 Trade Balance

Oil sector surplus: US\$4.509 billion

Non-oil sector deficit: US\$3.353 billion

Total surplus: US\$1.156 billion

Fiscal sector

The central government revenues in 2007 were as follows: non-oil revenues, 79 percent; oil revenues, 21 percent. US\$ 4.315,47 billion were from tax collections; US\$1.154,04 billion from transfers; and US\$390.49 million from nontax revenues.

Expenditures were as follows: current expenditures, 70 percent; capital expenditures, 30 percent. Current expenditures broke down as follows: salaries, 49 percent; interests on the debt, 16 percent; transfers, 14 percent; goods and services, 8 percent; other, 14 percent.

Debt 2007: US\$13.864 billion

Foreign: US\$10.626 billion

Domestic: US\$3.238 billion

Total debt: 31.2 percent of GDP:

Foreign: 23.9 percent

Domestic: 7.3 percent

2007 Budget: US\$14.1 billion

Dollarization

Early in 2000, the Christian Democrat government of President Jamil Mahuad decreed the replacement of the Ecuadorian sucre by the U.S. dollar for all financial and commercial transactions. The US dollar thus became our legal tender. Since then the U.S. currency has been the unit of account, means of payment, measure of value, exchange instrument, and savings mechanism in Ecuador.

This measure was adopted for political rather than for economic reasons. Amidst serious social convulsions, when the entire population was decrying the rulers' corruption and incompetence, the decision was taken as a lifeboat at the imminent political shipwreck.

Dollarization meant the State's renunciation of the right to mint currency and to formulate monetary and exchange policy, a right transferred to the U.S. Federal Reserve, as well as of the right to reap the benefits of seigniorage.

Only five States in the world have formally adopted dollarization: Panama, Liberia (1944-1989), East Timor, Ecuador, and El Salvador. The first three did so for very specific reasons: Panama, because the companies that built the Canal paid their 75,000 workers in dollars, and this made the dollar into the actual official currency; Liberia, because it was founded in 1847 by freed black slaves from the United States, who promulgated a Constitution modeled on the U.S. Constitution and effected the dollarization of their economy between 1944 and 1989; East Timor, because, as it won its independence after 350 years as a Portuguese colony, it was invaded by the Indonesian army on December 7, 1975 and fell into social disorder and convulsion, forcing the United Nations Security Council to send in an international peace force, assume the country's political and administrative control, and introduce dollarization to put an end to the monetary chaos.

According to Harvard professor Jeffrey Sachs in an article published in *Foreign Policy* in the fall of 1999, the imposition of such a monetary regime means putting a straight jacket on the economy, as it deprives the government of any possibility of managing monetary and exchange variables to regulate the money stock, ensure exports' competitiveness, discourage superfluous imports, and attenuate the world markets' blows. Under these circumstances, the authorities tend to offset the inflexibility the system instills in the economy

with labor flexibility and adjustments in jobs, salaries, social benefits, and labor guarantees, thereby counteracting the economy's rigidity caused by the discarding of some economic policy instruments.

Under this system, the Central Bank loses its issuing capacity and ceases to be the lender of last resort for commercial banks in difficulties. It ceases to serve as a government bank, that is, as the lender of last resort for banks with liquidity problems, as well as handling foreign exchange, and to carrying out open market operations, which consist mainly in the purchase and sale of negotiable papers as a way of injecting money into the economy.

The advocates of dollarization, however, maintain that it is capable of restoring investors' confidence in the local currency, namely, the dollar, driving away the danger of devaluation, lowering interest rates, minimizing exchange risk, reducing transaction costs on the exchange market, stabilizing prices, and subjecting local banks to the surveillance of the United States Federal Reserve.

I recall that under my administration, as we labored against the tide at the apogee of neoliberalism in Latin America, it was the government, not the market, that set the economy's main prices: the price of labor, which is the salary; the price of money, which is interest; and the price of foreign exchange, which is the exchange rate.

Social indicators

Ecuador was one of the first countries to promulgate a labor code to regulate workers-entrepreneurs relations and to guarantee the workers' inalienable rights. The code was promulgated in 1938.

The North-American and European precedents of collective bargaining do not go too far back in time. In 1904, the Geneva legislation regulated collective bargaining; France did so in 1906, Sweden in 1910, and Norway in 1911. The Weimar government in Germany introduced the issue in the Constitution. Italy, on the eve of Fascism, introduced collective bargaining into its legislation. The United States, in the new deal years of President Franklin D. Roosevelt, passed the Wagner Act regulating this contractual form. The first Latin American State to adopt it was Mexico with its 1931 Federal Labor Law and its example was followed by various Latin American countries.

Collective bargaining is a very efficient mechanism that allows workers to obtain better working conditions. The strength of a group united on a negotiation front can achieve this.

In Ecuador, the social legislation provides especial protection to children, the elderly, workers, peasants, and poor tenants.

The main social indicators in 2006 were as follows:

Poverty

National: 38.3 percent

Urban: 24.9 percent

Rural: 61.5 percent

Indigence

National: 12.8 percent

Urban: 4.8 percent

Rural: 26.9 percent

Open unemployment: 7.5 percent of the economically active population

Underemployment: 39.37 percent of the economically active population

Gini coefficient: consumption distribution: 0.46

Illiteracy

National: 9.1 percent

By ethnic group:

Indian: 28.2 percent

Afro-Ecuadorian: 12.6 percent

Mestizo: 7.5 percent

White: 6.7 percent

Chronic malnutrition

National: 18 percent

Urban: 13 percent

Rural: 26 percent

Overall malnutrition

National: 9 percent
Urban: 7 percent
Rural: 11 percent

Population without health insurance

Urban: 79.4 percent
Rural: 78.9 percent

Own housing

National: 65.7 percent
Coastal area: 70.2 percent
Highlands: 60.6 percent
Amazon: 69.1 percent

Housing deficit

National: 60.9 percent
Coastal area: 70.3 percent
Highlands: 49.2 percent
Amazon: 79.5 percent

Piped water

National: 48 percent
Urban: 65.7 percent
Rural: 13.6 percent

My government

When I handed over power on August 10, 1992, it was gratifying to be able to tell my successor that the economy was growing at 5.4 percent, exports were expanding at 16 percent a year, private investment had hit historic records, inflation had been slashed to half, and that I was transferring power in conditions of peace, juridical security, and respect for human rights.

My government team had performed an extraordinary task and, as result of team work, we had been able to implement 1,300 potable water and

sewerage programs that benefited 1.2 million people; provided electricity to 600,000 rural inhabitants; increased irrigated agriculture by 40 percent; distributed nearly 4 million hectares of farming land to peasants and settlers (four times as in the previous twenty five years of agrarian reform); introduced intercultural, bilingual education in 1,812 schools and created 4,300 new teacher positions; benefited 700,000 aged people through the Elderly Law; and teachers were benefited with time-of-service bonus and improved career progression; established the children's community network that cared for 230,000 children during their parent's working hours; provided daily school lunch to 1.1 million children; assisted 1.5 million people through a comprehensive family health system; raised the rate of children's immunization to 70 percent; and introduced a government credit program for micro-entrepreneurs.

At a time when the Washington consensus was at full steam, I *ecuadorized* all the stages of the oil industry, some of which were in foreign private hands. I transferred to the State the ownership of two refineries on the Santa Elena peninsula. The operation of the 506-km long cross-country oil pipeline that carries crude oil from the Amazonian wells to the port of Esmeraldas on the Pacific Ocean was transferred to Ecuadorian technicians; and the management of the Texaco-Corporación Estatal Petrolera Ecuatoriana passed to the full partner, i.e., the Ecuadorian State.

This was our answer to neoliberalism. **DEP**

Translation: João Coelho

The great divergence: history or path dependence?

Results from the Americas^{*}

Steve De Castro^{**}

1. Introduction

The China historian Kenneth Pomeranz [2000] has argued that until the mid-19th century, there was little significant difference in the standard of living between China and the rest of the world. Since his excellent book stopped just then, the correct title should have been: *Before the great divergence*. He did not venture a quantification of this claim in terms acceptable to economists, the GDP per person (GDPpp) in a common currency, but cited (p.36) Paul Bairoch's work. Bairoch [1993] had contested Angus Maddison's tendency [e.g. 1995] to over-estimate the differences before 1850 between the future first and

^{*} Acknowledgment: This paper brings together results from our recent research, some of which were obtained in joint work with Flávio Gonçalves, now at the Federal University of Paraná, Curitiba, Brazil.

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third worlds. Robert Lucas' collection [2002] of his recent papers on growth used Bairoch's data to present his theory for the divergence as a sequence of staggered Rostow-type take-offs.

This paper synthesizes our results from work which has centered on the GDPpp data for the Americas since the start-up of growth, say 1820-50, and especially on the former slave regions – the US, Brazil and the Caribbean. Three topics are treated. Firstly, we found that for these regions, significant differences in GDPpp emerged only *after* slavery was abandoned, either across them or between them and the rest of the world, including Britain. The first industrial revolution did not start the great divergence (see graph 1 in appendix). At abolition, there was a fall in almost all of them but most started to grow again, some quite rapidly as did Brazil and the US south, although neither started to close the gap with the US north until after the second world war (for up to 1930, see GDPpp table in appendix).

Secondly, we formalized the notion of history dependence in an annual time series of GDPpp as a homogeneous Poisson stochastic process which generates fixed percentage increments to GDPpp at random intervals, and tested the sequence of intervals for Brazil, 1822-2000, and the USA, 1869-1996 (see De Castro & Gonçalves [2003b, 2005]). History dependence here is the opposite of path dependence since, to pass the test, the stochastic process must not change along the trajectory. While the US series passed the tests, Brazil's did not, due to its stagnation in the late 19th century, a growth disaster shared by almost all the Atlantic slave economies, including the US south. The US north compensated for the lagging south so that the aggregated US series hardly deviated from its long term growth rate.

Our third topic is a theory we developed to explain the economics of this flawed transition to free workers. It uses the recent literature on the incentives of the principal-agent model of the firm. The details can be found in De Castro [2004]. An outline is sketched here (section 4). Slave plantations evolved some of the mechanisms that firms now use to coordinate and supervise the effort of their workers at multiple tasks, which increase productivity over self-employment and other alternatives. Inserting the labor market in the slave economy meant plantations had to pay their workers more. If there is no technical progress or change in product prices, they may become unviable and the economy can lapse into lower-productivity family farms or worse.

The extension of this microeconomics argument to growth theory is that the second industrial revolution, which *did* start the great divergence, needed the hierarchical managerial structures of the firm. In the US, where they were an outstanding success, the polity treated them at first as cartels (trusts, combinations), largely because of the product-market power they exercised. So just when abolition seemed to require the dissolution of the plantations, their central mechanisms – supervision, coordination, giving and taking orders, were needed for technical progress to take place, certainly in the wider economy and perhaps even in agriculture.

Our theory for the transition gives economic content to the statistical result that Brazil's GDPpp trajectory was path dependent, because extracting itself from the 19th century slavery cul-de-sac launched its governance into resistance to these new institutions. The paradox for US and thus for world economic history is that it was its region where free workers and farmers were located in pulverized units with relatively low productivity and little product-market power that provided the ambience for the “big business” oligopolies which led its growth surge. In Brazil in contrast, slavery expanded in the 19th century, taking hold in almost every region, so that its dismantling required a rearrangement of incentives in the entire economy.

The rest of the paper is laid out as follows. The next section gives the methods and sources used for the GDPpp data for these former slave economies, especially the complete annual time series for Brazil and the US. Section 3 gives the results of the statistical tests for history dependence, and the last one presents our theory for the economics of the transition from slave plantations to firms and free workers.

2. The sources of the GDPpp data

2.1 The 19th century slave economies

We now know that from around 1800, all workers in the Atlantic economy, slave and free, began to increase their productivity. There was no secular decline in the profitability of slave ownership as the 19th century progressed. Those regions which continued to use slaves up to around 1860 showed little sign of lags in income per head behind those which used free labor. For example, between 1840 and 1860, the income per head of the US south grew slightly

faster than the north. The Cuban and Brazilian economies seemed to have grown in the first half of the 19th century. For Brazil, 1822-1869, Leff [1972 p.364] concluded that “it was a period of perceptible growth”. De Castro and Gonçalves [2003b] used Leff’s methods to obtain an annual growth rate for GDPpp of 0.44% per year, 1822-1850.

There are many indications that most slave regions then were somewhat richer than the non-slave, though by nothing of the order of what happened later in the century among nations. Our table in the appendix compares the 19th century GDPpp data for several mainly Atlantic slave economies. Until about 1860, the differences across the US, the US south, the US Midwest, Cuba, Brazil, Jamaica and British Guiana were of the order of measurement error. For Brazil and the US, the table uses two separate *secondary* sources, Maddison [1995] and Coatsworth [1993]. As we mentioned earlier, Maddison exaggerates the initial difference, putting Brazil in 1820 with half the income per head of the US. Coatsworth has these two plus Cuba in 1800 with more or less the same GDPpp. Even in 1850, he has Cuba and Brazil almost equal and the US with about 35% more. Coatsworth’s is the more credible estimate. However, both showed Brazil’s fall in income per head in the late 19th century. Interestingly, both used the same two primary sources, which we discuss next. The first is Contador e Haddad [1975] who give an estimate for 1862-1901 of real GDP growth at 1.98% per year which, with population growth of 1.94%, yields a miniscule GDPpp growth of 0.04%. Another source is Leff [1982 p.33] whose rate for 1822-1913 was 0.1%.

Celso Furtado’s classic ([1963] Chap. 25) gives the rate for 1850-1900 as 1.5% which contradicts these sources. He claims (p.163) that between 1850 and 1950 Brazil sustained this rate which was “faster than the average for western Europe”. Furtado, however, correctly observed the significant fall in income in the northeast, then with half the country’s population. So the difference is due to his over-optimistic assessment of the performance of the center-south. Leff [1982 table 3.3 p.42] gives a range of growth rates for the region “outside the Northeast”, for 1822 to 1913, all of which are “most probably, well below (those) in the US”. His intermediate estimate was 0.2-0.4%.

The plausibility of these 19th century growth rates can be assessed by extrapolating backwards from 1900 to obtain income levels. We also examine the problem of the common currency in which the comparisons are made.

Haddad [1974] gives a growth for real output per capita excluding services) of 2.3% per year, for 1900 to 1947. Leff [1982, p.215] adds services to Haddad's estimate to yield 2.2% for 1908 to 1947, which is higher than the US rate of 1.8% for 1913 to 1947 (from Kuznets cited in Contador *e* Haddad [1975 p.413]). Both estimates are in the national currencies.

However, when these primary sources make comparisons, in US dollars, with the US per capita income, they get huge over-estimates of the gap between the two economies. For example Contador *e* Haddad [1975 p.413] has the US, in both 1860 and 1970, with 10 times Brazil's income. The main cause is their use of exchange rates rather than purchasing power parities (PPP). The Summers-Heston exercise for 1950-2000 corrects such errors. For example, it gives the ratio for 1960 as just over 4 times and for 1990 3.3 times, as Brazil closed the gap during its "*milagre*" which for us is really the period 1950 to about 1980.

Nevertheless, even after this PPP correction, the gap around 1950 is still so large (just over 6 times) that Brazil's higher growth rate in 1900-50 would imply it had to begin the 20th century exceedingly poor. Both Maddison [1995] and Coatsworth [1993] give the ratio in 1913 at around 7 times, consistent with the higher subsequent 20th century growth. So any monotone growth in the 19th century would put Brazil's economy below subsistence by 1850. This argument is similar to the one used by Paul Bairoch [1993] to correct Maddison's exaggeration of the early 19th century dispersion.

We must conclude therefore that the coherent trajectory for Brazil's GDPpp in the 19th century must have been some growth, between 1820 and 1860, and a decline at about the same rate or higher, between 1860 and 1900 or 1913 (see rates in Section 2.2). This decline is consistent with the GDPpp data for the US south, Jamaica and British Guiana obtained from sources with direct estimates and shown in the appendix. Brazil's stagnation in the 19th century has now reached the recent growth literature. For example Barro & Sala-i-Martin [1998] put Brazil's income per head in 1900 on par with India's and China's – \$436, \$378 and \$401 respectively, in 1985 dollars, compared to \$3,101 for the US in 1890 (tables 10.2, 10.3 citing Maddison).

Perhaps the main stylized fact which disguises the fall in average income as slavery was phased out in Brazil was the massive expansion in the coffee sector, outside the traditional, dominant northeast sugar region, coupled with

large-scale European immigration. However, it would appear that this expansion occurred at an almost constant real wage for free labor which was not very different from the cost of using slaves (Michael Hall ([1969] Chap. 3 cited by Leff [1982 p.59]). Further, these labor costs also seemed to have had the two components of the slavery regime, namely the part which accrues to the worker, his incentive, and the costs of sponsoring the migration. This realignment of total labor costs and work incentives at the transition from slavery to labor markets is the main focus of our theoretical work (De Castro [2004]).

We suggest that the major reason for the different economic performance in the second half of the 19th century relative to the US, with which its economic history bears the nearest comparison, is that Brazil had no region outside the slavery regime when free migrants started to become competitive with slave labor. The two regimes coexisted over many decades until final abolition in 1888 when only 4% of the population were then still slaves (Leff [1982] p.54).

2.2 The annual GDPpp series, Brazil 1820-2000 and the US, 1869-1997

We claim, like Pomeranz and Bairoch, that before around 1850 almost all economies had more or less the same GDPpp (see graph 1 in the appendix). However table 1 below with our estimates for Brazil, shows it with implausibly high average long-term growth rates for 1822-2000 (1.55%) and 1850-2000 (1.76%), when compared to the US with 1.68% (1820-1992) and 1.67% (1800-1989) calculated respectively from Maddison [1995] (table 1.3) and Engerman and Sokoloff [1997] (table 10.5 p.270). For 1850-1900, the table also shows a small positive growth rate of 0.01%, contrary to the decline we asserted in Section 2.1. Both are due to our *under-estimate* of Brazil's GDPpp for the period 1822-1850/60.

The cause, we suggest, is that all our primary sources for the 19th century used either international trade and/or monetary data. For example, Leff used deflated money stocks to derive what he called "monetized per capita income". If, as he asserted, "output was growing at a higher rate in the monetized (sector)" ([1982] footnote 21, p.361), the omission of the slower growing, non-monetized incomes of mainly subsistence farmers would lead, with our method, to lower estimates of initial GDP. Though slaves received incomes

mostly in kind, these may have been counted in the monetary and trade data from the revenue side of the plantations.

Table 1
Growth rates

Period	Brazil GDPpp	Period	USA GNPpP
1822-2000	1.55%	1800-1989	1.67%
1822-1950	1.01%	1820-1950	1.56%
1822-1900	0.16%	1800-1913	1.60%
1822-1850	0.44%	1800-1850	1.10%
1850-2000	1.76%	1869-1996	1.74%
1850-1950	1.18%	1869-1950	1.66%
1850-1900	0.01%	1869-1900	1.73%
1900-2000	2.64%	1900-1996	1.76%
1900-1950	2.34%	1900-1950	1.89%
1950-2000	2.93%	1950-1996	1.89%
1950-1975	4.48%	1950-1975	1.52%
1975-2000	1.39%	1975-1996	2.10%

Sources: see De Castro & Gonçalves [2005]

Despite these under-estimates of Brazil's 1822-1850/60 income levels, plausible adjustments for this period should not alter the main result of the statistical tests reported in the next Section because it was generated by the long period of stagnation in the mid to late 19th century. Higher income estimates for before 1850 would only reinforce the rejection of its history dependence.

3. History or path dependence in Brazil and USA

The basic growth-theoretic reference is Aghion and Howitt [1992], for whom the source of growth in an economy is some kind of Poisson stochastic process for the occurrence of innovations, each of which, on arrival, increases instantaneously and permanently the GDPpp by, in the simplest case, an exogenous, fixed percentage. Given a GDPpp series, the empirical interpretation is that an innovation is said to occur every time an economy completed a fixed percentage increase. De Castro and Gonçalves [2001, 2003a] showed how to use this notion to interpret the innovation counts as a simulated world income distribution. The innovation counts are taken from a set of initially identical economies that were made to follow a theoretical,

mixed Poisson process since start-up, say 1800. The most general of such process for a single economy is one in which the Poisson parameter (λ), the mean arrival rate of innovations varies with both time and the accumulated number of innovations. In De Castro and Gonçalves [2003b, 2005], we did the opposite. We converted the annual time series of GDPpp for the Brazilian and US economies into arrival times of innovations, and tested whether each sequence of arrivals could have been generated by a homogenous Poisson process, namely with constant λ . If its trajectory passes these tests, then we say an economy's growth is history dependent, in the sense that at start-up it drew a λ and stayed with it.

Both rich and poor countries may exhibit this type of path. This is because the tests are not concerned with the average rate of arrival of innovations over the whole trajectory, the parameter in the theory that would largely generate rich and poor countries at the end of the 20th century, but rather whether this average rate was sustained or not. If an economy had sustained intervals of deviations from its average rate, equivalent to long periods of *both* stagnation *and* growth, then it would not pass the tests for history dependence. For example, we expect that India and China, at least until around, approximately 1980, may also pass the tests because their low average growth rates have been sustained. Both have now entered a period of rapid growth which, if continued for long enough, should cause the history-dependence hypothesis eventually to be rejected.

Brazil, 1822-2000, did not pass the tests but both its truncated series for 1889-2000, as the US, 1869-1996, did. Graphs 2 and 3 in the appendix illustrate the difference in the trajectories for the two economies. If an economy grew at a constant rate throughout, its trajectory would be represented by the diagonal. Brazil's long period of stagnation if not decline in the second half of the 19th century, because it was followed by sustained growth in most of the 20th, is the cause of the rejection of the history-dependence hypothesis. From 1835, it took nearly 87 years to increase GDPpp by 3%, represented by the nearly vertical line between the 14th and 15th innovations, defined as "size" 3% in the graphs. The US in contrast (graph 3) was never far from the diagonal and thus from its average growth rate. Its innovations of "size" 3% continued to arrive at a steady pace over its trajectory. However, treating the US as one economy obscures the differences in growth rates of its then two main regions, north

and south. The US south replicated the pattern of Brazil's trajectory – initial growth, then decline at abolition, then growth again, at rates more or less equal to the US north up to 1950, and faster after that. From around 1975-80, Brazil has faltered for a second time. The resulting lower incomes relative to the US north were accompanied in both by the usual features – lower levels of education, industrialization and urbanization.

Even if it exhibits history dependent growth, a country can be poor today either because it drew a low-valued λ at start-up, or because it had a bad outcome from a high-valued one. The latter is not a low probability event if one remembers the shape of the Poisson density function which, given its λ , would be the theoretical distribution for the number of innovations in each economy since start-up, provided the trajectory were history dependent.

We addressed this question by using the full Summers-Heston data set in 2000 to estimate the theoretical, world “mixing” distribution from which each economy purportedly drew its λ nearly two centuries ago, adopting the (unproven) assumption that all the economies' growth paths were history dependent. As we increased the definition of “size” of innovation, varying it from 1% to 7%, the “mixing” distribution became more negatively skewed, that is, the higher values of λ became more likely. An implication of the result is this: should the view of narrative economic history be that a small number of isolated, large innovations was the main engine of growth, then very few economies would have drawn a low λ and the main cause of the divergence would be outcomes from nearly equal mean arrival rates of innovations in the same stationary process shared by almost all economies.

4. The transition from slavery to firms and labor markets

4.1. Brief look at previous theoretical interpretations

For us, the distinguishing feature of modern slavery is the perception by masters, mainly in the Americas and from around the same time as the first industrial revolution, that they could obtain more income from their slaves by offering both incentives and some complementary input in the core activities of the plantation. This was the fundamental contribution of Fogel & Engerman's 1974 book, *Time on the cross*, which caused a furious debate among US economic

historians (see especially Paul A. David et al [1976, 1979]) some of whom contested, unsuccessfully in our view and Barzel's [1977], their finding that the imputed real income of a slave on large plantations (more than 15 slaves) in the US cotton belt around 1860, was more than that of a free small farmer in the same region. To explain why these folk did not offer to compete with slaves despite their lower incomes, Fogel & Engerman attributed the difference to the psychic income derived from being free. Barzel's interpretation of the extra food, time-off etc is that they were the biological complements of the forced labor regime, with no incentive component.

Unlike Barzel, we claim that it is not necessary to know whether, under slavery, an incentive component was present, or even whether the plantation offered no expertise or managerial ability but just physical punishment or the threat of it. Once the data on the higher productivity of slaves are accepted as true, a crucial step in the debate, one can use economic theory to check whether a free labor regime can reproduce it or not. The extra output is available for creating incentives to induce free agents to accept the discipline required of supervised employees, so that the re-distribution of incomes at abolition need not be a non-cooperative, negative-sum game where both sides lose.

Eisenberg's work, 1840-1910 [1974 p.213-4], on the dominant sugar industry in Pernambuco, northeast Brazil, gives the clue to our theoretical argument for the link between the role of supervision and the fall in incomes:

“after the early 1870s, the wage rate fell steadily. All three types of free labor (squatters, sharecroppers, and wage workers) could be hired and fired at will, without complications of contract or compensations... one cannot escape the conclusion that in the later 19th century, they enjoyed little material advantage over the slave”.

Slavery was still legal then but the northeast sugar planters were increasingly selling theirs to the coffee planters in Sao Paulo. He noted further that the apparently “better” treatment of slaves may well have been the source of Gilberto Freyre's polemical thesis on the paternalism of the northeast's slave masters. Our model can explain this without resort to altruism as in Freyre, or to economies of scale as in Fogel & Engerman, but as the reward for taking orders which, like in a firm, is justified by the gains to both parties from supervision of one by the other. With the technology of the time, it

was probably the economics of supervision which needed scale rather than the other way round.

Under slavery, however, coercion can never be dismissed entirely. Or to put it in the language of the model, since slaves did not have the right to quit, it is likely that plantations paid them less than if they did, even if, as Fogel & Engerman claimed, they paid them *more* than free small farmers earned in the same region. The problem we will try to solve is why after abolition, free workers did not reproduce the higher productivity.

During slavery, free workers seeking a spot wage would not be hired even though their intrinsic skills may be identical to that of a slave, because the wage regime would not be able to offer efficient incentives when effort at multiple tasks must be coordinated in complex ways. Thus we have a better explanation than Fogel & Engerman's psychic income theory. We shall see that under slavery, a free worker would need to be offered more than a slave to induce him to accept the discipline of the plantation, simply because he had the right to quit. Thus, supervisory and incentive schemes cannot be the same for free workers, even if under slavery, legal sanctions against the use of violence existed and were effective.

At abolition, the plantation would have to change its incentive scheme. It will not necessarily be worse off because it will no longer have to pay out the capital rentals of the slave contract. It does not have to buy its workers. In fact, slavery would become redundant if these rents were greater than any potential reduction in its gross income at abolition, due either to higher worker payments and/or to loss in revenue resulting from induced changes in the output mix.

These remarks can be made clearer with a bit of elementary microeconomics. Figure 1 in the appendix shows the 4 institutions of modern capitalism, the 3 markets as circles, for labor, capital and product and the hierarchical firm as a triangle. In fact, as it stands the figure is contradictory. All 4 cannot coexist in any given industry. This follows from the Euler theorem as applied to a production function with constant returns to scale, a property necessary in the neighborhood of minimum average cost for a competitive equilibrium. For example, if all 3 markets are functioning, then factors will receive their marginal products and their cost will be the revenue of the firm at the competitive price for the product. The hierarchical firm will have no

economic role. All the incentives will be in the markets. In business school language, the firm has no slack with which to create its own incentives.

Solow's growth theory was based on this microeconomics, a fact which made it almost surely out-of-date some 50 years before its publication. Another 30 years were needed for the paradigm shift to market power as the engine. For in modern capitalism, the product market is usually sacrificed to yield monopoly profits for the hierarchical firm's incentives. Under modern slavery, it was the labor market, since plantations faced competition for their products, and ownership of slaves could be financed in capital markets. In Soviet Russia, all 3 markets were sacrificed, even labor. The Bolsheviks believed that hierarchical enterprises could have provided all the incentives. So we see that under slavery, the absence of a labor market would have allowed the slack for the plantations to create incentives for the supervision which generated the higher productivity. Like modern oligopolies, plantations may have passed on some of their super-profits to their slaves, throwing up the polemical data Fogel & Engerman encountered.

4.2 A theory for the transition – from plantations to firms

Some recent theories of the firm based on incentives and power (for a survey see Holmstrom [1999]) were used to study this failure of the Coase argument that, in the absence of transaction costs, property rights determine only the distribution but not total income (De Castro [2004]). The model showed how wrong incentives at abolition can induce inefficient choices, in the levels, of 2 activities. One can be carried out by a single agent, working alone. The other activity requires a second complementary, cooperating, type 2 agent for its execution. Neither activity needs physical capital. When done outside the plantation, the first is a stylized version of a single-family, small farm. It is not necessarily confined to subsistence crops. For example in Jamaica such farms even today grow bananas for export. In late 19th century Brazil, many raised cattle and planted food crops for local markets. The second activity, combined with the skill and effort of the type 2 agents, the master/supervisor, is the core of a stylized plantation.

What is important here is that we assume that the incentives for the effort at the two activities by the type 1 agent is better designed by the type 2 who made the fixed investment up front. However, even under slavery,

he must offer suitable inducements to obtain an effective combination with the complementary inputs of the plantation. Asymmetric information is not explicit in this simplified model, but it is crucial to the argument. To see this, let us suppose that unlike here, there were increasing returns to labor (*irl*) in the plantation staple. With increasing returns, the notion that an individual worker's effort is observable by an outside party (verifiable) becomes tenuous.

The firm's behavior in the theory can be the opposite of how the market functions in neoclassical theory. It will pay less than the marginal product for some activities of its employees, in order to create incentives for others that are in its core business. The application to the abolition case is simply put. If sugar or cotton is in the core, then the production by its employees of subsistence crops like corn and cassava must be carefully monitored if not discouraged. And if sugar and cotton yield more GDP, then after slavery GDP will fall, unless some other mechanism than wage labor or sharecropping is forthcoming. Whether the 19th century slave plantation can be regarded in any sense as a firm remains moot and we return to this central issue later. Wage labor here means marginal product incentives for effort and not a fixed payment per period plus supervision. However, if the right to quit made hierarchical economic structures unviable, then, we claim, the technologies of the second industrial revolution would not have been implemented. The economy may begin to grow again but it will be in the mode of the first revolution (mainly British), namely with small family businesses and spot markets for labor, and thus will be unable to close the gap with the evolving leaders.

One of two major differences of course, was the lack of the right to quit on the part of the slaves. The plantation did not have to satisfy the participation constraint of its workers. This is an important issue in our theory for the transition. For example, its satisfaction is a necessary though not sufficient condition for slavery to become redundant. The model allows the possibility of redundancy but we doubt that this was the motive for abolition. Certainly up to the US civil war, it was imposed on the planters by some exogenous force e.g. the British, the US north, Haiti's slaves. On the other hand, the immediate resource reallocations required, redistribution in fact, were minor. The other major difference was the possibility of the use of force by the plantation to induce its slaves to produce more. This is Barzel's alternative hypothesis to our theory. Our model cannot establish whether the cooperating offered by

the plantation was more something like coordination or managerial ability, and not simply physical punishment or the threat of it. The firm's power derives mainly from its higher marginal product and wage and its right to hire and fire. The latter was not available to the plantation.

While the data uncovered by Fogel & Engerman on the incentives used by US planters in 1840-60 convince both us and Barzel (see his footnote 7, p.92), his interpretation is that the extra food, time off etc to field workers during the harvest, was just fulfilling a biological necessity induced by the forced labor regime with no incentive component. It is not easy to refute such a claim. Our criticism of his theory however, lies in the fact that it negates a priori the possibility that with the same technology there can exist, in a free labor regime, the material incentives to reproduce the high productivity of which we now know the 19th century slave plantation was capable. This is what our model allows. If there is an incentive scheme which yields a reasonable return and, at the same time satisfies the participation constraint of the ex-slave, then he will submit voluntarily to the authority of the plantation and produce the output mix it requires, possibly at even higher levels than under slavery.

Freed slaves on small sharecrop farms in the US cotton south produced even more of the plantation staple than under slavery, an apparent contradiction to the results of our model. Ransom & Sutch [1975] have argued that freedmen were forced to do so because of "lock-in" by creditors who insisted on a minimal level of the cash crop in a crop-lien system, a kind of debt peonage. Such a binding minimum here would yield our free worker a higher income than without it but his total effort would have to increase, with all his extra effort going into cotton. Incomes certainly did not increase, nor did work loads. A more plausible assumption (not made here) is that the worker's productivity at cotton on his farm was lower because of the lack of the crucial complementary inputs from the plantation (know-how, supervision). Thus for the same total effort and product mix, his income will fall. He may want to compensate for this by producing more cotton and less corn than our free worker.

Another issue on which our theory throws some light is the debate about the role of small-scale slavery, prevalent in many regions of the US south and Brazil (for Minas Gerais, see Martins & Martins Filho [1984] and the references therein). The model does not need economies of scale (large plantations) but it does need supervision and access of the slave to something the master

has (land, a skill, a machine). Even in the absence of such complements however, the legality of slavery allows the owner who buys the slave contract to charge a fee, a tax on the slave's output, provided his productivity was above subsistence, as many were. Some were highly skilled workers. Abolition would destroy these rents but if supervision was not essential, this would not cause a drop in income in the economy. There would be redistribution since these ex-slaves could continue the same jobs but now keep all their income. Some might work even harder. So this type of slavery is not likely to explain the fall in GDP after slavery ended.

These assertions provide the clue to the central thesis of our theory, that a new institution, firms using supervision and the right to hire and fire was a superior mechanism to such formal contracts. Managerial expertise allied to sharecropping contracts was unable to reproduce the previous productivity levels. We studied the non-marginal product incentives that the firm uses to combine the two types of skills and argue that, for certain prices and technologies, it can reproduce the high productivity of the plantation without the forced labor regime.

4.3 Results of the model

In the model, we showed the conditions under which GDP falls at abolition if the plantation does not modify its incentives (for mathematical details see De Castro [2004]). When its staple is more lucrative than the peasant crop, the fall is much greater. There can be a drastic redistribution of the reduced total income to the ex-slaves since in some cases they may want to abandon the plantation staple completely. However, the plantation may then prefer to switch to a crop which is not socially efficient (less GDP) but is more lucrative without supervision (coffee?). This may leave the former slave with the lower income of free peasants. In the switch, the economy would be worse off in the sense that the average income of both sets of agents will fall as they switch to less productive activities which do not require the supervision which firms provide.

This is perhaps a universal dilemma at every change of regime – growth versus distribution. The main contribution of the model is to show that, at least in the case of the abolition of Atlantic slavery, the economics did not pose it. Both growth and redistribution were possible, at least for slaves and

their masters. Traders would have had to find alternative employment, perhaps in the new profession of labor contractor.

However, this stagnation result though historic is not inevitable in our model. We showed that there can exist an “indenture contract” which can yield more income for both the former slave and the former master. Indenture here is not the long-term contract of the history texts. It is simply the static microeconomic conditions under which the type 1 agent (the now free worker) will accept voluntarily the authority of the type 2 (the plantation’s supervisor) and reduce his effort at activity 1 (his peasant crop). In principle, it needs no third party for enforcement. The existence result depends on the relative price and technology of the two products

In practice and in principle, our “indenture” contracts require a functioning market for them. That is, the division of the plantation output between the two types of agents must be disciplined by an efficient outside option for the type 1, namely working for other plantations, and not solely on his own farm. Since like the firm, its division is not based on marginal product incentives, there is room for much conflict. Reputation as good employers can help plantations to minimize turnover costs and become firms. Labor legislation may also help.

We suggest that the success or failure of firms versus labor courts would depend on how fast either can build reputation. If reputation is basically a public good, say of the planter class as a group, courts would be dynamically superior, provided they were not perceived to be biased. If it is mainly a private good, then type 2 agents can learn more quickly to acquire it and so become firms. Of course, since the emergence of courts and their jurisprudence (their reputation) may be dependent on the political regime in place, the resolution of this issue may go beyond economic theory. After all, the planter class continued to control the legislatures. However, our model assumed that effort is not verifiable and so we would claim that firms should be the superior mechanism.

4.4 Insights for a growth theory

Although these former Atlantic slave economies eventually began to grow again, only the US south has enclosed the gap with the richer regions. Even so it took nearly 100 years to do so. Most of the world’s economies also

have not closed the gap, these regions are clearly among the richest. How then can we generalize the argument to the point where it can become a growth theory valid for all economies?

The argument of the theory is that if world market prices and technology did not change at abolition, those former slave economies which were unable to maintain the hierarchical managerial structure with free workers would not reproduce the higher productivity of the plantations. The formal microeconomic argument is now well understood. If the cost of supervision is lower than the (welfare) loss to both of two complementary agents in a more lucrative, joint activity that is made unviable due to one party (the principal) having to pay out more to the other (the agent) than the value of the latter's outside option in order to get him to perform in the joint activity at the correct level without supervision, then both can gain by a supervisory coordinating and monitoring scheme. A rough measure of the static welfare loss after abolition is the fall in GDP.

The underlying economic rationale for these managerial structures, we suggest, is that for certain emerging technologies, any incentive-compatible schemes designed to overcome moral hazard problems in the employer-employee transactions were less productive than the managerial hierarchies. The historiography of the so-called, second industrial revolution abounds with studies of the large-throughput, continuous process industries which needed them – steel, chemicals from coal, petroleum refining, electricity generation, the processing of vegetable oils etc. If it were not for its labor and land intensive agricultural operations, cane sugar production and refining would fit easily into this category. The relevant generalization then is that if an economy was unable to implement with free workers, the management schemes of these large production units, whether in agriculture or industry, it will not accompany the growth in incomes of the emerging leaders.

There were, of course, some economies which achieved high incomes by 1900 without many such structures or even significant industrial activity. For example we can mention the success of the family wheat farms of the US mid-west. These economized on managerial supervision despite the introduction of machines which in turn required larger areas for each farm. In more populous Western Europe, this transition would be less viable, at least for low value crops like grains. The other rich, primary exporters of the

period such as Australia and Argentina demonstrate characteristics that seem to allow a similar explanation. And to take the opposite type of exception, there were those economies which set up the more productive, hierarchical structures in only one or two sectors while leaving the workers in the rest at near subsistence, the phenomenon of dualism.

The common element in the success at growth, when it occurs, of either type of governance, namely managerial structures or pulverized units, is technical progress. So the correct underlying hypothesis is whether an economy can provide the incentives for the generation and implementation of technological innovations, and not so much the type of production unit. However, if the activity requires managers for economic viability and growth, then it is likely that a former slave economy would be less able to sustain it for lack of consensus over the incentives. Various mechanisms for third party interventions (labor legislation, trade unions and labor courts) may be required, especially at start-up when the firm still has no reputation for fair treatment of its workers. If these were missing or ineffective, it is likely that the economy will not introduce such innovations and will stagnate even when it obtains workers from elsewhere whose opportunity costs are lower than its former slaves.

As a tentative hypothesis we suggest that one legacy of slavery and abolition, which may well be shared by other environments, is the inability to sustain large firms which use supervision as a mechanism in their incentive schemes. Although there are many activities in a rich economy which are done by small, family businesses which operate mainly in spot markets with marginal benefit incentives, it is highly likely that they obtain their innovations from spillovers, free or bought, from the true engines of growth. The other main type of production unit to generate innovations is the public and quasi public enterprises like state companies and research universities. These can replicate most of the mechanisms for supervised labor mobilized by the monopolies and oligopolies of modern capitalism. The supervisors however would not be subject to the discipline of the capital market, which implies that the incentives they offer to their supervised may well be different in spite of the labor markets both institutions face.

This insight for growth theory comes from a comparison between the US north and south in the late 19th century. By 1890, when the first federal law against cartels was passed (the Sherman anti-trust act), large enterprises

were being put together in several sectors in the US north – petroleum and sugar refining are two famous examples. Such institutions were absent from early British capitalism which had served as the model for the neoclassical theory. We surmise that these “big businesses”, the visible hand of monopoly power, were the crucial ingredient in the US overtaking the British level of income before 1914.

So a general growth theory for all economies may be the ability or otherwise to sustain large enterprises which use supervision and other complex incentive schemes to allocate labor. Curiously, this is not a world of Solow’s marginal-product incentives and perfectly competitive markets which leave no economic role for the firm. In those sectors where in the 20th century some have become one of the two major sources of the innovations which drive growth, failure to do so can be fatal. The secret may not have been just markets. It may have been how to decide on which markets to suppress, to make room for the incentives of firms.

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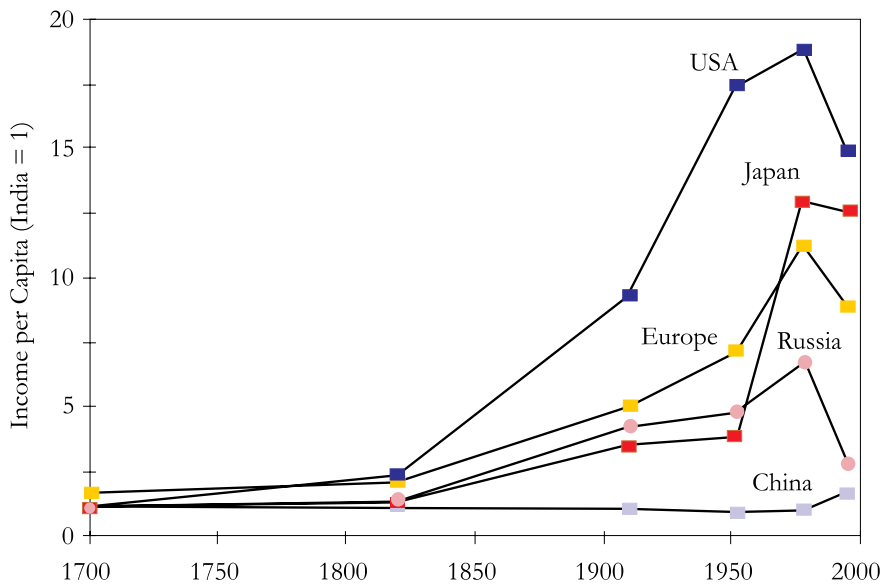
Appendix

GDP/head: selected countries, Americas, 19th century*

	Moohr	Eisner	Moohr	Eisner	Atack & Passell			Coatsworth			Maddison		
	British Guiana	Jamaica	British Guiana	Jamaica	US South	US Midwest	USA Total	USA	Cuba	Brazil	Brazil	USA	UK
	◁— £ const. —▷ 1912 1910		◁————— \$ current —————▷					————▷ \$ const. 1985 ◁—			————▷ \$ const. 1990 ◁—		
1775							60						
1800								807	904	738			
1820							74				670	1287	1756
1830							92						
1832	23.9	15.6	100	65									
1840					74	65	109						
1850	19.4	12.2	77	45				1394	1087	901			
1860					103	89	128						
1870	20.7	11.9	95	55							740	2457	3263
1880					79 ¹		205						
1890	22.4	12.4	121	67									
1900					128 ⁴						704	4096	4593
1910	24.0	13.7	117	67									
1913					200 ⁴		399 ²	4854	1893	700	839	5307	5032
1920													
1930		15.7		93	466 ⁴		847 ³						

* Table taken from De Castro [2004].

Graph 1
Incomes per Capita relative to India



From: R. Feenstra & G.Clark [2001] Figure 1.

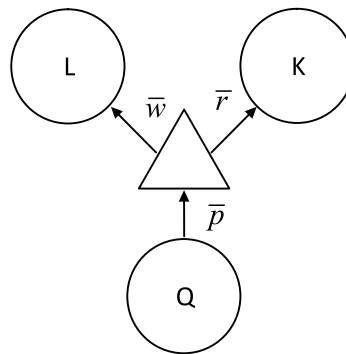
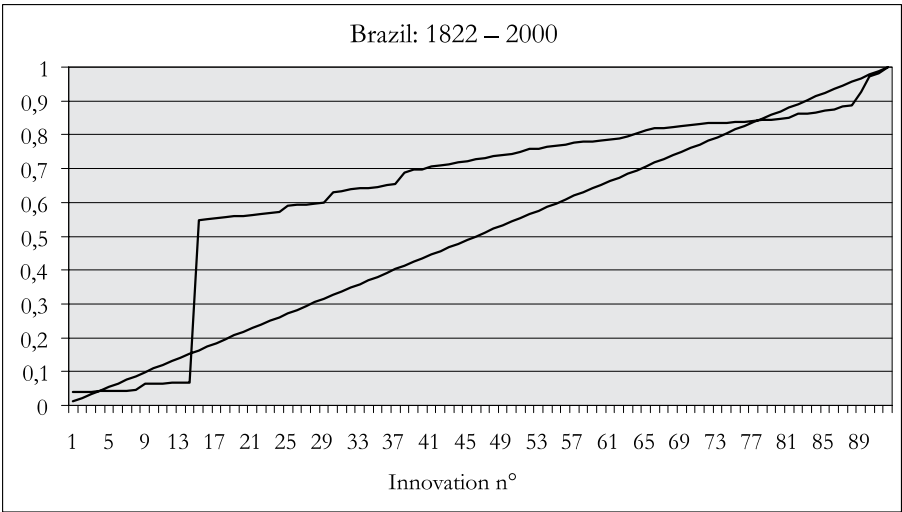


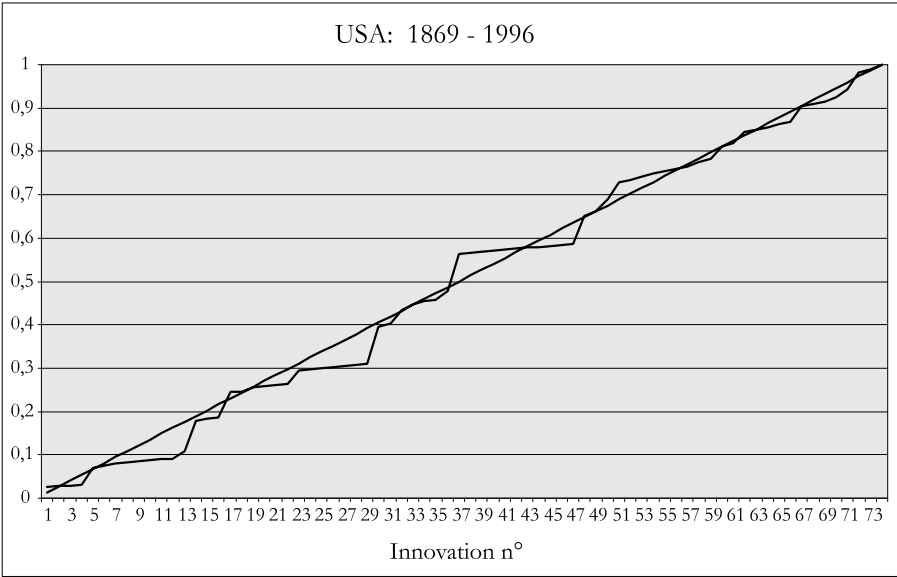
Figure 1
Firms and markets

All 4 institutions shown cannot co-exist. For example, if all 3 markets are functioning, the firm will have no economic role. Modern capitalism suppresses the goods market, Y. Slavery lacked the labor market, L, but inserting it meant one of the others had to go.

Graph 2
Observed vs. Uniform Distribution of arrivals: Brazil, 1822 – 2000; 3% size of innovations



Graph 3
Observed vs. Uniform Distribution of arrivals: USA, 1869-1996; 3% size of innovations



What has happened in Paraguay?*

*Fernando Lugo***



What has happened in Paraguay? The Brazilian union leader, the Bolivian Indian, the women of Chile and Argentina, the medical doctor from Uruguay, the military official from Venezuela, and the Ecuadorian economist are now joined by the former priest of Guaranda and Echandía. There is a saying going around that the bankrupt State of Paraguay now has “cura”¹ and joins the new Latin America. We gladly join the progressive governments of Latin America. We have much to learn from our brethren from our neighbor countries. When I arrived at my San Pedro de Ycuamandyyú dioceses in 1994, one of the poorest in my country, I said to people: teach me to listen. And they did teach me. Now, I have also said to my country, as I do not think that one studies to be President, to teach me how to be President of all Paraguayans.

The sun is rising over Paraguay. We want to embrace Latin America. I want to see the light of day and to know its dreams. Today we can say that the small are also capable of becoming victors. On April 20, Paraguayans lived a moment I deem not only historic, but also heroic. It was an act of

¹ Translator’s Note: an apt pun, as *cura* in Spanish may mean both ‘cure’ and ‘priest’.

* Conference in Flacso-Quito, June 17, 2008.

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daring that allowed me in only eight months after establishing the Patriotic Alliance for Change to be elected President of the Republic of Paraguay. In Uruguay, it took the Broad Front they created in 1973 thirty-one years to ascend to Government in 2004. We have incurred this tremendous audacity of wanting to govern after only eight months of accelerated march and after the establishment of the Patriotic Alliance for Change. In a couple of hours the tragic history of six decades changed.

The magic word we have heard throughout the national territory was without any doubt the word “change.” Change! The country could no longer remain passive. Above private opinions there is an opinion that can no longer be silenced – the Paraguayan people’s legitimate opinion, which did indeed say “Enough!”

Change in Paraguay is synonymous with a break with sixty years of having the Government Party in power. We celebrate that April 20 victory in humbleness; as we have said, humbleness has vanquished supremacy. We celebrate the birth of true democracy, introduced by the longed-for political alternation. Hope has defeated pessimism. Joy has overcome sadness. Courage has routed fear in our country. The people are the heroes. This is why we say that the Paraguayan citizenry are the great protagonists, the agents of change, including social groups, workers, peasants, Indians, and the country’s political class.

It will be the task of scholars to provide us with a scientific understanding of political change on the basis of the different social theories and practices, from the theories of independence to modernity, from structuralism to institutionalism, from a cultural approach to the property system, and so on. The implementation of the neoliberal model in many Latin American countries and the establishment of social regimes in the last decade have given rise to an intense debate about change of regimes and about the cases of countries that experience a political transition to democracy, and those that are currently facing crises.

To the collective effort to attempt to understand the political change process, the different social theoreticians and social scientists that join this effort are faced with a new challenge, namely, trying to understand what happened in Paraguay. Many hypotheses are put forth, perhaps all of them valid. And many questions are raised. First, why is a bishop running as a

candidate? How did change come about without violence? Some talk about an overthrow of the Colorado Party; others talk about the routing of a Mafia ring. Some speak of a new way of conducting politics as a joint undertaking by social actors and politicians. Why such a protracted, incomplete transition? And many other questions.

I invite you to think and reflect about the change in Paraguay, which prompts us to ponder the different concepts about man, culture, society, social change, and the forms of political dominion over our people and the latter's struggle to achieve a life with more dignity.

Paraguay has a surface area of a little over 406,000 square kilometers, where the best bovine herd of over ten million head grazes. It produces nearly seven million tons of soybeans on more than two million hectares for producing biofuel. About 77 percent of landownership is concentrated on one percent of proprietors, while 40 percent of farmers with less than five hectares own only one percent of the land. There are 350,000 families without land, while 151 landowners concentrate nine million hectares.

Paraguay is a country that in 365 days a year produces the technological and neoliberal miracle of converting water into energy to enrich multinationals and impoverish the people. It is a country rich in natural resources but with a corrupt, patronage apparatus that for decades has left the resources that belong to all in the hands of a few.

This country that is rich in resources shelters a population of six million, of which 42 percent are immersed in poverty and 19 percent in extreme poverty by the decision of a group of antipatriotic politickers.

If I were asked about what institutions Paraguay has had in the last sixty years, the answer would be very easy: the preponderant institution, the Government Party, from which all institutions in the country depend. But although we were able to do much on April 20, we may not be able to do as much now, as reconstruction after the institutional chaos will take time and demand commitment and much solidarity on the part of the international community. The support of Mercosur, the Group of Rio, the United Nations, and the recently created Unasur will be fundamental. Also required will be recourse to multilateral mechanisms and the commitment to and enforcement of international law.

Paraguay has been before the eyes and in the thoughts and in the heart of many people abroad and this requires our commitment. We do not want ever again to be known as the most corrupt country; we want to be known by our honesty and efficiency. We do not want to deserve only police reports and news saying that everything illicit passes through Paraguay. We shall leave behind this island surrounded by land, the country known as a haven for the mafia, piracy, drug trafficking, corrupt politickers, and extreme poverty. We shall cease to be famous as a country where nothing happens and become a people studied by scholars to the full extent of our cultural riches, our history, our people's silent struggles, and as a nation that wants integration with its Latin American sister nations.

What did actually happen on April 20? A simple explanation is found in the mathematics of the ballot polls. At the 2003 general elections, the Colorado Party won 574,232 votes while the opposition, even though divided, garnered 924,622 votes. At the general elections of last April 20, the Colorado Party won 572,995 votes, almost the same figure as in the previous elections. Other candidates accounted for 460,583 votes, while the Patriotic Alliance for Change won the day with 766,522 votes. On April 20, the Colorado Party obtained nearly the same number of votes, while the great majority of the votes against the system went to other candidates. We can thus confidently say that the victory went to an alternative, different political project with an identity and ideology of its own and with clear proposals. Unity triumphed in diversity. The union between some political parties and social movements achieved a new majority in the Patriotic Alliance for Change, in which the people saw a real alternative for change and that collective leadership is possible.

Change triumphed thanks to the citizens' participation, to citizens endowed with a strong civic consciousness, who for the first time had the opportunity to choose among thirty-eight political groups and among about 20,000 candidates to fill 681 positions. A civic consciousness and an electoral system established under the 1992 National Constitution, which bore fruit after sixteen years.

How could we fail to celebrate what is in reality a triumph of the Paraguayan people? How did this happen? The main legacy of Stroessner's dictatorship was cultural illiteracy. The designing of cultural policies was seen as a revolutionary and thus forbidden act, as every cultural revolution

fights corruption, crime, and illegality, and calls for change, for thinking differently. Our dominant class left the people without a history, respect for its own culture, a doctrine of its own, and without its heroes and martyrs. Every struggle is a new beginning, distinct from what went on before. Missed collective experience and forgotten lessons. History is the possession of the owners of all other things.

Paraguay's political experience of last April 20, heralds a new way political phenomena occur in twenty-first century Latin America; these phenomena are the best expression of the enduring dynamism inherent in the collectivity's will to decide who will be the public officials that will represent the popular will.

During the years when the Colorado Party held so much power, the lack of respect for rights prevailed, as did repression. It governed first as a military dictatorship from 1947 thru 1953, which was replaced by Stroessner's dictatorship from 1953 thru 1989, which in turn was followed by a transition to democracy. Since 1947 Paraguay has suffered under the government of a single party, the Colorado Party, which grasped hegemonic political, military, and economic power, maintaining the people in poverty and excluding the majority of the Paraguayan population, particularly the peasants. All the peasants' basic needs have been deferred. There has been a lack of land, health, education, technical assistance, communications, decent housing, jobs, etc.

The Colorado Party remained in power, maintaining an autocratic, discretionary regime backed by a political unity that ruled until 1989. The regime managed to come out from under the dictatorship through a new military coup in 1989, instead of a democratic revolution. In a memorable speech after General Stroessner's overthrow, an illustrious Paraguayan philosopher referred to politics then as *gatopardismo*, which meant 'changing something so that everything remains the same.'

After Stroessner's fall in 1989, all the control structures and all the political, juridical, military, and legislative institutions remained in the hands of his followers. The accumulation model that for many years sustained the dictatorship was based on agroexports, on fat State contracts, and principally on the income from the great dams of Itaipu and Yaciretá. But the most serious crisis was when political violence was directed against the people as a way of settling accounts among the main power factions intertwined with the groups that used politics as a venue of business. With the end of dictatorship,

discourse became centered on democracy, but the people remained absent. Paraguayans had been accustomed for twenty years to vote always with a majority, cronyism-based party for President, Senators, Deputies, Governors and Mayors. This continuous practice paradoxically became a significant civic capital of a people that political circumstances had for decades deprived of a choice for change or alternation in power.

The political leaders of different ideological currents that presented themselves on the political scene after 1989 failed often owing to their historical complicity or because they did not measure up to the circumstances. They were too accustomed and attached to their opposition stand and were never able to overcome such limitations and stand up as potential government leaders. This caused transition to democracy to halt and remain unfinished, while the model of coexistence among party top leaders exhausted itself.

The National Constitution put an end to the peaceful rupture of hegemonic power. In contemporary society, the law is the means of deliberate political change. But in Paraguay the law does not represent society but its rulers. We do not have the Rule of Law but apparent legality, where the law is permanently broken by the very authority that demands that the law be respected. Without any doubt, an extremely important event led to the overthrow of the Colorado regime with the promulgation of the new National Constitution, which set power limits, provided for direct voting, established an electoral tribunal under the control of the political parties, and municipal elections, entrusted the judgment of the President of the Republic to Congress, and banned reelection. But as new areas of political life became prey to patronage, the model lost legitimacy. People voted, but did not elect.

Politicians continued to violate the Constitution, failing to comply with many rights and duties. But when they intended to reform the Constitution to permit reelection, the people took to the streets and more than forty thousand cried out: 'Dictatorship, never again!' That was the beginning of the Citizens' Resistance Ruralist Movement. Political power must not be held for ever. Power must also be relinquished. Anyone who enters politics thinking that he is going to enter eternity is mistaken. All government is and must be transitory.

The country's new political actors – the social groups – have understood that the time has come for the country to look politically at its social problems. Peasants, workers, the young, and women were fundamental factors in the

peasant struggle and in the neat rupture by the middle class. The peasantry waged many battles that climaxed in March 2003 in the mobilization of thousands in Asuncion, which cost one dead and several injured. There have been also seizures of land and many actions by young people, who have also had their martyrs.

Late in 2005, peasant movements emerged, determined to make part of the country's political life through their own representatives in Congress to defend their rights. The peasants' combativeness played a key role in this process. The middle class, tired of corrupt governments, of watching the country's decadence, and of the lack of a democratic environment, began to question its political leaders, to face up to them, finally breaking up with the Government Party and joining the Patriotic Alliance for Change.

One element that greatly helped us in Paraguay – as it does anywhere – was a free press. The unrestricted exercise of freedom of expression was crucial for arousing civic consciousness and showing the hidden, perverse face of power. Valiant journalists also had their martyrs in the fight for the unimpeded exercise of their profession of telling people the truth despite the pressure of the powerful.

I believe that the Colorado Party became severely debilitated because in sixty years it was not able to provide effective answers to the great challenges, particularly the social and economic challenges faced by the large mass of peasants and workers and by the Paraguayan population in general. Its lack of leadership helped us, as did its lack of unity. Today the Colorado Party is fragmented. A Colorado fragment forms part of the Patriotic Alliance for Change, something unthinkable in Paraguayan politics.

The Authentic Radical Liberal Party also realized that it could not go on trying to arrive at power alone, as its numbers were not enough. A year ago, the party's assembly decided not to have a Presidential candidate of its own and instead nominated Fernando Lugo as its candidate, provided one of its members would run for vice-President.

On August 27, 2007 most parties, political movements and social organizations for national conservation formally established the Patriotic Alliance for Change. The stakes were impossibly high owing to the failure of the original coalition, from which two parties split off – the Unace [National

Union of Ethical Citizens] and the Patria Querida [Beloved Fatherland] parties. Unace won 21 percent of the votes, while Patria Querida won three percent.

The power elites, the possessors of power proved incapable of interpreting the great social needs and continued to lead a political life that had nothing to do with the social and economic situation, creating an increasing institutional vacuum until arriving at today's situation in which, strictly speaking, the Republic does not function, as the political elites only think of enriching themselves.

A new, important element that deserves further study and reinforcement is collective leadership. Finally, on December 17, 2006, the former priest of Guaranda and Echandía received over one thousand signatures authorizing him, with the help of the political parties and social movements, to organize a collective leadership to arrive at the country's highest position.

One swallow doesn't make a summer. We have asked the people never to leave us alone, as we must pursue democracy together. The star actors are the citizens that day by day constituted this silent, patient, and perseverant majority firm in its convictions and certain that the Fatherland deserved a different future. This forgotten people excluded from the official banquet table, this suffering, working, migrant people in search of opportunities, whose new determination to build a new Paraguay could not be shaken by official propaganda, awaited the moment to celebrate the great civic festivity of April 20.

Today Paraguay is a privileged space appropriate for social, political, economic, cultural, and ethical reflection. No rational model can be imposed on a society. Belief in a Cartesian social methodology is a fallacy on the part of those that pretentiously wish to transform their dreams and passions into social realities. A rational design of social change is not possible. Social change is a spontaneous product of cultural development. It is peculiar to each people, and Paraguay will have its own. There is no one-size-fits-all democracy model. Each people must learn democracy on its own. Thus, when we are asked whether we will adopt Chávez's, Evo's, or Correa's model, we say that Paraguay will have its own process and will build its own democratic model.

The Patriotic Alliance for Change was formed to benefit the country's poorer. In the first place come the Indians, the landless, the homeless, those

deprived of educational and health services. They ask us, they demand from us, they clamor all around the country for a real change in Paraguay. It is not a question of changing Presidents; we have already done this. Our vision is to change history, to put an end to over sixty years of a hegemonic party.

The Patriotic Alliance for Change's six programmatic axes did not come out of a laboratory, or of Fernando Lugo's head or of his circle. They were defined as we traveled throughout the country three times, in over six hundred meetings at which no speeches were made and at which people were listened to instead.

The six axes are integral agrarian reform; economic reactivation with social equity; recovery of the Republic's institutionality, so that institutions will serve all Paraguayans, without any sign or banner of any political party or institution; a sovereign, independent Judiciary; a national emergency plan; and recovery of sovereignty, particularly energetic sovereignty. These six axes are at the same level. We want public institutions to recover their institutionality.

Paraguay's image is going to change, we are convinced of that. I remember a poem by Paraguayan poet-magistrate Manuel Ortiz Guerrero when I think of Paraguay's and Latina American predominantly social and progressive task today: "Out of the mire morning lilies raise their heads, drink up the impurities of pleasant shade, whose bunches yield the sacred wines."

Ours is a major task, as it requires a twofold endeavor. The first is to represent the interests of the vast, politically excluded sectors, to aim real politics at those groups that could fall victims to inciters and demagogues or to the destructive action of extremist, violent parties. The second is to preserve the political space, which is a much more difficult task, if one considers that this space must often be created, which in turn implies the citizen's politicization. Casting a vote took nearly twenty years of protracted transition; but it was the outcome of the creation of a civic consciousness based on constitutional rights that inspired peasants, workers, citizens in general, and the free press to fight on.

Paraguay has demonstrated that owing to the disruption of its juridical order, the right of law, the possibility of having functional political and juridical institutions, its citizenship virtues, democratic calling, capacity for work, and social commitment have all been perversely and consistently compromised, as

has its self-esteem, owing to the imposition of all sorts of stigmas that have hurt its citizens, both at home and abroad.

Prosperity is the result of millions of private exchanges in a State-guaranteed environment with more liberty, more justice, and more solidarity. Only just political institutions can engender a just society, in which they not only play their role according to the rules of the political game but also determine the values to be established in the political community.

Citizenship, sovereignty, human dignity, unrestricted freedom of thinking and expression, solidarity, collective identity, and cooperation instead of competitiveness must be subsumed in justice.

Latin America's great hope and what it can offer the world is the vast array of vibrant social movements that dare to put everything into question, from their own governments to the way corporations contaminate their land – and this questioning may or may not be expressed at the ballot polls. Some allege to embody the left, others allege to represent the people, while others allege nothing. But what ultimately matters are not labels but the pursuit of a new way of governing that enhances actual democracy and puts an end to hunger and poverty.

Let us together make Latin America into eternal springtime, so that our peoples may have abundant soil to cultivate their mind, work in freedom, have their own nest, their shelter, their bread, and the medicine they need, so that each may develop its own identity in its community.

I do believe that, with God's help and the invaluable contribution of all, we will live better in our beloved Latin America. **DEP**

Translation: João Coelho

The Peruvian paradox: economic growth and political disapproval

*Julio Cotler**

Since the “transition to democracy” in 2001, Peru has experienced a paradoxical situation: despite strong, sustained economic growth, the population disapproves of the government in place, the official institutions, and the democratic regime. This situation aggravates the problems and conflicts that date from way back and persist to this day, when precarious leadership, divided political representations, and obsolete state organisms are unable or unwilling to devise new social and political cohesion mechanisms appropriate for the new times in which the country is living.

Owing to the liberalization and economic opening embraced in the early nineties of the past century and to the macroeconomic equilibrium public administration has maintained since then, the explosive demand for commodities and the favorable terms of trade have fueled Peru’s vigorous economic growth with low inflation for seven consecutive years. Notwithstanding the unfavorable external environment now, it is estimated

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that this trend will continue in the next few years, leading some to speak of a possible “Peruvian miracle.”

Indeed, between 2001 and 2008, the economy grew at an average yearly rate of 6.5 percent; export earnings increased fourfold; and GDP grew by 50 percent. This has allowed the Treasury to accumulate international reserves and to anticipate payment of the external debt and significantly reduce it. These facts have also helped double private investment and ensured that public administration can count on rising fiscal revenues to promote poverty reduction policies and decentralization, and in general to give impetus to internal demand, thereby fostering jobs and income generation.

President García’s strong political support of macroeconomic stability and investment has created a propitious economic environment and lowered the country’s risk, leading the Fitch ratings agency to accord investment grade to Peru’s government-guaranteed debt, and it is expected that other ratings agencies will do the same. These circumstances have favored the signing of a Free Trade Agreement with the United States and the ongoing negotiation of similar agreements with Asian countries and the European Union.

And yet, despite this unprecedented economic picture, President Alejandro Toledo’s administration (2001-2006) was disapproved by a huge majority, and now, two years into Alan García’s government, about two thirds of the population disagree with the current administration. This explains why Toledo and García have been the most unpopular Presidents in Latin America.

This rejection of government policies has been reflected in complaints and protests by different social and regional sectors, often involving varying degrees of violence. Criticism of the government is also expressed through opinion polls. This fuels speculations about the possibility that an outsider might win the majority of votes in 2011 and change the current state of affairs, as was the case in 2006, when Ollanta Humala lost the election to Alan García by a mere two percent of votes.

Together, these critical protests point to a state of social instability and public insecurity, a more than sufficient reason for entertaining doubts about the country’s future course and for some ratings agencies to delay the granting of investment grade to Peruvian finances, despite the country’s excellent economic performance, and for transnational enterprises to sign

agreements with the governments to ensure the juridical stability of their investments.

As a rule, the widespread complaints and the violent protests against the Toledo and the García governments may be attributed to the fact that they did not fill, nay, that they betrayed their campaign promises to give priority to satisfying the demands of the popular classes and the Andean regions through the creation of jobs and income opportunities not only to reduce but to end poverty and social exclusion. The alleged explanation for this was the neoliberal model adopted by the authoritarian regime headed by Fujimore and Montesinos, which favored exclusively foreign enterprises and the rich.

Rejection of the government and of the political system in general might thus be due to the fact that economic growth has not been accompanied by distributive policies geared to the sectors excluded from the market and from the state apparatus, which makes even more visible the unequal, unfair distribution of social resources.

But these justifiable arguments ignore the sustained economic growth of recent years, which has also favored the growth of employment, income, and consumption, thereby helping lower the poverty level from 44 percent to 39 percent of the population, presumably creating new possibilities of social mobility. Such arguments ignore also the fact that regional governments have received an unprecedented volume of resources and that public services have been and will continue to be extended to sectors and regions heretofore excluded from the public budget.

Attempts have been made to explain this popular discontent by psychological factors. In this regard, IADB specialists have concluded that “as economic growth increases, satisfaction declines, at least initially,” owing to expectations and frustrations that encourage comparison with “others” supposedly in a better condition,¹ an assertion, which, incidentally, recalls Albert Hirschman’s “tunnel effect.” This argument is equally plausible but does not take into due account, among other things, the persistence and intensity of the dissatisfaction of the majority of Peruvians with the authorities after seven years of continuous economic growth.

1 Luis Alberto Moreno y Eduardo Lora. *La brecha de satisfacción. El crecimiento y sus consecuencias*.

To address these questions and complement these interpretations, we shall briefly review the structural conditions surrounding economic growth and the disapproval of the political system: social inequality, the State's debility, and the fragmentation of political representation; then, we shall also proceed to a summary review of relations between the authorities and the different sectors of society under neoliberal policies.

Social divisions

Peru has been faced with sharp regional and class-based social divisions that have caused a double fracture: between the dominant sectors and the rest of society, and between the populations settled in the capitalist and "modern" urban centers on the coast and the peasants anchored in a "traditional," community-based, and indigenous universe. Hence, the notion that circulates freely about the existence of "two countries" that are socially, racially, regionally, and culturally separated, each with few, weak bonds uniting its members.

The rapid, profound social changes of the last decades, though, have helped overcome this dualist view and favor a perception more closely attuned to the country's social and cultural diversity. Since the mid-twentieth century, migration from the rural areas and the sierra toward the urban coast have modified the population's geographical distribution, and expanded capitalism and the labor market, just as the expansion of education and the means of communication have diversified the composition of the social strata, with emphasis on the development of the middle, professional, and entrepreneurial classes of diverse origin and trajectories – all of them "mestizo."

Simultaneously, the dissemination of new consumption patterns and life styles by the media and by those residing abroad contribute to the emergence and development of new urban cultural expressions that favor the fusion of traditional and cosmopolitan conceptions and practices.

This new circumstance, however, does not manage to dissipate the traditional view of the sierra's "backwardness," as this region concentrates the poverty and indigence of the indigenous peasantry that constitutes the majority of the "marginalized," actually exploited population. This view is prolonged in the descendants of Andean migrants in the cities, who make up the bulk of the popular segments.

These conditions explain the fact that the high-income, privileged sectors – both white and mestizo – discriminate on a daily basis the popular urban sectors of Andean origin, thereby hindering social mobility and intensifying their low self-esteem, and reinforcing the traditional distance and the mistrust and hostility between these social classes.² Paradoxically, this behavior tends to aggravate as the popular sectors increasingly enter different public scenarios – entrepreneurial, cultural, political – challenging the traditionally privileged sectors and pressuring to have their citizens' rights and cultural practices recognized. This exclusion and discrimination context is a major factor of the unstoppable emigration toward developed countries, which has reached 10 percent of the country's population.

Moreover, these social divisions are accompanied by the historical opposition of the country's "interior" to Lima's traditional bureaucratic centralism, an opposition forged around patronage and renter practices of the dominant groups that have controlled the State. Today, these conflictive relations tend to revive owing to the restrictions imposed by the "central" government on regional governments.

Lima's classic dominion over the provinces tend to decline, though, as democratic opening and decentralization have led to the attempt to elect political representatives capable of mobilizing local and national opinion against the limitations imposed by Limeño authorities. Also, these phenomena favor the emergence of new leaders and social movements capable of negotiating with the government the distribution of resources for propelling regional development.

In turn, in some areas of the country, economic growth and the expansion of informal, or even criminal activities, such as contraband, drug trafficking, and illegal logging, contribute to the development of private activities and the attendant emergence of new social actors that foster social and political dynamics in relative independence from the capital.

These social divisions become very clear at elections and in opinion polls about economic policies. At the 2006 elections, it became clear that

2 A world values survey done by Michigan University in 2002 showed that Peru had the highest index of interpersonal mistrust of 163 countries. The same survey done last year, indicate that Peruvians consider themselves the least happy among Latin America's twelve countries.

the urban, coastal population voted for García, while the sierra and the rural rainforest populations voted for Humala. The high- and the medium-high income segments (A/B) living on the coast – the “winners” – in their majority are in favor of “neoliberal” choices and thus have supported Toledo and now support García, while most of the middle and popular classes (C/D/E), especially those living in the sierra and in the rainforest – the “losers” – incline toward politics of a nationalist and populist cast and constitute the bulk of the population that rejected Toledo’s administration and now criticize García’s: by mid-2008, García had the approval of 40 percent of the population of Lima and the northern coast, as compared with 7 percent in the south and 11 percent in the rainforest.

In sum, despite the major changes Peruvian society has experienced for some decades, traditional social, cultural, and regional divisions persist in different degrees and guises, bringing into relief the unequal nature of development. Thus, there are still factors that hinder the establishment of new forms of social cohesion that are necessary to the gestation of a political community’s “corpus of ideas.”

State’s debility

Similarly to other Andean countries, Peru has also suffered from frequent interruptions of the constitutional order, owing to intermittent military interventions, an evidence of the lack of legitimacy of state authority and of the consolidation difficulties the state faces.

After independence and throughout the nineteenth century, the continuous factious struggles between power groups in Lima and in the provinces led to the installation of about seventy governments, which means that each lasted for an average of one year. Then, beginning in the last century, the fight against the oligarchic regime headed by the American Popular Revolutionary Alliance-APRA led to a long dictatorial period that was interrupted in 1945 owing to international circumstances. Nevertheless, in a few years the historical tendency was resumed. Since then, five interruptions of the constitutional order occurred, with corresponding “transitions to democracy.” That is, in the second half of the twentieth century, at an average of every eleven years, the country experienced an abrupt change of political regime.

Since 1945, the democratically elected governments sought to redistribute income to solve the profound inequalities through economic policies that affected the dominant interests, the reason why these policies entailed economic disorder and political crisis. The military coups and authoritarian regimes that followed those governments checked the distributive pressures, persecuting popular organizations and their political representations, while privileging the expectations of investors, preferably foreign investors, liberalizing the economy, and restricting the role of the State to discharging repressive task functions.

The successive political changes were accompanied by unceasing institutional changes that responded to the varying interests of the political protagonists, while administrative personnel was recruited indifferently from among the clients of the *de facto* powers under the dictatorial periods and from among the militant parties under the democratic governments. This favored the establishment of private interest networks that supported and fostered corruption, consenting to and allowing the privatization of public resources and spaces under any of the political regimes.

Cronyism of the State militated against civil service's professionalization and the consolidation of the central authority, which thus lacked the economic and institutional resources to control the vast, mountainous territory or to enforce the law in society. This is still the case today, leading different sectors to complain about the "lack of State," a complaint that has different connotations for different social sectors, of course.

For the workers, the poor, and the excluded, this lack elicits an acute feeling of abandonment and insecurity; this is why their spokesmen call for the State's active, direct participation in meeting their needs in respect of jobs and income, education, health, and housing. This demand is particularly insistent because public investment in these areas has been traditionally small – the government's social spending is equivalent to the Latin American average.

This lack of State has given rise to widespread "informality," which involves about 60 percent of the active population, based on practices that ignore or blatantly reject official rules, thus facilitating the activity of those engaged in drug trafficking, illegal logging, and contraband, who share the life of the remains of subversive movements on the sierra and in the jungle.

For the high-income segments, though, steeped in neoliberal ideology, the State's presence should be limited to promoting private investment and

enforcing the laws of the market; and firmly ensuring property rights and encouraging better economic competitiveness as necessary conditions for maintaining the current pace of economic growth and for “including” the popular segments into the market, as recent governments have been doing, albeit partially.

Given the State’s evident “debility” in meeting social demands, controlling the territory, and enforcing legal order, one should not be surprised at the very low rating given by the different social sectors to public bodies and State powers, with the attendant loss of prestige by judges and Congress members, political parties, and the democratic regime in general. This is why the Latin Barometer assigns to Peru the region’s highest index of disapproval of government performance and the democratic regime.

As a rule, the Head of State is seen as being responsible for these shortcomings, because its central political position and the undiluted cult of Presidentialism help consolidate the idea that these flaws are due to “lack of political will” or to the government’s lack of interest in redressing them and in putting things in proper order.

Despite constant pressure from society and multilateral organizations, governments have failed to implement “second generation” reforms to adapt the obsolete public institutions to the requirements of globalization and social demands. Except for highly specialized agencies, the advance of public administration reforms has been uneven and limited, owing mainly to the opposition or lack of interest on the part of the fragmented, discredited political representation.

The crisis of political representation

Beginning in the thirties and continuing well into the past century, the sharp social divisions gave rise to antagonistic, intolerant political positions. During this time, the intermittent installation of authoritarian regimes entailed protracted crisis of representation that, coupled with the repression and political exclusion of political organizations of the popular and the middle classes, favored their fragmentation and political impotence.

Difficulties in organizing legitimately and advance their demands through institutional means encouraged popular and middle classes to ignore authority

and its legal framework, reinforcing rejection of the State; on the other hand, State repression lead both to clandestine channels to secure political participation and violence as an instrument of social change and political inclusion.

The rupture of the oligarchic regime and the significant social changes under the military regime in the seventies, and the extension of the voting right to the illiterate – indigenous peasants in their majority – under the 1979 Constitution encouraged the participation of sectors heretofore excluded from public affairs. As a result, the voting population grew twofold in the following decade.

After the 1980 transition to democracy, society and politics ran on opposite tracks, which triggered intense conflicts and serious governability crises. This “lost decade” was a particularly critical period in modern Peruvian history.

The frequent general and municipal elections brought into light the voters’ extreme volatility and political fragmentation, which contributed, as on previous occasions, to the hardening of classical antagonistic and intolerant positions in the agitated parliamentary life and to the failure of the efforts to establish a constructive relationship among the actors toward the consolidation of a political party system capable of endowing the democratic regime with stability and legitimacy.

Under these circumstances, the subversive activity of *Sendero Luminoso* [Shining Path] and then of the Tupac Amaru Revolutionary-MRTA Movement exposed the rejections and alienation of significant contingents of young people and professionals vis-à-vis the State,³ while these organizations’ alliance with drug trafficking enabled them to checkmate the public forces and terrorize society. Indeed, between themselves, the subversive movements and the armed forces killed 70,000 people, in their vast majority sierra indigenous peasants from the south.

Moreover, the permanent political instability and the constant changing of economic policies in the sixties and seventies entailed frequent disequilibria that hindered the capitalization of the entrepreneurial sector and of the country in general. The per capita income recorded in 1975, for instance, remained

3 Also exposed were their differences and mutual intolerance: while the Sendero militants were mainly from the sierra and were identified with the Maoist ideology, the MRTA members were from the coast and followed Che Guevara’s orientation. These movements were clear expressions of the existing hostile social, cultural, and regional divisions.

stagnated over the following thirty years. Under such difficult circumstances, the effects of the 1982 international debt crisis, the disasters caused by the El Niño phenomenon in 1983, and the destruction of public property that caused losses totaling twenty-five billion dollars, equivalent to half of GDP, aggravated the fragile economic situation that had painfully dragged on. Lastly, the uncontrolled hyperinflation under the García administration, 1987-1990, and the intense social conflicts ended up by dismantling the State and the political and social organization.

Owing to the conjunction of all these factors in the late eighties, Peru experienced a serious organic crisis of the social system, would put into question the country's governability. The widespread discredit of public institutions and political parties favored the rise and triumph of the "outsider" Fujimori at the 1990 elections. Inciting society's disapproval of the "partycracy," Fujimori staged the "self-coup" of 1992 under general acquiescence, and seized power in alliance with the national and international *de facto* powers, thereby inaugurating another authoritarian regime that promised to last twenty years for definitively completing "national reconstruction."

The successful economic adjustment and the capture of the leaders of the subversive movements consolidated society's approval of President Fujimori, while control of the power structure ensured his reelection in 1995. However, the frequent evidences of arbitrariness and corruption by Fujimori and Montesinos triggered internal and external reaction against the President's fraudulent attempt to be reelected again in 2000.

The "betrayals" of the "lesser evil"

The last transition to democracy in 2000 opened a wide range of opportunities to address the widening social split, the State's lingering weakness, and political fragmentation. The way these pending issues were tackled and its consequences explain in large measure the levels of social dissatisfaction with the performance of the authorities and the public institutions, and with the democratic regimes, despite sustained economic growth.

In view of the mobilizations against "Fujimorism," Alejandro Toledo convened "all bloods."⁴ With the backing of democratic figures and human

4 A reference to J. M. Arguedas' famous work alluding to the different social segments.

rights advocates, he headed the mobilization of the “four suyos,”⁵ which allowed him to consolidate his candidacy for President by rallying a motley group of sympathizers, friends, and relatives (and many opportunists) to form the “Peru Posible” party and run against Lourdes Flores, a representative of the neoliberal right, and Alan García who, having returned from exile, was restoring APRA’s shakey organization to run for President again.

Toledo managed to win popular support by stressing his Andean origin. He had come from a popular neighborhood of Chimbote, a provincial town, who had by his own efforts achieved a successful professional career abroad. To further stress his origin and his ties to the indigenous peasantry, he identified himself with Pachacútec⁶ and celebrated this triumph at the elections with allegedly Inca ceremonies in Cuzco and Macchu-Picchu.

Toledo sought to represent the “original peoples” that made up the poorest segments but also attempted to fulfill the social mobility aspirations of the popular classes, not only because he knew from experience their needs but also because he felt capable of doing so owing to his professional qualification.

Moreover, Toledo endeavored to win the support of entrepreneurs and the middle class by emphasizing his international academic and professional background and by showing himself as determined to take into consideration their aspirations in the context of the ongoing globalization, for which he surrounded himself with renowned professionals and experts.

Thus, Toledo tried to represent two divided, opposite worlds. But often this attempt was expressed through stereotypes and caricatural formulas that elicited animadversion and mockery as well as racist remarks from different figures and urban segments. Notwithstanding these reactions and Fujimorism’s hatred of him, the possibility that García might return to power allowed Toledo to win over the varied, dispersed social opposition to the APRA and win the runoff elections as a “lesser evil.”

From the beginning, Toledo set himself the task of furthering both stabilization and economic growth and the strengthening of the democratic system, a task that in the view of radicals of any political shade was tantamount to finding the quadrature of the circle.

5 The “suyos” were the components of the Inca Empire.

6 To Pachacútec is attributed the organization and consolidation of the Tawantinsuyo Empire.

While the government maintained the “neoliberal” policies introduced by Fujimorism, Toledo took the initiative of making into reality the pact among “all bloods” under a “National Agreement” by means of which representatives of the parties and workers organizations, and of the churches and “civil society” organizations would confirm their support for certain “State policies,” aimed at ensuring their continuation in the long run. At the same time, the Executive agreed with the Legislative about going forward with political and economic decentralization to fulfill a long-standing provincial aspiration.

Toledo ratified the establishment of the “Truth and Reconciliation” Commission entrusted with investigating the causes and consequences of the subversive movements, while supporting the prosecution of cases of corruption and human rights violations under Fujimore, but also those committed by the governments of the eighties headed by Belaúnde and García, involving over one thousand people, including entrepreneurs, military officers, and politicians.

Toledo attempted to address political fragmentation and the State’s debility by associating certain actors and social interests, while excluding others, so as to ensure the necessary economic growth for reducing poverty and social inequalities.

However, the President’s uneven and frivolous deportment left him bereft of credibility, which hindered the consolidation of his “Perú Posible” party and induced its leaders and the members of the government’s support base into pursuing their private interests, thereby undermining the wobbly party foundations, as well as into actual sabotage of government proposals. Once again, party fragmentation and irresponsibility were seen as shady political maneuvering, which further discredited the political system.

As was to be expected, democracy encouraged the sectors that had remained silent under authoritarianism to voice their demands of every sort, while electoral campaign promises kindled social expectations. The brand-new regional governments demanded the immediate relinquishing of attributions and the allocation of economic resources to pursue their objectives independently from the “central” government. Lastly, the new conditions favored the development of social movements opposed to the proposed privatization of public services, while Alan García and APRA’s well-oiled machinery proposed nationalist-populist measures contrary to “neoliberalism,” which entitled them to head the opposition to the government.

As the country's economy was beginning to come out of the international crisis, the proliferating social demands were never heeded owing to inefficient public administration. This, together with the frivolity and nepotism surrounding the President, soon instilled in the popular segments a generalized feeling that Toledo had "betrayed" his promises. This feeling was reflected in his rapid discredit: early in this administration, Toledo was approved by 62 percent of the population, but after three months this approval fell by half and did not stop falling until the end of his term.

While APRA ignored the National Agreement, García supported the frequent mobilizations against the government to force it to implement the distributive policies that had such disastrous consequences under his own administration. Even more, García led the calls for revoking Toledo's Presidential mandate.

In brief, the technocratic dictates of the economic policies and the fragmentation of political representations made the National Agreement unviable as an umbrella under which strategic social actors could negotiate, leading to the classic clash between agents that held to antagonistic visions and interests. History thus seemed to repeat itself with predictable consequences.

While the social environment's agitation mounted and it looked as if the governability crisis would put an end to the democratic regime, the economic recovery and growth provided a breathing space on the eve of the 2006 elections.

This time, García was running against Lourdes Flores, in a replication of the old rivalry between populists and liberals. Suddenly, the appearance of Ollanta Humala with his ethnic-populist, xenophobe positions changed the political scene, given the extraordinary support he won from the excluded masses on the sierra and in the jungle.

At the first round, García defeated Flores on the basis of the urban and coastal votes, as he accused her of representing the "wealthy." The runoff opposed Humala to García. As García recognized his responsibility for the failure of his first government and asserted that he had changed his economic orientation, and faced with the danger represented by Humala, the coastal electorate had no alternative but to give the victory to García as the "lesser evil."

Early on in his second administration, it became clear that, as he had tardily announced, García had indeed undergone a drastic political conversion: he had abandoned APRA's historic positions of a nationalist, distributive nature, and renounced the measures that had fired him to make life impossible for Toledo; on the other hand, he adopted the entire range of liberal proposals put forth by Flores, whom he had defeated by accusing her of representing the rich. Thus, for the APRA camp and for the middle and popular classes on the coast, who had bet on García, this conversion was a "betrayal," while Humala's followers did not cease classifying this sudden change of behavior as the discarding of the People's Party historical ideals.

As economic growth reached cruising speed, it became clear that results were unevenly distributed, favoring the middle and the upper classes on the coast, which initially held bigger and better assets. Under these circumstances, a silent opposition to the government mounted, as shown by opinion polls. But this opposition is now assuming more aggressive forms, with regional strikes and roadblocks. These local manifestations do not find political expression, though. The organized APRA camp takes advantage of the political fragmentation to make punctual alliances which temporarily manage to lower the temperature in Congress, while efforts to (re)establish political fronts to put up an organized opposition to García and APRA fail.

The public dissatisfaction shown by opinion polls and the media and by protests and roadblocks with the incapacity of the political system and public administration to improve the distribution of the fruits of economic growth has elicited unusual reactions from President García. In a series of articles published under the generic title of "El perro del hortelano" he shows an authoritarian face as he indiscriminately accuses critics of his government of being "archaic", "communists", "fake environmentalists", among other defamations and takes the opportunity to attack human rights supporters and criminalize social protests; thus he calls "terrorists" the promoters of the July 2008 national strike, and makes use of the armed forces to maintain the public order.

As the rising prices of consumption goods strain the narrow budgets of the popular sectors and the Executive is bent on checking growth to contain inflation, the flood of supreme decrees to propel the "capitalist revolution"

and modernization may add fuel to confrontation and society's dissatisfaction and may have unforeseen consequences soon to be seen.

In conclusion, two years into his administration García faces growing protests against the technocratic mechanisms he uses to address pending issues – social division, State debility, and political fragmentation. Faced with protests, he seems to be inclined to authoritarian solutions.

Thus, Peru once again exposes its structural difficulties in democratically advancing toward capitalist development. **DEP**

Translation: João Coelho

Political, economic and social introduction of Suriname

*C.A.F. Pigot**

1. General characteristics of Suriname

Suriname can be considered a ‘small island state’

Suriname has a small population of 492.829 (Census held in 2005) that is ethnically diverse. Ethnicity influences the political (party) structure, the economic (facilitation and sector claims) structure and social life (marriage preference). Suriname can also be considered as an “island” in its region because it has better relations and connections with countries at a distance (8 direct flights per week to Holland, 3 to Brazil, 2 to Guyana and 2 to French Guiana) and the country is struggling at the periphery of Caricom, Latin America and new globalization structures.

Suriname has a dualistic economy

The country has a highly modernized international oriented export sector of alumina [Alcoa/BHP Billiton], shrimps [Korean/Japanese/Surinamese],

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rice [national producers], crude[State-oil], logging local and far east] and gold [IAM-gold and Newmont]. At the other hand there is small scale subsistence production that is partly commercial and oriented towards the local market [also to the Surinamese ethnic market in Holland]. This segment of the production is ad hoc modernized but mostly traditional, labor intensive and predominantly informal.

Suriname is a young independent state

It became independent only since 1975 and still has strong relations with Holland. The relation with Holland can be assessed through several indicators. Suriname gets extensive economic aid when governments are on speaking terms and financial transfers from private households are considered a major source of foreign currency inflow. Social relations with Holland are also intensive if assessed by the amount of direct flights (8 direct jumbo flights a week in mid season) and formal and informal relations between public and private entities in the two countries. Family ties are also strong as some 300,000 persons of Surinamese origin or with Surinamese roots live in Holland. Political post colonial influences are also eminent as political parties in both countries have ties on party level. Local issues, regarding Suriname, are often publicly discussed in Holland.

Suriname has a colonial spatial structure

Paramaribo is dominant and an outward oriented colonial city on the Atlantic coast. Paramaribo is exploitative towards other parts of the country that do the production. Paramaribo has no basic activities but has the best infrastructure and only redistributes what other areas are producing. Population concentration in Paramaribo and its rural-urban fringe in the districts of Wanica and Commewijne amounts up to 310,000 of the total population. All quality services are concentrated in Paramaribo. The modern time suburbs of Paramaribo resemble social classes (enclosures), with the well-to-do in the north and poorer segments in the south, whereas the older neighborhoods are socially integrated. The old colonial inner city with Dutch colonial style wooden buildings is on the World Heritage List.

2. The political situation

The National Assembly, Suriname's parliament, has 51 seats. The President and Vice-President are elected in parliament with a 2/3 majority or, when no qualified majority is reached in parliament, in the people's assembly, that is an extended forum with all regional elected representatives and members of important state organs. Ministers are selected by coalition partners after the positions are allocated and are appointed by the President. As ministers are nominated by their respective parties they seem to be more loyal to their parties than to the President. Suriname still respects the *trias politica*.

Political parties are predominantly based on ethnicity and religion. Parties now represented in parliament are: Indians/Hindus: VHP 8, PVF 2, NK 1; Indonesian: Pajama Luhur 6, KTPI 1; Creoles: NPS 8, DNP 3 SPA 1, DA 91 1, Maroons (comparable to the Kilombo's) 5. An ethnic more integrated party is NDP 15.

The ruling coalition consists of the VHP, NPS, SPA, PL, A-combinatie and DA 91. This combination is called Nieuw Front +. It gained 28 seats on the May 25th 2005 election. The next elections are scheduled for May 2010.

During its recent years of independence the country has repeatedly experienced that the government mismanages the country to such an extent that rehabilitation of the economy by implementing a structural adjustment program and by the re-introduction of moral values is considered a must.

The newspapers and media in general are critical of government performance.

Important structural issues that influence political situation are:

- Restructuring of the economy so it will guarantee a transparent, competitive economic environment with sustainable growth and a balanced budget. Restructuring actions are not embedded in a formal structural adjustment program but are part of the government priorities. Execution is highly influenced by the political momentum. Monetary markets are now liberal and the new Surinamese dollar is a stable and convertible currency. The stable monetary environment of the last 5 – 6 years has been the basis of economic recovery and a steady growth of 6% per year. Privatization of state enterprises and civil servant reforms are slow and pushed “forward” without taking difficult decisions;

- Rehabilitation of the social sector is not according to what the people expect. Obviously the government income cannot finance all the requested basic needs and the government and the people miss the political courage to publicly choose priorities. In the social sector not everything is affordable (available) for all members of the society. Education, health care and democratic rights are guaranteed by the government. The housing situation is deplorable. In the field of safety and security private enterprises are getting a stake within these sectors: security companies, private health care insurance, etc;
- Improvement of the situation in the interior. Some 40.000 Surinamese citizens and guest workers, mainly from Brazil, live and work in the interior. Infrastructure is bad in this region (education, health care, land property rights, licenses, etc.). Discontent with the central government lead to ethnic political mobilization and a gain for the A-combinatie party, with a maroon based membership structure, and
- Control of drug trafficking and the influence of the drug lords on social, economic and political life. Strong influence of drugs money disrupts legitimate career planning and morality. Parliament is now discussing an anti-corruption law as one of the mitigation measures. But it may be that even in this forum the influence of drug lords is the reason for significant delays in approving the concept law.

3. Economic and social situation

Suriname belongs to the developing countries and can both be seen as part of the Caribbean (considered the small scale of the economy) and as part of Latin America (considered the most important constraints in its development).

Ethnicity, dependence on a small group of export products (bauxite and crude oil), financial aid from abroad and strong outward migration, are Caribbean characteristics.

Strong military influence in the early 80's on economic, political and social life, that fueled large scale structured corruption and ineffective government policy, ineffective regulatory laws and control are rather Latin American trade

marks. Development constraints are more in the field of (good) non target oriented governance than in the field of lack of natural resources and finance.

4. Stages in the development planning of Suriname

Development planning in Suriname strongly resembles the international thinking on development issues. Some 5 stages can be distinguished that are parallel with world development.

a. The period of the ‘India Congress Consensus’

This period started after World War 2, stressing state planning. Suriname started this period with the ‘Welvaartsfonds’ followed by a ten year plan and 5 year plans. Centralized planning with strong government influence in building farms, remote sensing of natural resources, and so on. The general idea was to make an inventory of our natural resources and to exploit them. Improved development was expected to be reachable by copying western technology, by modernizing institutions, by raising the education level of the population and by stressing agricultural development as the basis for growth for the majority of the population. Improved home base would eliminate big business influence and prove that the free market mechanism was not adequate for Third World economies.

b. The period of the ‘dualistic economy paradigm’

Influenced by Latin American structuralists with quick fix solutions as interest regulation, exchange rate control, price and wage controls, Suriname developed an ideology of ‘mobilizing its own potential, human resources included’ and the introduction of spatial ‘growth poles’. In the years 1970 this urge for modernization emerged in Suriname after the construction of the Afobaka dam. Large scale urbanization of displaced persons was rather seen as an acceptable symptom of modernization and logic consequences of the paradigm of ‘unbalanced growth’. Large parts of the rural areas were considered not interesting enough and development efforts and investments were concentrated in growth areas such as western Suriname (Bakhuys bauxite mine and Kabalebo dam), Commewijne (LOC), and so on. These places were expected to have a much larger growth potential than other parts of the

country. The planning concept was inward oriented. Suriname thought it would make tremendous development progress on its own and with development assistance from Holland.

c. The outward oriented development

At the end of the 1970 it became clear that Suriname and Holland had different opinions on the development approach for Suriname. The Dutch for instance refused to fully finance the Kabalebo dam out of the agreed Treaty funds. It was the first time that Suriname had to go shopping on its own for large amounts of money. The essence was also that Suriname had to start thinking about investment facilities for foreign companies but having a large amount of money earmarked for its development by the Dutch, could not easily mobilize foreign funds. So Suriname was not part of the debt crisis of 1990 and the collapse of the Brazilian and Mexican capital markets.

d. The Washington Consensus

Forced by mismanagement of the economy in the military period, Suriname had to think about structural adjustment, when it returned to democracy at the end of the 1980's. Rules for macro economic management from financial institutions became eminent. Elements that became important were: fiscal discipline, investments in high interest yielding activities and not in 'political' projects, tax reforms, partial liberalization of the capital market, free exchange rates, elimination of import quota, privatization, guaranteed private property ownership protection and importance of the environment.

Although Suriname refused to go into an IMF monitored structural adjustment program it had to comply with rules of an external monitor, the Warwick Research Institute, as agreed with the Dutch. The Suriname structural adjustment program was a blend of the Washington consensus model with a social safety net financed from the Treaty funds. The Washington consensus had its positive effects on Suriname because it promoted transparency and so it mitigated corruption and promoted democracy. On the other hand it was too financially oriented and did not incorporate enough the political and social effects.

e. The global village

As we all are influenced by processes of globalization we now see that every economy is being judged by indicators focussing on good governance and poverty reduction.

Suriname is striving for 'sound management' that is assessed by the following indicators:

- Indicators for economic policy: a. inflation in Suriname was 8.3 % in 2007; b. Budget deficit for this fiscal year is estimated SRD. 405 million or 5.4 % of GDP; c. trade liberalization is in line with Caricom and WTO targets;
- Indicators for institutional quality: a. law enforcement is good; b. quality of the bureaucracy: needs improvement; corruption sensitiveness: very high as the anti corruption law is not in place yet, and
- Other indicators: a. education improvement: slow; health improvement: good progress; support agriculture research: slow; solidarity within the society: slow because of lack of funds for pension reforms and for general health care.

Some social and economic indicators

The crude birth rate is on average 25.7 (little increase the last 4 years but steady decline from 1972 (32.9). Death rate is as in a modern developed country with a figure on an average of 6.8. Outward migration has always been a factor.

Export value in 2007 was US\$ 1,311 million: consisting of alumina, aluminum and crude, rice, bananas/plantains and vegetables, shrimps/fish, wood and wood products and other products. Monetary reserve end 2007 was Surinamese \$ 1,181 million with SR \$ 1,087.5 foreign currency and SR \$ 94.5 I gold. Large scale illegal export of gold must be considered.

Until now the government has not been able to streamline pork-knockers gold production in the interior. Gold generates little tax and is a major polluter of surface drinking water with clay particles and mercury.

Land use is mainly agricultural 65,110 ha. (34,743 large scale and 30,367 small scale); 53,495 paddy, 2057 bananas, 1768 tomatoes and other vegetables,

1419 oranges, 1148 coconut are most important. Livestock is not important in quantity: 88,865 cattle, 19,615 pigs, some 2 million poultry, etc.

Through time the development policy has aimed on modernization and strengthening of institutions. Reforms of the last years to come to a more effective public sector are eminent. Also the role of the private sector and of NGO's has become pivotal in the concept of development. On the other hand donor countries have become more critical in giving Suriname development aid as Suriname is more part of their global concept of structures. Impact studies have become a must on all development activities, be it hospitals, schools, roads, etc.

If no positive impact is expected from an activity it will be almost impossible to get aid or borrow money. The opinion of strong local leaders, be it political, economic, financial, social, tribal, etc., is crucial for the mobilization of funds and for effective dialogue with international partners.

Relation with the Dutch

Discussions with the Dutch on development have a long time been a mayor issue for every administration. When Suriname became independent, the Dutch pledged development aid for 10-15 years of about US \$ 1,000,000,000. The Dutch ministers of development aid and the Surinamese government agreed on a sector approach for the remaining Dutch aid. Sectors for Dutch assistance are Education, Health care, Governance, Environment, Housing and Agriculture. Progress in these sectors has been slow.

Holland and Suriname are now on the brink of reformulating their policies towards a new relationship, one between two independent states, with mutual respect and sovereignty. Suriname has intensive ties with Holland and cannot become just another country that is on Holland's priority list.

Government investments were low as the support of the Dutch has not really materialized the last years. (Public health, education, infrastructure, social safety net, development in the interior). Long processes of formulating sector plans are blamed for these delays. Civil society is becoming more important in the social sectors related to Holland. Assisted by foreign partner funds, links are established on the levels of municipalities, environmental agencies, school to school, city to city, etc.

Public sector

Civil servants salaries have been frozen from 2002 till 2005. They are expected to rise and to fuel demand for consumer goods and for foreign currency which might lead to a higher demand of foreign exchange. Suriname has an open exchange market since June 11th 2002.

The interior

Situation in remote areas in the interior is bad as government services lack the funds to make expensive trips to the interior and commitments to services cannot be upheld.

Constraints

Important economic constraints are frequently mentioned since World War 2, but most of these negative aspects of the Surinamese economy are still eminent. The mentioned constraints were supposed to be tackled by various development plans. The general public opinion is that Suriname's economy is not growing as it could be and that without structural reforms even deterioration will occur. On the other hand statistics show a growth of the GDP of 5-6 % a year over the last years.

Options for rapid growth are with the bauxite industry and hydro plant in West Suriname and with gold in other parts of the country, such as Gros Rosebel.

Key issues

Interesting issues going on with a possible strong public impact in the future are:

1. Discussions with the Suralco (Alcoa) and BHP-Billiton, who both asked for bauxite mining concessions in the Bakhuys area. Suriname's economic future will be highly shaped by this decision of the government and the expected investments;
2. Border dispute with Guyana. The maritime border dispute is settled and expectations on oil reserves are high. The land dispute of the southern triangle (Curuni River and Kutari River versus the Upper Corantyne River) is still unsolved;

3. Crime prevention to sustain the public safety perception, and
4. Traffic especially in Paramaribo is becoming a major spatial problem as the increased quantity of cars has to be accommodated in an old city infrastructure.

5. Some thoughts about the world's development paradigm and Suriname in the 21st century

“We cannot predict the future, but we can prepare it. The future is construction.”¹

5.1. Assortative matching

World development is influenced by the scientific revolution that led us into an age of uncertainties and doubts on a global scale. In this paradigm of complexity, globalization and uncertainty we need political creativity. As the third industrial revolution, based on the information age and the rapid introduction of new technologies into all facets of human life, is radically transforming our societies into an order of computer codes today and genetic codes tomorrow, a new globalized network of public and private alliances is emerging. It is obvious that the old political structure of the world, namely country boundaries, is not anymore effective to contain the new developments as the technology, carried by micro waves on information super highways, does not abide to the borders of countries. The first industrial revolution was carried by railways and the second one by cars, airplanes, electricity and fordism. The new industrial revolution has led to a new division of the world in globalizers (about 20% is engaged) and the globalized. In Suriname, based on education and the kind of work, only an expected 10% of the population is engaged in the new developments.

We are in a new world of segregation, dividing society, work, friends, schools and homelands through assortative matching. The logic of assortative matching is based on exclusive grouping of the best performers such as highly visible in top sport and in the show business and now becoming eminent in

¹ Statement by Ilya Prigogine, Nobel prizewinner. Quoted from: “The World Ahead”, our future in the making, by Frederico Mayor and Jerome Binde. Unesco publishing, 2001.

health care, banking, consulting businesses and even in physical production. This process also excludes good educated people that do not belong to the best performers. It affects national identity as far as the answer to these questions goes: are Seedorf and Rijkaard Surinamese? Is Ronaldinho Spanish? Is Alain Belda, the President of Alcoa world wide an American? Is the director of BHP/Billiton, who is of Surinamese origin, a Surinamese? We even experience segregation within our family structures when many of our children study abroad and obtain a different nationality than ours. Even educational systems are splitting up, leaving the bunch of students only with general education on a bachelor level and the brilliant few will get excellent high level training, linked to international training centers. With regard to schooling it has become a must that we attend international training courses like the one from Itamaraty because to our perception these courses are globalized and give us an opportunity to become globalizers in our profession. But also businesses and institutions are breaking themselves up and reconstructing themselves in high pace in a global perspective. Take for instance the Bandeirantes airplane production in Brazil that has become a global product now. Families undergo the same fate, making single parent families a phenomenon not by default but by choice. People are selecting whom they want a child with, and a couple becomes a fragile, often temporary system of living together.

Another threat to the Surinamese society is that the large growth of the private sector in controlling modern technology such as computers, mobile phones, not to mention human reproduction, is leading to a change in cultural control by the government or the traditional family.

New alliances become even stronger than the government and they all shout for democracy which in their vision means less government control and more de-nationalizing of the development strategy. From this perspective we experience several powers that undermine the traditional power structure within our society.

- Industrial conglomerates like BHP-Billiton and Suralco in Suriname, seem to be in the drivers' seat to say what will happen in Western Suriname with the bauxite deposits and the hydro potential and so they determine the future of the economy;
- NGO's like WWF, CI-S are the lead agencies when it comes to environment, and

- Within Suriname the names of companies and entities that are probably involved with crime, that are in money laundering and even within drugs activities are well known. They have for a long time been out of reach for the police and justice. For instance it is only in 2007 that the government was able to start the process of bringing the December 1982 murders to trial.

In Suriname, and probably in the majority of Latin American and Caribbean countries, this process of globalization is accompanied by a continuing process of urbanization, notwithstanding the fact that the majority of our populations already live in cities. In Suriname a large group of mostly uneducated people from maroon origin are coming to the southern part of the city of Paramaribo with no possibility to be employed in any modern job and they are adding fuel to a system of self generating spatial social apartheid within the city and undermining the very basis of democracy.

Youngsters in the interior do not obey tribal leaders anymore and neglect tribal laws. The government and parents cannot control what information flow from the internet is reaching our children. We cannot fail to observe new emerging prosperous segments in the Surinamese society that seem to be best protected from misfortune and social categories that are excluded and seem to become prey of indifference, exclusion and of a lack of solidarity. Private controlled modernization has given way to crime working its way up into the decision taking centers. Whereas the governments of the rich countries are most occupied with economic and financial affairs, the development of the Surinamese society is a comprehensive challenge.

Remarkable is the fact that the majority of the people do not demonstrate any involvement in the development discussion. It is their perception that their voice will not be heard and that they are, economically spoken, not that bad off compared to the pictures they see on CNN to what is happening in other parts of the world. And indeed, if we look at the figures supplied by the General Bureau of Statistics the health care situation, the infrastructure, mobility and the GDP per capita have increased. But we are watching a system with economic success based on the concepts of liberty that has forgotten to implement equality and solidarity in our country. It demonstrates an ethical vacuum. People and the government are also content that Suriname is not a racial battleground but that until now the society has managed to avoid ethnic

battles and different ethnic segments of our society have managed the art of living peaceful together. But lack of interest in the political process results in the outcome that at the end of the day the government is elected by about 60% of the population, with a major influence of the floating votes.

So what are our challenges ahead?

- Peace in our society. Without peace every development effort is deemed to fail;
- Eradication of poverty with special immediate attention to eradicating extreme poverty that is regionally significant. This poverty has led to a new form of urban apartheid in Suriname with unprecedented wealth in certain parts of Paramaribo. The fact is that for instance the only golf club in Suriname, owner of a course in the middle of low income segments of the city, is more interested in building walls to segregate itself from neighboring communities instead of involving the poor caddies in a personal improvement program is clearly demonstrating the aforementioned ethical vacuum. This proliferation of exclusion tends to destroy the very foundation of democracy. So how can we bring economic growth to the areas of extreme poverty?;
- Sustainable development and the wise management of the global environment. Suriname with its fast natural resources has the ability to stop the spiral of poverty. The country is also in the position to stop excessive use of natural resources and apply ecological wisdom. In the forestry sector for instance Suriname is well on its way to a more economic, more intelligent and more caring use of this natural resource. In September 2008, we will host the UNFF conference on a new global non legal binding instrument for sustainable income generation from the world forests, and
- It is important for the country to evaluate its existing alliances that are mostly based on the paradigm of the free market and *laissez-faire* and to restructure them according to a well defined set of goals and targets. In my opinion, we will have to demonstrate the political courage to implement a different strategy of piloting. Discussing the Memorandum of Understanding between the Ministries of Foreign Affairs of Brazil and Suriname I learned that we lacked a general

conceptual framework for the cooperation with other countries. And it became clear what the Roman philosopher Seneca had said: 'There is never a favorable wind for the one who doesn't know where he is heading'. A country needs to have a direction and a long term plan as one has certainly learned here at Itamaraty. The more because the new challenges cannot be solved at a local or national level. Look at for instance the exchange rates, the prices of commodities, climate change, financial markets, crime, money laundering, pollution, fresh water, energy, etc.

So why is so little national and international action taken. Often because of short sighted self interest, like the USA with the Kyoto protocol, or because of a lack of vision and political courage. Can we call our former leaders to account for decisions they did take and for the one's that they adopted too late? But as Pier Paolo Pasolini stated in 'A thousand and one Nights': the future is not a single dream but a multitude of dreams.

Framework for action in Suriname

I agree with the opinion that to make progress a country needs four contracts:

1. A Social contract. The first priority of Suriname is to rebuild solidarity through the eradication of poverty and the reduction of scandalous disparities that lead to apathy and exclusion;
2. The Natural contract. An alliance between science, development and environmental preservation is needed. We have to put into action the commitments of Rio 92, of Kyoto and of Bali 2007. We have to put production and research in service of sustainable development and consider the Unesco concept of 'Biosphere Reserves';
3. The Cultural contract. This contract focuses on life long quality education for all and excellent professionalism as a basic facet of democracy and the key tools to poverty eradication. We see that the 'wise' states now see quality education as the corner stone for the development of their people and they mobilize funds to finance their education. Suriname is well behind these states with regard to this strategy. We have to combat illiteracy. We have to move from

an information society into a knowledge society with cross cultural fertilization, and

4. The Ethical contract. We have to strive to reinvest our experience in such a way that we promote intelligence above the material and keep in mind that we have to prevent rather than to cure. Basically this means that the implementation of democracy and of rules and rights has to be on a supra national level and applicable to all countries. Within this context we can get a just redistribution of the benefits of globalization.

Development will be meaningful if we manage to:

- Create a world infrastructure that is acceptable to all;
- Redistribute the gains of globalization;
- Involve all to participate;
- Condemn crime, fight against it and discourage it;
- Obey human rights to all;
- Stick to non interference in the national policy of other states and their democratic elected governments;
- Only use force against others with UN consent;
- Exercise solidarity and share with others;
- Give students from other countries access to your education system, and
- Implement equality and not exercise only professional democracy.

Let me finish with bringing under your attention the principles for future students. And I quote from Unesco:

- Trust the people, unless you have proof that your confidence is misplaced, because it is impossible to build a lasting future on mistrust;
- Care for the planet because we have borrowed it from the future generations and have to pass it to them exactly as we have found it;
- Smart is beautiful because our future lies in our spirit and not in material things we have today. Not simply Smart in the meaning of: Specific, Measurable, Accepted, Realistic and Time bound, but in the sense that our development has to be founded on wisdom and intelligence if we want to leave a 'good' earth for the future generations;

- Prepare for peace if you want peace because if you prepare for war you will get war;
- Give to others if you wish to receive because love and knowledge are the only things that grow while sharing;
- In a global world and market we need a global democracy that is not restricted by national borders and national policies;
- Our future is not written in advance, it is in the hands of all of us, and
- The amount spent per year in our war machines is approximate US \$ 700 billion. The amount estimated by UNDP to guarantee the basic needs for all of humanity is US \$40 billion per year.

Figure 1
Picture map of Suriname



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Annex 1

General country information

(Predominantly derived from IMF, OAS, IADB and EU reports)

The UN Human Development Report ranks Suriname as a medium development country, placing it 86th in human development (out of 177 countries). However, the country ranks 17th highest in the world for natural resources.

With 80% of the total population living in Paramaribo and the coastal areas, Suriname's GDP per capita annual income is US\$2,300 and unemployment currently hovers around 8.4%, while inflation is expected to moderate to around 8% in 2006. Real GDP increased by 8% in 2004 and by around 5% in 2005, boosted by the opening of a new gold mine and investment in the alumina and bauxite sector. The IMF asserts that "the strong recent growth of the economy has been supported by a cautious macroeconomic policy stance. The central government overall deficit declined from around 3 percent of GDP in 2004 to an estimated 1 percent of GDP in 2005. This improvement resulted from a substantial increase in revenues from the oil sector, which more than offset higher capital expenditure during the pre-election period, and revenue losses from delays in adjusting domestic fuel prices. Reflecting the lower financing needs of the government, fiscal financing by the central bank declined from about 1 percent of GDP in 2004 to 1/2 percent in 2005." As a Caricom member, Suriname lifted trade barriers in preparation for the Caricom Single Market. It is currently benefiting from the global boom in commodity prices and from increased mining output, but it remains isolated in world trade and needs large investments and/or structural reform to increase export revenues. The country still depends on traditional exports of oil, gold, bauxite, wood, bananas, shrimps and rice to its main trade partners (the Netherlands, the United States and the Caribbean). Oil has overtaken bauxite as the main revenue earner and remittances from abroad, particularly from the 300,000+ Surinamese people residing in the Netherlands, account for about 10% of the GDP.

Dutch is the principal and official language and English is widely spoken among Suriname's 492,829 inhabitants. In addition, a number of ethnic groups

retain their own languages. There is no one main religion and the various ethnic groups and religions have developed ways to coexist peacefully. Hindustanis make up the largest population segment (27.4%), with Creoles (17.7%), Javanese (14.6%), Maroons (14.7%) and Amerindians (3%) also present. The rest of the population is made up of Chinese, Europeans, and recently arrived Brazilian immigrant workers, in addition to a small Jewish community. The main transport ways in the interior are the rivers, although there is also air travel via small planes.

Though 95% of the population has access to clean drinking water and 83% to sanitation, problems remain in those areas and in education. Communities in the interior are among the most marginalized and tend to lack access to sustainable economic activities and social services. Bottlenecks to their development include lack of transport facilities, electricity, basic education, schools, health care, telephone and internet. Three-quarters of school-age children in the country are in primary and secondary schools, but children in the interior lack access to secondary schools. On the other hand, traditional leaders in the interior seek to share decision-making with respect to land and natural resources. Suriname has recently signed the ILO Indigenous and Tribal Peoples Convention (1989) covering land rights, access to natural resources, health, education, vocational training, employment conditions and border crossings.

Although Suriname has no specific poverty reduction strategy, the Multi Annual Development Plan 2006-2011 (MOP) addresses the issues of poverty reduction as part of the Millennium Development Goals (MDGs). Furthermore, the President's Government Policy Statement 2005-2010 issued in November 2005, makes it clear that the MDGs are the cornerstone of a sustainable development policy based on respect for the rights of the people. This is to entail "a proper allocation of tasks between Government, private sector, trade unions and civil society". "It is equally essential that there is a partnership between parties with regular consultations." Since the right of employment is provided for in the Constitution, job creation is a "vital point of interest". And efforts are to be devoted to creating "the required conditions to stimulate micro, small-scale and medium-sized businesses" as well as to "promoting modern technologies and advancing management labour relations." Nonetheless, much needs to be done to help the domestic private sector grow. There are more than 120 state owned enterprises as well as

numerous SMEs in Suriname requiring a more liberal economic environment to operate efficiently. The Public Sector Reform currently under preparation includes a target that by 2015 seventy five percent of the working population should be employed by the private sector. Yet the GoS currently employs 60% of the workforce and spends 25% of its income in salaries. Government is mostly centralized in Paramaribo, but steps are being taken to decentralize into the other 9 existing administrative districts.

In the Transparency International Corruption Index, Suriname moved from 49th position (2003-2004) to 78th among 159 countries (2004-2005). However, the current government has committed itself to become corruption-free. The Anti Corruption Act is yet to be approved, but the GoS has formally recognized that international and national action plans are to be linked to “good governance” and “human rights”. Thus the MOP incorporates a “rights based approach” to development, and assumes “democratic Rule of Law” with consultation of economic, social and cultural actors as a central theme. On the other hand, having recognized that the use of the latest information and communication technologies is significantly lagging behind, the GoS now wants to make maximum use of ICT for business and development. It is now committed to the creation of the National ICT Institute to move forward with ICT development in both the government and the private sector.

With respect to environment, friction prevails today between Surinamese and foreign workers in the small scale gold mining industry. Illegal immigration of workers (garimpeiros from Brazil and pork knockers from Guyana) in the unregulated gold mining industry is generating river and fish contamination. Their use of mercury for gold extraction affects the local population’s health. The proposed, but not yet enacted, Environment Act would outlaw the use of mercury for gold mining. Indeed the MOP stresses the importance of environmental preservation as a prerequisite of sustainable development. Likewise a recent EC Country Environment Profile points out that it is “a basic condition that the environment must be a crucial factor in social and economic development to guarantee a healthy environment for future generations.” The Profile proposes that it can no longer be seen as a separate issue, and biodiversity conservation and the preservation of the interior and the coastal zones receive great support in most Surinamese political and civil society organizations.

Risk summary

As part of a drive to consolidate the Caribbean's commitment to international justice, the Coalition for the International Criminal Court (CICC) has called on eight Caribbean states (the Bahamas, Grenada, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, and Suriname) to ratify or accede to the Rome Statute of the International Criminal Court (ICC). Suriname has shown increasing interest in ratifying the treaty – President Ronald Venetiaan has asked his government to consider the treaty and Suriname has already co-hosted the first Caricom regional conference on the issue. To date, 100 countries, including Antigua and Barbuda, Barbados, Belize, Dominica, St. Vincent and the Grenadines, Trinidad & Tobago and the Dominican Republic have joined the ICC. Caricom would welcome Suriname's ratification of the treaty, which would consolidate the Rule of Law in the country and increase political stability in the long term.

Economic outlook

Clear Progress. Suriname's economy continues to benefit from the global commodity boom and increased mining output. The economy expanded by 7.8% y-o-y in 2004, boosted by investments in the mining sector. As commodity prices climbed, gold, oil, banana and rice exports and investment in the modernization of the bauxite sector are estimated to have fuelled growth of around 5.0% in 2005. Inflation meanwhile, moderated to around 9.0% y-o-y in 2004, according to IMF estimates while the exchange rate stabilized. With commodity prices set to remain high in the coming years, it is anticipated that growth will continue at about 4.0% y-o-y. Inflation is kept steady at around 8.0% y-o-y. Suriname's progress over recent years has seen a stable macroeconomic performance overall. Moreover, international ratings agencies are also beginning to recognize these achievements with a B+ rating from Standard and Poor's.

Key sector outlook

All Good For Alumina, gold, oil, rice and bananas. Bauxite, used in alumina production, is the central pillar of Suriname's economy. It accounts for more than 15% of national GDP and 70% of export earnings. **DEP**

Uruguay and the learning divides

*Rodrigo Arocena**

Uruguay is a small, peripheral, South-American country. Early on, it achieved remarkable though little predictable political and social progress. This, coupled with the scarce economic and ideological dynamism of recent decades, characterizes the national scene. Longing for the past and misgivings about the future hinder the country from taking advantage of the really favorable conditions of the present to set itself on a new integrated development path.

I. A peripheral country

Vast regions of the world became peripheral when the “central countries” asserted themselves as such as they changed from agrarian into industrial nations. The resulting differences in economic and military power extended to the political and the ideological spheres. The peripheral condition did not become an ineluctable fate, though, but a sort of siege difficult to break. Relatively few countries managed to break it, thanks to “subjective” energies that allowed them to take advantage of favorable “objective” circumstances, usually by transforming difficulties into stimulus through original, heterodox responses.

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Today, the peripheral condition displays a mixture of continuity and change. The subordination, to a greater or lesser degree, of some nations and regions to others involves long-standing factors. But other factors steadily grow in relevance, directly linked to the new pressure of advanced knowledge. For better as well as for worse, knowledge has become the main source of change and destabilization of contemporary life. Not only the capabilities for producing, destroying, polluting, or healing have changed; the various occupations, customs, human relations, and relations between man and nature have also changed.

This phenomenon affects the entire world, although in a highly unequal manner. It can be succinctly but not mistakenly said that in certain regions varied but similar forms of society emerge, in which knowledge is the decisive force in the production of goods and services. This is the key to the dominating position of the new or the old “centers” of the current world system. The rest of the world is extremely heterogeneous, of course, and consists of peripheries, semi-peripheries, central enclaves, and marginal zones. Today as yesterday, though, the peripheral condition shared by quite different regions is characterized by lack: industry was not a decisive force in their economic dynamics in the past; something similar happens today with knowledge.

The peripheral condition still exists. Its effect on various facets of social life is no less than what has been pointed out by the masters of Latin American thinking about development. To identify and address current peripheral conditions, new approximations and strategies are needed.

II. The learning divides

Lately, a silent, drastic revolution has gained impetus. Since the dawn of civilization, first characterized by the appearance of writing, access to the varying forms of higher education has been restricted to a small, tiny minority. This is rapidly changing in some places, though.

An antecedent of this phenomenon is worth pointing out. In the predominantly illiterate world of agrarian societies, a few countries began to offer universal elementary education as of the 18th century. This occurred especially in the first countries to become industrialized, followed by others that took up industrialization at a remarkable speed. Although correlation is

not the same as causality, the correlation between education and development has always been very strong.

In his pioneering 1973 study on the advent of post-industrial society, Daniel Ball analyzed an already noticeable tendency in the United States, namely, the expansion of higher education. It is well-known that this is a characteristic of today's "central" countries, where most young people enter some form of higher education program.

Early in the current decade, a study sponsored by Unesco and the World Bank called attention to the differences between developed and developing countries. The study's focus is significant, because previous World Bank documents had recommended that developing countries should not give priority to higher education, allegedly because of its lower social "returns." The aforementioned study claims that the differences in access to higher education are responsible for the "widening enrollment gap" between the two groups of countries.

We see the "enrollment gap" as a major facet of underdevelopment in the 21st century's world. However, it is only a partial indicator of the new dimensions of the peripheral condition in a world marked by the emergence of "centers" of a knowledge society that has no worldwide coverage but exerts a profound global impact. Briefly speaking, the great divides refer not only to access to knowledge but above all to the possibilities of creatively using it and translating it into practice.

Uruguay, for instance, still educates far fewer highly qualified people than are required for development today and even so experiences a significant exodus of university students. This phenomenon reaches dramatic proportions in the neediest regions of the world, which, in relative terms, are precisely those with the least access to higher education. A tendency in many countries shows that the smaller the number of people that have access to higher education, the higher the number of those with a higher education who cannot find jobs commensurate with their training. This is just the opposite of what happens in several "central" countries, where the "demand" for highly-qualified people exceeds a growing "supply." We would say that the "qualified occupation gap" is even wider than the "enrollment gap."

Without going into details, we might resort to the following graphic illustration of the preceding: let us think of two coordinated axes, one of

which measures higher education enrollment while the other measures qualified occupation. According to its coordinates, each country would be represented by a “point.” Now, on the upper right would be grouped a small number of countries with high enrollment in higher education and high qualified occupation. The other countries would be dispersed through the remainder of the figure and would significantly differ from the former group in respect of one or another of the dimensions considered, or of both. The figure shows a clear separation between the two groups. The “learning divides” between centers and peripheries could be thus represented. These divides constitute the nerve center of the new underdevelopment model.

III. Small countries

To say that in addition to being peripheral Uruguay is a small country may sound inane. This is obvious, as seemingly is the disadvantage this entails: small nations are weak, less capable of independently choosing their strategies, more susceptible to accept decisions by others.

This notwithstanding, some reservations are due. History shows that smallness does not mean inevitable delaying. An example is provided by the experience of Uruguay, a country that early in the 20th century was a comparatively advanced political and social democracy with high schooling indicators.

The ensemble of phenomena known as “globalization” makes the isolated experience of significant progress by a small country less likely. But it is also common knowledge that in the last half century several countries that most notably improved the living conditions of their peoples were not large.

Indeed, reflection about development has for long paid attention to “smallness.” It has been said, jokingly and with reason, that one thing small countries have in common is the fact that they are all different. But many of them have in common something that, more than a reality, is a possibility: the fact that their small institutional apparatus may favor a nationwide interaction among various collective players and that although such interaction may be conflictive at times, it makes possible the rallying of efforts round shared projects. The reverse side of this possibility is that the institutional impediments

to cooperation among players have much more harmful consequences in small countries than in others.

This view has been expounded with lucidity and originality over thirty years ago by the versatile Uruguayan scholar Carlos Real de Azúa. A similar approach later emerged from a totally different source, namely, the theory of technical production innovation systems, in its primarily Scandinavian version. This theory can be found in the book edited twenty years ago by Christopher Freeman and Bengt-Ake Lundvall, titled *Small countries facing the technological revolution*. We mention the title because the surge of technical changes has, for notorious cost and scales reasons, aggravated the challenges facing small countries, when it is necessary to move ever faster just to maintain positions. What that book shows – unknowingly concurring with Real de Azúa’s view – is that the social conditions of technological change today entail not only difficulties but also possibilities for small countries, provided they are capable of uniting the efforts of all players, including the public sector and the entrepreneurs as well as workers, technicians, educators, and other civil society players. Assuming that the success of the social processes of technical change depends not only on technology but also on the institutional and cultural elements, this is even truer in the case of “small countries.”

IV. South America at the dawn of the 21st century

Small and not-so-small countries that have experienced significant, sustained development processes in a broad sense have generally benefited from specific strategies in a wider, more favorable context. South Korea’s justly admired experience reflects a creative heterodoxy that allowed it to take advantage of the surrounding geopolitical situation. The cases of Australia and New Zealand, so often compared with those of Argentina and Uruguay, would be difficult to understand apart from the conditions stemming from their quite special membership in the British Empire. It is no detraction from the recognition of the “Scandinavian model” to note that its considerable success is associated with the Scandinavian countries’ position vis-à-vis industrialization’s pioneering countries.

The small, peripheral country of Uruguay has no bright destiny in the long run apart from South America. It may quite successfully take advantage of favorable international circumstances to improve the placement of its primary

products on international markets and thereby ensure a possibly prolonged growth cycle. But development, even economic development, is more than economic growth. This was clearly explained a century ago by Schumpeter. In brief, growth means more of the same, while economic development is growth with mutation, the biological parallel used by Schumpeter to illustrate his concept of innovation. Today, economic development requires the incorporation of advanced knowledge and highly qualified personnel for the production of goods and services in the broadest sense of the expression. It is thus necessary to follow the interconnected paths of higher education and qualified occupation.

Parentheses are in order at this point for dispelling any misunderstanding of the preceding, which might be interpreted as further praise of high technology and a call to concentrate efforts solely on advanced technology. This would reflect a lack of understanding of both the historical development experience and of what the new role of knowledge actually is. Economic development is supported by productive forces conducive to innovation; it can occur on the basis of quite different production branches; and it reaches cruising speed when the capacity of innovation is extended to various sectors. On the basis of some particularly dynamic, potentially expansive technologies, knowledge revolutionizes all productive activities.

A peripheral country, even if small, must bet on new sectors. Uruguay is experiencing success in the software sector. But progress in high technology cannot be to the detriment of traditional sectors or dispense with them. It is necessary to capitalize on comparative advantages and on production and marketing experience to “rise” on the ladder of aggregated value of knowledge and qualification. It is thus necessary to fight against this new “international labor division” that leaves peripheral countries below the learning divides. This is the battle Uruguay has to wage in ever closer association with South America.

We do not ignore that in respect of integration rhetoric has far exceeded reality in our region. Although there is plenty justification for the intelligentsia’s pessimism in this regard, we must keep our will’s optimism alive. There is simply no alternative. This optimism ought not to be naïve or static, but cautious and attentive to the changing signs of the times. It is precisely the latter that tell us that as the 21st century begins, a new, great opportunity has opened for Latin America, which is difficult to be made use of but which it would be tragic to miss.

After the “lost half-decade” of 1997-2002, new possibilities have arisen in the economy, politics, ideas, and values. The mere fact that the “low-intensity democracies” of the nineties did not succumb to the often calamitous economic crisis late in the decade is worth bearing in mind. Moreover, various governments newly installed or reinstated through democratic channels enjoy broad citizen support. This is encouraging, regardless of the degree of one’s rapport with this or that government. There is no point in minimizing the needs and failures that afflict several South American democracies or the problems that all of them face in varying degrees. For that matter, when was democracy’s situation in South America less difficult?

What has few precedents is the conjunction of what is still called the “third wave” of democratization in our region and a different situation, as regards both the economy and ideology. One should not exaggerate its novel, positive aspects, which are nevertheless visible. Economic growth fueled above all by external demand for our primary products has no intrinsic guarantee of lasting, as some have assumed in regard to this or to previous versions of the phenomenon. At this writing, specialists are talking about economic deceleration on an international scale owing to the crisis in the United States. Be as it may, the region has enjoyed five years of significant growth, which will probably continue to be significant in the short run. As to ideology, although the ‘post-Washington consensus’ retains elements of its antecessor, the fact is that that unfortunate “consensus” no longer dominates the stage as it did in the past decade.

Currently, particularly as it looks forward, South America is once again more than just a geographical datum. Different options are shaping up for its full participation in the global economy, but more influential countries, and Brazil in particular, stake their bets on the vital diversification of production so that such participation will not display a markedly neo-peripheral character. The key issue is whether the strategic and power differences can be compatible with cooperation that does not replicate inside the region the external asymmetries it seeks to attenuate.

V. A fourfold approach

For addressing an issue so that reflection leads to action, it is convenient to adopt a fourfold approach: normative, factual, prospective, and proposition-oriented.

The normative approach spells out the values to be promoted, answering to questions such as: What do we want to achieve? This will direct proposals toward action, ensuring that they take actual possibilities fully into account. The factual approach, at once empirical and conceptual, aims at describing and understanding to the extent possible the reality to be acted upon. To grasp the substance and reason of any phenomenon, it is often necessary to consider it as a process. By incorporating a temporal dimension, the factual approach becomes a historical approach as well. For proffering a proposal, it is necessary first to study the facts not only in their current configuration but also from the standpoint of their possible evolution. The prospective approach, solidly grounded on an analysis of what has happened hitherto (prospect is based on retrospect), purports to catch the main trends and dynamics at play, so as to arrive at an idea of possible future scenarios, without ever forgetting that the future is not written down but is built: “Trend is not destiny,” as Lewis Mumford would say. The combination of guiding values, factual analysis, and reflection about the possible future ought to provide the foundation for the suggestion of specific policies, which are the subject of the proposition-oriented approach.

The interconnections among these four approaches are many and obvious. These approaches are not independent from each other, but it is important not to confuse them. In particular, proposals should be based on ethical aspirations but should not limit themselves to stating those aspirations; they ought to take into account both actual and foreseeable reality. By not losing sight of the normative approach, one is impelled to unceasingly seek new ways of expanding the room for the possible.

In respect of Uruguay’s development, we will offer an outline of a normative approach that combines general criteria with what we see as the best of our people’s collective construction.

We think about development from a perspective deeply influenced by the pithy ideas of Amartya Sen. According to Sen, the expansion of capabilities and freedoms is development’s goal as well as its main tool. This is the starting point, as both the individual and the collective reality are asserted, which places freedom, equality, and fraternity, or solidarity, on the same level. Hence, a comprehensive concept of human, sustainable development, particularly important in our time, as the expansion of the capacity to act and create leads

directly to the incorporation of knowledge and qualification into socially valuable collective practices.

This normative concept of development is “activist” – it sees people not as patients but as agents, according to Sen. At this point, a proposition-oriented notion already insinuates itself, recognizing with the maturity derived from historical experience the role of both the state and the market, thereby transcending the dichotomy between market-centered and state-centered concepts, while stressing the importance of the various protagonists. A concept of development centered on players naturally coincide with the teachings found in factual studies about innovation systems in medium-sized or small countries that have achieved greater social progress.

Now, a similar concept of development may have validity as a proposition-oriented view if it is significantly attuned to the values and aspirations of the contemplated citizenry. This is where our normative approach draws inspiration from the best of Uruguayan tradition. At the hardest moments of our national history, during the terrible dictatorship under which Uruguay lived until 1984, the most eloquent spokesmen of democratic resistance, such as Wilson Ferreira Aldunate, evoked that which in their view makes our country a real country, so as to keep alive the hope of a different future from that opprobrium situation. They defined the best of Uruguay as the capacity “to live together”, with respect for everyone’s rights and without forgetting the words of a humble man of yore, who said that it was worth living on this land because here “nobody is more than anybody.”

Freedom, equality, and solidarity as shared values and means of social progress – this is our normative approach.

VI. History’s support and weight

A long view of Uruguayan reality shows some deeply-rooted trends of great importance for a development concept as outline above.

The comparatively high value attached to freedom and equality found a fertile soil on which to grow; and grow it did but in an often conflictive, generally contradictory way, without yielding relatively significant results, the most important of which are related to education, the political system, and social protection.

Early on – in the 1870s – Uruguay made access to elementary education universal: “laic, free, and obligatory” education, a successful undertaking. In the collective mind as well as in actuality, the public school is the best achievement in the nation’s history and the main support of the notion of equality – often contradicted – according to which ours is a country where “nobody is more than anybody.”

The experience with technical education showed much greater shortcomings, which had lasting consequences. An Arts and Crafts School was established mainly as a correctional facility for delinquent boys, but despite great efforts, including those of Pedro Figari, one of the greatest, most original figures in national culture, technical education has not completely overcome the traditional undervaluation of manual and technological labor. This disregard, which has its roots in the colonizers’ culture, was offset by contingents of immigrants at the end of the 19th and the beginning of the 20th century, but has not been completely eradicated. While the valorization of education is an asset of considerable importance in our history, the persistent undervaluation of technical education is a burden.

From a political standpoint, our country lived in a nearly endemic state of civil war in the first three quarter-centuries of independent life, from 1830 to 1904. Uruguay, to be later known as a peaceful country as compared to others, was then a blood-stained country – a “purple land” memorably described by W. H. Hudson. A very special set of circumstances, which included a near power “tie” between the traditionally opposing groups, as well as immigration, made possible an early democratization that proved quite stable. This democratic institutionality had two major interruptions: one in the 1930s and another in the 1970s; from each one, the nation emerged with greater democratic conviction than before. This historical legacy provided the foundation for a smooth transition, completed in March 2005, when the left assumed the national government for the first time.

Before 1920, Uruguay was already what is called today a social democracy, when the name had other meanings. Its emblematic figure, naturally, is José Battle y Ordóñez, the President whose first term (1903-1907) saw the definitive end of the cycle of civil wars and with which is associated the social reformism that Ordóñez undertook with special vigor during his second term (1911-1915). He lent his name to “Battlismo,” with which most Uruguayan

governments of the last century identified themselves, but which has a much broader meaning. The term applies to a widely held expectation, significantly supported by the facts, that the State must and can redistribute wealth so as to attenuate inequalities and ensure basic welfare for all. It also presupposes an active willingness to organize sectoral groups to demand and fight for their rights before the government. In general, this includes the ability to combine mobilization and negotiation and to obtain agreements, without placing undue hope in radical change. This generic attitude has met with strong opponents but has generally prevailed.

If to understand Argentina it is necessary to understand *Peronismo* – not an easy task – to understand Uruguay it is necessary to understand that the country has been and continues to be “Battlist.” Today, when the traditional Colorado Party, of which José Battle y Ordóñez was the not uncontroversial leader for nearly three decades, it is remarkable to see that “Battlist” ideas are embraced not only by the majority of the other traditional political camp, the National or Blanco Party, but also by most of the Frente Amplio [Broad Front] currently in power, a quite *sui generis* popular front formed in 1971, which encompasses practically all the left.

Actually, the features most commonly associated with this political style became consolidated not during the foundational period but in the so-called “second Battlismo,” particularly associated with Luis Battle, the founder’s nephew, who also became President and was perhaps the most influential political figure in national politics between 1947 and 1958. That was Uruguay’s “golden age” of import-substitution industrialization (ISI), social protection, and national self-satisfaction. Many thought they were living in a “model country;” there was no lack of motives for this assumption, particularly on a comparative basis, but exaggeration led to paralyzation. This was expressed by the period’s emblematic figure, who said that although Uruguay was said to be the Americas’ Switzerland, while traveling in the Old World he had been able to see that in fact Switzerland was Europe’s Uruguay. In reference to the prevailing optimism, Carlos Quijano, the leading figure of the minority “critical conscience” at the time, said that they were living “years of bovine euphoria.”

Uruguay had experienced “early industrialization” directly associated with immigrant waves, just as other countries with a similar experience. When, after the 1930s crisis, import-substitution industrialization gained impetus in

almost the entire region, its economic and social impact in our country was very strong. Battlism's inclination for industrialization asserted itself; the share of manufactures in total production increased, as did the political influence of industrial entrepreneurs; and a unionism independent from the government acquired strength, supported by strong bases in packinghouses and in textile and metallurgical plants.

But the country is also an example of "frivolous protectionism," which in Fernando Fajnzylber's keen analysis characterized Latin America's "truncated industrialization." As shown by the experience of every country that built a solid modern industrial foundation, a nascent industry does need some sort of protection. The relevant question is another. It has to do with the type of protection, its timetable, counterparts, and objectives. On our continent, protectionism was a frequent practice that concentrated efforts on seeking further protection rather than on learning to produce better, with more advanced technology, better organization, and workers' involvement. Still according to Fajnzylber, the East Asian countries, whose industrial development awed the world in the second half of the 20th century, practiced a "learning protectionism" that was strict and attuned to changing circumstances; this helped industrialization to surge forward and prevented it from becoming truncated, as occurred with Latin America's import-substitution industrialization, although this happened to a lesser degree than it was fashionable to claim in the eighties. The importance of learning as the kernel of economic development has been forcefully expressed in a recent work by Alice Amsden, which contains a vigorous revindication of the import-substitution industrialization as formulated by Raúl Prebisch.

Turning our attention back to Uruguay, we note that on the whole industrial protection had a positive effect in respect of equality and redistribution. Employment increased in relatively modern sectors, with better remuneration and social protection. Small and micro-entrepreneurs were able to expand their activities.

In general, social protection and protection of production improved living conditions and reinforced the country's commitment to equality, but caused more reactive and revendicative than proactive and creative attitudes. The welcome social protection was not accompanied by the promotion of training and qualification. Neither was the indispensable industrial protection

accompanied by the promotion of technical and productive innovation. Education's considerable expansion had only a thin connection to the world of labor and production. The less intense promotion of culture assigned little room to science and almost none to technology.

A comparative study between Scandinavia and three Southern Cone countries –Argentina, Brazil, and Uruguay – maintains, on solid empirical grounds, that in(equality) differences are the main explanation for their different development paths. This conclusion is pertinent but should be fine-tuned. Uruguay is not a very unequal country by comparison. But the main difference between our countries and Scandinavian countries seemingly lies in the different approaches to inequality. Some approaches stimulate individual and collective capabilities to learn, create, and work innovatively, which leads to further reduction of inequality; we label these approaches *proactive equality*. Other approaches to attenuating inequality do not foster the inclination to be an agent. They have more to do with redistribution than with production and technical, institutional, education, and cultural creation in general; these forms of *reactive equality* are hardly sustainable in the long run, except perhaps if the “commodity lottery” of which Bulmer-Thomas speaks yields great, lasting profits.

In sum, a retrospective look suggests that the building of the future in Uruguay finds a solid foundation on the national experience of combating inequality but also a heavy burden in the reactive forms of equality that have predominated.

VII. Uruguay today

After an extremely serious crisis that reached dramatic levels in 2002, the Uruguayan economy experienced a remarkable recovery, and in the last three years has been growing at an average of 7 percent a year, which is really unusual for the country.

The crisis accentuated a long-standing growth trend in the leftist opposition. The Broad Front-FA obtained 21 percent of the votes in 1989, when it won the government of the capital of Montevideo, where nearly half the country's population lives and whose control it still holds. In 1994, it got 30 percent of the votes, leading its opponents to see it, with good reason,

as the likely winner in the following elections and to have the Constitution changed to permit runoff voting. In 1999, the Broad Front, with 40 percent of the votes, obtained the majority at the first round but was defeated in the runoff elections. In 2004, it won by absolute majority at the first round, amidst exuberant popular jubilation, which occurred again when new President, Tabaré Vázquez, was inaugurated on March 1, 2005.

Several changes have marked these first three years of the left's government in Uruguayan history.

Investigation of the dictatorship's crimes, practically blocked in the previous twenty years, gained new impetus. An impressive report about disappeared persons was prepared, their remains were tenaciously sought, and unprecedented possibilities opened for trying those responsible for the crimes committed under the dictatorship, various of whom were brought to trial, including the President that had led the 1973 coup d'état.

Another area in which substantial progress has been achieved had to do with the situation of the neediest, aggravated by the crisis. Getting round many difficulties, the National Social Emergency Plan-Panes helped reverse the trend, providing direct assistance to many families, who in turn had to keep their children in school. Panes is being renamed Equality Plan, while preserving its concern for providing education for the neglected segment of the population and intensifying the efforts to incorporate it into the labor market.

Although poverty is still all too visible, the social situation has considerably improved owing to the economic and social policy factors already mentioned, in addition to others, including the labor policy. Unions faced difficult conditions as of 1990, particularly because the State stopped tripartite negotiations pertaining to salaries and other aspects of labor relations, but also because union persecution in various quarters was barely curbed by the government. In both respects, the official policy has considerably changed, resulting in a marked increase in union affiliation and in the improvement of working conditions.

This was helped by the economy's performance and the attendant decline in unemployment, which was slower than the increase in production, though, a further example of growth that has difficulty in creating jobs, a marked tendency in today's economies.

The factors here pointed out have contributed also to an unequal but significant increase in real salaries.

Management of the macroeconomic policy attracted some criticism also, either for increasing expenditure or for the contractive bias of the exchange and monetary policies. But it has not been faulted for lack of technical capacity on the part of those that conduct it, who are met with significant approval.

The same cannot be said of official announcements about the setting in motion of a “productive country,” as the pertinent policies have not been actually implemented.

Be as it may, the country’s productive apparatus is changing in connection with a reassertion of the role of natural resources, which is particularly noticeable in respect of agricultural exports, especially soybeans, and even more so in the combination of forestation and pulp production. These items are attracting a relatively high volume of foreign investment, which far exceeds the modest national contribution, as our economy’s historically low investment in this area has not changed much in this phase of unexpected apogee.

Two “structural” reforms focus their attention and discussions on today’s Uruguay. The most ambitious is the establishment of the National Unified Health System, whose positive social impact is cause for optimism, although management difficulties seem considerable. If these difficulties are properly addressed, this reform will be the period’s most important.

Currently, polemics are centered on some court decisions that exempt retirees from personal income tax, tax reform being very much in the government’s interest; but actual results of this reform are still difficult to assess.

In 2009, there will be Presidential and legislative elections, which will be preceded by internal party elections. The coming fall will thus be one of intense campaigning. At present, the President of the Republic’s popularity remains high, but intentions to vote for the government party have diminished, introducing a degree of incertitude as to whether it will obtain a much higher number of votes than a year ago.

In sum, what will be done or fail to be done in the next twelve months will have a special impact on both the remainder of the current government’s term and the choice of his successor.

VIII. An unresolved issue

In the early nineties and to a lesser degree in the beginning of the following decade, the government implemented a program with a clear neoliberal bias, with mixed results. In comparison with the country's own past, the change was in no way less pronounced; but in comparison with the region, neoliberalism was considerably blunted in Battlist Uruguay.

A change of government in 2005 led to the assumption that there would be a much more marked change in the ideological sphere. Now, in these times of the "post-Washington consensus," actual possibilities for a drastic change of course are not many, particularly in small countries. At this point, we return to the considerations in this article's preceding sections, particularly as regards the South American region's prospects.

Regional relations are an area in which the Uruguayan government has met with profound frustration. Great hopes were pinned on a Mercosur consisting of governments seen as akin. Although I have no intention of assigning blame, the fact is that reality did not meet expectations. An unexpected conflict about the building of a pulp plant on our bank of the Uruguay River brought relations with Argentina to their lowest level in a long time. Although we have had no serious conflict with Brazil, which is once again our major trade partner, the hopes placed in relations with our great northern neighbor have faded somewhat.

In addition, the Uruguayan government has attempted to establish close relations with the United States, to the point of considering the signing of a Free Trade Agreement, which proved to be inconsistent with its continued membership in Mercosur; though an FTA elicits firm support from opposition parties, it is strongly opposed within the government's own party. The result was that after intense debate nationwide, President Vázquez discarded that possibility at the end of 2006 but did not cease to pursue closer cooperation with the United States.

Full participation in the world economy is thus not only an unresolved issue but also a major source of incertitude. Succinctly speaking, those that see Mercosur as a privileged space for implementation of a long-term strategy have difficulty in finding arguments favorable to a short-term perspective, while those in favor of looking more at the world rather than at the region are

not able to test the sustainability of said long-term strategy against possible short-term advantages.

IX. Scenarios for tomorrow

In moving from a summary review of relevant past and current processes and events to a forward look, one of the main factors for envisaging different futures is precisely the outcome of the country's full participation in the external world.

With Gerardo Caetano, we have recently edited a compilation titled *Uruguay. Agenda 2020*, at the final summary of which we analyzed different scenarios in light of the social inequality picture and of the distinction between reactive and proactive approaches to equality. Our starting point was Fajnzylber's well-known thesis, according to which, under the different combinations of high or low inequality with slow or rapid growth, show an "empty slot," as there are no examples that sustainedly combine low inequality with rapid growth. The fascinating thing now is that this empty slot may begin to be filled, thereby making our societies less unjust and their integrated development more likely.

In Uruguay's case, if it were only possible to aspire to full participation in the external world apart from a shared regional strategy – as a lone participant – the performance of international demand for primary products would have a decisive weight and there could hardly be greater, specific incentives for a sustained expansion of capabilities and innovation, and for incorporating knowledge and advanced qualification into the production of goods and services. Should the current external bonanza conditions prevail, the country's social and political tradition would lead to a reinforcement of equality, although of a predominantly reactive character, while deterioration of external conditions would translate into greater inequality and slow growth.

If, on the other hand, full participation in the world economy were sought on the basis of cooperation with Mercosur or with the South American region, in other words, on the basis of *integration for development*, this would make possible the expansion of capabilities even if the external bonanza did not prevail, while, should the latter remain favorable, the empty slot might begin to be filled on the basis of proactive equality.

The following, schematic picture illustrates the alternative scenarios:

	Participation alone in the world economy	Integration for development
Unfavorable external conditions	Increased inequality and slow growth amidst	Expansion of capabilities difficulties
Favorable external conditions	Reactive equality growth and limited development	Proactive equality rapid growth and real development

This schematic picture could and should be considerably enriched; this simplified presentation is meant simply to suggest an approach.

X. Responsibility

Under a proposition-oriented approach, it seems appropriate to limit ourselves to an area in which we are strong, namely, education and, more specifically, the University of the Republic. This is Uruguay's only university, with an enrollment of over eighty thousand students. It accounts for most knowledge created in the country and enjoys a significant degree of autonomy. It has thus major responsibility for addressing the "learning divides."

It is also engaged in a new university reform, impelled by its traditional commitment to society, which we consider the best Latin American university ideal bred in the continentwide movement known as the Cordoba Reform.

The new reform's major goal should be the universalization of quality higher education geared throughout life to work. In terms of Uruguayan tradition, a transformation of such magnitude is no more ambitious and no less necessary than the late 19th century's universalization of elementary education, whose actualization is one of the country's strongest foundations on which to build the future.

Addressing the "enrollment gap" requires the continuous expansion of higher education opportunities, which in turn requires a thorough change in education in at least three aspects: (i) renewed emphasis on active teaching, in which the main protagonists in education are individually and collectively those that learn; (ii) wide diversification of learning modalities and institutions; and (iii) in particular, an ever closer connection between the worlds of

education and work. To teach so as to foster the capacities for doing new things throughout one's active life, it is necessary to combine what happens in traditional classrooms with the full use of veritable "potential classrooms" anywhere – hospitals, farms, factories, laboratories, professional studios, means of communications, public services, sustainable tourism centers, etc. – where socially valuable work is efficiently done.

This suggestion links the solution to the first learning divide, i.e., the enrollment gap, and the task of closing the qualified occupation gap.

In this connection, a key role is played by the revalorization of a defining component of the Latin American ideal of university, namely, university extension. Understood as cooperation between the university and the collective actors in cultural creation and in the socially valid use of knowledge, extension should be part of the education offered all students, as this would mean: (i) an opportunity of serving the nation that offers them free tertiary education; (ii) early connection with society, with particular attention to the underprivileged; (iii) teaching geared to problem solution; and (iv) an opportunity to show what highly-qualified youth can accomplish.

We thus see extension as an ethical component of university education, which can render a major contribution to the closing of the two learning divides.

Obviously, extension is conceived in close relation with teaching and research, as well as with the search for new solutions for practical problems, that is, with innovation. It has already been recalled that throughout Latin America and quite especially in Uruguay a major contribution to knowledge creation comes from university research. Thus, the linking of the university's research and innovation capacity with production policies, as well as – what is usually less stressed – with social policies is crucial to development, understood as the expansion of capabilities and freedoms based on the promotion of proactive equality.

Throughout the whole world one witnesses what it would be no exaggeration to call a combat for the university's soul: What is its defining mission? This old question acquires new relevance today owing to the influx of knowledge into all social relations. In this serious discussion about the role of higher education institutions, some views favor their contribution to economic growth, without much concern for social change, to the point of

proposing as the core idea the notion of “entrepreneurial university;” other views, on the contrary, insist on the traditional university ideal, related solely to properly academic values. From the periphery, we seek our own alternative, suggested by the notion of “university for development.”

XI. Toward a project of nation

A century ago, a project of democratic, equalitarian nation conceived in Uruguay inspired many successful endeavors, particularly joint efforts to restore public freedoms when these were suppressed.

The fact that ours was considered a model country, though, gave rise to a twofold mistake: that of believing first in national self-sufficiency and that of later giving in to self-satisfaction. When, late in the 1950s, “Americas’ Switzerland” began to come apart, the dominant spiritual tonic started a descent from a facile, frivolous optimism into little-encouraging pessimism that assumed that the country could not be better than it had once been. The implicit proposition is usually a return to the past, which is simply not feasible and, in our view, even less desirable.

The remarkable thing about the present is that both in material and spiritual terms no lesser opportunities have opened in Uruguay for starting on a new development path that draws inspiration from the best from the past and takes advantage of the currently prevailing conditions.

The periphery’s response to the new importance of knowledge has been to aim at *building learning societies*. Combating underdevelopment today requires the interconnection among various players to expand capabilities and to learn, through shared practices, with a view to solving old and new problems. This conjunction of efforts is quite possible in Uruguay, a small country with a rich democratic tradition, where now and then initiatives born in the bosom of civil society have displayed their vigor.

Should internal political capabilities point in a clear direction and regional integration for development take shape, a new national project could become reality for the construction of a learning country closely integrated into South America. **DEP**

Translation: João Coelho

Energetic integration in Latin America and the Caribbean

*María A. Hernández-Barbarito**

The discussion of energetic integration in Latin America and the Caribbean links energy to the comprehensive, independent, and sovereign development of peoples as a determinant binomial in mankind's economic development. This view encompasses the environmental variable, which expresses the quality of life, the preservation of cultural identities, and the degree of deterioration and depletion of resources – in sum, everything that reflects the survivability of the tangible and intangible elements proper to mankind. Hence, the need to consider the prospects for regional energetic integration in light of the concept of integrated development understood as the requisite socioeconomic process to ensure the eradication of poverty, ecological balance, improved quality of life accompanied by social justice, independence, sovereignty, and respect for cultural identities. The Venezuelan proposal that is being realized through Petrocaribe, Petrosur, and Petroandina is part of this picture and an element of the Bolivarian Alternative for the peoples of America. Although progress has been significant, challenges are still

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daunting. This will be the subject of this article, to be examined in connection with integrated development, with a view to valorizing that which has been accomplished and at defining some lines of action for its consolidation, to the benefit of the peoples of Latin American and the Caribbean.

1. Energy, development, and the environment

To appreciate the interrelation of energy, development, and environment, it is sufficient to recall the role of animal energy in the agrarian revolution that preceded the industrial revolution, of the windmills in the textile industry, of vegetal and then of mineral coal, which gave a decisive thrust to the development of manufacturing and transportation, as well as of the steam engine (Paul Bairoch, *Revolución Industrial y el Subdesarrollo*, 1967), followed by the combustion engine and oil, which in turn gave rise to the automobile and electric home appliances revolution in the early 19th century, based on an energetic model that prevails to this day, with the addition of major technological components of electronics and communications.

Although scarceness of energy has generally been an obstacle to development, its abundance has not always been a source of progress and welfare. This is the case of the underdeveloped oil-producing countries, whose revenues have served to create unequal societies that are highly vulnerable to external factors. In developed countries, this revolution has not been balanced either, as the pursuit of ever-greater capital accumulation has led to the depletion and higher prices of nonrenewable resources, with the attendant consequences for the natural environment and for man's quality of life.

Thus, all development proposals should avoid a replication of the nefarious relation between economic growth and pollution, economic growth and depletion of nonrenewable resources, as illustrated by the history of oil in the United States, a country with a widening oil deficit, the highest production costs, and an international posture that militates against environmental protection, as demonstrated by its refusal to sign the Kyoto Protocol on controlling carbon dioxide gas emissions into the atmosphere. A simple story can corroborate this fact.

The overt incentive to the extraction of crude oil originated with the Appropriations Law, which granted ownership of the extracted product to

the extractor and not to the deposit's owner. This encouraged the overdrilling of wells, which led to the depletion of U.S. oil reserves and led to intensive consumption. Subsequently, the U.S. oil policy was geared to curbing overproduction rather than to conserving this resource. The prorating statutes were thus approved to balance supply and demand and prevent falling prices, with the attendant decrease in capital accumulation by the oil monopolies that were coming into being. Lastly, the imports programs also aimed at balancing the market and guaranteeing stable prices for refiners, as this prevented the shutting down of the less competitive internal production. Only after the 1970s energy crisis did talk start about the need for the rational use of energy, but without altering the massive goods consumption model. (Hernández-Barbarito, Karam, Ramírez, et. Al., 2005)

For a reflection on this subject, we have chosen, among many possibilities, a French analyst known as being a Marxist-ecologist – André Gorz, whose inspiring ideas can be found in *Ecology as Politics* (1979). This choice does not mean neglecting Gorz's thinking as summarized by Ramón Tamañes in his book *Ambiente y Desarrollo* [Environment and Development] (1982), which presents the Rome Club's discussion of Zero Growth, the various contributions on the subject, and the international efforts to address the problem after the 1972 Stockholm Conference, when the idea arose for a United Nations Environmental Program (UNEP). But Gorz goes further in discussing the rationality of the so called "development" and the need to overcome it by countering the capital accumulation tendency typical of capitalism and some versions of socialism. He proposes "four theses by way of conclusion," which can be thus summarized:

- Capitalism's crisis is caused by the overdevelopment of production capacity and by destructivity, which lead to scarcity. This crisis may be overcome by a new production model that, breaking away from economic rationality, *is based on resources and energy saving*;
- Overcoming economic rationality and reducing consumption can be accomplished through techno-fascism or through self-regulation. The former can be avoided if civil society and the sovereignty of base communities are strengthened;
- The unity of more and better has been severed. Better can be obtained by less. It is possible to live better by working and consuming less,

provided more durable goods are produced, which generate neither pollution nor scarcity and are accessible to all;

- Poverty in rich countries is not due to insufficient production but to the nature of goods produced and the way they are produced and distributed. Poverty can be eradicated only if the production of scarce wealth, i.e., reserved, exclusive wealth is stopped;
- Unemployment in rich societies reflects a shortening of the socially necessary working hours. All could work much less, provided all of us worked. Recognition of equal remuneration for all socially necessary work is the way to the elimination of poverty and the distribution of work among all those that are capable of working;
- If work is limited to the production of what is socially necessary, an expansion of self-created, free activities will occur. The production of an unlimited number of goods and services would be left to self-managed organizations such as cooperatives, and
- The uniform consumption and living model will disappear at the same time as social inequalities. Individuals will differ from each other by the way they employ their free time and not by their earnings or power. The utilization of their capacities and creativities in their free time will be the only source of wealth.

Gorz concludes his recommendations with a call to work less, consume better, and incorporate culture into daily living.

This is why, in presenting and evaluating Petroamerica's experience, we choose to do it in a comprehensive way, so as to point out and emphasize the objectives still to be achieved so that our region may indeed advance toward comprehensive, sustainable development. (Lolola Hernández-Barbarito). *Petroamérica y la Integración Energética de América Latina y el Caribe* [Petroamerica and Energetic Integration in Latin America and the Caribbean] (2007).

2. Regional integration as an alternative

Now more than ever the guarantee of integrated development lies in the integration of peoples, as neoliberal globalization is bent on doing away with borders, identities, and sovereignties, imposing the transnationalization of

capital to satisfy needs induced by voracious, accelerated capital accumulation. Peoples' plurality is the only trend capable of checking the unilateralism that has given rise to power blocs to ensure equilibrium. Latin America and the Caribbean form one of these blocs. Hence, the idea of integration conceived by Raúl Prebisch, which was further developed by Eclac and applied in all the countries under an economicist view that gave birth to the Central-American Common Market, the Alalc-Aladi, the Andean Community of Nations, and Mercosur, among its major accomplishments. This concept has been subsequently evaluated from the standpoint of Raúl Prebisch himself, who stressed the need to complement his idea with the requirements of social justice through surplus distribution (1980). Today, we assess it on the basis of its achievements and its capacity to integrate peoples. Regrettably, balance has not yet been achieved, and thus the pursuit continues: Community of Nations? Southern Union?

Against this complex background, there arises a proposal for energetic integration and a new way of conceiving it, inspired on the integrationist thinking of freedom fighters Simón Bolívar and José Martí, to mention only two of the fathers of our America. This proposal, impelled by the need to meet energetic requirements, has given rise to Petroamérica, Petrocaribe, Petrosur, and Petroandina. Its inspiration, though, is not a technicist or mercantilist concept but rather the Bolivarian Alternative for the Peoples of America-ALBA, its ideological support, whose salient principles are social solidarity and economic complementariness to ensure food and energy security. This is the reason for calling for both fair trade in hydrocarbons and energy in general and investment in energetic infrastructure, such as storage tanks, electric power plants, refineries, and transportation, accompanied by literacy programs and health care. This new binomial also aims at achieving the region's financial independence from the IMF, the World Bank, and the Inter-American Bank through Banco del Sur, ALBA's bank. To restore our cultural fabric, Telesur was created to guarantee our peoples' right to protect their identities and to have access to truthful information, and the South University was conceived to educate individuals committed to the subcontinent's social transformation. The peoples of Latin America and the Caribbean, heretofore unable to dream about overcoming underdevelopment and dependence, can now do so, impelled by the construction of their own models based on the need to achieve social justice. In this connection, President Chávez, speaking at the 21st Mercosur

Summit in Cochabamba in December 2006, when it was agreed to hold the 1st Latin American Energy Summit in April, said: “we are truly and structurally building the integration we need (PDVS Avances, Jan. 21, 2007).”

3. Petroamerica is born under ALBA

The Petroamerica project, conceived as the Bolivarian Republic of Venezuela’s energetic integration proposal for Latin America and the Caribbean, has gained strong impetus since 2005 and is speedily moving forward through its three components – Petrocaribe, Petrosur, and Petroandina, the latter of which has been given a further thrust with the arrival of Bolivia’s Evo Morales and Ecuador’s Rafael Correa to power. All Caribbean nations participate in Petrocaribe, with the exception of Barbados and Trinidad and Tobago, the latter owing to its commitments to transnational capital. Some Central-American governments or municipalities and provincial governments are also joining the initiative, thanks to indirect diplomacy, which has benefited their populations with the supply of electricity and fuel for public transportation, at privileged prices and unbeatable payment terms. Petrosur has agreements with Mercosur countries, while Petroandina has had to resort to bilateral agreements, because of the countries’ current or potential commitments to the United States, based on free trade agreements-FTAs.

Starting as a cooperation proposal to facilitate the purchase of energy by the countries of the region, the project has since incorporated the idea of a Southern Gas Pipeline and the addition of a Trans-Caribbean Gas Pipeline. Projects are now under way for the construction and overhauling of refineries in other countries, including Brazil, Argentina, Cuba, Nicaragua, Ecuador, and Jamaica. Also under way are petrochemical projects between Brazil and Venezuela as well as projects to increase fuel storage capacity in Caribbean countries, which are net oil importers; to supply transportation at freight cost; to build electric power plants and install windmills; to implement policies on the rational use of energy; and to go ahead with the setting-up of Opegasur, with the participation of countries such as Brazil and Uruguay in the Carabobo and Ayacucho blocs of the Orinoco Petroliferous Strip, etc.

ALBA, the Bolivarian Alternative for the peoples of the Americas, originated in Havana, Cuba as a principles framework in 2004, with the objective of combating poverty and asymmetries, on the basis of complementariness,

and to ensure food security and the sovereignty and independence of the Latin American and Caribbean peoples. ALBA subscribers are Cuba, Venezuela, Bolivia, Dominica, and Nicaragua, while Ecuador and Haiti will soon join it. Its initial Declaration states,

among other things, that the previous integration processes undertaken in the region were far from achieving independent development and economic complementariness and have served as a mechanism to increase dependence and internal [sic] domination. It makes clear that, for the Latin American and the Caribbean countries, integration is a *sine qua non* of development amidst the creation of major regional blocs that occupy salient positions in the world economy. Only integration based on cooperation, solidarity, and a common will to raise all peoples to the highest development levels can meet the needs and satisfy the desires of the Latin American and Caribbean countries and preserve their independence, sovereignty, and identity. The Declaration also stresses that ALBA will not become a reality on the basis of mercantilist criteria or egotistical interest in business profits or national benefit at the expense of other peoples. Accordingly, investment should not be an end in itself; it should be an instrument for achieving fair, sustainable development based on norms that protect the environment and that, through different means of communication, such as Telesur, defend the culture and the identity of the peoples of the region, giving particular attention to respect for and promotion of autochthonous and indigenous peoples (Gamma, 2004:5).

This new view of integration includes a Continental Literacy Program, scholarships in areas that are pertinent to economic and social development, and a plan for free health care for citizens that lack such services, on the model of Operación Milagro [Miracle Operation] (Luis Suárez Salazar, 2005).

4. Strengths, weaknesses, opportunities, and threats pertaining to regional energetic integration

Although Petroamerica's intention is to link the potentialities, needs, and will of the peoples and governments of the region, it is subject to internal weaknesses and serious external threats.

An assessment of the region's energetic conditions points to the availability of huge energetic resources to ensure self-supply. So far, consumption has favored oil, while hydroelectric power ranks second, except in oil-producing

countries, such as Mexico and Venezuela, which consume more gas, which comes third in most other countries. There follow in importance coal and nuclear energy, the latter only in Mexico, Argentina, and Brazil (B.P. Annual Report, 2006). Oil supply is concentrated in Venezuela, Mexico, Ecuador, Bolivia, Brazil, Trinidad and Tobago, and to a lesser degree in Peru and Colombia. As regards gas, there are three major producers in the South – Venezuela, Argentina, and Bolivia. In the North, Mexico stands out.

In addition to these strengths, there are others no less significant:

- Some command of technological capacity in the energy area;
- Investment capacity on the part of Venezuela and other countries, such as Brazil and Argentina, which have begun to overcome crises;
- Prior experience in energetic exchange under cooperation agreements and through gas pipelines and power lines among Southern Cone countries and between Brazil and Venezuela;
- Express interest on the part of many governments to move forward with this line of action to overcome their energy insufficiency;
- Awareness of the uncertainty of oil supply from the Middle East owing to the invasion and occupation of Iraq by the United States and England, the intervention in Lebanon, and Iran's threats;
- Experience of periods when neoliberal packages were applied, which led to the awareness of the risks of the FTAA and the Hemispheric Energy Alternative (Venezuelan and Mexican oil for the United States) and FTAs with the United States;
- Prior experience of regional organization in the Grand Caribbean with Mexican and Venezuelan efforts to give impetus to the Energetic Cooperation Program of the 1980s, known as the San José Agreement. To this should be added the Bolivarian Republic of Venezuela's initiative that led to the signing of the Caracas Energetic Cooperation Agreement (2000) and the Comprehensive Cooperation Agreement with Cuba (2000), and
- Establishment by the region's state enterprises of Latin America, of the State Reciprocal Oil Assistance (Arpel), the first cooperative effort among state enterprises, which soon changed its name, membership, and objectives, opening its doors to private enterprises. Subsequently,

the governments established the Latin American Energy Organization-Olade, for coordinating the desired energetic integration but which has been devoting its attention almost exclusively to studies on the sector in the region.

One of the opportunities open to the regional energetic integration project is a nascent feeling in the Southern peoples, which seek to overcome unipolarity and to consolidate pluripolarity by forming blocs capable of undertaking international negotiations from a Southern perspective, aimed at combating poverty and achieving peace. In addition, this particular moment witnesses the strengthening of OPEC, which has led to the stabilization of the oil market in favor of oil-producing, rather than oil-consuming countries.

Lastly, the fact that Venezuela is going through a change with a high social content and is internationally projecting its commitment to solidarity, integrity, and poverty eradication heralds an opportunity for the peoples of the region. The times are receding when international management distanced our country from the region, as shown by some facts.

The displacement of Venezuelan oil from the region beginning in the 1960s led to its gradual replacement by crude from the Middle East and Africa. As a result, our oil exports became concentrated on the United States. During this period, companies that operated in the Middle East and in Venezuela preferred to ship oil from that region to Brazil. Such was the case of Shell, which in 1969 shipped 50 percent more oil from Iraq than from Venezuela to Brazil. A similar thing occurred with Esso International, now Exxon, which sold similar amounts of Arabian and Venezuelan oil to Brazil. Kuwait oil was sold to Brazil at considerably lower prices than Venezuelan oil. Petrobras proposals to undertake operations in Venezuela went unheeded (Hernández-Barbarito, Karam; Ramírez et al., 2005).

Moreover, our oil's history shows submissive dependence on the United States, without any counterpart:

1. In 1939, a Free Trade Agreement was signed with the United States on customs duty exemption for all goods imported by Venezuela as a counterpart for slashing in half the new U.S. \$0.21/bl duty on light and medium crude and reducing to a fourth the duty on heavy crude. But the sacrifice did not result in any comparative advantage to Venezuela, as this treatment was soon extended to all Middle Eastern countries.

2. In the 1950s, there begun in the United States the initially voluntary then obligatory imports control and Venezuela was excluded from the special treatment accorded Mexico and Canada. This special treatment consisted in determining domestic consumption and deducting from it imports from neighboring countries. The balance was distributed among all importers, including Venezuela, under a quota system.
3. In the 1960s, after qualification of our oil as highly polluting owing to its sulphur content, Venezuela was forced, under risk of suspension of residual imports, to grant concessionaries accelerated depreciation for investment in desulphuring facilities they were obliged to build in the country. This reduced fiscal revenues, as the tax on net taxable earnings had to be raised. This investment was lost because, with the outbreak of the Energy Crisis, the desulphuring plants ceased operations. Thus, Venezuelan refineries were forced to specialize in the production of residuals for export to the United States at a much lower price than the price of crude.
4. These practices, which are damaging to national revenues, survived the faulty nationalization of the 1970s. A clear example was the strategy employed to overcome the domestic gasoline deficit, which required a change in the refining facilities that devoted themselves 60 percent to producing residuals. The onerous deal, eventually denounced by Juan Pablo Pérez Alfonso, consisted in contracting extremely high investment with each former concessionaire instead of calling for bids to determine the best choice for the country. The expenditure was of such magnitude that an OPEC founder refused to approve it, suggesting instead the importation of the gasoline needed. This was one of the most visible deals of oil's new transnational management, which set about to deteriorating the industry's assets, deviating funds through marketing and technology contracts, and finally depressing oil prices and putting the state enterprise in conditions to be privatized at an advantageous price for big capital when President Chávez assumed power (Hernández-Barbarito, Karam, Ramírez et al., 2005).

Dependence dynamics, as seen in our oil industry, prevented Venezuela from playing a major role in Latin America and the Caribbean, which remained exposed and subjected to the Oil Cartel. Today, though, our country can and wishes to play this major role, as it holds 62 percent of the area's oil reserves and accounts for 25 percent of its production. As regards gas, the figure is 52 percent. The region could be self-sufficient not only in oil and gas but also

in coal (B.P. Annual Report, 2006). The region's strength and Venezuela's major role are enhanced by the addition of the reserves of the Orinoco Strip. These figures make us think about what we are and what we can accomplish together. Are we going to be vulnerable or self-sufficient in the area of energy? Everything will depend on the alliances and decisions made.

However, the proposal faces weaknesses. Some are historical and some are contemporary, but all must be addressed head-on. They include the following:

- Border disputes;
- Some governments' lack of consistency in respect of integration, owing to commitments to the United States;
- Limited technological development in some specific areas of the energy sector, which forces countries to negotiate with transnational capital;
- The countries' limited capacity to finance refining, transportation, and petrochemical projects, and
- Presence, in many countries, of transnational enterprises that have partial or total control of the oil sector.

Moreover, there are threats that originate in the efforts on the part of the Northern power to weaken any regional integration process, particularly if it is excluded from it. These threats come from the pressure by the United States' and big transnational capital's effort to impose opening alternatives, disintegration, and intervention, as illustrated by the following:

- The FTAA and the Hemispheric Energy Initiative;
- Free trade agreements;
- Military backing such as for the Colombian and the Patriot Plans;
- Multilateral actions originating in the World Trade Organization – WTO;
- Threat of preventive war against Cuba and Venezuela, principally against the latter;
- Tendency to replace oil with gas, through which transnational capital intends to weaken OPEC's role in the world energy market. This process is known as the new energetic transition, and

- Establishment of an *OPEC* of ethanol and other agrofuels produced from grain and tubers, pushing of transgenic seeds, and reduction of the supply of food for hungry populations.

As the FTAA proposal and its component, the Hemispheric Energy Initiative, began to loose impetus, pressure for the celebration of FTAs increased. This, coupled with the proposed extension of the Colombian Plan and the threats of preventive war against Venezuela and Cuba, purports to achieve Monroe's objectives: America for the Americans (meaning the United States) and neutralization of the liberation spirit of the peoples that continue to be subjected, such as those of Nicaragua, Ecuador, Bolivia, Argentina, Uruguay, and Brazil – peoples that increasingly demand from their governments the assurance of a life with dignity.

In addition, the threat of the new energy transition (from oil to gas) stirs up a new debate in Venezuela about the need to resort to orimulsion to guarantee the immediate production of electricity in the region, instead of counting on new gas reserves, which would prevent the world's largest oil reserve from being placed at the service of the development of the region's strategic electric sector and from giving impetus to the region's hoped-for endogenous industrialization. A further factor is the new lure of agrofuels, as proposed by an extreme developmentism bent on subtracting farming land from food production, which is susceptible of dazzling more than one government with the mirage of the Northern nation's energy-guzzling market. Control and divide – this is the strategy. Let us look more closely into these two threats.

The new energetic transition seeks to submit to the control of the industrialized countries and of transnational corporations the new gas deposits of the former Soviet Republics in the Caspian Sea and of West Africa. To counter this intent, the President of Iran introduced the idea of an organization of gas-exporting countries also and invited Russia to join it. This is a key issue for Venezuela, particularly if we associate it with the need to take up orimulsion again and to ensure that it is seen as oil and not as bitumen. As it seems, this product has been rejected because of the need to valorize our reserves in the Orinoco Oil Strip, as it was thought that the profitability of the Strip would be higher if crudes were mixed with light petroleum or were improved. There was also the fear that in time orimulsion would be included in *OPEC*'s quota, which would not be profitable at the agreed prices. It was

thought then that orimulsion should not compete with coal but with gas in the generation of electricity and that its price should be fixed on the basis of this relation, adjusted according to its content of vanadium, which is highly valued on the market, but whose presence in the byproduct was unknown at that time.

Orimulsion's advantages are many: Venezuela has exclusivity over this product and its technology; it can be transported through the same channels as oil and, differently from gas, does not require special liquefaction and gasification facilities; it is sufficiently available to meet national and regional needs; and its use does not have to wait for years, as is the case of gas, whose most valuable use is in the petrochemical industry. It is not for nothing that China, India, Japan, and Italy are interested in this energetic novelty (Travieso, 2005; MRE, *The markets for Venezuelan oil*, 2005).

As regards the discussion about ethanol, it should be noted that it takes place in the context of a strategy that attempts to weaken regional energetic integration and to create false expectations about the impetus it might receive from the United States. Any eventual support would be tailored to the needs of the Northern economy; this is illustrated by the United States' refusal to meet Brazil's request for reducing the U.S. tariffs that protect its own production. This strategy became clear in the first weeks of 2007, when the discussion about ethanol began, as this was one of the key issues on the agenda of the U.S. President's visit to some Latin American countries.

As we know, ethanol is produced in the United States from corn, while in Brazil its raw material is sugarcane. Biodiesel, in turn, is produced from oilseeds, such as palm, soybeans, and sunflower. Until now, production of these two agrofuels was prompted by the need to use the product in small ratios to replace lead and methyl-tercier-buthyl-ether, but has also proven to be an aquifer pollutant in case of spills.

The polemics arise because the proposal proffered by President Bush on his tour envisages replacing all gasoline with agrofuels, which is an absurd, as this would require farming several planets to be able to meet fuel requirements worldwide. Ramón Pichs, of the World Economy Research Center (CIEM), says that "to fill a five-gallon tank with biofuel for two weeks would require grain sufficient to feed 26 people for a year" (Últimas Noticias, Oct. 3, 2007). To this should be added its effect on prices, the raising of which has already led to protests by the Mexican population

against the higher price of the traditional tortilla. Arguments pertaining to the production's energy costs deal a last blow to the choice of ethanol as a fuel substitute, as to produce it, it is necessary to apply fossil energy to the soil through fertilizers, fungicides, and pesticides derived from oil in ever greater proportion because of the monoculture required, as well as the oil and electricity necessary for planting, harvesting, processing, and transporting.

Moreover, this strategy could encourage the use of transgenics and speed up the destruction of biodiversity. In this regard, FAO points out in its last report that between 1900 and 2005, Latin America's forest coverage shrank by 19 percent in Central America and by 9 percent in South America. Our region ranks first in the world in the number of tree species that are threatened or susceptible of extinction (Ultimas noticias, March 14, 2007).

This discussion is necessary, as all the region's countries have projects in this area. Here are some facts:

Brazil produces 18 billion liters a year, which allows it to reduce its crude imports by 40 percent; Colombia produces 300 million liters of ethanol from sugarcane and expects to raise production of biodiesel from African oil palm to 645,000 tons. Argentina produces biofuel from soybeans and expects to reach 800,000 tons a year by using sea algae also. In Chile, field studies are at an advanced stage and 170,000 hectares are to be used for producing diesel and ethanol. Paraguay intends to process about 100,000 liters a day of biodiesel from castor beans, and other countries, such as Bolivia, Guatemala, Honduras, and Nicaragua also have projects at an advanced stage to build plants. In Venezuela, the Pdvsa Plan contemplates investing 86 billion in ethanol between 2006 and 2012 and it has been recently announced that eleven plants will be built to blend it with gasoline, with Cuba's assistance.

Of particular concern is the fact that Brazil has strengthened its alliance with the United States with this strategy, as stated in the cooperation protocol it signed with the United States, indicating that "it will drastically change the world's energetic matrix in the next 20 to 30 years" (Ultimas noticias, March 13, 2007)" and that Colombia intends to advance plans in this connection in regions where our rivers have their headwaters. These are issues to be considered by the region's governments.

5. Summary and final considerations

By way of conclusion, it can be said that the Latin American energetic integration project is advancing apace and gaining in depth, encompassing sectors that are vital for giving impetus to the development of our peoples. The aforementioned strengths of the project have provided it with a sound foundation, as is the case of abundant energy sources, which have even prompted the idea of the establishment of a gas *OPEC* for South America – the *Opegasur* linking Argentina, Bolivia, and Venezuela for the purpose of protecting gas from the voracity of big transnational capital.

The recent repudiation of neoliberalism and the favorable moment the region is experiencing in terms of growth, with the nationalization of hydrocarbons in Venezuela and in Bolivia, and with Argentina's recovery continue to work for this energetic integration strategy, thereby offsetting the weaknesses pointed out earlier. This is illustrated by the newly moderate tone of the discussion about Bolivia's right to a sea outlet, Guyana's incorporation into Petrocaribe, and the Trans-Caribbean-Colombian gas pipeline; these projects have taken over the space previously occupied by border disputes. A major progress has been the obligation to negotiate among state enterprises, which has laid aside the transnational corporations and fortified the public sector in respect of energy, even though this may refer only to the marketing of hydrocarbons in the case of non-producing countries.

Tensions do exist, though, and the divisive strategy persists, as shown by Washington's recent offensive to push ethanol and the recent Colombia-U.S. intervention in Ecuador, as well as the inconsistency of some governments, as seen particularly in Colombia's and Peru's alliance with the United States. Against this background, energy supply functions as a moderator and an instrument of approximation, given its importance for fostering development.

Threats have lost force as shown by the nearly generalized rejection of the FTAA and by the Latin American Regional Energy Initiative; by the curbs the Southern countries have imposed on the WTO; and by the firm alliances among the region's governments, which erect protection barriers against Washington's preventive war threats. Another positive fact is the emergence of ALBA, involving Cuba, Venezuela, Bolivia, Dominica, and Nicaragua, and the expected adhesion of Ecuador and Haiti. Another is the close bonds of friendship Venezuela has established with Argentina and Brazil. The

international scenario of war of attrition in Iraq and Afghanistan, and Iran's threats maintain the Middle East as the most important war front for the U.S. government. This, coupled with the economic recession it is currently facing, makes a military intervention on our continent less likely.

These advances and achievements in respect of Latin American and Caribbean energetic integration do not keep us from insisting on the need to reflect about the risks of development based on a rising consumption of energy. We insist that the endeavor to overcome the energy deficit of the countries of the region should follow highly rational criteria and promote the most appropriate use of each type of fuel. Public transportation should be favored over private transportation and productive and energetic solutions should be promoted in accordance with local characteristics. As Gorz says, we must live better with less, avoid the production of residues, rationalize consumption, valorize and democratize the productive apparatus, favoring creative, and favor cooperative work.

The use of alternative renewable sources should also be promoted to meet the energy needs of remote areas, such as borders, rural zones, and rainforest zones. Here are some examples:

The experience of the Las Gaviotas Center in Colombia, which explores energy sources appropriate to the Colombian plains, such as biogas and hydroelectricity. Brazil has also developed biogas. In Venezuela, the Energetic Revolution has permitted the replacement of conventional lamps with more efficient ones – a Cuban experience, by making lamps with photovoltaic cells in Caracas and other regions of the country, as well as beginning the building of the Paranaguá peninsula windmill park, etc. The miniplants proposed and built on the Andes by our popular technologist Luis Zambrano should be multiplied and the use of direct solar energy should be encouraged for crops such as manioc, as is the case year-round in Brazil. Also encouraged should be hydroponic and organoponic crops (Cuba) or simply mixed forms of cultivation as in the traditional Venezuelan smallholdings, which display high energetic rationality. This would foster the development of integrated agriculture, ecologic tourism, the rational settlement of uninhabited regions, and food self-sufficiency.

Latin American and Caribbean energy integration should focus on combating poverty, creating productive jobs, and ensuring sustainable

development, a Latin American commitment undertaken at the United Nations Conference on Environment and Development, also known as the Earth Summit (Rio, 1992) and at the World Summit on Sustainable Development held in Johannesburg in 2002.

Lastly, it should be stressed that energy integration through Petroamérica is a fundamental, or rather the most important component of the regional integration process. It aims first at solving supply problems at fairer prices and conditions. Its mission, though, is comprehensive and addresses the challenge of promoting energetic rationality, environmental preservation, and creating a cleaner, sustainable world, thereby ensuring greater well-being or, in the words of Liberator Simón Bolívar, “the highest sum of happiness possible” for the population.

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Translation: João Coelho

"Sol Negro" [Black Sun] Series (2003).
Acrylic on canvas, 100 x 100 cm.



Fernando de Szyszlo

Fernando de Szyszlo (Lima, July 5, 1925) is a renowned Peruvian plastic artist known especially for his paintings and sculptures. One of Peru's most outstanding avant-garde artists, he has been a key figure in the development of abstract art in Latin America.

Biography

Fernando de Szyszlo was born in the Lima district of Barranco in 1925, the son of Witold de Szyszlo, a Polish physicist settled in Peru, and María Valdelomar, sister of the writer Abraham Valdelomar. He was married to Blanca Varela, the notable Peruvian poetess.

After finishing secondary education at Colegio de la Inmaculada, Szyszlo attended the school of architecture of the National Engineering University but left it before graduating and entered the School of Plastic Arts of Peru's Pontifical Catholic University. At 24, he traveled to Europe, where he studied the works of the masters, particularly of Rembrandt, Titian, and Tintoretto, and absorbed the various influences of cubism, surrealism, and informal and abstract art. While in Paris, he met Octavio Paz and André Breton and frequented the group of writers and intellectuals that gathered at Café Flore, where he carried on feverish discussions about how to participate in the international modern art movement and at the same time preserve his Latin American cultural identity.

Back in Peru, Szyszlo became a major champion of artistic renovation in the country, introducing new ways of portraying Peruvian subjects in a non-figurative style.

He was a faculty member of the Art School of Peru's Pontifical Catholic University from 1956 to 1976 and a visiting professor at Cornell, Yale, and Texas Universities.

Color lyricism, enhanced by rich texture effects and a masterly handling of light and shadow are the salient features in Szyszlo's paintings. Strongly marked by a blending of images from ancient cultures and a modernist artistic language, his art displays a vast culture nourished in different sources that range from science to philosophy to literature. His evocation of the rituals, myths, and geography of the coastal and desert landscapes is often associated with that of pre-Columbian religious monuments.

Since his first exhibit in Lima in 1947, Szyszlo has had over one hundred individual shows in museums and galleries in Latin America, Europe, and the United States and participated in prestigious international biennials, such as those of São Paulo and Venice. His works are in important public and private collections around the world.

In addition to his work as a painter, his appreciation of literature and friendship with several writers inspired him to engage in major projects, including the launching, with the poet Emilio Adolfo Westphalen, of the *Las Moradas* magazine (1947-1949), which was of great importance for the development of cultural activity in Peru. In 1996, he published *Miradas Furtivas*, a compilation of articles written since 1955, mostly about contemporary and pre-Columbian art. Szyszlo is a member of the Peruvian Language Academy.

Prizes and distinctions

- Ph.D. Honoris Causa, San Martín de Porres University.
- Ph.D. Honoris Causa, Pontifical Catholic University of Peru.
- Knight of the Order of Arts and Letters of France.
- Grand Officer of Chile's Bernardo O'Higgins Order. **DEP**

Translation: João Coelho

Construtora Norberto Odebrecht

Odebrecht Perú: a successful partnership

Relations between Construtora Norberto Odebrecht and Peru are the story of a long-standing, successful partnership. In 2009 we will be celebrating thirty years of our operations in Peru, a historic milestone that testifies to the solidity and maturity of our relationship that goes back to 1979, when Odebrecht began its internationalization process, as it was awarded the construction contract for the Charcani V Hydroelectric Plant in the Arequipa province in southern Peru.

Located on the slopes of the Misti volcano on the Andes Cordillera, the hydroelectric plant, with its almost completely subterranean works, catches water from the Chili River. The power generated by Charcani V meets the power needs of Arequipa, one of Peru's major cities, and of the Cerro Verde mining complex.

In the late 1970s, when construction began, the Arequipa population had to live with power rationing, as electricity was available only for three hours a day to allow local enterprises to operate. In addition, the scarcity of water

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prevented the expansion of local agriculture. There was an urgent need to implement a project to overcome these difficulties.

The Charcani V works began in 1980; eight years later, the hydroelectric power plant was inaugurated. Once completed, it did away with the daily shutoff of the power supply, thereby significantly improving the *arequipeños'* quality of life. The availability of power also permitted the establishment of a metal-mechanic industrial zone, which attracted more people to the district, leading to the emergence of new neighborhoods and commercial centers.

Currently, Charcani V generates approximately 70 percent of the power supply in southern Peru. Owing to the advanced technology used in its construction, today, two decades later, the hydroelectric power plant is still one of the country's most modern plants, operating at one of the lowest costs of electric power production in the region.

In 1988, the same year we finished Charcani V, we signed a new contract. This time, Odebrecht would be responsible for making into reality an over fifty years-old project, namely, the Chavimochic Irrigation Project. Located in the desert region of La Libertad, the project included the execution of two hydraulic engineering works to divert water from the Santa River to irrigate the Chaco, Virú, and Pampas de Pur-Pur valleys. A hydroelectric plant with a capacity of 7.5 MW was built, which catches water from the main channel of the Chavimochic Irrigation Project and generates sufficient power to supply the city of Virú.



Figure 1. The Chavimochic irrigation system and its results.

The irrigation work made possible the addition of new lands to regional agriculture by supplying water to the cities of Trujillo and surrounding rural populations. This impressive set of synergically-operating initiatives entailed a qualitative jump in the local economy and opened new job and income-generation opportunities for the population. Today, the formerly desert La Libertad region is one of Peru's major exporters of agricultural products.

Owing to the trusting relationship cemented by these first joint projects, Odebrecht's operations in Peru gained impetus and expanded considerably in the 1990s. Since 1993, not one year has gone by in which we have not won new contracts pertaining to some additional phase of some recently completed work or to completely new projects.

Among these initiatives implemented by *Odebrecht Perú*, some projects deserve special mention. In Olmos, a city in northern Peru, we have executed works that permitted the damming and subsequent deviation of the Huancadamba River, a project planned eighty years earlier but never tackled. Owing to this initiative, made possible by a public-private partnership – PPP, part of the river flow will be redirected to the Pacific Ocean through the Transandean Tunnel, which will be 19.3-km long and 4.8-m wide. When completed, the project will allow 460 million cubic meters of water to irrigate over 40,000 hectares of fertile land on the Cordillera slopes. In addition the flow will also feed two power plants.

As was the case in Chavimochic, the Olmos Project will impart a strong impetus to the local economy, creating jobs and improving the population's quality of life, as it will transform this formerly unproductive region into a prosperous area.

The project is being executed with utter care and attention, as it is located in the proximity of an archeological site of the pre-Incan Mochica civilization that thrived in the area over two thousand years ago. Something similar occurred during the execution of the irrigation work in Chavimochic, when a pyramid by the equally pre-Incan Chimú civilization was discovered precisely at the outlet of the main tunnel. The discovery area was isolated, the engineering plans were redrawn, and the canal was detoured so as to preserve the archeological site. In both cases, past and present, Odebrecht's conduct has been governed by respect for local history and culture and for the preservation of the peculiarities of the areas and communities where we work.



Figure 2. Map showing Odebrecht's operations in Peru.

In addition to the Olmos Project, *Odebrecht Perú* is developing other major initiatives. On the shore of the Pampa Melchorita region, 169 km from Lima, a natural gas liquefying plant is being built. As member of the CDB Melchorita Consortium, Odebrecht participates in the building of the auxiliary marine facilities, including a 1,350-m long docking bridge; PLG ship loading facilities; an approach canal; and an 800-m long offshore breakwater. Including financing costs, this Peru LNG Project will involve US\$3.8 billion, the largest direct foreign investment ever in Peruvian history. Of this amount, US\$247 million refer to a contract signed between Odebrecht and Peru LNG. When completed, the Melchorita complex will allow the country to export its gas surplus to international markets.

Currently, the Peruvian economy is constantly showing signs of vigor and maturity. In the last few years, the country has maintained one of the highest GDP growth rates in Latin America. Recently, Peru has achieved investment grade, an international recognition that attests to the soundness of the country's business environment.

The continuous improvement of infrastructure has undoubtedly been a crucially important factor of this sustained growth, as investment in this key sector has had significant impact on the entire economy. The improvement of the transport infrastructure, for example, has helped overcome logistic and geographical obstacles, and thus enhanced the competitiveness of Peruvian goods both at home and abroad.

This vision, which favors physical integration as an essential instrument of sustainable economic growth, has guided two other initiatives in which Odebrecht participates in Peru. The Iirsa North and the Iirsa South projects, for instance, are being developed in the country to create the two interocean corridors that will interconnect the Brazilian and the Peruvian transport networks. Odebrecht leads the two consortiums in charge of executing the works.

As members of the Iirsa North Construction Consortium-Concin, we participate in the construction, rehabilitation, and improvement of 955 kilometers of a road that will connect the Amazon region to the Pacific. Odebrecht is responsible for the stretch linking the Paita seaport on the Pacific to the Yurimaguas river port on the Peruvian portion of the Amazon River.

Our activity in the area, just as in all the regions where we operate, is oriented not only toward the execution of works. We also have a firm social and environmental commitment to integrated, sustainable development of both the inner community consisting of the Odebrecht personnel and the local community. In this respect we promote different initiatives. In the environmental area, we have contributed to the *Proyecto Biodiversidad*, by expanding the animal custody center, an institution that provides support to the spectacled, or Andean bear, a typical, endangered species of the region. In the field of education, the consortium of which we are part has channeled resources to the *Escuela para Todos*, a literacy program that has been expanded to offer quality elementary education to 177 students.

These projects and other initiatives we have undertaken in the areas of health and vocational training provide a brief glimpse of the many social benefits associated with the works done in connection with the North Amazon Multimodal Axis. They reflect at the local level a broader strategic partnership for continental physical integration, which has already generated manifold advantages for Peru's northern region and will certainly continue to do so in the near future.

A similar process is under way in southern Peru, where once again Odebrecht is combining the provision of engineering and construction services with the exercise of environmental responsibility, as we participate in the Southern Interocean Highway-Conirsa. After completion of its 710 kilometers, the road will establish Brazil's first link with the Pacific Ocean, connecting the Peruvian town of Iñapari, which adjoins the Brazilian town of Assis Brasil, in the state of Acre, to the Pacific port of San Juan de Marcona. The work contract calls for the construction, operation, and maintenance of roads connecting Iñapari to Inambari (stretch 3, in the Madre de Dios Department) and Inambari to Urcos (stretch 2, in the Cuzco Department).

As is the case with Iirsa North, we implement different initiatives to benefit local communities along the Interocean Highway Corridor South-Iirsa South. Since 2006, assuming our role as agents of change and our commitment to improving the quality of life of the populations living in our field of operations, Odebrecht and Conirsa are implementing the *Social Responsibility Integrated Plan*. In 2007, we also introduced the *Programa Itinerante de Apoyo a la Salud y Educación – PASE* [Itinerant Program in Support of Health and

Education], an extensive project aimed at providing information and training to the population in respect of preventive health. As regards the environment, a *Plan de Desarrollo “Interoceánica” Sur* is under way, in which representatives of Odebrecht, Conirsa, *Conservation International*, and *Pro Naturaleza* have worked in close cooperation, promoting conservation and development initiatives along stretches 2 and 3 of the South Interocean Highway Corridor.



Figure 3. Already built Iirsa south roads.

The joint implementation of these projects illustrate Odebrecht's and Conirsa's close cooperation with the Peruvian government and with private enterprises and organized civil society in Peru, aimed at combining sustainable development in the regions where we operate and at improving the quality of life of the populations that will be the beneficiaries of the services we provide.

These and so many other initiatives testify to Odebrecht's commitment to Peru's socioeconomic development. Between 1970 and 2007, over 43,000 people made part of the enterprise and contributed to our projects. Including concessions already under way, paved roads total more than 2,300 kilometers. In addition, we have built 240 kilometers of irrigation canals and over 180

kilometers of potable water systems. We have dug more than 85 kilometers of tunnels for irrigation projects and built over 60 kilometers of power transmission lines.

Odebrecht has opened roads to the future in Peru on the coast, in the jungle, and on the sierra. In nearly thirty years of partnership, we have worked consistently to satisfy our clients and with the firm commitment to respect the social and environmental peculiarities of the regions where we make ourselves present. Under the orientation of *Tecnologia Empresarial Odebrecht – TEO*, we believe in our collaborators' potential and invest in their education through work. We are the only Engineering and Construction enterprise of a foreign origin that has worked in Peru without interruption since 1979. All these factors are a great incentive to work ever more vigorously and ever better so as to perpetuate and further strengthen the successful partnership between Odebrecht and Peru.

Grupo Andrade Gutierrez

Brazil-Peru: a mature partnership

The weight of history

Brazil and Peru, similarly to the other South American countries, still suffer from what one might familiarly describe as the effects of a historical hangover from “five hundred years on the periphery,” to borrow an expression from Samuel Pinheiro Guimarães. Their economic life and even their political perceptions still bear the marks of centuries of asymmetrical ties to the great world power centers, a connection that was changed but not extinguished by political independence won in the first quarter of the nineteenth century. It subsists owing not only to actual asymmetries but also to the general notion of a center-periphery relationship that, though still real, is now less striking than is seemly perceived and accepted by important, influential sectors of national opinion in the two countries.

An illustration of this state of affairs on our continent is the fact that to this day a road starting from Brazil and crossing the Andes toward South America’s west coast is seen by significant segments of public opinion more

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as “an outlet to the Pacific” than as an infrastructure undertaking capable of facilitating the economic integration of neighbor countries. Or, conversely, that access to the Amazon region is perceived primarily in the Andean countries as “an outlet to the Atlantic Ocean.” In both cases, such an attitude betrays a widely disseminated opinion in South America that what is important is maintaining ties to the major centers of world economic power rather than promoting the approximation of neighbor economies.

In its broad lines, this picture still persists, but it is also clear that it has significantly changed, both objectively and subjectively. Objectively, at the global level the relative importance of the major centers, particularly of the United States, has declined, not owing to absolute decadence but to the increasing importance of others, particularly of the major emerging economies and to the attendant worldwide diffusion of power. It is significant that back in 2004 *The Economist* already pointed that four out of the world’s ten major economies (in terms of the parity of their currencies’ purchasing power) were those of developing countries or countries in transition.¹ In January 2006, the same publication indicated, based on the same criterion, that in 2005 the ensemble of the developing economies had accounted for slightly over half of the world output and for over half of the global GDP in current U.S. dollars.² Today, without going into greater statistical details, one can point to the notorious economic rise of China and India, the already commonplace reference to the BRIC countries (Brazil, Russia, India, and China) as major ascending powers, and the growing agreement on the need to change the vote composition and/or structure at important international institutions (IMF, U.N. Security Council, G-8), so as to better reflect the current international distribution of power. All of this reflects the gradual emergence of a new international order and the growing awareness of this trend.

A new regional reality?

South America will not be able to face these global changes without also changing the perception of its position on the world scene and of the kind of relationship that must prevail among its countries.

1 “A Survey of the World Economy – The Dragon and the Eagle.” *The Economist*, Oct. 2-8/2004.

2 *The Economist*, 1/21/2006.

In a world in which the position of the developing countries as a whole was characterized above all by an asymmetric relationship between the center and the periphery, relations among peripheral nations tended to move in one of two directions: adhesion of some to the center and, which resulted in their relative alienation from the rest of the periphery; or attempt to agglutinate the peripheral countries with a view to change a world economic order seen as harmful to the interests of the poorer countries, or at least better to protect themselves from its effects. To some extent, this dichotomy still exists, albeit to a lesser degree.

Historically, though, the second possibility has been often hindered by mistrust and sharply diverging interests among supposed allies. We have seen the debilitating consequences of this divergence in, for instance, the weak operational capacity of the Group of 77 in the 1960s and 1970s. Countries that should form a cohesive group united in advocating measures aimed at promoting the reform of the standing international order to their common benefit, were united only in their discourse and had difficulty in agreeing on specific, corrective mechanisms.

At the regional level, similar problems have hindered the realization of the grand vision of full Latin American integration. In this regard, the South American integration objective may be seen as the expression of a strategic retreat: as Latin American integration cannot be achieved, South American integration is being attempted – so far with debatable results. At the time the First South American Summit was convened, Ambassador Luís Felipe Lampreia, our then-Foreign Minister, implicitly admitted as much in a *Carta Internacional* article, in which he stated that Central America and the Caribbean had been left out of that meeting not only because of South America's specificities but also because of those two regions' too close, direct connection with North America, and with the United States in particular. In other words, some peripheral Latin American countries had already adhered to the center and thus there was no reason to invite them to the South American encounter in Brasília. The evident flaw in this argument is that the attitude of a given country toward the center is defined on the basis of political option and not of geography. As we know, there is a diversity of positions within South America itself and not only as regards South America vis-à-vis Central America or the Caribbean.

In a world in which international concentration of power tends to become diluted, political cooperation and economic integration among developing countries may in principle assume a more constructive, less defensive character, although possible differences of perception or conflicting objective interests may persist. The central idea now is the establishment or consolidation of equitable, productive links instead of confrontation of a common adversary – the center, in this case. The objective is to pool resources for a synergetic effort to ensure that the final outcome will exceed the sum of what one of the parties could achieve by itself. This is the spirit of the current pursuit of South American integration and, more specifically, as well as more relevant to this article, of cooperation between Brazil and Peru. This allows President Luís Inácio Lula da Silva to announce the high priority his government attaches to South American integration, while his Foreign Minister reveals the intention to maintain a mature, more strategic relationship with the United States, in which Washington would see Brazil as a partner indispensable to the development of stable relations with South America and even with Africa. In other words, in Brasilia's perception, there is no antinomy between South American integration and good relations with the United States, as the objective is to strengthen the South American countries and not to antagonize the center.

This reasoning seems to guide Brazil's foreign policy on the continent, but does not eliminate the difficulty of achieving the stated goal of South American integration. In addition to the inevitable obstacles to the realization of a project of such magnitude, two additional problems come up. First, the perceived lack of equity in a project of integration among economies that, in spite of being all considered as "developing economies," have marked asymmetries in relation to each other. In the perception of the weaker ones, this would lead to a clear bias toward the region's stronger economies, particularly toward Brazil. The dissatisfaction on the part of countries such as Paraguay and Uruguay is public and notorious. The second problem is the divergence about the attitude toward the center, particularly toward the United States. While some seek to establish special ties to Washington, or have already done so, either in the form of bilateral trade agreements, as is the case of Chile and Peru, or in a broader sense, as Colombia has done, other countries, such as Venezuela, can only conceive of South American union against the United States, seen by Caracas as the great enemy. Differently from these countries, others, such as Brazil, see no contradiction between South American integration and good relations with

Washington, even though they do not wish a formal, closer economic association with the great northern power. In brief, given these differences, even the idea of South American instead of Latin American integration seems at best a very long-term project. Under these circumstances, one should not, at risk of losing sight of the ultimate South American integration objective, downplay less grand, but more pragmatic efforts toward bilateral cooperation.

Brazil-Peru

To a different degree, Brazil and Peru as countries with a vast territory, low population density, and considerable geographical diversity, face internal problems related to regional disparities and to the functional integration of their different regions.

According to Enrique Cornejo Ramírez, *“el Perú es un país megadiverso en el que confluyen diversas razas, lenguas y ecosistemas, lo que le da una gran potencialidad en sectores como la agroindustria, el turismo o la industria forestal. Su compleja geografía, sin embargo, dificulta la integración física entre los peruanos y pone a prueba a la más sofisticada ingeniería.”* [Peru is a country of great diversity, encompassing various races, languages, and ecosystems that make for a great potential in areas such as agroindustry, tourism, or forestry. Its complex geography, however, poses difficulties for the physical integration of the Peruvian peoples and tests the most sophisticated engineering.]³ Brazil, without the extreme cultural diversity and with a much less complex geography, has substantial experience in dealing with problems of regional inequalities and the physical integration of its vast territory. It has also developed a diversified industrial base, including an important civil construction sector, with technically advanced and economically solid enterprises with extensive international operations.

These complementary needs and experiences offer, thus, a wide field of possible cooperation in the development of the Peruvian infrastructure, a field that has been explored for sometime by Brazilian companies with very good results and promising perspectives. It is an area that is not only beneficial to the bilateral exchange of services but also important to the development of the Peruvian economy as a whole and specifically to commerce between the two countries.

3 Cornejo Ramírez, Enrique. “La economía peruana y el desafío del crecimiento con inclusión social” in *DEP: Diplomacia, Estrategia y Política*, No. 7, July/September 2007.

A good example of the importance of infrastructure works and international cooperation is the rehabilitation of the Fernando Belaúnde Terry Road in the San Martín region. In 2000, the area mayors, members of the Municipalities Association, met at Tocache to adopt measures to reverse the process of the region's increasing exclusion and to join efforts to implement those measures. It was soon agreed that the most important, pressuring measure was the rehabilitation (reconstruction, actually) of the Fernando Belaúnde Terry Road. Early in 2007, the diagnostic was confirmed by a survey done under the Poverty Reduction and Mitigation Project funded by Usaid-Peru to identify the bottlenecks that hindered the region's development. The study concluded that the main problems were "the Fernando Belaúnde Terry Road's precarious condition" and the "scarcity and high price of electric power." By itself, the road's deterioration along which 107,000 people live allegedly accounted for yearly losses of 250 million dollars. Finally, in September 2002, the U.S. and the Peruvian Governments signed a Special Objective Grant Agreement, for the main purpose of ongoing reduction of the cultivation of coca for illicit ends. Under the agreement, Usaid donated 25 million dollars for the rehabilitation of the Fernando Belaúnde Terry Road between Juanjuí and Tocache. The U.S. Army Corps of Engineers was charged with calling for bids and for overseeing and controlling the work, whose execution fell to the Brazilian construction company Andrade Gutierrez. Work began in 2004 and was delivered to the Peruvian government eighteen months later by Usaid, which had contracted Andrade Gutierrez.

However, the importance of bilateral cooperation is not limited to taking advantage of such a propitious opportunity related to the needs and attendant possibilities of an area of particular relevance for development and integration. Peru has a considerable potential and has known how to expand its economy at an accelerated rate in recent years, although it faces, as pointed out by Enrique Cornejo's article, the huge challenge of ensuring that the benefits of this growth are more equitably distributed. Between 2002 and 2005, Peru's GDP grew at an average annual rate of 5 percent and even at a higher rate in the two following years. Thus, between 2000 and 2007, Peru recorded the second highest per capita income growth rate in Latin America, second only to Chile's. In the first half of the decade, this expansion was due mainly to increased exports, but in the two following years it was due mainly to domestic demand, which grew 9-10.6 percent a year, a substantially higher rate than the GDP and

exports growth rate. The economically active population-EAP also grows, but at a rate of only 350,000 people a year, while employment could be ensured only by a growth rate of about 7 percent. It is thus not surprising that in 2004 underemployment affected 8.5 percent of the economically active population and underemployment reached 54 percent. In sum, nearly two thirds of the economically active population were unemployed or underemployed. We could add to the list of economic and social indicators, which would only confirm the overall evaluation that Peru today has good economic performance, but faces a mighty challenge of social inclusion. Sustaining such economic development and thus creating conditions for solving social problems can only be reinforced by a bilateral cooperation environment, in which the elimination of infrastructure bottlenecks is highly important.

The presence of Brazilian civil engineering enterprises in Peru is thus an important part of mature cooperation between the two countries, cooperation that is not limited to the elimination of trade bottlenecks and the attendant increase in trade in goods. This is convincingly illustrated by the case of Andrade Gutierrez, which has a significant portfolio of projects, already completed or under way, that are relevant both to a better performance of the Peruvian economy and to closer continent integration in some cases.

Andrade Gutierrez arrived in Peru a little over fifteen years ago, in 1992, and began its civil engineering operations in the country with the construction, under a consortium with local enterprises in the Piura region, almost 1,200 kilometers north of Lima, of the Talara liquid cargo pier, to serve the country's oldest refinery, the second largest in capacity. The dock to be constructed should have a capacity to accommodate ships of up to 35,000 traveller tons, and a ballast water treatment plant. Today, the facility allows the safe docking of tanker ships to load up the refinery's products and the discharging of ballast water at sea under ecologically appropriate conditions.

That was the first step toward a long, rich cooperation history. Other steps would follow, particularly in respect of roads, but also of power generation, through a series of major civil engineering projects that continues today.

In 1993-1995, Andrade Gutierrez executed for the Peruvian government an important work of recuperation of a 235-km stretch of the Pan-American Highway South. This is one of the most traveled roads in the country, which allows cars and trucks to travel without interruptions between Ica and Lima,

thereby facilitating the outflow of the region's predominantly agricultural production to Lima, the main domestic consumer market. Other projects would follow, including the rehabilitation and paving of the Tarma-La Merced road (1996-1998) and the La Merced-Shankivironi highway (1997-1999), which overlapped with the construction of the water intake structure and related works for the San Gabán II hydroelectric plan (1996-1999)

However, even more important than a listing of individual projects, significant as they may be, is the political vision embraced by all the South American Heads of State at the First South American Summit held in Brasília in 2000, that it is not sufficient to execute individual projects. It is necessary to discuss together the integration of the continent's infrastructure. Only this can maximize the contribution of such undertakings to the achievement of the ultimate integration objective. Accordingly, the summit approved the Initiative for the Integration of Regional Infrastructure in South America-Iirsa as a forum for comprehensive discussion of infrastructure projects susceptible of contributing to the unanimously endorsed integration objective, which would remain mere dead letter without the continent's physical integration.

Iirsa approved nine Integration and Development Axes, four of which involve Peru and three involve Brazil:

- Amazon Axis – Iirsa North (Peru-Ecuador-Colombia-Brazil)
- Iirsa South (Peru-Brazil-Bolivia)
- Interocean Axis (Brazil-Paraguay-Bolivia-Peru-Chile)
- Andean Axis (Peru-Ecuador-Colombia-Venezuela-Bolivia-Chile)

As can be seen, the “integration axes” approved by Iirsa are extremely important for a serious cooperation effort between Brazil and Peru in the area of transport and communications infrastructure. The Amazon North multimodal axis, for instance, extends for 960 kilometers and encompasses not only the road stretches between Paita and Yurimaguas but also the Yurimaguas and Iquitos river ports, and the Huallaga and Marañón waterways that complete the linking with the Brazilian border. The projects contemplated under Iirsa, many of which are already under implementation, with the participation of Andrade Gutierrez and other Brazilian enterprises, enhance the possibilities of increased interchange between a country with Peru's potential and Brazil, South America's major domestic market.

By way of conclusion

As mentioned in the beginning of this article, the idea of the Latin American countries' integration as a positive sum game, in which the countries' association could yield greater gains than a mere aggregation of the region's national products, was a long time in taking root in the respective capitals. Its first formal expression, heavily influenced by the Eclac thinking, was the 1960 Treaty of Montevideo I, which created the Latin American Free Trade Association (Lafta/Alalc). In principle, integration should eliminate or attenuate some evils that plague developing economies, such as the narrowness of the respective domestic markets and the attendant difficulties hindering specialization and the achievement of economies of scale.

Due to reasons briefly discussed in this article, the ideal of integration did not go forward in the context of the treaty. Two decades later, we have the II Treaty of Montevideo which created the Latin American Integration Association (Aladi) that also fell short of its goals.

In 2000, forty years after the signing of the Treaty of Montevideo I, Brazil took the initiative of convening a summit meeting of South American countries considered less bound to the United States than the countries of Central America and the Caribbean, and endowed in their ensemble with specificities that should theoretically facilitate a closer approximation than would be possible if all of Latin America were involved. Thus, still under the Fernando Henrique Cardoso's government, the concept arose of a new continental regionalism, or South Americanism, which is still current.

Today, based on the wisdom gained from retrospection, it seems that any ambitious idea of regional integration – whether South American or Latin American – should be taken as a long-term objective, of desirable but remote realization. Thus, without losing sight of this distant goal, we should pragmatically develop bilateral approximation schemes with our neighbors, particularly in respect of projects susceptible of contributing also to the far-off objective of regional integration. This is the context of our cooperation with Peru in the area of infrastructure.

Translation: João Coelho

Embraer – Empresa Brasileira de Aeronáutica S.A.

Embraer goes international

Introduction



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

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

Based on the experience amassed in over three decades of activity in this competitive, aggressive, and sophisticated market, we at Embraer like to say that the aeronautics business rests on five major pillars, which in turn rest

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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 and highly attractive to the employees:

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

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

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

Translation: João Coelho

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