

A DECADE OF CHANGE

POLITICAL, ECONOMIC, AND SOCIAL DEVELOPMENTS IN
WESTERN HEMISPHERE AFFAIRS

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A Decade Of Change

Political, Economic, and Social Developments in Western Hemisphere Affairs

FOREWORD

Since the closing years of the twentieth century, the countries of Latin America have made significant strides toward opening their economies, reducing poverty and even inequality, and constructing more stable democracies. Progress has not, however, been uniform and steady. There have been a number of setbacks and disappointments, reflected in distinct visions about the most productive path to achieve prosperous and equitable societies.

The purpose of this volume is to take stock of the evolution of some of the most salient political, economic, and social developments in recent years. All of the essays review progress that has been made over the course of a single decade—in most cases, from 1998 to 2008. They provide essential background and are highly germane to the fundamental challenges and opportunities facing the Western Hemisphere in the second decade of the twenty-first century.

The Inter-American Dialogue was interested in taking a hard and systematic look at important changes that have taken place in a range of different spheres. These include: the increasingly pervasive and urgent challenge of citizen security; the results of programs and policies aimed at enhancing the social agenda; the advances and competing priorities in energy development and cooperation; and the fundamental task of building viable democratic systems that foster the rule of law and protect human rights. Also crucial was to examine carefully the vicissitudes of US-Latin American relations, the evolution of hemispheric affairs, the changing nature of trade and investment ties, and Latin America's increasing role in the global economy.

To analyze these critical issues the Dialogue was fortunate to count on the extremely thoughtful contributions by a set of first-rate Latin American analysts, many of whom have occupied high-level government positions. Their vast experience as practitioners combined with a capacity for acute analysis have given the authors a valuable perspective on these core themes in contemporary Western Hemisphere affairs. The authors represent varied disciplinary backgrounds and political tendencies, and come from Argentina, Bolivia, Brazil, Chile, Ecuador, Guatemala, Peru, and Venezuela.

Their rich treatments of the diverse themes highlight transformations that few analysts anticipated even two decades ago. Latin America has become increasingly confident and assertive in inter-American and global affairs. Many countries have multiplied and diversified relations beyond the Western Hemisphere, especially with Asia—China, in particular. At the same time, the United States and Latin America have sought to redefine their relationship, moving away from overarching visions and grand initiatives and instead focusing on specific problems and taking advantage of particular opportunities.

The growing regional clout and global projection of Brazil exemplifies an underlying change in the character of hemispheric affairs. Further, sharp differences among Latin American countries—notably the contrast between South America and the countries of Central America and Mexico—have become more pronounced over time. Although trade and economic integration have advanced considerably, political consensus and vigorous collective hemispheric action—both to confront common problems like organized crime and take advantage of key opportunities in areas such as energy—have been lacking.

As these chapters make clear, Latin American societies have generated enormous expectations and demands on governments, which have often had trouble responding effectively. There have been both institutional deficiencies and fiscal constraints on policy officials and decision makers—and at times a lack of political will. Still, the region has witnessed the expansion of vital social movements and greater inclusion of traditionally excluded groups such as indigenous populations. Women, too, have markedly increased levels of political participation. On a number of key dimensions democratic progress has been impressive, though the progress has been uneven and some of the gains remain fragile. Clearly a lot of work remains to be done in pursuit of more thoroughgoing reforms that call for effective political leadership, wise policies, and more robust cooperation in this hemisphere and globally.

It is our hope that this compilation will help enrich understanding of the region's dramatic changes among policy and academic communities in the United States and throughout the Western Hemisphere. We also hope the following chapters provide an in-depth review of broader hemispheric affairs and demonstrate the continuing importance of US economic and political relations with Latin America. We are particularly indebted to the volume's authors for their intellectual and policy contributions and for illuminating the chief forces that have recently shaped—and continue to shape—a hemispheric landscape in constant flux.

MICHAEL SHIFTER
President
Inter-American Dialogue

Inter-American Trade and Investment Relations: The Last Decade

MIGUEL RODRIGUEZ MENDOZA

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This chapter reviews the main trends in trade and investment relations between the United States and Latin America—henceforth US-LAC—during the last ten years, from both a U.S. and a Latin American perspective. A special effort is placed on trying to explain how this relationship fits in the context of Latin America’s integration into the world economy.

Bilateral US-LAC trade and investment relations have traditionally been based on three fundamental pillars: strong bilateral flows of goods and services, increased energy interdependency, and expanded direct investment by U.S. multinational corporations (MNCs) in most of Latin America. This chapter addresses these three areas as well as one aspect of the US-LAC relationship less often discussed in the literature on the subject. That is the frequent recourse to multilateral, rather than bilateral, mechanisms to deal with bilateral trade and investment disputes.

During the past ten years, several underlying currents have influenced developments in all pillars of the US-LAC relationship. First and foremost, the North American Free Trade Agreement (NAFTA) has made a decisive contribution to the spectacular rise and the continued prominence of Mexico in US-LAC trade relations. Second, the emergence of new powerful traders in Asia is slowly influencing the LAC trade landscape; the United States has become a relatively less central trade partner for Latin America, and Asian demand has boosted prices of oil and fuels and other commodities, which in turn have influenced the trade balance between the two regions, leading to a significant LAC trade surplus with the United States.² Third, the geopolitics of energy has jumped back into the headlines, mostly due to rising “resource nationalism,” with consequences for the continued presence of U.S.

¹The author wishes to recognize the contribution of Augustín Cornejo to the preparation of this paper.

²All of these issues have already attracted wide attention so we will briefly touch on what we consider to be their relevance for the bigger picture of US-LAC relations. The role that China and India are playing in Latin American trade and investment patterns has been the subject of many studies, notably those by the Inter-American Development Bank and the United Nations Economic Commission for Latin America and the Caribbean.

oil companies in the region. And fourth, South American firms have expanded, including toward the U.S. market. This, together with the expansion of Asian firms in LAC, is starting to change the traditional US-LAC investment environment.

Developments over the last decade confirm the vitality and prominence of the US-LAC relationship for each trade partner. From a U.S. point of view, Latin America—mainly Mexico—has become a larger and more diversified commercial partner, and the region continues to be an area where U.S. exports perform exceptionally well. The United States is the most important trade partner for Latin America as a whole and the leading source of foreign direct investment (FDI). The United States and U.S. firms have supported the diversification of Latin American trade and investment flows. This bilateral relation has shown signs of increased maturity as Latin American firms have chosen the United States for strategic expansion through their outward investments. Also, Latin America is still a key player in the present and future of U.S. energy security.

However, new challenges have emerged during the past decade. While high oil prices boosted the prominence of oil in Latin America's exports—mainly South American ones—to the United States, the region now plays a smaller role as a U.S. energy supplier. More worryingly, many Latin American oil-producing countries have neither set up an investment environment conducive to higher energy production, which has begun to falter, nor have they devoted sufficient public resources to this end. Additionally, the US-LAC trade and investment relationship has accumulated imbalances. Some of these, like the ballooning U.S. deficit vis-à-vis Latin America, are cyclical and less worrisome, but other trends are more structural and problematic—notably the persistent contrast between the U.S.-Mexico component of the trade relation vis-à-vis the U.S. relation with the rest of the region, Brazil in particular. During the past ten years, the bulk of U.S. FDI went to Mexico, while Mercosur and Venezuela, as a group, lost rank among U.S. investors, especially during the early years of the current decade.

Looking forward, potential good and bad news is taking shape. On the positive side, recent free trade agreements (FTAs) concluded by the United States with a number of Latin American countries and the forecasted continuation of Latin American growth point to strong expansion in two-way US-LAC trade, particularly in U.S. exports to the region. This may further strengthen Latin America's role as a U.S. trade partner and, perhaps, make a positive contribution toward containing the global U.S. current account deficit. Also, the environmental imperative of developing alternative energy sources could herald a new page in US-LAC energy cooperation and trade, perhaps with ethanol as a component. On the other hand, the prospect of slowing economic growth in the United States—whether in the form of a recession or a return to less exceptional growth rates than in the past two decades—raises tough questions for Latin American countries, including those relating to the systemic and perennial issue of asymmetric contagion. Slow growth of the U.S. economy also

raises doubts about whether the commercial success of NAFTA can be replicated by exports from the most recent FTA partners. Finally, there is the question of whether Latin American economies will need to look more carefully at relationships beyond the United States, as many countries are doing with respect to both trade and FDI.

The second section of this chapter focuses on developments in bilateral trade, and the third section looks at energy interdependency between the United States and LAC. Developments in flows of foreign direct investment are discussed in the fourth section, while trade and investment disputes are examined in the fifth section. The final section provides comments regarding possible areas where US-LAC relations could be strengthened.

US-LAC TRADE RELATIONS

Trade flows between the United States and Latin America have grown significantly over the last ten years.³ Two-way bilateral merchandise trade (exports plus imports) more than doubled between 1996 and 2007 to total \$560 billion in 2007 (Table 1), with U.S. imports from Mexico, the Andean countries, and Mercosur almost tripling, and U.S. exports to these countries also growing, albeit at lower rates. Latin America's share of total two-way merchandise trade with the United States jumped to 19 percent in 2007 from about 16 percent in 1996.

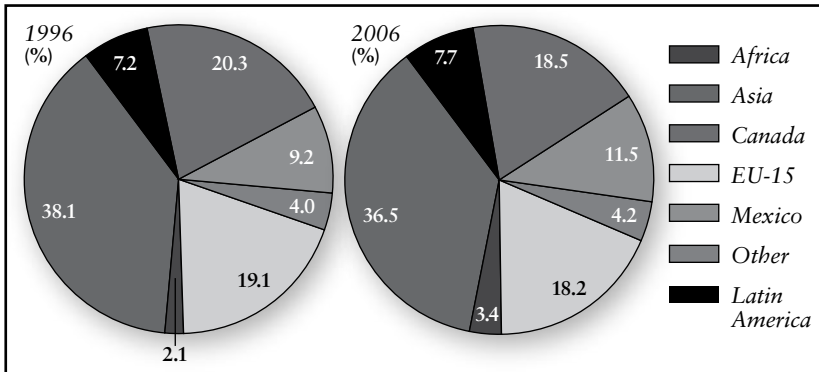
At the same time, Latin America's share of two-way trade in cross-border services remained high and constant at about 17 percent of total U.S. services trade between 2000 and 2006.⁴ The growth in US-LAC bilateral trade outpaced U.S. trade with most other regions. US-LAC trade today (Figure 1, Latin America plus Mexico) represents a larger share than U.S. trade with the European Union (15) or Canada.

Differences in economic performance and high oil prices underlie the stronger performance of Latin American exports to the United States relative to U.S. exports toward the region. The U.S. economy has experienced high import growth over the past decade, with total U.S. imports expanding at an average annual rate of 9 percent and those from Latin America at almost 11 percent. Many Latin American economies, for their part, experienced turbulences that affected LAC imports from the United States. For example, U.S. exports to the Mercosur countries recorded almost no growth between 1996 and 2005, due to a series of economic crises that affected these countries. As a result, the U.S. trade deficit with Latin America—half of which is accounted for by oil—has increased to about \$100 billion, substantially below figures for Japan, the European Union, or China but still considerable.

³In this analysis, Latin America includes Mexico, unless otherwise stated.

⁴This figure corresponds to data reported by OECD for the category "Americas minus Canada." U.S. two-way service trade with the leading Latin American economies (Mexico, Brazil, Argentina, and Venezuela) fluctuated between 7 and 8 percent over that period.

FIGURE I. U.S. DIRECTION OF TOTAL TRADE, 1996 AND 2006



Source: CRS, 2008

Many Latin American countries have been reorienting trade away from their traditional markets in developed countries (Table 2). Booming intra-Latin American trade led this trend during the early 1990s, but new trade partners in developing Asia have now taken the lead.⁵ The footprint of Asian partners is particularly strong on the import bill for all of Latin America—and correlates with significant contraction in the shares of Japan, Europe, and North America—but also on the export side of the Mercosur countries, Chile, and Peru. In fact, if current trends are sustained, Asia Pacific will soon displace the European Union as Latin America’s second leading partner.⁶ U.S. exports to LAC are also feeling the pinch. For example, between 1996 and 2006, the U.S. share of imports from Colombia, Mexico, and Venezuela dropped more than 10 percent, while smaller but significant drops also took place in other Latin American countries, notably Argentina, Brazil, Chile, and Peru (Table 2).

The decrease in the relative importance of the U.S. market for LAC is a new trend worth noting. Trade geography, however, does not change overnight. Although new trends are starting to emerge, the United States continues to be the most important trading partner for Latin America as a whole. It is still the leading partner for all individual Latin American countries outside Mercosur and Chile. The United States accounts for 40 percent of total LAC exports, and the figure is considerably higher for Mexico and the Andean and Central American countries. Table 2 shows no clear upward or downward trend in U.S. export shares in LAC

⁵By mid 1990s, intraregional exports reached almost 20 percent of total LAC exports. They subsequently decreased to about 15-16 percent to increase again to more than 19 percent in 2008 (ECLAC, 2008).

⁶Japan is the developed country that has lost most relevance, and its bilateral trade with Latin America is heading for anecdotal significance from the perspective of many Latin American countries. However, Japan remains a key trade partner for Chile and a secondary source of imports for Brazil, Costa Rica, and Mexico (Table 4). The European Union has also become lackluster as a destination for Latin American exports in general, but especially for those Latin American countries that have benefited the most from the boom in commodity exports to Asian countries—namely Mercosur members, Chile, and Peru.

TABLE I. US IMPORTS FROM LATIN AMERICA, 1997-2007
Billions of US dollars and percentage share in total US trade

Country Group	1996	2000	2004	2005	2006	2007	2008 (P)
Total two-way trade	228	362	403	458	526	560	606
US imports from LAC	123	206	253	291	329	341	363
Mexico	74	135	155	169	197	210	213
Andean Countries	20	29	40	53	59	59	72
Mercosur	11	17	26	30	31	30	33
CAFTA & Dom. Rep.	10	16	18	18	19	19	20
Caribbean Community	3	4	8	10	10	11	12
US Exports to LAC	105	156	150	168	197	219	243
Mexico	55	100	93	102	115	119	129
Mercosur	18	19	16	18	23	29	33
CAFTA & Dom. Rep.	12	15	17	18	21	24	30
Andean Countries	9	12	12	15	20	21	24
Caribbean Community	4	5	6	7	9	9	10
Memorandum							
Total US exports	582	712	727	804	929	1,046	1,158
LAC share US exports	18.0%	22.0%	20.6%	20.9%	21.2%	20.9%	21.0%
Total US imports	790	1,205	1,460	1,662	1,845	1,943	2,031
LAC share US imports	15.6%	17.1%	17.3%	17.5%	17.8%	17.6%	17.9%
LAC Share in US total two-way trade	16.6%	18.9%	18.4%	18.6%	19.0%	18.7%	19.0%

countries, with the exception of Costa Rica (where shares have decreased) and Peru (where they have increased). A very clear downward trend is seen in LAC exports to the European Union.

For many Latin American countries, the importance of the United States as a trade partner is based not only or necessarily on trade figures, but also on the composition of exports to the U.S. market. Exports to the United States have been an important platform to secure integration in the world economy based on (medium and high-tech) manufactures for Brazil, Costa Rica, and Mexico (Table 3). For the latter two countries, exports of professional and other high value-added services to the United States are growing rapidly.⁷ U.S. firms are also playing a fundamental role in the growing exports of “software-related services” in the Southern Cone and Mexico, with spillover into software production.⁸ For others, notably Central American nations and Peru, exports to the United States are concentrated in labor intensive-manufactures, notably textiles, which are associated with employment creation. For most other South American nations, fuels, ores and agricultural commodities still play very important roles, but Argentine and Colombian exports are also diversifying into chemicals and other manufactures, even in the context of

⁷Jorge Mario Martínez, Ramón Padilla and Claudia Schatan, *Comercio internacional: de bienes a servicios. Los casos de Costa Rica y México*, (Mexico City: ECLAC, 2008).

⁸More than half the region’s sales and exports of these products originate from the Latin American subsidiaries of only nine extra-regional multinationals, mainly of U.S. origin (Mulder et al, 2007). Governments and business associations in Brazil and Argentina have identified these sectors as an area of latent comparative advantage. The role of U.S. firms is described in a special report in the Jan. 30, 2006 issue of *BusinessWeek*.

TABLE 2. TRADE PARTNER STRUCTURE, SELECTED LATIN AMERICAN COUNTRIES, 1991–2006
Percentage by origin and destination

Economy	Trade Partner	Share in total imports				Share in total exports			
		1991	1996	2001	2006	1991	1996	2001	2006
Argentina	World	100	100	100	100	100	100	100	100
	Developed economies	54	55	48	34	51	31	31	30
	US and Canada	19	21	20	13	11	9	12	10
	Japan	8	3	4	3	4	2	2	1
	EU (25) and EFTA	26	30	24	18	35	20	18	18
	Latin America	31	30	35	44	31	47	46	42
	Developing Asia	9	9	12	16	12	14	15	18
Brazil	World	100	100	100	100	100	100	100	100
	Developed economies	61	59	61	47	65	57	53	46
	US and Canada	26	24	25	18	22	21	25	20
	Japan	6	5	6	5	8	6	4	3
	EU (25) and EFTA	28	29	29	24	34	29	24	23
	Latin America	19	22	18	18	17	24	23	26
	Developing Asia	16	13	13	24	14	13	12	17
Chile	World	100	100	100	100	100	100	100	100
	Developed economies	55	49	41	36	70	54	57	55
	US and Canada	23	23	18	17	18	15	20	18
	Japan	9	5	3	3	18	15	12	11
	EU (25) and EFTA	22	20	18	15	33	24	26	26
	Latin America	27	26	34	35	14	19	22	16
	Developing Asia	8	10	13	14	11	17	14	23
Colombia	World	100	100	100	100	100	100	100	100
	Developed economies	73	69	61	48	73	69	61	59
	US and Canada	40	40	37	29	40	42	45	38
	Japan	10	7	5	5	4	4	2	3
	EU (25) and EFTA	23	22	19	14	30	23	15	18
	Latin America	24	24	25	34	24	29	36	35
	Developing Asia	1	5	10	14	1	1	1	4
Costa Rica	World	100	100	100	100	100	100	100	100
	Developed economies	64	64	68	62	80	72	75	58
	US and Canada	45	48	52	42	49	39	52	30
	Japan	6	4	4	6	2	2	2	2
	EU (25) and EFTA	13	12	12	14	29	32	21	26
	Latin America	30	32	25	27	18	24	19	21
	Developing Asia	5	4	5	10	2	2	4	21
Guatemala	World	100	100	100	100	100	100	100	100
	Developed economies	64	62	53	48	54	55	37	55
	US and Canada	42	47	38	35	39	39	29	48
	Japan	7	3	5	3	3	2	2	1
	EU (25) and EFTA	15	11	10	9	12	14	7	6
	Latin America	31	34	38	34	38	40	53	37
	Developing Asia	4	3	6	15	4	2	8	5

Table 2 continued on following page

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Economy	Trade Partner	Share in total imports				Share in total exports			
		1991	1996	2001	2006	1991	1996	2001	2006
Mexico	World	100	100	100	100	100	100	100	100
	Developed economies	93	92	83	72	94	92	94	92
	US and Canada	75	78	69	54	82	86	91	87
	Japan	4	4	5	6	3	1	0	1
	EU (25) and EFTA	13	9	10	11	8	4	3	4
	Latin America	4	2	3	6	5	6	4	5
	Developing Asia	2	5	10	21	1	1	1	2
Peru	World	100	100	100	100	100	100	100	100
	Developed economies	56	59	47	34	61	62	64	61
	US and Canada	27	33	26	18	23	23	28	31
	Japan	6	4	6	4	9	7	5	5
	EU (25) and EFTA	22	21	14	12	29	33	30	25
	Latin America	39	34	37	44	16	17	20	20
	Developing Asia	5	6	13	17	14	18	13	16
Venezuela	World	100	100	100	100	100	100	100	100
	Developed economies	82	61	50	49	69	56	57	57
	US and Canada	51	41	31	32	55	48	50	48
	Japan	5	3	4	3	2	1	1	0
	EU (25) and EFTA	25	16	15	13	11	7	6	9
	Latin America	15	21	25	40	16	24	32	26
	Developing Asia	2	3	4	8	1	0	0	4

Source: UNCTAD

strong commodity-based trade. This positive aspect of US-LAC trade has recently gained relevance, and it contrasts with the fact that LAC exports to many new extra-regional partners, notably Asia, are heavily dependent on commodities.

It should be noted that the US-LAC trade relationship is strongly influenced by Mexico. In fact, US-LAC trading relations continue to be marked by the stark contrast between a strong US-Mexico bilateral component and the more shallow levels of trade and investment integration with other LAC nations, notably Mercosur (see Tables 1 and 2). Two-way US-Mexico merchandise trade has more than tripled since the signing of NAFTA, reaching \$342 billion in 2008, boosting Mexico's relevance as a U.S. trading partner from about 9 percent of two-way trade flows to just under 12 percent (see Figure 1).⁹ More dramatically, US-Mexico trade now accounts for more than half of the total US-LAC trade (Table 1). U.S. trading relations with the rest of Latin America involve much lower volumes and slower growth. In fact, the share of two-way trade with Latin America, excluding Mexico, with respect to total U.S. trade, stood at just less than 8 percent by 2007, roughly half a percentage point higher than in 1996 (Figure 1).

⁹ Mexico accounts for about 5 percent of U.S. cross-border service trade, which is about one percentage point larger than the combined share of Brazil, Argentina, and Venezuela.

TABLE 3. TRADE STRUCTURE BY PRODUCT GROUP TO THE WORLD AND THE UNITED STATES
Totals in million US dollars. Product categories as percentage of total exports to World and United States

		World		USA	
		1996	2006	1996	2006
Brazil	Total (mn US\$)	47,747	137,807	8,871	26,169
	Primary commodities (%)	45	48	29	35
	All food items & ag raw materials (%)	34	29	23	16
	Ores and metals (%)	10	12	4	5
	Fuels (%)	1	8	2	14
	Manufactured goods (%)	53	50	69	64
	Chemical products (%)	7	7	5	8
	Machinery and transport equipment (%)	20	24	25	25
	Other manufactured goods (%)	26	19	40	30
	Iron and steel (%)	9	7	12	11
Textiles and clothing (%)	3	2	3	2	
Costa Rica	Total (mn US\$)	3,758	8,216	1,963	3,813
	Primary commodities (%)	74	35	38	34
	All food items & ag raw materials (%)	73	33	38	33
	Ores and metals (%)	1	2	1	1
	Fuels (%)	1	1	0	0
	Manufactured goods (%)	25	64	59	61
	Chemical products (%)	7	6	1	3
	Machinery and transport equipment (%)	4	35	8	23
	Other manufactured goods (%)	14	23	49	36
	Textiles and clothing (%)	2	4	37	12
Mexico	Total (mn US\$)	96,000	250,441	74,179	197,056
	Primary commodities (%)	22	24	19	24
	All food items & ag raw materials (%)	7	5	7	6
	Ores and metals (%)	2	2	1	2
	Fuels (%)	12	15	11	16
	Manufactured goods (%)	78	76	77	72
	Chemical products (%)	4	4	2	2
	Machinery and transport equipment (%)	54	54	55	53
	Other manufactured goods (%)	21	18	21	17
Textiles and clothing (%)	6	3	7	4	

There are reasons to believe that this stark difference in US-LAC trade relations may become less acute over the next five to ten years.¹⁰ Latin American countries continue to be a prime destination for U.S. exports. During the last decade, Latin America's stronger record of GDP growth boosted U.S. exports. These grew on average about 13 percent annually over the past three years, and U.S. export performance in Mercosur and recent FTA partners is remarkable, averaging 20 percent annual growth. The expansion of the U.S. network of trade agreements has and might continue to provide considerable opportunities for U.S. exporters. Moreover, if Latin America—especially many of the recent U.S. FTA partners and Brazil—keeps

¹⁰ As we discuss in the next section, the difficult prospects for U.S. oil imports from South America cloud the prospects of South American exports to the United States. Since oil plays a less relevant role for Mexico, a dwindling or stagnant US-LAC oil trade may aggravate the existing trend.

a sustained rate of growth, U.S. FTAs may contribute to boost U.S. exports to these nations.¹¹ Combined U.S. exports to recent FTA partners—CAFTA-DR, Chile, Colombia, Panama and Peru—have boomed since 2004, with sustained annual growth rates of above 20 percent for four consecutive years (including projections for 2008). Only part of this growth can be attributed to the FTAs. In fact, many of these agreements have become operational only recently and those with Panama and Colombia have not yet been approved. But preliminary figures for 2008 showed vigorous performance for U.S. export growth to the FTA partners.¹² On the other hand, the performance of U.S. exports in LAC countries that are not FTA partners—notably Mercosur countries, Venezuela and Ecuador—seems to be coming down to more sustainable growth rates, possibly around 15 percent this year. All this may change, however, if the current economic crisis continues to impact economic performance and global trade flows keep their descending trend.

It is far from clear whether exports to the United States from all recent FTA partners will enjoy a similar boom as was the case with Mexican exports to the United States under NAFTA. Some Latin American countries that have concluded free trade agreements with the United States, notably Chile and Peru, have seen rapid growth in their exports to the United States. Chile and Peru experienced across-the-board growth in many exports to the United States (fruits, fish, wood products for Chile and apparel and pearls for Peru), but an important part of their export success predates their FTA and/or is related to prices of mining products not necessarily affected by the market access component of their FTAs.¹³ Still, in light of the heightened legal uncertainty prevailing in many Latin American countries, the regulatory stability provided by FTAs may be a key contributor to sustained development of exports over time.¹⁴

Doubts about the “automatic export supply response” to FTA-related incentives are perhaps more relevant in the case of CAFTA-DR, for which exports to the United States have expanded at a very slow pace (on average less than 3 percent annually), trailing far behind the “average” Latin American export performance in U.S.

¹¹ IMF projections indicate that the region will sustain high growth rates through 2013, but some countries—mainly Pacific countries and Brazil—are expected to fare better than others. Slowdown is expected in Argentina and Venezuela, while high growth rates will not be attained in the next few years in Mexico.

¹² Much like in the case of U.S. exports to Mercosur countries, part of the U.S. export growth may be attributed to stronger economic performance.

¹³ In fact, the market access component seems to be a weak pull for these countries’ exports. Most exports already enjoyed duty-free access. That point is also suggested by econometric simulations, which predict small export growth. However, there might be dynamic impact through higher foreign direct investment.

¹⁴ Perhaps the contrast with mining sectors in neighboring countries with very high mineral prospects, like Bolivia and Argentina, brings this point closer to home. The Fraser Institute (2008) considers that Bolivia applies one of the most unstable regulatory frameworks for mining in the world. Recent introduction of export taxes on mining exports has triggered a strong negative reaction from foreign investors who argue that the measure will affect the future prospects of the Argentine mining industry. By contrast, bilateral FTAs with Canada have contributed to raising the profile of Chile and Peru for Canadian mining firms.

markets during the 2004 to 2008 period.¹⁵ However, low export growth preceded the FTAs and reflects CAFTA-DR's relative specialization on exports of textiles and clothing—a sector that faces stiff competition in the U.S. market as a result of the phase out of textile quotas—as well as the lack of oil and other basic commodities in its export profile and the near exclusion of sugar from the agreement. On the other hand, the agreement seems to have contributed to the FDI boom in CAFTA nations.

Finally, it should be pointed out that the recent weakening of the U.S. economy also poses some questions for Latin America. For new FTA partners, it triggers doubts as to whether opportunities associated with the agreements may be diminished either by investor pessimism or stronger competition in the U.S. market. NAFTA's commercial success occurred against the background of an abnormally buoyant U.S. economy and a strong U.S. dollar, which are unlikely to come back in the near future. Not surprisingly, many are calling for Latin America to reassess the US-LAC relationship¹⁶ and prioritize partners with faster growth. On the other hand, advantages provided by an FTA could gain value in a relatively more difficult U.S. market if protectionist measures are used to deal with economic disturbances.

ENERGY INTERDEPENDENCY

US-LAC energy trade and cooperation are key pillars in US-LAC economic relations. Oil exports to the United States from Venezuela, Mexico, and Ecuador have formed the bedrock of US-LAC energy trade. However, political developments of the last ten years have shaken perceptions of Latin America as a strong and stable U.S. oil and gas supplier. Also, the prospects for oil trade are not promising in the near future due to dwindling production in leading net exporting countries. While the emergence of another power-hungry global player in the neighborhood, Brazil, might have been perceived as a mounting challenge to current US-LAC energy trade flows, recent discoveries of significant offshore oil fields in Brazil and environmental imperatives that encourage production of alternative energies worldwide provide an opportunity for renewed energy trade and cooperation in the region.

FTAs have promoted energy trade but have not made a dent on the most sensitive issues. NAFTA, for example, contributed to North American energy cooperation and infrastructure, but it did not lead to policies mindful of the long-term needs of Mexico's oil and gas sectors. Looking forward, it is likely that new U.S. FTA

¹⁵To put these statements in numbers, Chilean and Peruvian exports to the United States increased by 313 percent and 353 percent, respectively, between 1996 and 2006. Brazilian and Venezuelan exports expanded less rapidly although at a non-negligible 200 percent and 188 percent, respectively, while countries such as Argentina saw their exports increase at a meager 74 percent. CAFTA-DR exports increased just 50 percent between 1997 and 2007.

¹⁶Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean 2007*, (Santiago, Chile: ECLAC 2008).

partners—with the help of foreign investors—will play a role as well, through oil (Colombia) or gas (Peru) exports to the United States.

The U.S. economy depends on oil for more than 40 percent of its total energy demand and almost all of the fuels used in cars and trucks. Rising U.S. oil consumption and declining domestic production have made the U.S. economy ever more dependent on foreign oil over the last ten years. Today, imported crude oil accounts for roughly two-thirds of the total crude oil input to U.S. refineries, while net imports account for 60 percent of total U.S. consumption of oil products. Over the past decade, Latin America continued to be a key, but declining, U.S. oil supplier. The region today supplies about 27 percent of total U.S. imports of crude oil, but this is a long way from the 37 percent it supplied back in the mid-1990s. During this period, Latin American oil exports to the United States by barrels actually decreased 3 percent, while U.S. demand for oil increased by about 30 percent. U.S. oil imports from traditional Andean suppliers like Venezuela, Ecuador, and Colombia dropped considerably more than the total figure for Latin America, and they were only partly offset by increased shipments from Mexico and Brazil. New U.S. oil suppliers such as Canada, Nigeria, and Algeria have filled spaces left by Latin America.¹⁷

The weakness in LAC oil exports to the United States reflects the fact that production has peaked in net-oil exporting countries: notably Colombia in 1999, Venezuela in 2000, Mexico in 2004, and Ecuador in 2006.¹⁸ In countries like Argentina and Colombia, peaking production shows the limited prospects of the local oil industry, but the phenomenon is mostly due to limited investment, particularly for countries with large proven reserves such as Venezuela.¹⁹ Additionally, Latin American oil consumption has outpaced production over the last ten years, which further curtailed exportable surpluses.²⁰

Developments in long-standing Brazilian energy programs have been the source of some of the best news for the future of inter-American energy cooperation. Brazil is the third largest consumer of energy in the Western Hemisphere and depends on oil for half its total energy demand. However, Brazil is also one of the world's fastest-growing oil producers and, as a result of decades of investment and diversification of energy sources, managed to both declare oil self-sufficiency in 2007 and develop alternatives to fossil fuels. Recent discoveries of immense offshore oil fields indicate that Brazil could play a future role as oil exporter, although there is still some uncertainty as to the magnitude of the new fields and when they will become operational.

¹⁷The World Energy Outlook (2007) indicates that oil production in these countries plus Angola will overtake annual production levels in Mexico and Venezuela by 2015.

¹⁸Energy Information Administration, *Country Analysis Brief: Peru*, (Washington, DC: EIA, 2008).

¹⁹Venezuela and Mexico hold 80 billion and 12 billion barrels of proven oil reserves, respectively. Brazil's proven oil reserves are currently estimated at 12 billion barrels but this figure does not take into account the most recent discoveries. Only the first two countries are among the top ten oil exporters. Ecuador, the second South American exporter to the United States, has less than 5 billion barrels of proven oil reserves.

²⁰Energy Information Administration, *International Energy Outlook 2007*, (Washington, DC: EIA, 2008).

This is in stark contrast to recent developments in and prospects for the Mexican and Venezuelan energy sectors. Mexico's proven reserves have been revised downward and, consequently, the reserves-to-production ratio has declined from twenty years to ten years. Mexican oil production began to decrease due to the decline in production of the Cantarell oil field. Many analysts believe that investment in the Mexican oil sector has been deficient in recent years and profits from the oil company have not been directed to ensuring oil production. Moreover, while net imports of natural gas are replacing domestic consumption of oil, the Mexican energy consumption matrix is still highly dependent on oil, which accounts for just less than 60 percent of its energy consumption. Some analysts forecast that if current trends are sustained, Mexico may become a net oil importer within ten years.

The Venezuelan oil industry is still suffering from the open wounds left by the confrontation between the national oil company and the government in the early 2000s. The shake-up of the professional cadre of the national industry and the addition of non-core activities have damaged the company and the export prospects of Venezuela. Also, in Venezuela and countries such as Ecuador and Bolivia, there has been a tendency toward increased "resource nationalism" in the oil and gas sectors, with the state taking control of activities previously in the hands of private companies. This has affected Western Hemisphere energy relations in at least three ways. First, it has led to creeping nationalizations of oil and gas companies, often but not always involving U.S. firms. (Petrobras, a Brazilian firm, was affected in Bolivia.) This development has damaged prospects for new foreign investment in the near future. Second, politicians have claimed control of resources from major energy companies, using them for social and foreign policy purposes. This has taken away resources for new investment and led to mismanagement of companies. Third, the tendency toward nationalization has wiped out progress in regional energy markets and destroyed important examples of mutually beneficial interdependency on these matters.

Beyond the immediate damage these trends might inflict on partner nations, they point toward a repetition of an old tale of missed opportunities, setting the stage for future ruin. Dwindling oil production and impassioned speeches advocating heightened nationalism occur precisely at a time when exports to the United States and the world are increasingly dominated by oil. In fact, the share of oil and fuel among South American exports to the United States jumped to 51 percent from 43 percent, between 1996 and 2006.²¹ For all their public confrontation, both Ven-

²¹The share of oil and fuel exports from Latin America (including Mexico) to the United States jumped to 27 percent from 20 percent, between 2001 and 2007.

zuela and the United States share an interest in avoiding further declines in Venezuelan oil production.

U.S. concerns about the shrinking net oil exports of Latin America are all the more acute in light of projections that indicate robust growth in net U.S. oil imports over the next decade.²² It is worth noting that until the recent trend of resource nationalism, Latin America was perceived as an “inarguably secure” oil supplier. Today it is still considered a more stable supplier than the Middle East, although not entirely reliable.²³ Tackling this challenge might be more difficult in light of three recent developments: difficult relations with Venezuela and Ecuador, the retreat of U.S. companies in the region, and the potential exclusion of the United States from emerging South American energy fora.

U.S. bilateral energy relations with Ecuador and Venezuela broke down after the prompt exit of many U.S. companies from these countries. In a further turn of the screw, leaders of these countries have threatened to close the spigot on their exports to the United States. Assuming that President Hugo Chávez remains in power for many years such threats may only play out over the medium to long-term if Venezuela diversifies its customer base to the detriment of sustaining supplies to the United States. As a U.S. Government Accountability Office (GAO) study indicates, these threats are mainly of concern to the extent that such a reorientation could result in less total oil output from these countries, which is unlikely under normal circumstances. Over the long term, the United States can find new suppliers or expand imports from existing stable suppliers like Canada, especially when oil prices are high.

Over the short term, this threat is less credible and may only be carried out at great cost to Venezuela. Venezuela cannot feasibly dispense with the United States and turn to regional or Asian buyers. Existing symmetries between Venezuelan heavy crude oil and U.S. refineries, as well as low transport costs in their relationship, will continue to determine direction of flows, at least in the short term. Various U.S. agencies have already analyzed scenarios of rapid and strong reductions of Venezuelan oil imports. They concluded that the United States has options to deal with short-term disruptions in oil supplies from Venezuela.

Like their Canadian and European counterparts, U.S. companies are having difficulties maintaining operations under original terms and obtaining new fields in Latin America; they are increasingly pulling out from downstream activities like fuel distribution.²⁴ Today, foreign firms account for about only 10 percent of sales of LAC hydrocarbons. In part, this is related to a long worldwide trend toward

²²In its production projections for 2006 to 2015, the U.S. Department of Energy does not expect liquid fuel production to increase in Venezuela and Mexico.

²³Calls for more self-reliance in energy supplies are finding resonance in the United States. Many leading advocates of this strategy typically worry about reliance on the Middle East and Venezuela.

²⁴Chevron has pulled out from commercialization operations in Colombia, Ecuador, Peru, and Uruguay, while Exxon Mobil did so in Brazil. Local groups have taken over these activities.

strengthening state oil companies. Latin American champions like PDVSA, PEMEX, and Petrobras have been developing capabilities for decades. In some instances, they have been an obstacle to increased operations of U.S. firms.²⁵ What is new, perhaps, is that more Latin American countries—notably Ecuador, Venezuela, Bolivia and Argentina—have shifted their policy stance to tighten rules and increase national returns from or participation in foreign firms in natural resources, particularly oil and gas.²⁶ Measures have ranged from nationalizations in Venezuela and Bolivia to imposition of extraordinary tax measures in Ecuador and Argentina, as well as mandates to accept local partners. In many instances, the renegotiation of existing contracts and/or the new terms offered were not acceptable to U.S. firms.²⁷ Not only have firms left the region, but they also have been pursuing reparations through the International Centre for Settlement of Investment Disputes (ICSID).

While many countries are turning a page on U.S. oil firms, Latin America has also seen the expansion of regional activities of the main LAC hydrocarbon companies, notably Petrobras and PDVSA²⁸—though Petrobras has had some difficulties in several Latin American countries, notably Bolivia and Ecuador.²⁹ Additionally, there is increasing interest from Chinese and Indian energy companies to establish joint ventures even in countries with high-risk investment environments—and even in less traditional sources of energies, like ethanol production in Ecuador.³⁰ Petrobras conducts oil production in all producing countries in the region and owns gas fields in Argentina and Bolivia and refineries in Argentina and the United States. Venezu-

²⁵ While restrictive national legislation may limit investment potential in Mexico, the Brazilian regulatory framework is considered conducive to investment. However, the prominence of Petrobras has been seen as an obstacle to expanded MNC activities (ECLAC, 2008).

²⁶ In the oil industry, Colombia is a notable exception to this trend. The country has revised regulatory and institutional frameworks for hydrocarbon production and has pursued privatization of a refinery in Cartagena. Colombia's new investment in exploration has boomed in recent years (ECLAC, 2008). New bidding processes are also underway in Chile and Peru. ConocoPhillips plans to expand operations in the Peruvian Gas sector.

²⁷ Most notably, Exxon Mobil and ConocoPhillips have pulled out of Venezuela, while ConocoPhillips has sold its stake in gas fields in Argentina.

²⁸ ECLAC, 2008.

²⁹ Petrobras was recently slapped with increased royalties of up to 90 percent in Ecuador; the possibility of a further increase threatens the permanence of the company in this country. Bolivia's nationalization of Petrobras assets also triggered a reassessment of energy relations between Brazil and Bolivia.

³⁰ Congressional Research Service lists Chinese and Indian actions in LAC energy resources as follows: "The Chinese government has been acquiring interests in exploration and production abroad, including in Latin America. China and Venezuela have signed a series of energy-related agreements since 2005, including joint ventures for oil and gas exploration in Venezuela and to increase Venezuela's supply of oil to China. The state-run China Petrochemical Corporation (Sinopec) signed an agreement in April 2006 with Brazil's Petrobras to build a natural gas pipeline linking the northeast and southeast of Brazil. China is also exploring energy deals in Ecuador, Bolivia, Peru, and Colombia, as well as offshore projects in Argentina and Cuba. India has recently begun to increase its energy assets in Latin America by pursuing joint ventures with established public and private companies operating in the region. For example, ONGC Videsh (OVL), a state-owned Indian energy company, recently bought a 15 percent stake in a Brazilian oil field and a 30 percent stake in a partnership for oil and gas exploration in Cuba. The same company is discussing a possible \$1 billion investment in a Venezuelan oil field. In 2006, Sinopec and ONGC issued a successful joint bid for a 50 percent stake in the Omimex oil company of Colombia, a subsidiary of the U.S.-based Omimex Resources energy company." (CRS, 2007)

ela's PDVSA has expanded refining capacity in Cuba and Jamaica and has advanced plans—involving substantial investment—for establishing refineries in Uruguay, Ecuador, Brazil, and Nicaragua.

The rise of South American energy regionalism in the area of oil and gas appears to be a continuing trend. It is based on the strategic consideration of national energy firms; a growing internal demand, notably in gas; and a heavy dose of geopolitics. It might be of concern to the United States in as much as some of the leading advocates (Venezuela and Ecuador) see LAC regionalism in opposition to improved energy relations with the United States. But this is neither the only nor the prevailing view in South America. Both Mexico and Brazil have led regional initiatives to open doors for U.S. involvement. In an effort to counter Venezuela's influence in Central America, Mexico, CAFTA-DR, and Colombia have sponsored the Meso-American Energy Integration Program, which entails building electric energy lines from Panama to Guatemala and constructing an oil refinery in either Panama or Guatemala. And Brazil has led regional cooperation efforts on biofuels—which we discuss later.

For all the rhetoric about Latin American brotherhood, it is still hard to assess the progress in energy regionalism. Many net-energy importing countries have faced episodes of energy shortages due to decisions taken in neighboring countries. For example, developments over the past five years in the gas sector have been a cold shower for the prospects of intra-regional gas trade. Net gas importing countries, such as Chile and Brazil, were faced with discontinuous supplies of gas and unilateral breaches of contracts. Both countries have now taken steps to accelerate the construction of liquefied natural gas (LNG) terminals to diversify gas suppliers to include countries as far away as Trinidad and Tobago, Nigeria, Algeria, Angola, or Qatar.

For all the clouds on the horizon, there are clear and bright spots as well. The rapid increase in North American gas consumption has turned the United States and Mexico into net importers of natural gas, increasingly in the form of LNG.³¹ To date, Trinidad and Tobago has supplied most of U.S. LNG imports. Peru is expected to finalize construction of an LNG processing plant that will permit natural gas exports to Mexico and the United States by 2010. Potential exports from the project are estimated at 0.7 million tons in 2011, rising to 3.4 million tons in 2015 (EIA, 2008). This is quite a significant volume by current standards, since annual U.S. LNG imports are about 16 million tons, but they will not be sufficient to keep up with the rapid growth of gas imports expected in North America.³²

The prospects for Western Hemispheric trade in gas, however, remain vastly more limited than in petroleum, despite improvement of LNG capacities in North and South America. Current knowledge, which may change if more resources are

³¹ Mexico holds important reserves of natural gas, but lack of investment has turned Mexico into a net gas importer since 2000.

³² Total U.S. imports are expected to climb to 85 million tons, or 4 trillion cubic feet, by 2020 (EIA, 2008).

devoted to exploration, indicates that North America can count on domestic resources to fulfill more than 80 percent of its natural gas demand by 2020. Meanwhile, Central and South America's surpluses may only reach 16 percent of their total gas production, which may only be a fourth as large as North American production.

Some producers—Peru and Trinidad—are expected to increase shipments to North America. These countries have strong relations with the United States and can become stable suppliers. Their proven reserves are estimated at 11 trillion and 20 trillion cubic feet, respectively, which in 2015 will be just less than ten years of North American net gas import demand. Of course, not all of these reserves can be exported and not all will be sent to North America. But further exploration can augment reserves in these nations, and U.S. firms are already involved.

The other South American countries with the largest proven reserves-to-consumption ratios, Venezuela and Bolivia, are not contemplating shipments to North America. Venezuela holds 60 percent of current South American proven gas reserves, but current tensions with the U.S. government and the announcement that it would direct gas shipments to South America limit prospects for South-North energy trade. On top of this, imports in the Southern Cone are likely to remain strong in the next couple of years since Argentina has become a net importer of gas, and investment in that country's gas fields has faltered. Venezuela's PDVSA has announced concrete plans to sell LNG to Southern Cone countries by 2014.

Brazil's success in replacing oil with more environmentally sustainable biofuels has been remarkable. Although the United States is the leading producer of biofuels, Brazil is at present the leading exporter. Production in other Latin American countries is still mostly oriented to domestic markets. U.S. FTAs have opened the door for tariff-free biofuel exports to the United States from Central America and Mexico. The strategies of LAC countries on alternative energies are varied. Mexico, Colombia, and mainly Central American and Caribbean countries have potential for following Brazilian sugar-based programs. The latter two subregions are today dehydrating and re-exporting Brazilian ethanol to the United States, while Costa Rica has established a joint venture with Brazil. Argentina, Brazil, Colombia, and Mexico are also planning major expansions of biodiesel production, while Mexico is considering entering into corn-based ethanol and Chile is focusing on wood chip-based fuels. The United States and Canada are also actively engaged in a large number of biofuels programs.

Inter-American cooperation in biofuels could have a dramatic impact on the global prospects for this industry. It also may be particularly valuable at a time when these fuels are denounced for both real and imaginary contributions to the global food crisis. Brazil's regional biofuels policy has aimed to encourage domestic

industries throughout Latin America.³³ This objective is also shared by the United States, as illustrated in the 2007 Memorandum of Understanding between these two countries. Among other things, it contemplates technological cooperation in the development of biofuels.

Despite clashing interests—such as U.S. tariffs on imported ethanol—hemispheric integration has made quiet but considerable progress. Some of the same U.S. companies that drive the ethanol programs in the United States, including Cargill, have also made investments in Brazilian sugar-based programs. Brazilian affiliates of U.S. auto companies have led the process of constructing engines that can adapt to both gasoline and biofuels. The expansion of biofuels consumption, now driven through mandated targets, may boost Brazil’s exports of auto parts within the hemisphere and outside of it. But in order for this to happen, massive investment—perhaps in the range of \$200 billion—is required to ensure that the supply of biofuels meets 5 percent of hemispheric transport energy needs by 2020.³⁴

There is a great potential for inter-American cooperation in energy, but political factors are at play that could prevent US-LAC from realizing that full potential. Resource nationalism and regionalism are limiting the possibilities of cooperation in the oil and gas sectors. Cooperation in new energy sources, including ethanol, is more promising as this is an area where the interests of LAC and the needs of the U.S. intersect. The U.S.-Brazilian agreement on ethanol cooperation and the treatment given imports of ethanol within the context of the Doha negotiations might offer a framework for such cooperation.

INVESTMENT RELATIONS

U.S. multinational companies have a long tradition in Latin America. They have historically invested heavily in the region’s manufacturing, mainly in Brazil and Mexico; oil and mining, principally in South America; and financial services, mostly in Mexico but also in South America (Table 4). Between 1996 and 2006, the total U.S. FDI stock in Latin America, excluding the Caribbean, almost doubled (to \$173 billion from \$95 billion as indicated in Table 4).³⁵ Over the past ten years, the United States has been the leading source of foreign direct investment to Latin America, accounting for about one third of all inflows to the region, although the United States trails the European Union if FDI flows from E.U. countries are considered as a unit.

³³The Brazilian program has been welcomed by net-energy importing Latin American countries, which constitute the majority of countries in the region outside Venezuela, Mexico, Argentina, Bolivia, Colombia, Ecuador, and Trinidad and Tobago. Biofuels are eventually expected to curtail dependency on foreign oil. Guatemala and Jamaica have embraced sugar-based ethanol.

³⁴Inter-American Development Bank, *A Blueprint for Green Energy in the Americas*, (Washington, DC: IDB, April 2007).

³⁵These figures do not include U.S. FDI flows to Bermuda, U.K. Caribbean Islands, and other fiscal paradises, which are substantial.

TABLE 4. STOCK OF U.S. DIRECT INVESTMENT IN LATIN AMERICA, ON A HISTORICAL-COST BASIS
Selected countries and industry, and years. Values in billions of dollars

		Latin America	Mexico	South America	Argentina	Brazil	Chile	Venezuela
Total	1996	95	19	57	8	29	8	4
	2006	173	85	79	13	33	10	12
Mining	1996	6	0	5	1	1	(D)	1
	2006	14	3	11	0	3	1	1
Total manufacturing	1996	40	12	27	3	20	1	2
	2006	55	25	27	2	16	2	5
Utilities	2001	8	0	7	1	2	2	(D)
	2006	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
Wholesale Trade	1996	5	1	3	0	1	0	0
	2006	6	2	3	0	1	1	0
Depository Institutions	1996	4	0	3	1	1	1	(D)
	2006	-4	17*	5	0	2	1	(D)
Other finance and insurance	1996	26	3	8	1	3	3	0
	2006	26	15	10	2	4	3	1
Holding Companies (nonbank)	2001	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
	2006	26	8	15	7	4	0	1*

(D) indicates that the data in the cell have been suppressed to avoid disclosure of data of individual companies.

n.s. Not shown by source.

* Figures correspond to 2005.

Source: U.S. Bureau of Economic Analysis

The United States is a key source of FDI for Mexico, CAFTA countries and, more recently, for Colombia and Peru. But the United States is less prevalent in some Mercosur countries, such as Argentina (see Table 5). U.S. investors have played a key role in Mexican and Costa Rican manufacturing and in diversifying exports from these countries to the United States and elsewhere.

However, U.S. firms can no longer take the region for granted. Some emerging trends in Latin America are worth highlighting because they may have implications for U.S. firms in the region. Over the past ten years, there has been a U-shaped tendency in MNCs' presence in the three great areas of the Latin American economy: primary, manufacturing, and services. The MNC share in sales peaked around the year 2000. The loss of share in sales or exports of all LAC firms has been particularly noticeable in the primary sector and manufacturing.^{36, 37} This trend has affected operations of U.S. firms in natural resources but also those in utilities (mainly electricity), where U.S. investors have been constrained to disinvest. That said, MNCs still dominate LAC's medium and high-tech production, notably automobiles and electronics, a sector where U.S. firms are well established. MNCs also maintain a strong presence—defined as 25 percent to 50 percent of sales—in telecommunications, food

³⁶ECLAC, 2008.

³⁷This is based on sales in Latin America, so figures are heavily influenced by Brazil and Mexico.

TABLE 5. NET FDI INFLOWS TO LATIN AMERICA, BY RECEIPT COUNTRY AND REGION, 1997-2006
Millions of US dollars

	1996	1999	2002	2005	2006	2007
Mercosur	9.4	52.9	18.9	21.0	25.1	41.2
Argentina	4.7	24.0	2.1	5.0	4.8	5.7
Brazil	4.5	28.6	16.6	15.1	18.8	34.5
Paraguay	0.1	0.1	0.0	0.1	0.1	0.1
Uruguay	0.1	0.2	0.2	0.8	1.4	0.9
Chile	2.5	8.8	2.6	7.0	8.1	14.5
Andean Nations	5.1	8.0	7.0	16.8	11.5	15.3
Bolivia	0.2	1.0	0.7	-0.2	0.2	0.2
Colombia	1.4	1.5	2.1	10.3	6.3	9.0
Ecuador	0.4	0.6	1.3	1.6	2.1	0.2
Peru	2.0	1.9	2.2	2.6	3.5	5.3
Venezuela	1.0	2.9	0.8	2.6	-0.5	0.6
Central America and DR	1.0	3.8	2.6	4.2	6.4	8.5
Costa Rica	0.3	0.6	0.7	0.9	1.4	1.9
El Salvador	0.0	0.2	0.5	0.5	0.2	1.5
Guatemala	0.1	0.2	0.1	0.2	0.3	0.5
Honduras	0.1	0.2	0.2	0.4	0.4	0.8
Nicaragua	0.1	0.3	0.2	0.2	0.3	0.3
Panama	0.3	0.9	0.1	1.0	2.6	1.8
Dominican Republic	0.2	1.3	0.9	1.0	1.2	1.7
Mexico	8.7	13.7	19.3	19.6	18.9	23.2
CARICOM	0.8	1.7	1.7	2.6	na	na
Bahamas	0.0	0.1	0.2	0.4	0.7	0.6
Jamaica	0.1	0.5	0.5	0.7	na	na
Trinidad and Tobago	0.3	0.6	0.8	0.9	0.9	0.8
Other Caricom	0.2	0.4	0.3	0.6	na	na
Total LAC^a	27.5	88.8	52.2	71.3	72.6	105.9

Source: ECLAC, on the basis of official figures as at 24 April 2007.

^a Excludes Cuba, Monserrat and Anguilla. Total for 2006 uses Caricom figures for 2005.

and agro industry, commerce, mining, and electrical, in that order of importance. (Financial services were not assessed.)

Additionally, Latin America has received FDI from new sources, particularly in 2007.³⁸ The involvement of China and India in the region is still low and does not pose a direct challenge to U.S., E.U. or Japanese firms, which together still account for nearly all foreign firms among the top sixty non-financial corporations in Latin America. In fact, twenty-four U.S. firms appear on that list. However, as mentioned previously, a timidly emerging trend worth noting is that Indian and Chinese firms are beginning to pursue expansion in the region. For example, Tata, an Indian company, and Cherry, a Chinese one, have established joint ventures with local groups in Mercosur countries for very small-scale automobile production. Chinese firms have

³⁸ ECLAC, 2008.

pursued low-cost manufacturing investments in Mexico and the Caribbean Basin. And Chinese and Indian firms are engaged in joint ventures in natural resources, mostly in Venezuela and Bolivia. Perhaps, the most notable single investment by an extra-regional developing country MNC is Indian/Luxembourgers ArcelorMittal. It has made strong investments in various LAC steel companies and has also struck strategic alliances with upstream Brazilian producers. A willingness to operate in more risky environments may strengthen the upper hand of these firms in certain LAC countries. For example, the Indian iron and steel producer, Jindal Steel, has made a \$2.3 billion investment in Bolivia. That is the single-largest FDI project ever in that country.

In today's world, investment and trade are increasingly tied. Therefore, it is not surprising that U.S. investment evokes patterns similar to US-LAC trade flows. Over the past decade, the focus of U.S. FDI in Latin America moved from South America—more precisely, Brazil—toward Mexico. In fact, *accumulated flows* of U.S. FDI to Mexico were 25 percent higher than the combined figure for all of South America. In 1996, about 60 percent of the U.S. FDI stock in Latin America was located in South America (mainly Brazil) and 20 percent was in Mexico. Today Mexico accounts for almost 50 percent of the U.S. FDI stock in Latin America (Table 4). While this trend applies to the U.S. FDI stock in Latin American manufacturing, it is even stronger in the area of banking and finance.

The U.S. FDI stock in the banking, finance, and insurance sectors in Mexico and Brazil were roughly similar in 1999, around \$6 billion in each country. By 2006, the U.S. FDI stock in these sectors in Mexico exceeded \$30 billion while the comparable figure for Brazil remained almost unchanged. Mexico has also surpassed Brazil as a host of U.S. FDI in manufacturing. Both saw FDI of about \$18 billion in 1999; today's figure for Mexico stands at about \$25 billion but that for Brazil remains at \$16 billion.

Mexico has become a highly attractive destination for U.S. investors, but other important parts of Latin America—notably Mercosur—have lost appeal for the United States over this period. LAC countries have secured investment from other sources, but the region as a whole no longer enjoys the prominence it had with U.S. investors about ten years ago. Mexico, Central and South America accounted for 12 percent of total U.S. FDI stock abroad in 1996. That figure now stands at just 7 percent. To be sure, this drop may be imprecisely measured by figures based on cost accounting, but accumulated FDI flows also suggest that between 1999 and 2006, all other regions, notably Europe and Asia Pacific, have more successfully attracted U.S. FDI. Indeed, U.S. FDI *flows* have been slow to react to the recovery of Latin American economies. During the 2002 to 2006 period, Latin America received just 7 percent of total U.S. FDI outflows, trailing Europe, Asia Pacific, and Canada, in that order. In the past two years, they have regained their pre-2000 levels.

U.S. FDI still accounts for the majority of FDI received by many Latin American countries. It is no coincidence that those countries with a higher trade and investment dependence vis-à-vis the United States—such as Mexico, the Central American countries, Peru, and Colombia—are the ones that have been more willing to enter into free trade agreements with the United States.³⁹

Current expectations are in part shaped by NAFTA's record. There is no doubt that NAFTA has fulfilled its objective of boosting FDI into Mexico from the United States and other sources.⁴⁰ A considerable sum of the accumulated FDI has been in manufacturing, although services have gained weight in recent years.⁴¹ Some point to NAFTA's positive record in boosting Mexican productivity, which is associated with U.S. FDI into non-*maquiladora* industries. However, detractors argue that FDI in Mexico has fallen short in the promotion of linkages and spillovers and that as much as 30 percent of FDI flows have been devoted to enclave economies (*maquiladoras*) with very little value-added or technological content. Evidence on the issue of spillovers is mixed. J. E. Lopez Cordova (2003) and L. Alfaro and A. Rodríguez-Clare (2004) conclude that NAFTA led to inter-industry but not to intra-industry spillovers.⁴²

There are early indications that CAFTA-DR will have a different impact on Central American countries than NAFTA had on Mexico, but one should be careful about comparisons. Early figures suggest that the relative contribution of FDI to investment patterns of these nations is much higher than it ever was for Mexico. Today, most of the recent FTA partners are receiving capital inflows surpassing 5 percent of GDP, which may strengthen existing exports (such as textiles and clothing), and securing a new role for the region as an exporter of services (including tourism and call centers, among others). However, U.S. FDI in the CAFTA-DR region is still mostly concentrated in Costa Rica and the Dominican Republic. Early patterns of FDI inflows point to a more determinant role for services—financial, tourism, retail, and telecommunication services—and a relatively lower profile for non-*maquila* manufacturing. *Maquilas* remain an important attraction for foreign investors to Honduras and Nicaragua, while Costa Rica continues to tap FDI into more sophisticated manufacturing and services. ECLAC (2008) notes that there are a number of promising areas for diversification beyond textiles, such as call centers and chemicals in Guatemala, call centers and logistic services in El Salvador, or medical devices in Costa Rica.

³⁹The exceptions are Ecuador and Venezuela on one side and Chile on the other. The latter chose to sign an FTA though its relations are more diversified. The former did not, despite the fact that they depend on the United States for roughly 55 percent of their exports, of which fuels make up about 80 percent (see table 5).

⁴⁰U.S. investors accounted for about 60 percent of FDI flows to Mexico between 1994 and 2005. Most of the remaining FDI came from other OECD countries, notably leading European nations.

⁴¹Over the 1994 to 2005 period, manufacturing and services roughly divided into equal shares the total accumulated flows of FDI into Mexico (about \$85 billion for each sector from a total of \$170 billion).

⁴²Another line of criticism is that FDI had no effect on Mexican wages. We do not review this here.

Unlike Mexico, manufactures play a minor role in attracting FDI to Peru and Colombia, although this is more important in the latter. In both countries, recent FDI dynamics are largely driven by investment in natural resources (hydrocarbons and mining) and services (telecommunications and financial). Still, FDI flows to Colombian manufacturing have been very strong in recent years; they doubled in 2007, perhaps in anticipation of an FTA with the United States.

Another important trend in US-LAC investment relations is the outward expansion of LAC firms, including toward the U.S. market. This is not a new phenomenon, but a recent streak of acquisitions of highly valued global companies underscores the internationalization of Latin American firms. If this trend continues, it will have important implications for inter-American economic relations. Outward FDI by Latin American companies boomed in the 1990s, leading to the emergence of regional champions in various industries alongside historical state-owned resource giants PDVSA, PEMEX, and CODELCO. The exponential increase in LAC's outward foreign investment between 2003 and 2007 is largely attributable to a handful of transactions by emerging global Latin American companies like CEMEX, Petrobras, Telmex, CVRD, Gerdau, América Móvil, Banco Itaú, Techint, and Alfa.⁴³ However, the move toward internationalization in both resource and non-resource-based companies is likely to be sustained in the future by these and other companies. Large regional firms—including Falabella, Cencosud, América Móvil, and others—may venture outside the region in the near future. More importantly, a new business mentality, coupled with more stable currencies, will facilitate the internationalization of smaller firms in the near future.

This trend confirms the rising stature of Latin America as a mature trade and investment partner for the United States. Many of the internationalized Latin American firms chose the United States as their first and foremost destination outside the region and as a platform for a more global role. To be sure, Latin American investments in the United States are tiny by U.S. standards, but they are sufficient to make a mark on specific sectors such as cement, agri-foods, iron, steel, and other metals. (For example, Brazilian beef and meat-packing company JBS bought Swift's operations in Argentina). More may come in the future. Another implication of this trend is that unyielding trade barriers in developed countries may delay and curtail, but not entirely halt, the march of Latin American companies in areas where the region enjoys comparative advantage. This is a base upon which to build inter-American trade and investment relations after the failure of the Free Trade Area of the Americas (FTAA).

⁴³ECLAC, 2008.

DEALING WITH ECONOMIC DISPUTES

There was a time when many economic disputes between inter-American partners were handled on a case-by-case basis through bilateral diplomatic channels. This ad-hoc mechanism did not satisfactorily deal with core interests of Latin American countries; the interests of bigger nations would prevail through persuasion or even coercion. Institutionalized mechanisms for dispute settlement did exist before the 1990s but were not effectively used. In fact, Latin American countries were often pressured not to initiate proceedings under the General Agreement on Tariff and Trade (GATT). Rather, they were forced to enter negotiations with the United States when they had, for instance, investment disputes.

This is no longer the case. Trade and investment disputes between the United States and Latin American countries are increasingly addressed through multilateral channels, in particular the World Trade Organization (WTO) and ICSID.⁴⁴ Since 1997, the WTO dispute-settlement mechanism has been used in more than twenty-eight trade disputes between Latin American countries and the United States. In eleven of those disputes, the United States has been the complainant, and has been the respondent in seventeen of them (Table 6).⁴⁵ While a full evaluation of the WTO dispute mechanism is beyond the scope of this paper, in most cases complaints by Latin American countries have been upheld by WTO panels and its appellate body. These include high-profile disputes, such as Brazil's regarding U.S. subsidies to agricultural products like sugar and cotton. The fact that Mexico and the United States frequently use the WTO proceedings to deal with problems in their bilateral trade relations shows that the existence of a free trade agreement does not prevent countries from going to the WTO.⁴⁶

A similar picture emerges for investment. The ICSID dispute settlement mechanism was rarely invoked in the 1990s; until 1998, only fourteen cases had been filed against Latin American countries.⁴⁷ In the past decade, however, the number of cases brought by MNCs against Latin American countries has boomed.

Not all the complaints against Latin American governments are brought by U.S. firms, but many are. That is due to the fact that the United States is for many countries of the region the main source of foreign direct investment. More than

⁴⁴The ICSID deals with disputes between foreign private corporations and host countries when the latter have accepted ICSID jurisdiction or reflected its acceptance in contracts with private firms.

⁴⁵While the largest Latin American countries, Brazil, Mexico and Argentina, have most frequently used the WTO to settle their disputes with the United States, smaller countries such as Ecuador and Antigua and Barbuda have also availed themselves of the WTO mechanism (see Table 6).

⁴⁶Peter Sutherland, Jagdish Bhagwati, Kwasi Botchwey, Niall FitzGerald, Koichi Hamada, John H. Jackson, Celso Lafer and Thierry de Montbrial, *The Future of the WTO: Addressing institutional challenges in the Millennium*, Report by the Consultative Board to the Director-General Supachai Panitchpakdi (Geneva: World Trade Organization, 2004).

⁴⁷Hyder Ali and Alexander de Gramont, "ICSID Arbitration in the Americas," in *The Arbitration Review of the Americas 2008*, a Special Report of the Global Arbitration Review (November 2007).

TABLE 6. US TRADE DISPUTES WITH HEMISPHERIC PARTNERS IN THE WTO, 1998-2008

Respondent	Dispute case	Complainant	Year
Argentina	Certain Measures on the Protection of Patents and Test Data	United States	2000
Argentina	Measures Affecting Imports of Footwear	United States	1999
Argentina	Protection for pharmaceutical patents & for test data of agricultural chemicals	United States	1999
Brazil	Measures Affecting Patent Protection	United States	2000
Brazil	Measures on Minimum Import Prices	United States	2000
Canada	Measures Relating to Exports of Wheat and Treatment of Imported Grain	United States	2002
Canada	Provisional AD CVD on Grain Corn from the United States	United States	2006
Canada	Term of Patent Protection	United States	1999
Mexico	Anti-Dumping Investigation of High-Fructose Corn Syrup (HFCS)	United States	1998
Mexico	Definitive Anti-Dumping Measures on Beef and Rice	United States	2003
Mexico	Measures Affecting Telecommunications Services	United States	2000
Mexico	Measures Affecting Trade in Live Swine	United States	2000
Mexico	Tax Measures on Soft Drinks and Other Beverages	United States	2004
Venezuela	Import Licensing Measures on Certain Agricultural Products	United States	2002
United States	Measures Affecting the Cross-Border Supply of Gambling Services	Antigua & B.	2003
United States	Sunset Reviews of AD Measures on Oil Country Tubular Goods	Argentina	2002
United States	AD Administrative Review on Oil Country Tubular Goods	Argentina	2006
United States	CVD on Certain Carbon Steel Products	Brazil	2000
United States	Anti-Dumping Duties on Silicon Metal	Brazil	2001
United States	US Patents Code	Brazil	2001
United States	Florida's Excise Tax on Processed Orange and Grapefruit Products	Brazil	2002
United States	Definitive Safeguard Measures on Imports of Certain Steel Products	Brazil	2002
United States	Subsidies on Upland Cotton	Brazil	2002
United States	Domestic Support and Export Credit Guarantees for Agricultural Products	Brazil	2007
United States	Certain Measures Affecting the Import of Cattle, Swine and Grain	Canada	1998
United States	CVD Investigation with respect to Live Cattle	Canada	1999
United States	Reclassification of Certain Sugar Syrups	Canada	1999
United States	Measures Treating Export Restraints as Subsidies	Canada	2000
United States	Section 129(c)(1) of the Uruguay Round Agreements Act	Canada	2001
United States	Preliminary Determinations with Respect to Softwood Lumber	Canada	2001
United States	Continued Dumping and Subsidy Offset Act of 2000	Canada	2001
United States	Final Dumping Determination on Softwood Lumber	Canada	2002
United States	ITC Investigation on Softwood Lumber	Canada	2002
United States	Final CVD Determination with respect to Softwood Lumber	Canada	2002
United States	Provisional AD Measure on Imports of Softwood Lumber	Canada	2002
United States	Reviews of CVD on Softwood Lumber	Canada	2004
United States	ITC Determination on Hard Red Spring Wheat	Canada	2004
United States	Subsidies and Other Domestic Support for Corn and Other Agricultural Products	Canada	2007
United States	Anti-Dumping Measure on Shrimp	Ecuador	2005
United States	Continued Dumping and Subsidy Offset Act of 2000	Mexico	2001
United States	AD Measures on Oil Country Tubular Goods	Mexico	2003
United States	Countervailing Duties on Steel Plate from Mexico	Mexico	2003
United States	AD Measures on Cement	Mexico	2003
United States	AD Determinations regarding Stainless Steel	Mexico	2005
United States	Final AD Measures on Stainless Steel	Mexico	2006

Source: WTO Website

eighty complaints against Latin American countries have been considered by ICSID in the present decade (Table 7). Argentina (forty complaints), Ecuador (ten), Mexico (nine), and Venezuela (nine) are the countries more often named. Brazil has not been brought to trial because it is not a member of ICSID. Many of the cases contest whether ICSID has jurisdiction to rule in the dispute.

A number of ICSID rulings have upheld the views of the defending LAC states.⁴⁸ However, the rising tide of populism in Latin America and the reversal of the privatization process put ICSID on a collision path with some Latin American nations—notably Bolivia, Ecuador and Venezuela—and foreign investors. In fact, leaders of these nations have discussed reconsideration of their membership in ICSID. Bolivia has already withdrawn from the forum. It is worth pointing out that, unlike FTAs, bilateral investment agreements have poor records in promoting FDI.⁴⁹ It is, therefore, not surprising that FTAs have done little to deter leaders willing to capitalize on swings of popular moods against “neo-liberalism.”

The situation in Argentina is different because the breach of contracts was induced by a traumatic crisis and a devaluation of abnormal proportions. Many firms filed claims to place themselves in a better position to renegotiate new terms with the government, a position that Argentina rejected. Ultimately, the turn of events has damaged the stature of ICSID as a forum for solving investment disputes. Almost all disputes are still pending. On the one hand, ICSID displayed weakness and complexity in the eyes of investors. On the other hand, the prospect Argentina faced of endless litigation in foreign courts would have sent a powerful message to other developing countries about the benefits of bilateral investment treaties (BITs) and ICSID. Additionally there have been contradictory ICSID rulings. Some have recognized Argentina’s arguments of “necessity” defense, namely that it was acceptable to break commitments under investment agreements given the gravity and perils of the situation. However, other rulings have not accepted these views.

Perhaps the current situation of Argentina in ICSID illustrates the limits of arbitration mechanisms. A long-lasting solution to pending cases may be achieved through political means and state-to-state negotiations. Argentina has requested that the United States recognize the events of 2001 to 2002 as an emergency that excuses the South American country from its obligations under the bilateral treaty.⁵⁰ Although this proposition has merits, events that followed the recovery hurt the case made by Argentine authorities.

⁴⁸In *Vieira v Chile*, *Bayview Irrigation District et al v Mexico*, and *MCI Power Group LC v Ecuador*, the tribunals sustained the respondents’ objections based on jurisdiction. In *Fireman’s Fund INS Co v Mexico and United Parcel Service v Canada* the tribunal ruled in favor of the states on the merits (Ali and de Gramont, 2008).

⁴⁹Mary Hallward-Driemeier, “The Distribution of FDI: What Role Do Openness and Pro-Competitive Institutions Play?” Background paper for *Global Economic Prospects*, 2002.

⁵⁰Ali and Gramont, 2007.

FROM MARKET INTEGRATION TO ENHANCED COOPERATION

In summing up the main trends of this chapter, the picture that emerges is one of a fragmented relationship. Ten years after the age of great hope in US-LAC cooperation, exemplified by the FTAA negotiations, very little is happening with inter-American cooperation. The FTAA has been shelved for good, and the hemisphere lacks coherent approaches to shared challenges. It also fails to provide a landscape where ambitious policies can be conceived, discussed, and agreed upon. In this sense, the FTAA would have been a great opportunity for convergence in multiple areas. But the lesson that emerges is also one of myopia among the nations leading the process, notably the United States and Brazil. From a purely commercial point of view, it is unfortunate for the entire region that the nations that stood to gain the most from the tariff elimination—the United States and Mercosur countries—are today the ones that continue to see their export potential curtailed.

To a great extent, the failure of the FTAA is a result of the inflexibility with which the United States approaches issues that are critical for Latin American countries—whether it is the reluctance to complement the war on drugs with serious efforts to curtail home demand, the building of a fence on the U.S. border with Mexico to contain illegal immigration, the failure to consider successful models of cooperation for development (such as those instituted by the European Union for less developed countries), or the inability of the U.S. administration to ensure passage of a trade agreement with Colombia. It is quite telling that many countries that did negotiate trade agreements with the United States have been left with a bitter taste; they perceive the United States as unyielding on a number of minor issues at the same time it assumes a “take it or leave it” position on a laundry list of significant concessions from its regional partners. Words like “privileged relationship” or “strategic commitment with the region” resonate more in speeches than in real U.S. policy toward the region.

But the failure of the FTAA is also a shared responsibility. In part, it reflects the miscalculation by Brazil and Mercosur countries that the WTO Doha Round would be the key to unblocking the hemispheric stalemate. Today, trade talks in Geneva are not moving. And even if they were concluded, the current level of ambition might not suffice to clear the Brazil-U.S. bilateral trading relationship.

Reconstructing an initiative as ambitious as the FTAA, with its accompanying policy agenda, is not only extremely difficult but it may be impossible due to new political and economic conditions. There has been a strong backlash against free market ideology across the hemisphere. Popular mood in the United States has been turning against globalization, and special trading relations with smaller nations have been used as a scapegoat for deeper economic malaise. Radicalized anti-Americanism in Venezuela and Ecuador may continue; and Brazil’s leadership is unlikely to win

popularity at home by promoting bilateral trade agreements with the United States beyond those addressing specific issues such as biofuels.

However, there may be space for a more fruitful and mature economic relationship between the United States and Latin America, one that would place economic cooperation over market integration and put an emphasis on areas where both the United States and LAC have concrete interests. Either by design or by consequence, the United States has a number of privileged partnerships in the region—countries with which it has signed free trade agreements covering both trade and non-trade-related issues. With these countries—Mexico, the countries of Central America, Chile, Peru, and eventually Panama and Colombia—the United States has a unique opportunity to move from an almost exclusive reliance on market mechanisms for strengthening inter-American cooperation to a more encompassing approach. This more encompassing approach would certainly include measures to facilitate trade and increase the supply capacity of these countries, but it could also put in place a legal and institutional framework to deal with, for instance, immigration (which to a great extent originates in most of the FTA partner countries). The fight against illegal drugs and money laundering is another area where the United States and its partners in the region should be able to develop more resourceful and effective cooperation to their mutual benefit.

Energy also holds great potential as a point for US-LAC cooperation. Oil would be a part of this, despite current misunderstandings and the fiery anti-imperialist rhetoric in some countries, particularly Venezuela; given its level of oil reserves, Venezuela would have to play a key role in any strengthened inter-American cooperation on oil matters unless and until Brazil fully realizes its potential as an oil-producing and exporting country. For a long time, Venezuela tried to forge a “special relationship” with the United States based on its long-standing role as a secure supplier of oil to the U.S. market and the increasing dependency of the United States on foreign oil. Beyond the apparent disagreements between the two countries, this underlying reality has changed little over the years. It may actually have intensified as the United States has increased its dependency on foreign oil, and Venezuela continues to supply the U.S. market, notwithstanding Venezuela’s declared goal of market diversification. However, underlying realities will not be easily translated into concrete actions and very little will happen if current real and vocal disagreements remain at the forefront of U.S.-Venezuela bilateral relations.

Cooperation on gas and new energies, such as ethanol, may be a different story. The scope for cooperation may be greater as most of the key Latin American countries with an interest in these areas see the United States either as a market or as a partner. These include Peru, Brazil and, to a lesser extent, Bolivia. For Peru and Bolivia to realize their potential as gas producers and exporters of LNG, access to the U.S. market will be essential. For Brazil, ethanol production has become a key

national industry, and exports of ethanol are a major goal of Brazilian trade talks, including the Doha negotiations. An agreement between Brazil and the United States on ethanol could be a starting point for strengthened cooperation on energy matters between the United States and LAC, since other ethanol-exporting countries in the region share Brazil's goals with respect to enhanced access to the U.S. market.

These are just examples of areas where the United States and LAC countries would benefit in moving toward greater cooperation. Other common interests could be found, including cooperation addressing the impact of climate change; the United States and LAC may come to share some of the goals and mechanisms being discussed in the context of the U.N. Framework Convention on Climate Change. Still, identifying areas of cooperation will be meaningless if concrete action and efforts to understand each others' interests and concerns do not follow. This is perhaps what is needed now, a renewed dialogue between the United States and LAC to address matters of common concern, identify possible measures to deal with them, and act accordingly.

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Social Challenges in Latin America: Obstacles for the Moving Middle

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By the time the global economic downturn came into full swing in 2009, Latin America had enjoyed five consecutive years of economic expansion. Over this period, average per capita income increased by more than 3 percent annually, the best performance since the 1960s.¹ The good news extends to poverty reduction, which has dropped to its lowest rates since 1980 with 33 percent of the population below the poverty line in 2008 and 13 percent for the indigence line. The total number of the poor as defined by national poverty lines is less than 182 million.² Not all the news is good, however. After the boom, Latin America still grappled with the highest levels of inequality in the world and faced the dual challenge of consolidating poverty reduction gains and increasing income and human development convergence with respect to other regions of the world.

Regional thinking has focused, in this context, on inequality, exclusion, social mobility, and equality of opportunity. A few common themes emerge from the comparative surveys on social and economic progress. First, there is a common focus on the heterogeneity of social and economic outcomes in the region. There are “many Latin Americas” emerging from the social and economic statistical record. While some countries have accelerated achievements, others have muddled through one of the best economic cycles in recent history. Second, there is a strong reminder of the importance and weight of inequality, particularly within country income and asset inequalities, which have increased in most countries over the past decade. Poverty reduction is most certainly slowed by high levels of initial inequality. Third, most reports point to the slow rates of inter-generational social mobility as suggested by educational and labor data. Not only is social mobility low, but so are expectations concerning future mobility. Finally, a new focus on the impact of globalization, migration, and remittances puts social and economic change in a larger regional and global perspective. Remittances are today larger than foreign direct investment and

¹ECLAC, *Panorama Social de América Latina 2008* (Santiago, 2009).

²ECLAC poverty lines are defined as “the minimum household income required to meet basic needs.” This includes both a food and non-food component that accounts for urban/rural and regional tastes and consumption patterns. Hence, ECLAC estimates poverty lines differently for each country in the region (ECLAC 2009).

official development assistance in the region, with important implications for national and regional levels of well-being.

In this essay, rather than reiterate many of the interesting results of the regional reports, I would like to focus on the policy consequences of a longer-term pattern of social change that seems to underlie much of uneven progress in this period. This concerns changes in the middle of the Latin American population pyramid. As economic growth has increased and poverty has started to decline in the region, the middle of the pyramid has become more salient. Individuals and households in the middle are the site of demographic change, urbanization, labor upgrading, migration and new social mobility.³ However, as suggested by Nancy Birdsall, Augusto de la Torre, and Rachel Menezes, the middle of the social pyramid is far from “middle class.”⁴ In some cases, the middle of the distribution is barely above the poverty line, and constitutes, in global terms, the “new working poor.” The shortage of good jobs and the lack of return on talent and effort have resulted in increased migration, with consequent impacts in home countries. The middle is, literally, moving in Latin America.

This chapter describes three challenges for the moving middle. The first part reviews macro-trends from the perspective of changes in growth, poverty reduction, and human development in the region. From a global perspective, Latin America is a region where human development achievements have not translated into income achievement as rapidly as in other places in the world. The second part of the essay zooms in on micro-trends concerning the middle of the population distribution. The middle is where the skilled-unskilled divide is most apparent, where returns to education increase, and where migration and remittances are the strongest. The third part considers some of the policy implications of the moving middle. If, as suggested by the regional literature, many of the gains in human development from urbanization and demographic change have been exhausted, future policy interventions will need to link social and economic progress more explicitly through labor markets. A closer focus on the links among education, labor skills, and higher labor productivity will be needed.

CONTINUITIES: MACRO-TRENDS IN THE REGION

A common finding in most recent reports on social progress is the heterogeneity of achievements in the region. There are many “Latin Americas” in the statistical record and there are many inequalities between and within countries that hamper further social progress. This section summarizes three differences in social progress

³ Martin Ravallion, “The Developing World’s Bulging (but Vulnerable) Middle Class,” policy research working paper no. 4816, The World Bank, Washington, D.C., 2009.

⁴ Nancy Birdsall, Augusto de la Torre, and Rachel Menezes, *Fair Growth: Economic Policies for Latin America’s Poor and Middle-Income Majority* (Washington, DC: Inter-American Dialogue and Center for Global Development, 2008).

over the last decade from the perspective of growth, poverty reduction, and overall human development. From a comparative perspective, Latin American growth continues to be marked by accelerations that are stop-and-go accelerations, by poverty reduction that is slowed by high rates of income inequality, and by human development that is lopsided, leaning toward social attainment to the detriment of a higher rate of economic attainment.

Stop-and-Go Economic Growth

Although the past five years have been good years for the region, the medium-term record suggests a stop-and-go pattern of economic growth that follows world cyclical trends.⁵ Recent Latin American growth is the strongest in decades but follows a long period of stagnation and slow growth. The consequences of a stop-and-go pattern of growth are numerous: growth accelerations followed by growth collapses tend to accentuate the volatility of domestic and foreign investment;⁶ innovation and technological upgrading become more unpredictable;⁷ and social and labor costs associated with job destruction and cyclical impoverishment are amplified.⁸

Despite the stop-and-go pattern of growth, average per capita income increased by approximately 1.8 percent between 2000 and 2006, significantly higher than the 1.1 percent between 1990 and 1999. The past four years registered the highest rates of per capita growth in close to four decades. In 2006, the region grew at a per capita rate of 4.2 percent, with the Dominican Republic and Venezuela growing at a rate of 9.1 percent and 8.5 percent respectively, followed by Argentina (7.8 percent), Peru (6.8 percent), and Uruguay (6.8 percent). With the exception of Haiti (-1.6 percent), Paraguay (-0.1 percent), and Bolivia (0.6 percent), all countries in the region grew at a higher than the 1 percent per capita rate between 2000 and 2006. The heterogeneity of growth rates, however, translates into a spotty record of poverty reduction.

High Inequality, Enduring Poverty

While growth is clearly necessary for long-term poverty reduction, the region is characterized by a relatively low elasticity of poverty reduction with respect to growth. The high degree of inequality has almost certainly slowed the overall rate

⁵ José Antonio Ocampo and María Angela Parra, “The Dual Divergence: The Growth Successes and Collapses in the Developing World since 1980,” DESA working paper no. 24, United Nations, New York, 2006.

⁶ Ricardo Hausmann, Francisco Rodríguez, and Rodrigo Wagner, “Growth Collapses,” CID working paper no. 136, Harvard University, Cambridge, MA, 2006.

⁷ Ricardo Hausmann, Lant Pritchett, and Dani Rodrik, “Growth Accelerations,” KSG working paper no. 30, Harvard University, Cambridge, MA, 2004.

⁸ Joseph Stiglitz, *Making Globalization Work* (New York: W.W. Norton, 2006).

of poverty reduction;⁹ some economies have seen absolute and relative reductions in poverty only above the 1 percent per capita economic growth rate over time.¹⁰ Other economies have seen not only slow rates of poverty reduction in relative terms, but also growth in the absolute number of individuals and households under the poverty line.¹¹

According to ECLAC, between 2002 and 2006, the number of people living in poverty decreased by 27 million in Latin America. Some 23 million of them came from four countries: Argentina, Brazil, Mexico, and Venezuela. In relative numbers, Argentina, followed by Venezuela, Peru, Ecuador, Mexico, and Chile, showed the highest rates of poverty reduction. In some cases, inequality also dropped in the region.¹² Argentina, Brazil, Venezuela, and Chile all saw significant decreases in income concentration, averaging between 7 percent and 10 percent of the value of the Gini coefficient between 2002 and 2006. The countries in which absolute numbers of the poor are increasing every year are Bolivia, Haiti, Nicaragua, and Paraguay.

A summary measure of the weight of inequality on poverty reduction is the estimated rate of growth needed to achieve the Millennium Development Goals (MDG) for poverty reduction by the year 2015.¹³ While most countries will achieve the target with inertial rates of growth, some of the hard cases will require more than growth. Bolivia, Nicaragua, and Paraguay will need growth rates of more than 5 percent per capita to achieve the MDG target without changes in the Gini coefficient, and rates of approximately 2 percent per capita with a 10 percent reduction in their Gini coefficient.¹⁴ The impact of inequality is, of course, more than just an impediment to growth and poverty reduction; it also impairs the ability to acquire social and economic capabilities at the bottom of the pyramid.

Lopsided Human Development

In a thirty-year perspective, despite increases in well-being, Latin America has not changed its profile of lopsided human development. In general terms, most Latin American countries attain less income per capita than predicted by their level of

⁹ Francois Bourguignon, "The Growth Elasticity of Poverty Reduction: Explaining Heterogeneity across Countries and Time Periods," Working Papers, Delta 2002, Paris, France, 2002.

¹⁰ Leonardo Gasparini, Federico Gutiérrez, and Leopoldo Tornarolli, "Growth and Income Poverty in Latin America and the Caribbean: Evidence from Household Surveys," *Review of Income and Wealth* 53 (2007): 2.

¹¹ ECLAC, 2009.

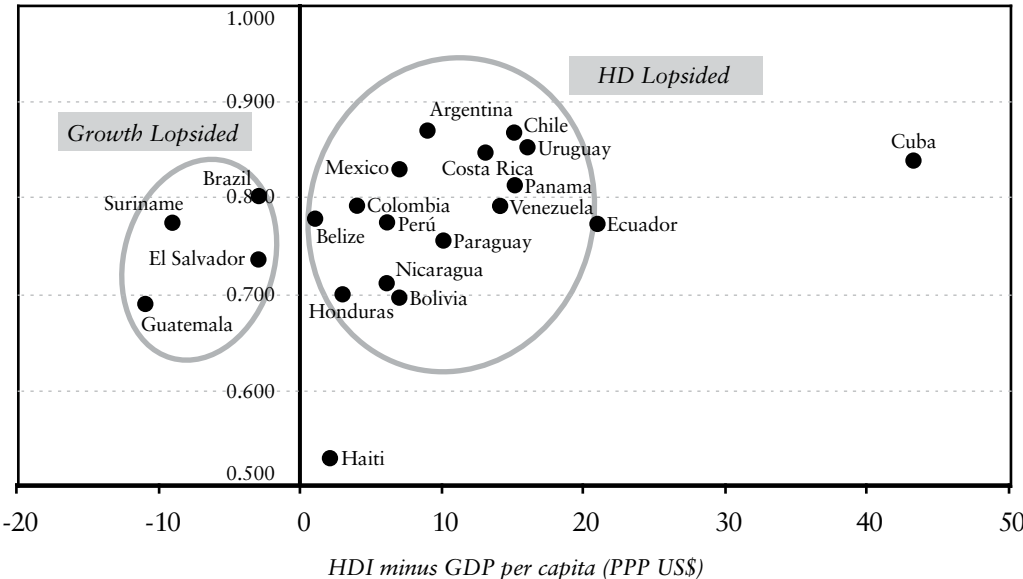
¹² Leonardo Gasparini, Guillermo Cruces, Leopoldo Tornarolli, and Mariana Marchonni, "A Turning Point? Recent Developments on Inequality in Latin America and the Caribbean," working paper 81, CEDLAS, Buenos Aires, 2009.

¹³ ECLAC, *Objetivos de Desarrollo del Milenio: Una mirada desde América Latina y el Caribe*. (Santiago, 2005).

¹⁴ Ibid.

social attainment.¹⁵ This lopsidedness shows a chronic inability to match social capabilities with economic functionings or less-observable economic opportunities.¹⁶ It is also a powerful push factor behind transnational migration for qualified workers unable to find a sufficient number of high quality jobs in the region. A second feature discussed in the regional literature is a chronic inequality in sub-national social and economic capability-building.¹⁷ Sub-national inequality reflects a heterogeneous pattern of achievements that makes sustainable and broad-based human development more elusive.

CHART 1: LAG BETWEEN HUMAN DEVELOPMENT AND GDP PER CAPITA (PPP), 2005



Source: UNDP Human Development Report 2007/8.

¹⁵ Gustav Ranis, Frances Stewart and Alejandro Ramirez, “Economic Growth and Human Development,” in *Readings in Human Development*, ed. Sakiko Fukuda-Parr and A.K. Shiva Kumar, (Oxford: Oxford University Press, 2005).

¹⁶ “Functionings” describe actual *beings* and *doings*—levels of income generation, states of health, or nutrition—while “capabilities” describe largely unobservable vectors of functionings. “Opportunities” describe the ability to achieve actual functionings (Sen, 2000).

¹⁷ Calva Lopez, Luis Felipe and Miguel Szekeley, *La medición del desarrollo humano en México* (Mexico City: Fondo de Cultura Económica, 2006).

CHANGES: MICRO-TRENDS IN THE MIDDLE

A number of papers and books have emphasized the emergence of a “new middle” in Latin America. While Birdsall, de la Torre, and Menezes¹⁸ distinguish between “middle income” and “middle class” to emphasize the high degree of inequality in the distribution of income within countries, Bill Easterly¹⁹ defines the middle as those lying between the 20th and 80th percentile of the population regardless of distribution. Abhijit Banerjee and Esther Duflo²⁰ describe a “global middle class” in absolute terms as those with household expenditures between US\$2 and US\$10 (PPP) per day. Martin Ravallion²¹ uses an upper boundary of US\$13 (PPP) per day to reflect the U.S. poverty line in a comparative perspective. Regardless of the metric, the issue of an emerging middle has become more prominent as economic growth has accelerated in the region and new global opportunities have changed the nature of what has long been a country-specific or regional discussion.

A New Demographic Middle

Latin America has changed over the past three decades. The population has increased to 556 million in 2005, from 323 million in 1975. The region is today the most urbanized of the developing world. Demographic change is not limited, however, to the issues of population growth and urbanization. The key demographic issue is how Latin American economies are coping with drops in labor dependency rates and the consequent expansion of the labor force. The demographic “window of opportunity” is both a significant opportunity and a daunting challenge as millions of new skilled and unskilled workers try to find not just a job, but as suggested by the IDB 2008 report, a well-paid and high-skilled job.

The emergence of a new demographic middle with higher levels of education, urban residence, labor mobility, and global consumption patterns has changed the character of Latin American discussions on social progress. Inter-generational mobility has joined poverty and inequality as critical issues for the region. Do increases in human capital have a pay-off for the poor and middle-income populations in the region? The labor and educational data are mixed. A survey on inter-generational education mobility for teenagers in the region, measured by the impact of family background on present-day educational attainment, suggests high levels of educational mobility for Chile, Argentina, and Uruguay and very low levels for

¹⁸ Birdsall, de la Torre, and Menezes.

¹⁹ Bill Easterly, “The Middle Class Consensus and Economic Development,” *Journal of Economic Growth*, (Dec. 2001): 6, 317-336.

²⁰ Abhijit Banerjee and Esther Duflo, “What’s Middle Class About the Middle Classes Around the World?” working paper no. 29, MIT economics department, Cambridge, MA, 2007.

²¹ Ravallion.

Guatemala, Bolivia, and Brazil.²² An additional study by Jere Behrman, Alejandro Gaviria and Szekeley²³ finds higher levels of educational mobility for four countries in the region when compared to the United States. Labor data are also mixed. Available data on inter-generational income elasticities, which measure the extent to which family background affects the present generation's permanent income, suggest that social mobility in Latin America is slower than in most developing countries—even slower than in the United States and the United Kingdom, which show the lowest levels of mobility.²⁴

The perceptions of most Latin Americans on social mobility are pessimistic. Most perceive that there has been insufficient social mobility with respect to their parents' generation and not very good prospects for their children.²⁵ Perceptions on discrimination shed some light on this issue. While opinion polls in the late 1990s identified racial and ethnic background as the main reasons for discrimination, recent polling suggests that lack of education and connections are the prime culprits.²⁶ The shift from ethnic/racial issues to educational/labor issues suggests that “social” rather than “cultural” factors have become more salient in public discussion.

Fitting into the Global Middle

How does the Latin American middle fit into the global middle? Besides the comparative evidence on overall declines in population-weighted income inequality and increases in within-country income inequality,²⁷ there is little comparative data on changes in the middle of global income distribution. Fernando Ferreira²⁸ shows that beyond the level of human development, there are a set of distinctly Latin American features of the demographic transition in the region: high levels of urbanization, low levels of inter-generational social mobility, and high levels of inequality, for starters. A recent study on the “global middle class,” based on a thirteen-country household-level comparison, sheds some light on changing labor and consumption patterns across regions and countries.²⁹

²² Lykke Andersen, “Social Mobility in Latin America: Links with Adolescent Schooling,” network paper no. 433, IDB research, Washington, DC, 2001.

²³ Jere Behrman, Alejandro Gaviria, and Miguel Szekely, “Intergenerational Schooling Mobility in Latin America,” *Economía*, (2001): 2:1, 1-31.

²⁴ IDB, *Outsiders? The Changing Patterns of Social Exclusion in Latin America, 2008 Report on Economic and Social Progress* (Washington, DC, 2008).

²⁵ Alejandro Gaviria, “Movilidad social y preferencias por la redistribución en América Latina,” documento de trabajo no. 3, Universidad de los Andes: Economía, Bogotá, 2006.

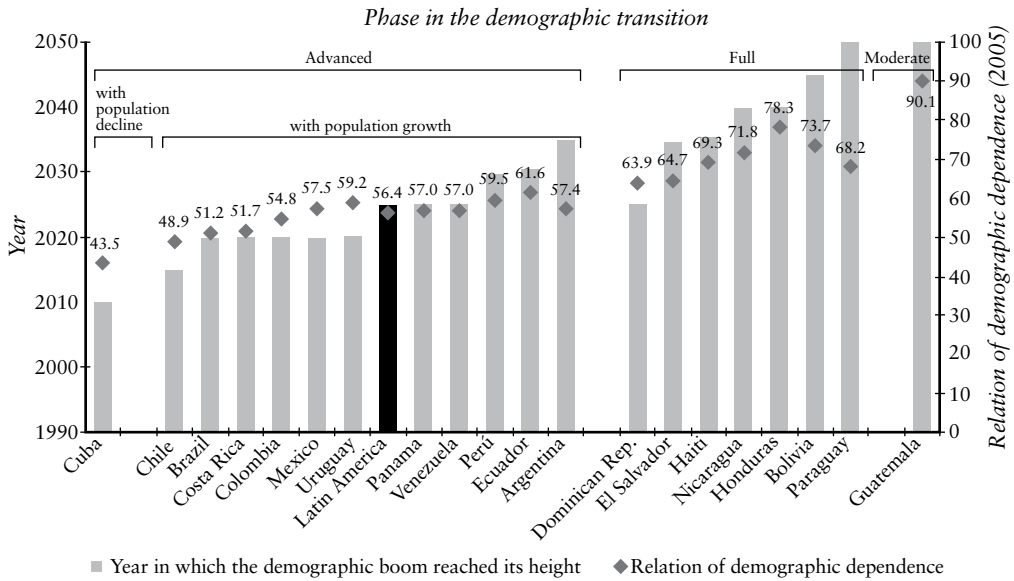
²⁶ Corporación Latinobarómetro, *Informe Latinobarómetro* (Santiago, 2005).

²⁷ IMF, *World Economic Outlook* (Washington, DC, October 2007); Francois Bourguignon, Victoria Levin, and David Rosenblatt, “Global Redistribution of Income,” policy research paper no. 3961, World Bank, Washington, DC, 2006.

²⁸ Fernando Ferreira, “Cohesión, riesgo y arquitectura de protección social en América Latina,” Serie de Políticas Sociales, ECLAC, Santiago, Chile, 2007.

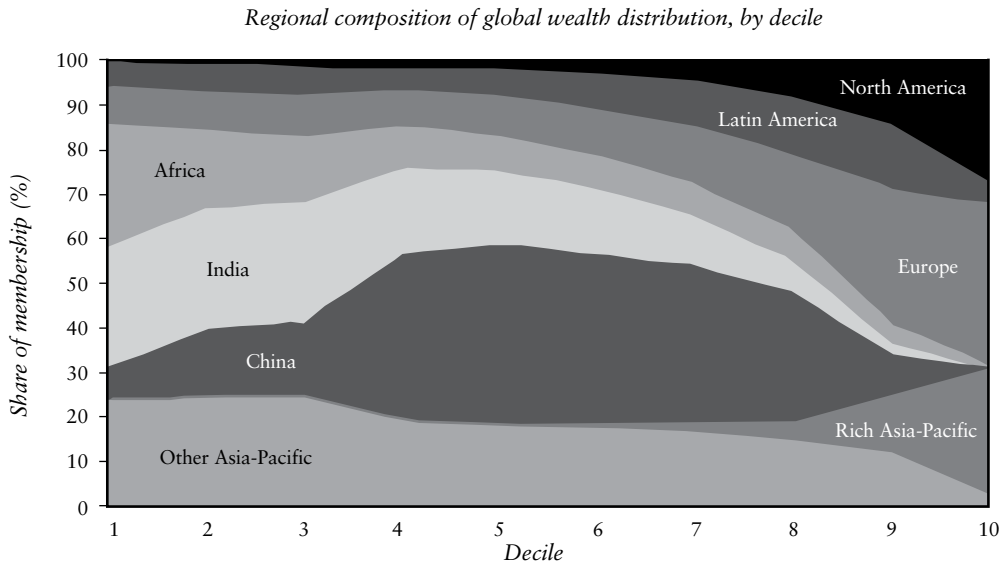
²⁹ Banerjee and Duflo.

CHART 2: PHASE IN THE DEMOGRAPHIC TRANSITION, LATIN AMERICA



Source: ECLAC, Panorama Social 2007.

CHART 3: REGIONAL COMPOSITION OF GLOBAL WEALTH, BY DECILE



Source: Davies, Sandstrom, Shorrocks and Wolff, 2007, International Poverty Center.

Two patterns emerge from global income growth and reductions in global poverty. The first is a sense that what lies behind global middle class behavior is closely linked to labor market characteristics—in particular, holding a well-paid job in the formal sector and making use of upgraded labor skills throughout the life cycle. The second is that the global middle class has a different human capital profile than the poor; households in the middle strata have fewer children, spend more on education and health, and are more mobile in terms of rural-to-urban and transnational migration.³⁰ In both regards, Latin America lags behind the emerging global middle class—mostly Chinese and Indian. Low-paying, low-skill, and informal jobs continue to be the norm in the middle, while human capital investments continue to pay less than in other regions of the world.

New Issues for the Middle

Increasing the Pay-off to Education: Education is a key link between labor productivity and economic growth. However, difficulties in expanding educational attainment and difficulties in raising the rate of return of education are common in the region. The second difficulty is particularly worrying in a context in which global economic opportunities tend to reward products and services with better skills.³¹ In Latin America, David de Ferranti, Francisco Ferreira, and Michael Walton, et al.,³² and Marco Manacorda, Carolina Sánchez-Páramo, and Norbert Schady³³ find that returns to education are flat for primary and secondary schooling achievement and only improve for students finishing the secondary level. This finding is consistent with a skill bias in labor demand from technological change.

Not only does this drive inequality in the labor market, but it also creates a perverse incentive for poorest households to invest in education. Why don't poor households run up the ladder of economic opportunity by privileging more investments in education? First, because the rewards to education are lumpy: It is important to finish a degree or obtain a diploma before the returns increase.³⁴ This means a long-term cumulative commitment to increasing educational skills. Second, because in a highly stratified society where family background and connections count, high returns to tertiary education are not open to everyone. There are limits to meritocratic human capital accumulation in Latin America.

³⁰ Ibid.

³¹ Francois Bourguignon, Francisco Ferreira, and Nora Lustig, *The Microeconomics of Income Distribution in East Asia and Latin America* (Washington, DC: Oxford University Press and The World Bank, 2005).

³² David De Ferranti, Francisco Ferreira, Michael Walton, et al, *Inequality in Latin America and the Caribbean: Breaking with History?* (Washington, DC: The World Bank, 2003).

³³ Marco Manacorda, Carolina Sánchez-Páramo, and Norbert Schady, "Changes in Returns to Education in Latin America: The Role of Demand and Supply of Skills," discussion paper 0712, CEP, London, 2005.

³⁴ World Bank, 2006.

Increasing High-Wage Jobs: Most of the educational gap does not originate in the educational system itself, but in the labor market. The skills gap itself feeds on global trends that affect the types of products and services in demand. Recent research tends to challenge the received wisdom on liberalization and trade theory.³⁵ Rather than reduce the gap between skilled and unskilled in the developing countries, trade would seem to widen the gap by rewarding highly skilled jobs linked to technological change. Most of the growing gap between skilled and unskilled workers would seem to be associated (indirectly) with trade and (directly) with the use of labor saving technology within sectors. How does this affect the middle?

First, to the extent that low-wage employment has been growing in the region, the number of skilled workers taking low-wage jobs has also expanded.³⁶ Low-wage jobs are often associated with being young, female, and non-college educated.³⁷ However, there is evidence of a growing group of well-educated, high-skilled workers taking low-wage jobs over the past decade. The overall increase in low-wage employment is itself linked to modest economic growth, increases in formal unemployment, and increased demand for tertiary education in the region. High skills are not a “guarantee” for a high-paid job in the region today.

Second, high levels of informality in labor markets tend to diminish the chances of acquiring skills in specialized labor markets. Most workers in Latin America follow an “exclusion/exit” labor cycle: the informal salaried sector is often the entry point for Latin American workers queuing for formal sector jobs or self-employment later in life.³⁸ Informal labor markets tend to be marked by high turnover, low productivity and low pay. These are characteristics that inhibit human capital formation over a life cycle. The incentives to bridge the gap between skilled and unskilled are pointing in the wrong direction.

Third, to the extent that the production process itself becomes more global (i.e., a product is designed in one country, manufactured in another, and sold by customer services in another), the skills gap will be sustained by cross-matching labor demand. It will be more profitable for a firm to hire different skilled labor in a single country than to outsource a “high-skilled” industry as a whole.³⁹ To the extent that Latin American export diversification has followed this route, the skills gap is likely to consolidate, rather than “trickle down.” The effect on the excluded middle is important: Global production systems will segment rather than open high-skilled labor markets.

³⁵ Banerjee and Duflo.

³⁶ IDB.

³⁷ Gustavo Márquez and M. F. Prada, “Bad Jobs, Low Productivity, and Exclusion,” IDB Research Department. (Washington, DC: IDB, 2005).

³⁸ World Bank, 2007.

³⁹ Michael Kremer and Eric Maskin, “Globalization and Inequality,” (Cambridge, MA: Harvard University, 2006); Lopez, Felipe, and Szekeley.

Smoothing the Impact of Migration and Remittances: With remittances of US\$56 billion in 2006 and US\$59 billion in 2007, Latin America is the top recipient of remittances in the world.⁴⁰ They are comparable to foreign direct investment (FDI) and larger than official development assistance (ODA) in the region. They are also linked to a changing pattern of transnational migration. A record number of Latin Americans are migrating in search of better work opportunities. Latin American migrants to the United States, for example, increased to about 16 million in 2000 from approximately 8 million in 1990. The most recent regional study by Pablo Fajnzylber and Humberto Lopez⁴¹ suggests a number of important implications for the middle of the population distribution.

At the macro level, remittances are extremely important for Latin America. Today, remittances are comparable to FDI and are more than six times the amount of ODA. For some countries, the impact of remittances is best illustrated in terms of GDP percentage points. In others, it is the absolute number of recipients that counts the most. In Guyana, for example, remittances represent about 25 percent of GDP. In the Dominican Republic, on the other hand, close to 20 percent of all households are recipients on a regular basis. In Jamaica, average remittances are about US\$700 per recipient, while in Mexico they add up to US\$20 billion per year.

At the micro level, for each percentage point increase in the share of remittances of GDP, the fraction of the population living in poverty is reduced by about 0.4 percent. There are, however, significant differences between countries when it comes to the pro-poor impact of remittances. In Mexico, 61 percent of recipients fall into the bottom 20 percent of the income pyramid. In Paraguay, 42 percent of recipients are in the bottom 20 percent. The welfare impact of remittances in these countries—as well as in Ecuador, Guatemala, and El Salvador—is high. In contrast, in Peru and Nicaragua, the distribution of remittances is completely different. In Peru, fewer than 6 percent of recipients belong to the bottom 20 percent while close to 40 percent belong to the top 20 percent. In Nicaragua, only 12 percent of recipients belong to the bottom 20 percent, while 33 percent belong to the top 20 percent.

Remittances and migration are sensitive to economic slowdowns and the changing climate for migrants overseas. In the last quarter of 2008, remittances dropped by almost 10 percent at the regional level, with important aggregate and household effects back home.⁴² The macro effects are still tempered by the overall economic slowdown, but the micro effects are already visible in poor and vulnerable households across the region.

⁴⁰ World Bank, *Migration and Remittances Factbook 2008*. (Washington, DC: The World Bank, 2008).

⁴¹ Pablo Fajnzylber and Humberto Lopez, *Close to Home: The Development Impact of Remittances in Latin America* (Washington, D.C.: The World Bank, 2007).

⁴² FOMIN, “Monografía FOMIN sobre remesas,” Analistas Financieros Internacionales, (Washington, DC: Banco Interamericano de Desarrollo, 2009).

CHALLENGES: ACCELERATING ACHIEVEMENTS IN A GLOBAL ECONOMY

Social progress in Latin America accelerated since 2003, spurred by high levels of economic growth and the cumulative effect of past social reforms. Obstacles to stronger performance in the region are a stop-and-go pattern of economic growth, high levels of inequality, and relatively low levels of inter-generational social mobility. Perhaps the most significant shift in the past decade is the emergence of a new demographic middle, which benefited from social and economic reforms in the previous decade and faces the challenges of finding a place in the global economy in the future.

What is most significant about the emerging “middle,” however, is not merely its demographic salience but how it is shaping a new social and economic playing field. In a decade that witnessed record levels of financial, trade, and economic integration, where migration and remittances have soared, and where human capital has become more mobile, the middle faces challenges and obstacles that are global, rather than merely regional or country-specific. In the most unequal region of the world, new sources of global inequality emerge as challenges for social progress in the future. They require a new set of policy instruments that link social progress to economic opportunity in an increasingly demanding global economy.

Tackling New and Old Inequalities

Most analysts agree that, besides growth, the policy instruments that had the strongest social impact over the past two decades were expansions in the supply of educational and health services to urban and rural populations, social safety nets in times of economic turbulence, and conditional cash transfers that target demand-side constraints. Together, this social policy consensus tackled what might be regarded as “old inequalities” by generational standards, based on geographic remoteness and ethnic and gender exclusions. The old inequalities are by no means settled. Accelerating reductions in poverty, hard pockets of exclusion, and low social mobility remain key obstacles for future progress.

However, as the region begins to deal with longstanding needs, “new inequalities” threaten future gains.⁴³ They are linked to global challenges stemming from more mobile labor markets, increased trade and financial integration, rising food prices and, in more general terms, the long-term impacts of climate change. Added to these is the uneven ebb and flow of world economic growth, as the United States faces an economic slowdown that threatens other world markets. Three of the new inequalities were briefly reviewed in this chapter: uneven returns to education, the

⁴³ Andrea Cornia, *Inequality, Growth and Poverty in an Era of Globalization*, (Oxford: Oxford University Press, 2004); Machiko Nissanke and Erik Thorbecke, *The Impact of Globalization on the World's Poor: Transmission Mechanisms* (London: Palgrave Macmillan, 2007).

need for higher-paid jobs, and the impact of migration and remittances. How to tackle these new problems?

The first way will be by focusing on the demographic groups that face the new inequalities: mostly young, low-paid workers with low skills. Rather than apply across-the-board policies for productivity growth, why not focus on those pockets of growth that already provide well-paid, high-skilled labor niches for vulnerable groups of the population? The demand side requires as much attention as the supply side of the labor market in Latin America today. The new focus on jobs in a global economy also means matching social and economic policies with an eye on global demands.

Another strategy for tackling the problem is by building more explicit bridges linking international aid, trade, and environmental policy in the region. Recent aid-for-trade initiatives show that, despite differences, most middle-income countries in the region can agree on a renewed agenda that makes better use of overseas development assistance. Rather than focus solely on regional integration that currently divides Latin America by ideological blocks, there is an unexplored potential to focus on functional issues that bring key stakeholders in the region together (on food prices, export taxes, or labor and environmental standards).

Bracing for the Slowdown

As the global economy slowed in 2008, most analysts in the region agreed that, this time around, the impact of a potential recession was likely to be tempered by relatively strong fiscal positions, low inflation, twin external and fiscal surpluses, and record levels of international reserves held by central banks. The three issues most likely to affect the region in the next few months are a reduction in migration and remittances from overseas, declining commodity prices and slowing demand for Latin American exports, and the challenge of keeping good jobs and staving off increases in poverty. Each of these poses difficulties for the region.

Facing a Decline in Remittances: As remittances slowed down in the first quarter of 2009⁴⁴ Latin America faced a new form of capital flow volatility, this time in the hands of millions of poor and middle-income households. At least two types of impacts are of concern: the macro effects that derive from added volatility during a future regional slowdown and micro effects linked to welfare impacts over households back home. Return migration, finally, signals a U-turn in increased labor mobility and progressive income distribution within the region.

Facing a Collapse in Commodity Prices and Export Demand: In the second half of 2008, hydrocarbon, food, and mineral prices fell by 69 percent, 31 percent, and

⁴⁴FOMIN.

50 percent, respectively. As a result, terms of trade deteriorated sharply for the Latin American region—about 25 percent for the seven largest economies.⁴⁵ Dropping demand, coupled with declining export demand, slows overall growth rates for the region, threatens to weaken the fundamental macroeconomic stability if the crisis deepens, and exacerbates job destruction, impoverishment, and long-term dislocation of goods and services. The poor quality of growth in the “good years” is likely to be followed by protectionism and shifts in global supply chains after the crisis in the “bad years.”

Keeping Good Jobs, Combating Poverty: The steady five-year economic expansion in the region secured moderate growth in well-paid jobs linked to tradable goods and services. Many of these jobs depend on sustained levels of foreign direct investment and technological upgrading, which are likely to slip in a downturn. The World Bank estimates, as a consequence, a significant increase in new poverty in 2009 to 2010 and deteriorating conditions for the already poor.⁴⁶ Social safety nets, coupled with job subsidy or rapid employment programs, have become prominent in the region, but they are likely to require more comprehensive responses as the crisis deepens.

Beyond the immediate effects of the global economic downturn, some of the most important challenges facing policymakers are associated with new growth and equity concerns of the “new middle” in the region. This means focusing on slow-changing, but not less important, issues for the long-run prosperity of the region: a truncated demographic transition, obstacles to labor mobility, educational and labor markets, and a more global outlook regarding the interests of the poorest in this most unequal of regions.

⁴⁵ Izquierdo and Talvi.

⁴⁶ World Bank, “Swimming Against the Tide: How Development Countries are Coping with the Crisis.” Background Paper prepared by the World Bank Staff for the G20 Meeting at Horsham, United Kingdom, March 13-14, 2009. (Washington, DC: The World Bank, 2009).

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Citizen and Government Security Issues in Latin America: Draft Memorandum for Policy Makers

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Violence and security concerns pose complex, urgent, and formidable challenges for citizens, families, communities, societies, governments, and groups of countries in the hemisphere. These threats range from domestic violence—mainly against women and children—to transnational crime networks, with insidious connections along that trajectory. Yet there is lack of consensus in the region on what is causing this crisis and how it should be remedied.

This chapter is not a comprehensive inventory of the suggested causes already put forward.¹ However, it tries to help in understanding what we are up against when we talk about a security agenda in Latin America. It acknowledges the links between organized crime and corruption, and the flaws of government agencies responsible for citizen security and justice. It looks at the apparent relation between violence and economic and social inequality and exclusion, as well as contemporary culture patterns. It underscores how current policies to battle crime and terrorism—including hard-line persecution and punishment—are threatening democratic and civil liberties. And it details some approaches for responding, given the intricate connections between domestic violence and street crime and, in turn, street crime, youth gangs—which have reached enormous proportions in some countries—and organized crime.

¹There is abundant Latin American literature on crime, violence, citizen insecurity, security forces, and justice systems. Academic institutions have contributed with diagnostic research projects and public policy proposals—for both local and national governments—in several capital cities, countries, and groups of countries in the hemisphere. The World Bank, International Crisis Group, Inter-American Development Bank, UN Development Programme, and Latin American School of Social Sciences (FLACSO) all have carried out national, sub-regional, and regional research projects on those subjects. FLACSO even has a regional contest to enrich the research literature and the understanding of such matters.

Those connections carry ominous consequences beyond the weakening of public safety and the deterioration of living conditions for populations at large. Within any given state, the organizers and perpetrators of criminal activities, as well as their trans-border operations, threaten the very stability of democratic governments.

This chapter may best be viewed as a beginning draft of a “Memorandum for Policy Makers and Decision Makers.”

At the core of this discussion is the shared conviction that crime, violence, and insecurity in Latin America must be approached comprehensively, systemically, and holistically, starting with prevention and extending well beyond the technical aspects of law enforcement.

The chapter is organized in four parts: a summary of the entanglement, which provides an overview of the problems; the basic criteria, approaches, and perspectives that delve into the complexities of policymaking in the face of those problems; the need for and implications of an integrated holistic approach; and the challenges and dilemmas for the democratic state as it confronts violence and security issues. A brief epilogue details the implementation of the International Commission against Impunity in Guatemala (CICIG by its Spanish acronym), which might serve as an international tool in addressing things to come.

SUMMARY OF THE ENTANGLEMENT

Sociological, political, and opinion polls have made it clear that ordinary people see crime, violence, and insecurity as the region’s No. 1 problem, together with economic constraints, the impact of which have been heightened by the global economic downturn. The increase in violent crime against people in all social strata—supported by mounting statistics—adds to the subjective feeling of insecurity. Criminal attacks on ordinary citizens unfold daily in neighborhoods, in workplaces, in meeting venues, at playgrounds, and in recreational areas. Rural areas are not immune. In urban areas, where most of the population lives and works, the attacks are also carried out on routes to and from jobs. In most Latin American societies, there is fear and a feeling of defenselessness.

Few major cities in the region have escaped this phenomenon, and most governments are perceived as incapable of controlling the situation, much less curbing it. In fact, the rise in violence is viewed not only as evidence of ineffectiveness but, in some cases, as evidence of complicity by the local, regional, and national public institutions responsible for crime control and prevention. A perception of widespread weakness and/or corruption within the criminal justice and court systems is a corollary as they are seen to fail in properly prosecuting and punishing criminals.

This disenchantment—if not outright distrust—is often associated with our democratic political systems, our traditional parties, and our traditional politicians.

To varying degrees depending on the country, the law enforcement problem carries economic and political consequences. Citizen insecurity limits individual and collective freedom and threatens personal integrity and patrimony. In several countries, it also challenges the legitimate authority of the state.

In Mexico City on October 7–8, 2008, at the first meeting of ministers responsible for security in the Americas, the secretary general of the Organization of American States (OAS), José Miguel Insulza, reported on the state of public security in the region. He provided what was, at the time, the most up-to-date overview of the region’s problems as they related to public safety, law enforcement, and the justice system.² He presented a comprehensive and devastating summary of homicides, drug trafficking, trafficking of humans, and corruption, as well as the revenues that these organized crime activities generate. His assessment included so-called “common” crime such as robbery, kidnapping, sexual abuse, criminal youth gangs, and domestic violence that the population confronts daily.

The average data for Latin America and the Caribbean reveal a staggering loss of human lives and of material goods. The worst impact is on our youth, with an increment in homicides against women, as well. In many urban areas, entire sectors are controlled by criminal organizations with state security forces unable to intervene.

Insulza’s report touched on nine probable root causes:

- organized crime (mainly drug trafficking) and its related corruption and street violence;
- socio-economic factors such as poverty and extreme poverty;
- disorderly and sometimes chaotic urbanization patterns that leave vast territories without basic services;
- attitudes, values, and a culture of individualism that exacerbate the consequences of inequality;
- fractured family relations, overcrowded homes, and promiscuity, mostly among the underprivileged;
- the precarious circumstances of young people, including abandonment and lack of opportunities;
- a culture of lawlessness in which people settle conflicts by taking the law in their own hands;
- impunity;
- problems in our prisons.

²Felipe Calderón Hinojosa, “Address by the President of the United Mexican States, Felipe Calderón, at the Inaugural Session of the First Meeting of Ministers Responsible for Public Security in the Americas” (paper presented at the First Meeting of Ministers Responsible for Public Security in the Americas, México City, México, October 8, 2008).

The report also spelled out the dire consequences for the hemisphere. Using national and regional research material and his experience as minister of the interior in Chile, Insulza outlined general criteria for better public security policies, stressing the need for them to be under the command and responsibility of the democratic authority. He underscored the crucial importance of training and education. And he identified the core ingredients in a public security plan: reliable and comparable information; state-of-the-art technology; accountability; funding correlated to the magnitude of the problem; participation by local civil authorities and civil society; transparency and oversight; the necessary balance of medium- and long-term policies with immediate results; and prevention. He outlined a plan that the OAS general secretariat will foster to help member states address some of those issues.

This report of the OAS secretary general summarized the fundamental elements affecting individual countries, groups of countries, and the region as a whole. It also identified some of the most successful responses implemented by governments, civil society organizations, and aid agencies.

While the report was complete and competent, a deeper examination of the challenge—for which there is still no consensus—is needed. Probable causes and their complex interaction are still being tested, as are the policies and programs to deal with such problems, the implications of hard-line repressive actions, and the public-safety role of the military.

LACK OF CONSENSUS IN DIAGNOSES, POLICIES, AND OPERATIONAL PLANS

When it comes to a diagnosis of the problem, there is no consensus. Almost every country reacts to the symptoms—not the cause. And they do so in concert with the intensity of the violence faced by their citizens. More often than not, the response is colored by the fragmented perspectives of the institutions charged with handling criminal activity or responding to public safety needs. In most instances, governmental authorities take a four- or five-year view—the same time frame as their tenure in office, a period during which they must produce concrete results in order to win reelection for themselves or their party. Few countries have long-term security policies that can be followed and improved by successive administrations.

Rather than a transnational approach to regional security, there remains an emphasis on domestic law enforcement that, so far, has failed to properly recognize the enormous weight and reach of international criminal organizations. These crime organizations, which are not restricted to drug trafficking, have been dexterous in taking extralegal advantage of globalization, tapping its communications and transport technology, weaponry, and offshore tax havens and financial networks.

There is a dearth of integrated analysis when it comes to the structured aspects of how Latin American societies and their governments normally handle public

safety. Such analysis would address the interrelated roots of the violence and include a comprehensive understanding of how borderless transnational criminal networks leverage legal loopholes and constraints and inter-governmental law enforcement shortcomings. Many governments also fail to understand the institutional, legal, and performance weaknesses that directly stem from authoritarian military regimes of the not-so-distant past. (These are administrations that often seized power by undemocratic means and, in several countries, controlled—and abused—police organizations and parts of the court systems.)

Failure to see the broad picture results in dislocated decision-making and policymaking processes. Attempted solutions, therefore, include shallow and haphazard institutional reforms. There is little awareness of deeper and wider institutional coordination and cooperation options at the national and regional levels or the need for more focused and accountable budget allocations.

There is also no consensus among governments, or even among authorities within the same government, on the policies needed to confront increased violence and crime in tandem with addressing related social, economic, and political consequences. In his report in Mexico City, the OAS secretary general went as far as to say that “...most countries do not have security plans or policies at all.”³

Many sectors of society demand more and more from the state but are unwilling to be part of the solution by working with authorities at the local level. At the same time, governments seem less and less capable of providing concrete day-to-day responses to those citizen demands. There is growing concern about transparency and accountability when it comes to public funds and, more precisely, the performance of security forces. Civil society efforts to push accountability have grown, but few civil society organizations (mostly those associated with human rights agendas) dedicate themselves to citizens’ oversight activities. In several countries where military forces were engaged in so-called “low intensity wars” against guerrilla organizations, the armies cited state secrets to keep their finances and operations from oversight by legislatures or other public authorities, much less civil society organizations. Organized crime has taken advantage of this opaqueness, recruiting key members of former security forces and infiltrating legislatures, governmental auditing and prosecuting offices, and justice systems.

Latin American governments are sometimes reluctant to recognize problems related to public safety, law enforcement, and violence within our countries and region (even though we know very well that we are responsible for it). Yet there is a sentiment in Latin America that the wealthy countries of the North have never fully recognized their shared responsibility in the transnational criminal equations, particularly (but not solely) the drug activities. There is ongoing resentment that “the North” unilaterally blames the governments and peoples of Latin America and the

³ Calderón Hinojosa, *ibid.*, 3.

Caribbean (the supply side) by arguing that the North need not protect itself from this external threat. Officially, the North ignores its countries' (the demand side) ever-expanding hunger for drugs and underpaid illegal migrant workers.

For years this has been the content of the diplomatic discourse, and the people and governments of Latin America have continually resented it. It underscores that the region never does enough to contain the drug supply. In tandem, most policies, programs, and actions implemented by the buyer and consumer countries imply a notion of disease control for maladies that come from "south of the border." The emphasis has always been on eradication and interdiction. But such an approach fails to recognize that these wealthy countries of the North—the colossal demand side of the drug market and the economic hope of illegal migrants—are integral to the mechanisms that nurture the production and traffic routes to the north.

Countries of the North need to address these issues within the context of a new partnership, much like the one they have been preaching about and promoting in free trade negotiations and agreements.

Security should be a major concern for the whole hemisphere and, as such, at the core of foreign policy agendas in Latin America. This had been argued loudly for years, mainly in our relations with the United States, but without any significant impact or policy change. U.S. legislators over the last two or three years have joined the chorus, and Barack Obama voiced similar concerns during the U.S. presidential campaign in 2008. The fact that security issues were included for the first time in the presidential agenda of the April 2009 Summit of the Americas in Trinidad and Tobago sends a hopeful message: A reexamination of regional security policies might be on the horizon.

The most important think tanks in Washington, D.C., have underscored hemispheric security challenges as one of the fundamental policy revisions for the new U.S. administration to undertake. The Brookings Institution⁴ and the Inter-American Dialogue⁵ drafted policy reform proposals that emerged from joint groups of high-level U.S. and Latin American representatives from the political, entrepreneurial, academic, and civil society arenas. This sets an example for what should become the practicing pathway for an intergovernmental effort at the hemispheric level. Only a shared shift in perceptions and responsibilities will allow a joint search for more effective policies and a new security partnership based on collaboration and mutual respect.

[As this chapter was being completed, U.S. Secretary of State Hillary Clinton, on the flight to her first official visit to Mexico, acknowledged before U.S. journalists the failure of U.S. anti-drug policies over the last thirty years. It was the first time

⁴ The Brookings Institution, *Re-Thinking U.S.-Latin America Relations: A Hemispheric Partnership for a Turbulent World*, (Washington, DC: The Brookings Institution, 2008).

⁵ Inter-American Dialogue, *A Second Chance: U.S. Policy in the Americas* (Washington, DC: Inter-American Dialogue, 2009).

that such a high level member of the U.S. government had publicly and explicitly acknowledged the role that the U.S. market for drugs plays in the flow of narcotics from the South to the North and the flow of arms from the North to the South. Coming on the verge of the Summit of the Americas, this vigorous expression of a shared responsibility was much more than anybody had expected. It is a powerful and promising message that Latin American governments must immediately transform into joint efforts at generating new policies.^{6]}

In spite of the problems mentioned, Latin America has undergone a positive evolution over the last two decades. Why, then, in tandem with advancements in human rights, in the economy, in democratic freedoms, in social evolution, and in poverty reduction are we facing such formidable problems and risks in law enforcement and citizen security?

ECONOMIC GROWTH, GOVERNANCE, AND DEMOCRATIC DEVELOPMENT IN LATIN AMERICA

Conditions have improved considerably in Latin America over the last twenty-five years. In the mid-eighties, most Latin American societies lived under authoritarian regimes. Today, military dictatorships of the cold war-era and military coups have become a thing of the past. We have advanced in democratic consolidation, have increased social spending, have reduced poverty and, in some countries, have reduced inequality. We have done away with armed insurgency, with the exception of Colombia where it has been dramatically reduced (although it has transformed into something else in its alliance with the narcotic cartels). We have also managed to put our public finances in order, eliminating the financial crisis cycles that triggered social unrest. Our economies have diversified and our exports have grown. And, in spite of our social spending, the region has seen more careful fiscal management.

At the beginning of 2008, the Economic Commission on Latin America and the Caribbean (ECLAC), reported that the region from 2003 to 2007 had seen its highest per-person GDP growth since the sixties. The growth was expected to continue in 2008 and did through September. That meant not only five consecutive years of annual per-person GDP growth in excess of 3 percent, but also reduced poverty and unemployment and, in some countries, better income distribution.

Before the onslaught of the global economic downturn, Latin America was growing in a way that meant not only poverty rates would be their lowest since the eighties but also that the number of people living below the poverty line would drop to its lowest number. This sustained GDP growth brought the region very close to the first Millennium Development Goal (87 percent of its fulfillment). The political

⁶ As reported and editorialized by many U.S. news media, this was immediately picked up by Latin American news media and presented in a positive way.

reading is transcendental in the context of generalized dissatisfaction with democracy and the growing temptation to return to authoritarian governments: Poverty is finally being reduced under democratic regimes.

What is wrong with the region then? Despite advances, Latin America maintains the highest rate of inequality in the world (with the exception of a few African countries). It also has the highest rate of organized criminal activity. Many countries in the region depend heavily on remittances sent by family members abroad; those countries need a high incidence of irregular migration of their citizens in order to generate those remittances. Citizens in the region are alarmingly disillusioned with democracy, democratic institutions, and the performance of democratic governments. Democracy followed dictatorships and was not able to meet the most basic needs of the population. The result is a distrust of the legitimacy of governments, parliamentary bodies, traditional political parties, and justice systems.

In the last fifty years, Latin America's population has increased 3.3 times to 560 million—of which 435 million are in urban areas. In most countries of the region, that growth is high if compared with the capacity to cope with the population's needs. Most of the population is very young, yet societies are evolving without the ability to offer opportunities to youth or to absorb them in the labor market. Disorderly and sometimes chaotic growth patterns have resulted in entire urban areas where poor and indigent people live with few or inadequate basic services, with generalized lawlessness, and with a total absence of the state. "They constitute alien economic, social, and cultural spheres, impenetrable to laws and institutions. In extreme cases, whole districts within cities are controlled by organized crime."⁷

Such patterns of exclusion reveal how poverty and extreme poverty in the region represent a permanent negation of rightful opportunities for large segments of the population. Obstacles to development and citizen security are compounded by a still complex and prevalent set of cultural patterns that exclude indigenous peoples and afro-descendants. All of this points toward structural problems that recent development patterns have only begun to tackle. Some countries have addressed them with signs of solid success but, for the region, they are far from being overcome.

One of the most fundamental challenges facing Latin America in the near future is that the global recession will limit and, in many cases revert, growth of the formal sector of our economies. In turn, public investment and spending will decline as government tax revenues decline. This means that for most countries increased social spending will not be sustainable. A paper prepared by the Latin American School of Social Sciences (FLACSO) for the Hemispheric Think Tank Working Group of the 2009 Summit of the Americas argues that "...As a result, states will become increasingly vulnerable to corruption and the penetration of criminal elements" [within

⁷Calderón Hinojosa, 5.

public institutions].”⁸ Structural problems that were with us to start with (inequality and exclusion, institutional weakness, and corruption), and were being addressed with varying degrees of success, will deteriorate and worsen.

It is not only a financial crisis that will halt economic growth, slow down trade and investment, diminish the value of our exports, temporarily create greater unemployment, contract credit and financial services, diminish remittances, and reduce income and buying power. Most countries do not have the leeway to implement countercyclical measures on their own. Latin America could face a real humanitarian crisis with serious social and political consequences, pushing millions into poverty and extreme poverty. Every time the region has faced a major crisis, we have suffered irreversible damages. This crisis might trigger irreversible losses in critical areas like food security (resulting in malnutrition), school attendance, basic health services, and preventive medicine.

Gains made in the last five or six years of steady growth have begun to evaporate. With the economic contraction of the last year-and-a-half alone, ECLAC estimates that Latin America will have lost half of the poverty reduction it achieved over the last seven years and the number of poor people will have increased by 15 million.⁹ Protectionist measures are sprouting everywhere, making it even more complicated for small open economies with limited capacity to implement fiscal, monetary, or credit stimuli. The World Bank says that even without protectionism, the synchronized global downturn is likely to bring the world’s largest annual decline in eighty years. The bank said it was difficult to quantify the effects of new barriers but noted that they would aggravate the decline.¹⁰

The obvious inference, in light of mounting societal tensions and a verified increase in criminal acts, is that the negative consequences of the crisis in Latin America will exacerbate the supports that people need. The failure or inability to provide those supports will feed new detonators of violent and criminal behavior and increase social unrest—with potentially grave political consequences.

A deeper understanding of the phenomenon of violence, as well as better policies and effective measures to address it, need to take into account other background and framework elements, the most important of which, in our opinion, are inequality and exclusion.

⁸ Francisco Rojas Aravena, Lucia Dammert and John Rapley, “5° Cumbre de las Americas: Asegurar el futuro de nuestros ciudadanos promoviendo la prosperidad humana, Las dimensiones de la seguridad humana para tal fin,” (paper presented at the Hemispheric Think Tank Working Group for the V Summit of the Americas, Washington, DC, January 13, 2009), 1.

⁹ Alicia Bárcena Ibarra in a presentation to the Advisory Committee to the Secretary General of the Organization of American States, Alexandria, VA, September 13, 2008.

¹⁰ Mark Lander, “Trade Barriers Rise as Slump Tightens Grip,” *New York Times*, March 22, 2009, World section.

THE CONTROVERSY AROUND POVERTY, INEQUALITY, AND FISCAL POLICY

There is an ongoing discussion about poverty as a direct originator or cause of violence and crime. In recent times there has been a tendency to want to establish a direct correlation between poverty levels and crime rates. Some studies question the validity of this, showing that multiple variables, rather than a single one, explain violence and criminal behavior. Fernando Carrillo-Flórez, in an Inter-American Development Bank paper, argues succinctly that criminal offenses that are four times higher in the United States than in Europe or Canada would imply, by that theory, that there is much lower development and economic growth in the United States than in Canada or most European Union states. Moreover, "...in fact, the poorer countries in Latin America are not necessarily the most violent, nor are the most developed necessarily the least violent."¹¹ An eloquent case in point is provided by Nicaragua, which has the lowest ratio of homicides per 10,000 people as well as the lowest per capita income in the region, while El Salvador and Guatemala have the highest murder rates per 10,000 people and higher per capita incomes.¹²

That such correlation between crime and poverty cannot be proven to be straightforward and automatic does not exempt populations living in extreme poverty. Inequality and the exclusion of large sectors of society have left an imprint of some kind of violence and criminal behavior. The OAS secretary general commented:

"Although poverty in itself is not an explanation, there is indeed a very clear correlation with crime when poverty is combined with other factors, such as inequality, marginalization, and exclusion endured by a very large segment of the population."¹³

If inequality seems to be a clearer contributing factor, and Latin America is one of the most unequal regions of the world, the next step toward a better understanding of the situation lies with the fiscal conditions that fail to contribute to a more equitable distribution of wealth and opportunities. Latin America is not only unequal in access to opportunities, public services, and the benefits of economic growth but it is also unequal in the distribution of public benefits. Some of this stems from taxation compliance which, with few exceptions—notably Brazil—is poor, although that is changing.

¹¹ Fernando Carrillo-Flórez, "Seguridad Ciudadana en América Latina: un bien público cada vez más escaso," *Pensamiento Iberoamericano* 5, no. 2 (2009), <http://www.pensamientoiberoamericano.org/articulos/0/26/0/seguridad-ciudadana-en-america-latina-un-bien-publico-cada-vez-mas-escaso.html>.

¹² José María Rico et al., "El dilema estratégico de la seguridad ciudadana y el estado democrático de derecho," in *Informe Sobre el Estado de la Región en Desarrollo Humano Sostenible*, (San José, Costa Rica: Estado de la Región, 2008), 467.

¹³ Calderón Hinojosa, 5.

Fiscal policy and low taxation have been the subject of extensive discussions in Latin America, not only because of the high concentration of wealth in very few hands but also because of extensive tax evasion and the quality and orientation of public spending. As a result, poverty reduction has been difficult. Some 57 percent of the wealth in Latin America goes to the highest population quintile, 40 percent goes to the next three, and the lowest quintile gets only 3 percent.

There are many reasons why fiscal policy is not playing a redistributive role. Public sector revenues are low: Evasion is calculated to be higher than 50 percent despite numerous deductions and exemptions. Tax systems are not progressive, and they depend too much on regressive taxes. Although public spending has increased, it is not pro-poor at national or municipal levels. The quality of public education is still low and does little to expand human capital among the poor. When it comes to health care, the poor benefit the most but little is spent on preventive health. Therefore, It is not surprising that social public spending is low, not because it is considered unimportant but because tax revenues are low.¹⁴ And social spending is always the hardest hit area when it comes to budget cuts in a crisis.

Something similar seems to occur with security issues. Funds immediately go to the more visible symptoms of high-profile crimes, and not enough is dedicated to prevention. For sufficient public funds to take care of citizen security issues, increased taxes, although indispensable, will not be enough. The reduction of poverty and inequality is a central responsibility of the state. The security and well-being of citizens is a shared responsibility of the central state and local authorities, but it needs the steady, organized involvement of the population as well. Sound fiscal policies can only work if they are perceived to be part of a global approach by the state authorities, accompanied by efficient transparency and accountability practices that promptly and effectively address crime and violence directed at ordinary citizens. At the same time, there must be evidence of a relentless fight against corruption within state institutions.

In the words of Alicia Bárcena, ECLAC's executive secretary, this crisis could provide the opportunity to revisit the combined development dynamics of our countries, reflect on the role of the state, strike a better balance among state, market, and society, "...and enhance the effectiveness of fiscal policy in its three functions of stabilizer of the economic cycle, resource allocation, and redistribution of income."¹⁵

Such a strategic-thinking effort is also long overdue in security matters. But this can only happen through an integral and holistic approach to the root causes of the phenomena and interrelated approaches to solve them—even if the population

¹⁴ Jeff Puryear, Inter-American Dialogue, drawing from IDP, UNDP and ECLAC statistics in a presentation to former Latin America presidents in São Paulo, Brazil, March 6, 2009.

¹⁵ Alicia Bárcena Ibarra in an inaugural speech of the XX Regional Seminar on Fiscal Policy, Santiago, Chile, January 26, 2009.

at large is unaware of the depth, scope, reach, interdependence, coordination, and supervision of what it means.

Integrity and interrelatedness have become central to contemporary discussions on public safety in Latin America, both in efforts at understanding criminal behavior in its different manifestations in our society and in addressing approaches to deal with it effectively. Many recent studies and policy efforts reflect the crucial need for a holistic approach.¹⁶ Again, I would like to refer to the OAS secretary general's report to the meeting of ministers responsible for public safety. He says:

“... the explanatory factors I have attempted to describe only help us to grasp the phenomenon of citizen insecurity if they are seen to be interrelated. It is essential to understand that the problem of insecurity cannot be construed solely as the sum of the crimes our society endures. It has to be seen as a wider, more deeply-rooted phenomenon that comprises those individual crimes but goes beyond them to create a whole social environment.”¹⁷

FRAGMENTED INSTITUTIONS AND BUDGETS

And yet, despite generalized agreement on the subject, the reality for many governments betrays public discourse, starting with budget decisions and habits.

- *Perhaps due in most instances to the enormous weight of very long institutional and budgetary practices in the public sphere.* Those responsible for budget drafting, approval, and allocation find it easier to continue to channel funds, equipment (radios, patrol cars, uniforms, weapons, etc.), training, and procedural paperwork to already structured security organizations. And governmental offices have dealt with criminal cycles in a fragmented way, rather than an integrated, fashion. Other institutions, depending on the sector and jurisdiction, deal with the consequences of criminal activity in a disconnected way, employing separate programs and budgets.
- *Perhaps because the population, aided by news media or the media agenda, pressures the authorities to act on the more immediate, visible, and urgent criminal occurrences against people and property.* As a result, they tend to push prevention or rehabilitation to the side. (Prevention and rehabilitation not only take more time but, in the minds of many, do not seem directly related to day-to-day crime.) And there seems to be a tendency to make law

¹⁶ Carrillo-Flóres, contains one of the most profound and sophisticated discussions on the subject.

¹⁷ Calderón Hinojosa, 6.

enforcement budgetary decisions under public pressure, to deal with “major” criminal acts (that affect few citizens), and to leave out “minor” daily aggravations to the population.

- *Perhaps because of the reluctance of security authorities to share sensitive information, time and resources with other less obvious institutional areas they deem too “ethereal” or philosophical in dealing with intelligence, planning, procedures, and crime repression, prosecution, and punishment.*
- *Perhaps because, deep down, many command levels within security forces—still with the mindset of recent authoritarian regimes and population-control methods—despise the idea of a holistic approach.* They may see such an approach as managerially vague and ineffectual, too difficult to translate into measurable, result-driven objectives, too time consuming, and too wasteful of resources with no obvious short-term political gains. They may also view such an approach as too politically related to international human rights obligations, which in popular culture, are perceived to protect criminals at the expense of the rights of ordinary citizens.
- *Perhaps because of policies imposed from abroad, mostly by developed countries’ governments and international organizations.*

This last perception is no small issue. For years, we have had intense disputes on the subject. Such policies originally derived from a recent past marked by human rights violations by security forces and/or authoritarian military regimes. In contemporary democratic times, they have focused on the permanent monitoring activities of ombudsmen’s offices and human rights NGOs as regards the behavior and performance of security forces trying to stop and control crime, mostly in urban areas. Under the asphyxiating pressures of unfettered criminal harassment, constant attacks, and a continuing perception of impunity (where criminals get away without being subjected to proper law enforcement and judicial prosecutions, convictions, and punishments), many populations are distancing themselves from the general framework of democratic rights and protection of all citizens. They are willing to give up some of those rights in exchange for vigorous actions by security forces, even if those actions entail the use of excessive violence, including extrajudicial executions.

It is absolutely essential that we recover the public validation of human rights as an integral ingredient in any comprehensive approach to violence and crime. That should join dexterous and efficient law enforcement that addresses public safety concerns, as well as attention to other elements that contribute to the problem. In the words of the OAS secretary general:

“It is necessary, therefore, to forge security policies that, within the rule of law and strengthening the rule of law, are imbued with insight into the most complex causes of insecurity, address its immediate manifestations, and significantly reduce the possibility of it occurring in the future. ...They must be democratic and they must abide strictly by the constitution of the country concerned and by international treaties.”¹⁸

SOME NECESSARY INTERRELATED DIMENSIONS

Most countries of the region are transitioning toward more consolidated democracies. It is of utmost strategic importance to complete pending institutional and legal reforms that will take us away from authoritarian schemes and thinking.

We face nowadays a large risk, since some would like to blame the ineffectiveness of state actions on policies of democratic inspiration, as if success would come hand-in-hand with a return to an authoritarian past, whose relative effectiveness was directly proportional to its capacity to ignore the fundamental rights of its citizens.¹⁹

We must address the need to conceive, design, and implement policies under which security measures and controls go together with a good and efficient justice system. Some countries have pragmatically concentrated on enhancing repressive measures via police, other security forces, or even the active participation of the army. They have deferred the reform and strengthening of the justice system, which is an indispensable part of the equation as it holds everybody accountable under the law, including the security forces themselves. Judicial reform is also essential if solid cases are to be built quickly and criminals are to be prosecuted and punished. Security and justice must always go together. Enhancing the capacities for repressive action by security forces is not an all-encompassing solution to violence and crime. It must be coupled with reform so the justice system is capable of dispensing fair and equitable services to all citizens.

In a holistic approach, there also must be a focus on two often-missing legs of the public safety tripod: prevention and rehabilitation. These elements are affected by three distinct, yet interrelated, policies.

A) Perhaps the element least addressed in Latin America is prevention. Juvenile violence and youth gangs were preventable. A very young region

¹⁸ Calderón Hinojosa, 8.

¹⁹ Carrillo-Flórez, 2.

demographically, we did not adequately prepare to generate enough job opportunities to absorb the millions of adolescents that enter the labor market each year. In most cases, we have performed as societies that do not support our young population. What effective prevention requires most is good coordination among state institutions, including ministries of health, education, culture, and sports, as well as collaboration by municipalities. Successful prevention would reduce the amount of funding needed for prosecution and incarceration.

- B) Law enforcement and penal persecution/prosecution require considerable funding, largely because of the magnitude and complexity of the problems we face, among them the greater-than-acknowledged relationship between street crime and organized crime. We must finance a way out of the crisis. In several countries, that means technical training for law enforcement personnel who investigate crimes so they are able to build solid cases with scientific evidence. It also means contributing to a more competent and dexterous justice system.
- C) Rehabilitation starts with effective control of detention centers, with serious criminals housed at maximum-security prisons and those convicted of minor crimes serving in other, separate, facilities. Criminal cases also must be expedited. There have been abundant commentaries about crimes being planned and coordinated from within prisons, of suspects in minor crimes being detained alongside dangerous criminals, and of suspects remaining in detention for months—or even years—until their case are finally brought to court.

Inaction, incompetence, tardiness, or even complicity by the justice system projects an image of criminal impunity. Such a system reflects a failure to properly treat criminal suspects and thwarts efforts to secure adequate prosecution and conviction. By leveraging loopholes in laws and judicial procedures, criminals go free on technicalities. These failings are not necessarily a fault of the police, which through tougher law enforcement produce more arrests. Rather, they are a responsibility of the justice system.

This leads to a related dimension: the threat of organized crime. In some countries where shaky institutional scaffolding was weakened even further during years of authoritarian governments, transnational criminal organizations have shown an unprecedented ability to infiltrate and abuse public institutions. The growth, diversification, and sophistication of national and transnational organized crime networks threaten many governments. Criminal organizations have made deep inroads into local governments and central public institutions, mainly those responsible for customs, migration, public comptroller services, security, and justice.

Organized crime finds fertile ground in local corruption, nurturing it with a refined and efficient network built on favors and fueled to unseen magnitudes. Organized crime exerts discreet but highly effective influence over many decision-making mechanisms, not just the courts. With borderless operations that live beyond the reach and capabilities of national states, these transnational criminal organizations are masterful in their use of technology and communications, transport, and firepower. They have taken advantage of globalization, navigating international trade institutions and legal frameworks to disguise their trafficking operations and launder their revenues. In some countries, there are indications that they have deeply penetrated legislative bodies and political parties; laws are passed that meet the traffickers' needs or, at least, impede efforts to toughen law enforcement and transparency. These criminal networks finance the political campaigns of viable candidates in several countries.

A holistic answer to this threat requires stronger and/or revitalized transparency and accountability mechanisms throughout the political system. Otherwise, we risk losing control of the most elementary mechanisms of government in the democratic state as we know it.

CHALLENGES TO AND DILEMMAS FOR THE DEMOCRATIC STATE

Traditional democratic states in Latin America face major challenges and dilemmas when it comes to issues of violence, insecurity, public safety, law enforcement, the justice system, and the security of the state. These challenges and dilemmas have been increasingly complicated by institutional weaknesses, by the desperation found within many sectors of society, and by the urgent demands upon state institutions to do whatever is needed to stop and reduce crime and impunity. The considerations include: 1) pressure on governments to deliver immediate results versus long-term institutional reform programs, 2) the public's demand for repressive crime control and law enforcement and the implications for democratic guarantees, 3) participation of the military and the risk of "militarizing" law enforcement, and 4) sovereignty constraints and regional effectiveness.

Immediate results versus institutional reform

The first order of business pits the urgency with which the population demands short-term results on crime containment against the extended time it takes to strengthen institutional capacities. In many cases, the population is unwilling to allow time for the urgently needed but much deferred reform of security forces and the justice system. The population is unwilling to wait an extended time for this reform unless those processes are accompanied by visible, concrete, and unequivocal crime-stopping and crime-reducing actions.

Both medium and long-term efforts are needed to strengthen institutional capacities and/or reform the justice system. These must be accompanied by vigorous work to address day-to-day violence that victimizes ordinary citizens. Otherwise, the mistrustful public will fail to cooperate with authorities. The public needs to see how institutional reform affects the daily threats presented by criminal activities and violence.

That said, it is not uncommon to find that organized crime has infected or penetrated those very institutions. Reform then becomes a much more complex undertaking that must be addressed from several angles, including regional and international perspectives.

The public's demand for repressive crime control and law enforcement and the implications for democratic guarantees

The logical consequence of the demand for safer neighborhoods and workplaces and the call for vigorous pursuit, prosecution, and punishment of criminals is that many governments have increased their repressive capacities. Security forces are used to implement iron-fisted policies and programs known as *mano dura*.

Tougher law enforcement is desperately needed, but it must be implemented within democratic frameworks and guarantees, and under the direct authority and oversight of democratic authorities. It must never be relinquished to private companies or transferred to local organizations. Citizen participation is, indeed, necessary but as a complement to—not substitute for—public safety policies and programs that fall under the responsibility of the state.

Although not directly related, there has been a recent upsurge in suspicion and disdain directed toward the United States (and, by extension, the “developed” world). This stems in part from recent disclosures of fraudulent and illegal financial schemes (which undoubtedly fueled the global economic downturn). It also stems from revelations about questionable intelligence methods used in contemporary warfare, mostly in the handling of counter-terrorist activities and prisoners. During the cold war, Latin America’s military powers embraced counter-insurgency methods that resulted in severe human rights violations—the aftermath of which we are still addressing. That was followed by an emphasis on human rights and the so-called Washington Consensus calling for very strict and politically costly structural adjustment programs. Now the region is suffering from a global economic downturn it did not create, a downturn stemming from the unfettered growth of greedy international businesses, a dearth of ethics, an absence of proper public regulations, and repressive global security tactics (torture included) by intelligence organizations. In the face of such behavior by developed countries, the governments of developing countries wonder if what has been requested of them is worth the effort. Why bother?

This sentiment could prove a complicated obstacle to the cooperative joint efforts needed to properly combat international criminal organizations and complement domestic law enforcement efforts, which need to be strengthened.

Participation of the military and the risk of “militarizing” law enforcement

The military has been called to participate, in full force, in the battle against narcotic-related activities. The premise is that the police forces are no match for drug traffickers’ sophisticated and powerful weaponry, their intelligence systems, and their communications and mobilization capabilities. Central governments see as necessary the involvement of military organizations in a true internal “war” of sorts, although with components that vary from country to country. Colombia and Mexico provide two very different scenarios, with divergent origins and ingredients.

Extraordinary situations call for extraordinary courses of action. On the one hand, transnational narcotic operations require concerted international efforts. On the other hand, when an army assumes extraordinary law enforcement duties, the key questions are whether a proper civil authority perspective toward law enforcement and the justice system is preserved, and whether the army’s participation is clearly defined as temporary—and not part of an indefinite calendar that tends toward permanence. Latin American experiences with military rule are still too fresh to not produce serious reservations.

Military participation should not preclude the necessary strengthening of civil institutions of law enforcement. And it should not confuse doctrines, conceptions, and operational criteria. One of the major risks today is the juxtaposition of defense policies and law enforcement policies. There is a need for clearer conceptual and operational foundations for better and more pertinent policies that safeguard civil authority.

Sovereignty constraints and regional effectiveness

Another dilemma is found in the tensions between internal sovereignty, constitutional mandates, and indispensable agility and effectiveness in the face of transnational criminal organizations and their regional capabilities. Most of our law enforcement legislation has been designed and approved within the operational reach of territorial sovereignty. But single governments can no longer adequately challenge, stop, or win over criminal organizations, even with coordinated assistance from neighboring country authorities.

For that reason, governments and regional organizations have increasingly sought to both coordinate security forces’ mechanisms and begin to produce different instruments. The goal is to give national governments enough regional capacity

to cope with the criminal behavior of the twenty-first century. This takes the form of standardized, or homogenized, domestic legislation, in addition to new regional and international operational agreements aimed at improving criminal containment and control.

We might be witnessing the real beginning of the end of fully independent sovereign states in the classic sense, in tandem with the emergence of deeper and wider interdependency and far-reaching collaborative efforts.

In this regard, the OAS secretary general's report to the region's security ministers identifies six work areas that the OAS will undertake and/or strengthen. Governments are already working in these areas, which run the range from guidelines and advice in developing new legislation, public policies, and institutional reforms to improved police training, to technical support for constructing periodic, reliable, and comparable indicators, to strengthened cooperation with the mass media.²⁰

We have learned a lot in the last decade about how to understand and confront crime and violence in the region. There are isolated successes in addressing some problems, but overall the situation seems to be worsening. We still have a lot to learn.

EPILOGUE: The International Commission Against Impunity in Guatemala (CICIG)

The Guatemalan government asked the UN general secretariat for support from the Department of Political Affairs in jointly creating *CICIG (La Comisión Internacional Contra la Impunidad en Guatemala)*, as well as help in identifying and dismantling illegal clandestine security groups. These are groups that operated within the structures of the Guatemalan state, but parallel to its institutions, during Guatemala's internal armed conflict. Although the armed conflict ended, these security groups, or *CIACS (cuerpos ilegales y aparatos clandestinos de seguridad)*, were still very much alive and operational. Furthermore, there were indications that the perhaps-illegal counterinsurgency of the cold war years had evolved into efficient organized crime squads in contemporary Guatemala.

Human rights' activists and justice operators being harassed and threatened by those *CIACS* came up with the idea of an international commission, in line with one of the elements of the peace accords signed in December 1996. Thus was born the idea of an international commission focused on protecting human rights activists, judiciary staff, and journalists. The proposal did not fly when it became entangled in the 2003 electoral campaign and sparked constitutional objections. It was re-embraced by the next administration (2004 to 2008) and revised to eliminate the constitutionality questions, to make it legally viable in the Guatemalan Congress, and to expand its mandate beyond human rights activists, judiciary staff, and journalists

²⁰ Calderón Hinojosa, 10.

to cover all Guatemalan society. The reasoning was that the CIACS were a danger to all of society and were impinging upon the very ability of the Guatemalan state to independently carry out its law enforcement and justice responsibilities.

That request signaled an acknowledgment by the Guatemalan government of its internal institutional weaknesses when it came to fighting crime, and it carried a high political cost for the administration promoting it. It also triggered a ferocious battle around sovereignty concerns and a potentially renewed intrusion of international organizations in the country's internal affairs, repeating the criticism of some sectors of Guatemalan society when the United Nations Verification Mission in Guatemala (MINUGUA) was overseeing implementation of the peace accords.

The international commission was finally approved by the Guatemala Congress, under formidable internal and international pressures, and CICIG began work in September 2007 with a two-year mandate. Part of its responsibilities entailed investigating and building high-impact emblematic cases that would offer model judicial procedures that addressed the dismantling of existing CIACS and provided technical training in criminal investigation to pertinent institutions in the prosecutorial chain. CICIG could not prosecute cases independently. Only the Office of the Attorney General (Ministerio Público) can instruct and prosecute a criminal case. But CICIG could investigate independently and become an adjunct associate in the accusation (*querellante adhesivo*) once the case was formally brought to court. As such, it could provide a close follow-up of the proceedings.

The mechanism is a simple but extremely effective concept that has been a staple of international cooperation for many years: bring in outside expertise to beef up your internal capacity. It has been practiced for ages in medicine, as well as in education, technology, and art. When a country borrows money from the International Monetary Fund, its government makes commitments on economic and financial policies known as conditionality, which carries with it outside expertise. Similar international expertise accompanies negotiations and implementation of most loans with the IDB and the World Bank. And in the world of sports, it is routine to bring in outside players, coaches, and technical trainers to boost local performance.

But it had never been applied to criminal investigation and judicial procedures as it is under this two-year agreement. Most of the time, justice and public safety are exclusive responsibilities of a state, at the center of each state's constitution, and a crucial sovereign attribute of any independent country. Failure to provide justice and public safety in an efficient and equitable way to all citizens is considered, in international parlance, one of the fundamental indicators of a so-called "failed state." The special modalities in which CICIG has been working go well beyond the traditional boundaries of technical cooperation. The hope is that an extended mandate will help the commission stop the infection of more public institutions by organized crime and disinfect those that are already contaminated.

CICIG represents a test case for the UN, a unique and unprecedented instance of international cooperation in the field of criminal investigation and in justice-strengthening. If it succeeds, it might become one of the options available to any country looking for a helping hand among the international community of nations. It may also emerge as an innovative expression of cooperative services that the UN could provide other countries that need such institutional support.

The State of Democracy in Latin America: A Decade of Mix-Ups and Progress

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The progress made by Latin America in the 1990s was by no means trivial. Democratically elected governments were institutionalized in a context of greater respect for civil and political rights than had prevailed in most countries of the region throughout the twentieth century. This expansion of democratic rights nourished the development of political processes largely through electoral channels and helped unleash citizen expectations that had been suppressed during periods of authoritarianism (with exceptions such as the authoritarian course taken by Alberto Fujimori in Peru).

But the effect of democratic achievements on the social conditions of the population has been slow to make itself apparent and late to arrive. The world economy's expansionary cycle, which ended in 2008, provided a macroeconomic environment that should have allowed significant progress in the fight against poverty and social inequity. What has actually happened, however, has been that, at best, some countries were better placed (because of available stabilization funds or accumulated reserves) to face the current recessionary cycle than they were to tackle the "tequila" and the Asian crises of the 1990s. Overall, the "social agenda" put forward by governments has been neither effective nor appropriate. Moreover, it has had much to do with the demands and protests of a population disappointed by democracy's failure to bring about improved living conditions.

The development and fine tuning of democratic institutions has also been deficient, and even frustrating. Judicial systems, responsible for safeguarding citizen security, as well as the general institutional dynamics to ensure and guarantee appropriate rules of coexistence and stability in a democratic society, should have undergone significant shake-ups and improvements. With some exceptions, this has not been the case. That failure has inevitably contributed to the delegitimation of democracy. This is an increasingly urgent issue and one that remains to be addressed.

Democratic hopes were inserted into social conditions marked by inequity and exclusion, as well as into often weak institutional frameworks. That pushed political

tendencies toward revision of established institutional norms, redrawing the political map of the region—a notion that would have been inconceivable ten years earlier.

YEARS OF DEMOCRATIC HOPES

The general trend of events in the last decade was auspicious for fostering democratic hopes. The “golden years” of global multilateralism at the start of the 1990s, as well as the end of the cold war, had a positive impact on the region. This was, for instance, an opportune context in which to negotiate and sign the peace agreements that ended the internal armed conflicts in Central America and to design and put into effect ambitious and effective procedures for verification of those accords by the United Nations—an exemplary case being that of El Salvador. Also important were efforts to resolve border disputes, notably the 1998 peace agreement between Ecuador and Peru and the various solutions arrived at by juridical means between Argentina and Chile.

In 1997, according to *Latinobarómetro*, democracy as a system of government was preferred by 61 percent of the region’s population. One of the effects of democratization was a rise in democratic demands and an understandable perception of access to rights, information, and debate that were previously lacking. These expectations and demands, however, did not meet with appropriate institutional responses. The contradictions within the region’s societies posed challenges to and questions about the hopes for democratization. The absence of any great changes in social inequity or in the poverty indices, and public institutions’ incapacity to react and maneuver, created conditions that were very hard to address.

The seeds of social unrest—an expression of citizens’ dissatisfaction with the economic and institutional status quo—bore fruit throughout the 1990s. This served as the basis for exploratory paths that substantially altered the political panorama at the end of the twentieth century and the start of the current one. In 2001, according to *Latinobarómetro*, the preference for democracy as a system of government had fallen to 48 percent. Satisfaction with democracy fell to a modest 25 percent from 37 percent in 2000.

THE RISE AND FALL OF DEMOCRATIC MULTILATERALISM

At the start of the century, democracy’s momentum had come to occupy an important place on the multilateral, inter-American scene. That momentum formed the backdrop for significant developments in the 1990s, including resolutions approved at the hemispheric summits—notably Resolution 1080 of 1991 and the 1992 Washington Protocol. At the end of the 1990s and the start of the present decade, however, two interrelated events marked the pinnacle of democratizing multilateralism in

the hemisphere. One was the re-democratization process in Peru. The other was the development and approval of the Inter-American Democratic Charter.

The crisis of democracy that beset Peru occurred because an authoritarian undertaking found the support it needed. The destruction of democracy gave rise to the formation of a criminal organization within the state, an organization that eventually confronted the democratic international community. Reconstruction of democracy and a frontal assault on corruption began in November 2000 when the transition government of Valentín Paniagua replaced collapsing authoritarianism.

As is well known, the 1992 coup had been followed by a woeful and accommodating mission of the Organization of American States (OAS), led by the Uruguayan foreign minister of the time. In 2000, however, the inter-American system played a crucial role in triggering the democratic transition, rectifying the damage done in 1992. An effective electoral observer mission, the ad hoc mechanism created by the OAS General Assembly of 2000 in Windsor, Canada, and the OAS Dialogue were three key milestones of effective hemispheric multilateralism in Peru's recovery of democracy. In no other crisis of democracy had the OAS acted with such effectiveness and impact. It should be noted that the OAS had the commitment of many countries of the hemisphere—including the United States, which abandoned the policy of ambivalence and even tolerance toward Peru that it had adopted in the 1990s. Perhaps one explanation for that conduct comes from the intertwining of U.S. interests with those of presidential adviser Vladimiro Montecinos, who was then considered a CIA asset in Peru.

Approval of the Inter-American Democratic Charter in Lima on September 11, 2001 was an important step in multilateral regulations to prevent and deal with crises of democracy in the hemisphere. This Peruvian initiative embodied the substantive and procedural consensus of the region. The reaffirmation of democratic principles on that morning of September 11 was also a symbolic and circumstantial response to one of the most serious terrorist attacks in history. Thereafter, priorities on the U.S. global agenda shifted and prospects waned for consistent use of the charter. The only time the charter was used, following the failed coup against Hugo Chávez in April 2002, was without the support of the United States. Rather, Washington seemed to have favored, or at least accepted, the April 11 coup attempt in Venezuela.

This was a great paradox. Despite a bounty of euphemisms to describe the clear and irregular interruption of the institutional process in April 2002, the Rio Group's troika—Costa Rica, Chile, and Peru—proposed text condemning the coup in Venezuela and calling for application of the charter. The proposal was adopted, enabling the OAS to call an extraordinary assembly within a few hours. While the Saturday, April 13 session was underway in Washington, the pace of events in Caracas accelerated. At the end of the day, the elected president was back in power and the Inter-American Democratic Charter had proven that it was not merely a scrap of paper.

The procedures of the system and their inter-state nature, however, have made OAS members unduly cautious. No country or country group has wanted to take the lead, meaning that the charter was not applied—despite strong reasons to do so—when crises arose in several other countries. Countries that could have invoked the charter in their own defense failed to do so on the improper assumption that such a course would signal “weakness” on their part. Others feared that invoking the charter would reflect weakness on the part of the inter-American system for not seeking prior consultation with the country affected.

The collective defense of democracy is powerful when it occurs within a context of democracy beset by problems of ungovernability, government incompetence, and social discontent. But it remains difficult to use the charter’s precepts to provide adequate and timely support to endangered democracies in the hemisphere. The question remains of how to bring about greater compliance with the charter, more than seven years after it was approved.

TREMORS IN DEMOCRACY

Over the last ten years, political processes have unfolded in different ways throughout the region. Countries such as Chile have seen sustained democratic consolidation. Others, assailed by authoritarianism (notably Peru under Fujimori) renewed and ratified electoral democracy and broke with traditional management styles and personalities in a context of citizen disquiet and unease. It is highly significant that the countries institutionalized something as important as changing authorities by means of reasonably transparent and fair elections; those results, with some exceptions, were accepted by the actors involved. Their legitimacy eroded as a result of unmet social demands and a stagnant institutional apparatus, but these governments at least had widespread legality, which is a new phenomenon in Latin America.

Problems of legitimacy, nonetheless, were spurred on by the region’s poor economic performance in 1998 to 2003. This included a critical situation in 2002, the worst in two decades according to the World Bank. The decline in GDP reached alarming levels in countries such as Argentina (-15 percent) and Venezuela (-10 percent). This was accompanied by high levels of poverty: 44 percent in 2002, almost four points above the level in 1990¹, resulting, in absolute terms, in the highest number of poor in Latin America’s history (221 million people).² Little progress was being made.

These circumstances nourished latent discontent. They coincided with an international context in which the push for democratization was downgraded by the effects of the terrorist attacks of September 11, 2001. Attention turned to security

¹ José Luis Machinea, *Panorama Social de América Latina 2007*. Santiago: ECLAC; presented at a news conference November 15, 2007

² *Ibid.*

and international terrorism, with U.S. interest focused on the Middle East in general and Iraq in particular, and attention to Latin America marginalized.

Though never suggested, perhaps this was a key factor as Latin America began to exhibit an unprecedented degree of independence from the policies of the U.S. government and the international financial institutions. This shift gave rise to a series of political developments that, in earlier contexts, would have been met by greater confrontation and hostility on the part of the United States. They might even have led to the kind of intervention that occurred in earlier decades, as with the governments of Jacobo Arbenz in Guatemala and Salvador Allende in Chile.

The gap between electoral democracy and limited social achievements was the backdrop to recurrent images of democratically elected leaders being forced to resign because of social and political crises. The 2000 fall of President Jamil Mahuad in Ecuador was followed by the collapse in Argentina. Discontent in Argentina reached its symbolic and visible zenith in the slogan “they should all go,” which was much in evidence during the crisis that brought down the presidency of Fernando de la Rúa in 2001. Sánchez de Lozada fell in Bolivia in 2003 and his successor, Carlos Mesa, resigned in 2005. Lucio Gutiérrez was also forced to resign in Ecuador.

Although these crises obviously affected institutional continuity, it is notable that all were resolved via pre-established constitutional channels and procedures. Clearly, the region had moved beyond the time when crises were tackled by means of military uprisings.

Overall, the 1990s were mixed. On the one hand, electoral democracy and the exercise of fundamental democratic rights were implanted and widespread. On the other hand, social indicators stagnated, criminal violence expanded, and institutional legitimacy decayed. All of this occurred within a social and political context where political parties and other important political institutions weakened, but where important processes of internal political decentralization were put into effect in countries such as Colombia, Venezuela and, later, Peru. New political elites emerged, and they would come to play an important role in the future.

Parallel to this, the “mood” of society was geared toward “social reform.” It found expression in governments that could be characterized as breakaway or reformist. In various ways these sought, and continue to seek, to channel social sentiment as a counterweight to the shrinking of the state that was attendant on the failed prescriptions of the Washington Consensus. They aimed to craft a state and an economy that were better adapted to national productive structures and social needs, with a clear and effective social agenda, rather than one of mere contemplation when faced with the invisible hand of the market. They were to be nourished by a regional context of growing autonomy from the United States and the international financial institutions.

GENERAL TENOR OF THE REFORMS

Among citizens, a mood that seeks social change and reform is ever more apparent in Latin America today. It seeks a less ruthless market economy and demands that the state respond effectively to inequity and social exclusion. At its core are citizens' expectations of well-being and justice, expectations that matured and developed within democratic processes fed by a greater supply of information and open expressions of social demands. This mood drove and catalyzed (and continues to do so) the emergence of a series of policy proposals that sought to express what might be termed "the social." In some cases these policies directly questioned the traditional policies of representative democracy and were strongly nationalistic, notably in Venezuela under Hugo Chávez and, to some extent, in Bolivia under Evo Morales and in Nicaragua under Daniel Ortega. In other cases, they advanced clear social agendas that were accorded priority in public policies.

Inequity and poverty served as the fertile ground for an array of proposals for change. This century started with widespread inequity and poverty, but that is an ill that has troubled the region for many decades. What is new is that a "leftist" leaning came to be seen, broadly speaking, as the tendency of most of the region's governments. Such political outcomes are related to the convergence of at least three factors: the internalization of democratic values, impatience with poverty and inequity, and greater autonomy from the United States.

The positive internalization of democratic procedures and forms in Latin American societies has found expression as a widespread awareness of greater rights and a sense of urgency about government accountability to citizens. Latin American countries began to demonstrate an unprecedented degree of autonomy from Washington and international financial institutions; from 2003 onward, the region's economies grew as a result of excellent international trade in raw materials that lasted until the final quarter of 2008. But peoples of the region have shown dismay and impatience that these democracies have failed to yield significant improvements in areas such as poverty and social inequity.

The phenomenon some have called a "turn to the left" is, in reality, an embodiment of a majority desire to redefine and affirm the "public space" without reverting to past patterns associated with hyperinflation and fiscal crises. Most of the elected governments, albeit with important nuances among them, are now what some refer to as 'social democratic.' This is neither solely nor fundamentally because ruling parties have this formal affiliation, but because the term connotes proposals that stress the social agenda and a more active role for the state.

South to north, this is the case in Argentina, Uruguay, Bolivia, Brazil, Paraguay, Ecuador, Venezuela, Panama, Costa Rica, Nicaragua, and Honduras. Mexico did not follow this trend—López Obrador failed to win the presidency in 2007—nor did Ollanta Humala win the election in Peru a year earlier. The governments

of Venezuela, Bolivia, and Nicaragua more plainly represent a political break from traditional patterns, though Bolivia is where the restructuring of political power—socially, ethnically, and geographically—is most vividly expressed. Rather than reflect the existence of two blocs within the reformist group, however, this underscores the peculiarities that distinguish one set of countries from the other (and, incidentally, that lead to disagreements).

When Chávez assumed the presidency of Venezuela in February 1999, the country embarked on an unexpected and radical course of independence from, and even conflict with, the United States. Chávez's visit to Baghdad to meet Saddam Hussein in August 2000 perhaps foreshadowed the course that would be followed. A further step in this direction was the overture to Iran under Mahmoud Ahmadinejad, who then not only made an official visit to Venezuela but also to Nicaragua, Bolivia, and Ecuador.

Years later, Evo Morales' government in Bolivia would insert itself into the regional political process with an approach that sought to ensure the inclusion of the indigenous population. This came against the complex backdrop of Bolivia redefining its political and institutional structures. The struggles of the regional departments reflect a marked geographic reconfiguration of authority. The new constitution, approved by 60 percent of voters in a referendum on January 27, 2009, expresses the essence of Bolivia's developing political process.

Other countries have followed political courses that stress the public sphere and the social agenda while simultaneously consolidating the "market economy" option. This approach has been emphasized within political and institutional arrangements geared toward lowering the poverty indices—something that has clearly happened in countries such as Brazil and Chile. In Colombia, political circumstances have given rise to an administration where, despite ideological differences, the sense of government activity and the thinking behind it have been judged by some to be populist. That is to say, one strategy has been to move beyond traditional forms of representative democracy by strengthening presidential power and establishing a direct relationship between leaders and citizens.

DEMOCRATIC GOVERNABILITY IN THE HEMISPHERE

The past decade has seen a recurring event: constitutionally elected presidents who are unable to complete their terms in office, either because of accusations of corruption or other abuses of power (real or alleged). These repeated crises of governability have revealed the severe institutional weaknesses of many Latin American democracies and underscored the grave problems of inequality and poverty. There is also an emerging demand for a democratic institutional apparatus that is more lively and participatory.

³Pardo, Rodrigo, "Democracia populista y convivencia pragmática en la región andina." Mimeographed document, 2008.

Democratic systems' failure to significantly improve living conditions has widened the gulf between the people and official institutional structures. This vast distance between leaders and those they govern has become an essential ingredient in the "governability deficit." When the prevailing institutional system cannot tackle these contradictions properly, scenes of discontent, sometimes violent, appear.

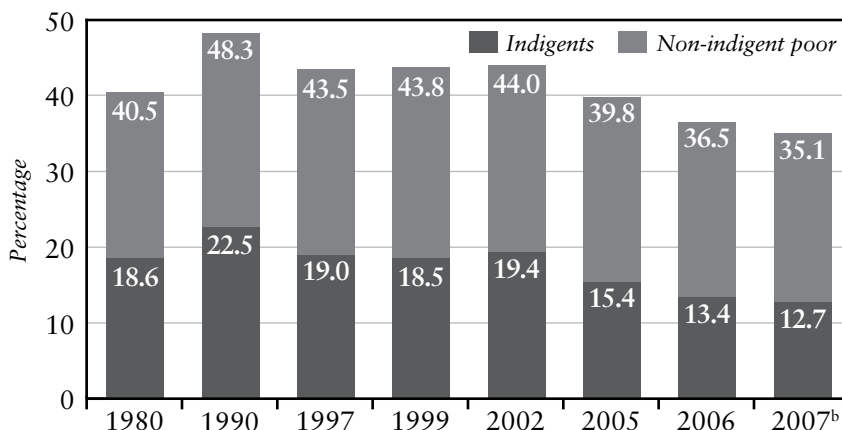
The attendant lack of social cohesion has revealed the urgent need to recover the public sphere, as well as to design and implement targeted and counterbalancing policies to narrow the social divide and to reduce poverty. It is in that light that the state has been reassessed in Latin America. Efforts have been made to give it a more active role, one that goes beyond the thinking that arose from an unvarying reading of the Washington Consensus. The deficiencies and difficulties of democracies are matters of prime importance that this approach addresses in its own way.

This is giving rise to political processes that prioritize the inclusion and participation of the people. In practice, the outcomes are neither uniform nor necessarily successful. What is certainly true is that there is a brisk renewal of national and local political elites. Usually, this new leadership emerges with the collapse of the traditional political system. These leaders, with some exceptions, normally share a *caudillista* common denominator and seem detached from political institutions, such as the parties, and even from trade unions. Often, the new leadership forsakes institutional channels and opts for a direct relationship with citizens. Such an approach carries significant risks, including the temptation to be authoritarian.

Until late 2008, when the current global downturn began, these political processes played out in tandem with the substantial revitalization of Latin American economies. Between 2003 and 2008, Latin America experienced its most significant period of constant growth since the 1960s. In that same period, substantial progress was made toward reducing poverty and indigence. The result was encouraging even though it was inadequate relative to the region's very positive macroeconomic indicators. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), 44 percent of the region's population lived in poverty in 2002 and 19.4 percent were indigent, or in extreme poverty. By 2007, the levels had fallen to 35.1 percent and 12.7 percent, respectively. That is about a nine-point decline in poverty and a nearly seven-point fall in indigence over a five-year period.

Many factors affect this outcome. Government poverty reduction programs are one. Also important are the remittances that migrants who have sought a better life abroad send to their families back home. In 2007, international remittances to Latin America amounted to \$60 billion, a direct income with no intermediary that goes to the middle class and the poor for immediate consumption. That exceeds the \$10 billion that the World Bank and the Inter-American Development Bank (IDB) together sent to Latin America in 2007. The absence of sustained growth in employment, however, makes these factors somewhat vulnerable.

FIGURE I. LATIN AMERICA: POVERTY AND INDIGENCE, 1980 TO 2007^a
(PERCENTAGE OF POPULATION)



Source: ECLAC, on the basis of special tabulations of the household surveys of the respective countries.

^a Estimate for nineteen countries of the region. The figures represent the percentage and total number of poor (indigent and non-indigent poor).

^b Projection.

CITIZEN INSECURITY AND VIOLENCE

The murder rate in Latin America is more than three times the world average and eighteen times higher than that in Western Europe. In Latin America and the Caribbean, the average annual rate is thirty murders per 100,000 inhabitants.⁴ The victims are disproportionately young—between fifteen and twenty-five years of age—and, in some countries, predominantly urban.

There are an increasing number of links between common delinquency and organized crime networks related to the drug trade, vehicle theft, and human trafficking. The increasingly complicated nature of this crime challenges the response capacity of Latin American societies. Organized crime is reshaping institutional patterns in important countries such as Mexico.

The so-called *maras* or gangs are particularly alarming. There are no fewer than 70,000 gang members in Central America.⁵ Gangs are blamed for 50 percent of violent crimes in Honduras, Guatemala, and El Salvador.⁶ The murder rate in Honduras is 154 per 100,000 inhabitants, twice the rate in Colombia and one of the highest

⁴ Inter-American Development Bank, *Situación de la Violencia en Centroamérica*. Washington, D.C.: IDB, 2003.

⁵ Perez-Stable, Mariféli, “Gangs Undermine Security, Democracy,” *The Miami Herald*, March 30, 2006.

⁶ Migration to and from the United States plays a role in strengthening the gangs and their activities. Every year, tens of thousands of Hondurans, Guatemalans, and Salvadorans are deported to their countries of origin after having been found guilty of violent crimes in the United States. Often they return to their countries better “skilled” at crime, and they encounter not only severe unemployment and poverty but also weak institutions. Recently, moreover, the deportees’ criminal records were not sent to the Central American authorities along with the other information about them, a circumstance that has further hampered the local authorities’ capacity to act.

in the world.⁷ The IDB estimates that if violence in Central America matched the world average, the subregion's per capita income would be 25 percent higher.⁸

Although this insecurity affects everybody, the poorest are the most vulnerable. Such insecurity also affects a country's economic⁹ and institutional resources and endangers democratic governability.

The democratic institutional apparatus and the values that underpin it are undermined daily. Insecurity and violence spark state and social reactions that are not always conducive to the consolidation of democratic values and institutions. Often these reactions weaken democratic practices and institutions without making societies any safer. The reactions include direct vigilantism, evident in the throat cutting in Guatemala and the shootings in “social cleansing” operations on the outskirts of Caracas. Such circumstances establish a context for certain responses on the part of the state. These include the simplification of punitive measures in the form of harsher sentences as a kind of “magic wand,” severe penalties for minor offenders, and the clamor in some countries for the death penalty.

Military responses to common crime have also surfaced, a political step that citizens often welcome. However, this approach has significant risks. It entrusts military institutions that are organized and trained for war—that is, to wipe out the enemy—with a task for which success does not depend on a given level of firepower but on the effective operation of institutional machinery; this includes not only agencies of the police but also those of the justice system. Prevention, criminal investigation, and police intelligence information that can be obtained from the population and from citizen participation are also beyond the scope of the military's duties and training.

This militarization runs the risk of undermining the armed forces themselves, as well as current Latin American efforts to relocate the military within a democratic state structure led by civilian authorities. On some occasions such activism has led to corrosion as criminal activities (such as drug trafficking) infected the armed forces. Throughout history, military activism has been marked by the difficult business of striking the right balance between democratic institutions.

A stepped up crime-fighting role for the military also reverses efforts made in the 1990s, and more recently, to demilitarize police forces. Significant steps have been taken to forge closer links between the military and civil society as well as to restructure the armed forces in countries as diverse as Nicaragua, El Salvador, and Colombia. Another development, although neither uniform nor consistent, has been increased professionalism and specialization within the police. Other institutions of

⁷Perez-Stable, Mariféli, “Gangs Undermine Security, Democracy.”

⁸*Ibid.*

⁹Violence significantly reduces the GDP of a sizeable number of Latin American countries. According to some sources, the cost of the violence affecting the region ranges from 5.9 percent of GDP in Peru to 24.9 percent of GDP in El Salvador. The IDB has estimated the total cost of violence at between 5 percent and 25 percent of GDP, the total cost of private security at between 8 percent and 25 percent of GDP, and the total cost of domestic violence at between 1.6 percent and 2 percent of GDP.

the security system (such as the judiciary and the public prosecutor's office) exhibit widespread deficiencies.

Institutions like these are crucial in a democratic society, yet they are often ineffective and overwhelmed. In some countries, efforts to reform the criminal justice system without effective planning or sufficient resources (as happened in Guatemala) have brought unhappy outcomes. Results are good when gradual reforms are well planned and when the necessary resources are made available, as in the case of Chile and, as is beginning to happen in Peru. When there is a widespread collapse of the prison system and the jails are overcrowded, subhuman living conditions and violence in the prisons turn what should be the rehabilitation process into (with few exceptions) a place that offers advanced and specialized courses in crime.

MORE LIGHT THAN SHADE

The picture in Latin America, like that of any other group of countries, is complex. The positive side includes the establishment of electoral democracy. This is important not only because the authorities are elected in free and democratic balloting, but also because the election results, with exceptions, are accepted by the various political actors. It is significant that political crises, some of them severe, have been resolved and continue to be resolved through the use of the proper institutional and constitutional channels.

Underlying this is the favorable macroeconomic context that prevailed from 2002 to 2003 to late 2008 and, with a few exceptions, low rates of inflation. The marked improvement in export earnings has allowed countries to rein in problems such as external debt, which had seemed unmanageable, or the excessive influence of international financial organizations such as the International Monetary Fund (IMF).

In other periods, political undertakings such as the nationalization of multinational companies, agrarian reform, and confrontation with U.S. security priorities would have prompted public condemnation and even intervention.¹⁰ This has not been the case in the past five years. U.S. attention has focused on other regions and problems and, because of the increase in international reserves as a result of export growth, many countries have found it unnecessary to resort to institutions such as the IMF.

An important part of the consolidation of electoral democracy has been the gradual participation of women in the institutions that have emerged from the elections. Though the gains are insufficient, women's participation in the region's legislatures has increased over the past ten years. Female parliamentarians now account for 20 percent of the total in Latin America, similar to the level in Europe¹¹

¹⁰ Hershberg, Eric G., "The Prospects for Latin America's Lefts: International Context and Domestic Capabilities," in Jon Beasley-Murray, Maxwell A. Cameron and Eric Hershberg (eds.), *Latin America's Left Turns: Toward a Post-Liberal Politics*. Book under review.

¹¹ Statements of Anders B. Johnson, Secretary General of the Inter-Parliamentary Union, to *La Jornada*, Mexico City, April 3, 2008.

and almost double Latin America's 11.3 percent level in 1995. Quota laws have been positive in bolstering women's rights.

Indigenous peoples are important contributors to the extraordinary richness and strength of the region. Indigenous movements in Bolivia, Ecuador, and Guatemala are increasingly active interlocutors that have attained interesting levels of participation in political-institutional processes. Indigenous movements have made efforts to design and implement health policies in Bolivia, Brazil, Chile, Costa Rica, Ecuador, Mexico, Nicaragua, Panama, Peru, and Venezuela.

The redefinition of the role and prominence of the armed forces is more or less widespread and, in general terms, breaks with the militaristic societies of the past. In Central America, for example, the armed forces are no longer the arbiters of power, nor the all-powerful entities that they were in the past. Neither are they so in most South American countries.

It is no small thing, moreover, to have ended the dark periods marked by massive and systematic human rights abuses, the periods of massacres, the missing, the tortured, the displaced and the refugees. Despite their limitations, unprecedented efforts have been made to investigate the atrocities of the past, punish the guilty, and consolidate a regional juridical apparatus to rule on the state's responsibilities in the area of human rights.

It is notable that some countries have sought to address the crimes committed by the state as a means of ending impunity—the source of the danger that the same kind of crimes might be repeated. Some countries have not been particularly dynamic or effective in judging state officials who committed offenses, or they only took steps after foreign courts acted (the case of Chile), but others have exhibited significant institutional strength in avoiding the historical Latin American cycle of simply starting anew.

Noteworthy have been anticorruption efforts and investigations of serious human rights abuses in Peru after the collapse of the Fujimori regime. During the transition government of President Paniagua, the historical cycle was broken by important trials and the return of tens of millions of dollars that had been stolen from public coffers. Particularly important in this regard was the investigation into former president Fujimori, his extradition, and his current trial; he sits with all the guarantees of due process before ordinary Peruvian courts whose independence and seriousness are questioned by no one. In Argentina, meanwhile, the Supreme Court played an important role in 2004 by nullifying the “Full Stop” and “Due Obedience” laws. These are extremely important steps in the Latin American democratization process, since they should have an effect on what has historically been the vicious circle of impunity.

Also important is the consolidation of the Inter-American Court of Human Rights, a body of region-wide jurisdiction whose functioning and impact have been strengthened in the past five years. More than half of the cases handled in the court's thirty years were resolved in the last five. Moreover, states are essentially complying

with the court's rulings. Even more importantly, national courts are making increasing use of the Inter-American Court's jurisprudence to resolve their own cases. The "globalization" of democratic values in this arena is of crucial significance.

All that said, several problems continue to seriously impact the depth and stability of democratization. Without question, the main time bomb threatening democratic and institutional stability is widespread poverty and inequity. The steps taken to tackle this have been deficient. The social exclusion of the poor in general, and of the indigenous peoples in particular, is an important trigger. In societies where urbanization is uncontrollable, this exclusion is more unpredictable and explosive in the context of unstable and weak democratic institutions (political parties, trade unions, and so on). It is plain that the social and political effects of the current global downturn will introduce new elements of uncertainty and instability. Social and political processes feed on the nature of economic cycles, which in turn feed on the substance and outlooks of political and social processes. The downturn that began recently opens a chapter as yet unwritten.

Another crucial matter is that institutional development is affected by several ills, expressed in the lack of legitimacy and effectiveness of basic public institutions such as the justice system and the police. These ills intensify in contexts of mounting citizen insecurity. Efforts to undertake real institutional modernization and reform have been modest; they continue to lag behind the needs of society. Additionally, in general terms, there is the great weakness within institutions that are essential in a democratic society, such as political parties and labor organizations. These deficiencies not only help delegitimize democracy, but they seriously constrain the prospect that social conflict can be channeled properly.

Despite the military's restricted role in a stronger democratic structure, some countries have significantly increased military spending in recent years. This is not widespread, but it has happened in two South American countries. In one of those, moreover, the armed forces directly receive a substantial share of state revenues for the purpose of buying arms.

Finally, in the context of regional democratic consolidation, important questions are raised by breakaway political processes that seek to redefine democracy and make it more participatory. That trend poses several unknowns regarding the ways in which these processes work and the inherent risk that they might tilt toward authoritarianism.

SOME PROMISING APPROACHES

Latin America may be marginal to the world's grand political and strategic decisions, but Brazil stands out as the region's emerging power. Not only is it true, but it is perceived to be true. Hence, six years ago, Goldman Sachs grouped Brazil together with Russia, India, and China as BRIC to create a profitable stock market investment

fund. (Today that fund, like the world's other stock markets, is stifled.) What happens next depends on how the cooling global market affects Brazil's export capacity. From 2004 to 2007, Brazil had a fiscal deficit above 2 percent of GDP, which could significantly constrain its ability to tackle the current recession.

From a political standpoint, the two administrations of Fernando Henrique Cardoso and the two of Luis Inácio Lula da Silva have been important in consolidating a democratic institutional structure and in taking steps to reduce poverty and inequity. Social conflict in Brazil is being addressed through institutional channels. This is an achievement in a country and continent beset by very grave social and ethnic divisions.

In the economic sphere, control of inflation and external debt goes hand-in-hand with the consolidation of Brazil as an exporter not only of manufactures (which account for almost 70 percent of exports) but also as the world's leading exporter of foodstuffs such as meat and soy. GDP rates have been rising since 2004, but they have been unspectacular. Nonetheless, the indications of substantial oil deposits and Brazil's marked international capacity to produce biofuel offer the bright prospect that the country will be self-sufficient in the medium term and will experience sustained growth in this field. In recent years, significant progress has been made in the fight against poverty (the Bolsa Familia program now covers 11 million families), and many of the poorest have seen an improvement in their socioeconomic status. In the past two years, 23 million Brazilians have left the "poverty" level and have joined the "middle class."

Chile is also important in this field. Its export-based economy has enjoyed impressive levels of income in recent years because of the marked rise in the price of copper, its main export. Chile now has a very high level of international reserves, enjoys macroeconomic policy stability, and is implementing state policies in important areas like education. Of course, none of this immunizes Chile against the global recession. In its economic outlook for 2009, a presidential election year in Chile, ECLAC predicts that the country will experience unforeseen economic, social, and even political effects.

The fact remains that longstanding Chilean policies in sensitive areas like poverty reduction have had significant outcomes. Between the reestablishment of democracy in 1990 and 2006, total poverty fell from 38.6 percent in 1990 to 18.8 percent in 2003 and to 13.7 percent in 2006. Indigence or extreme poverty fell markedly, from 12.9 percent in 1990 to 4.7 percent in 2003 and to 3.2 percent in 2006. Nonetheless, while overall poverty indices have declined, the percentage of poor and extremely poor among the indigenous population is high (19 percent of the total). It is noteworthy, however, that poverty among the indigenous population has fallen to 19 percent, from 35.1 percent, over the past ten years.

LATIN AMERICA AND THE UNITED STATES

Latin America was a marginal issue in the U.S. presidential campaign, but Barack Obama's victory—with 66 percent of the Latino vote—heightens the prospect that U.S. policy will prioritize diplomacy over confrontation and military action, and multilateralism over unilateralism. The Bush administration increased conflict, uncertainty, and refugee flows. There were previously no displaced people in Iraq; now there are almost 4 million.

Obama's more respectful approach to Latin American matters seen at the Summit of the Americas and in his response to how the OAS dealt with the Cuba issue in June 2009 are important steps forward. However, since the attack on the World Trade Center, the U.S. priority has been security and terrorism and its geographic focus has been the Middle East. This lack of interest in Latin America has a positive side: Latin America's unprecedented degree of autonomy from Washington and the international financial institutions for the past five years. Because of Latin American growth rates since 2003 and levels of reserves, the IMF is no longer a leading player in the region.

Latin America was not entirely absent from the U.S. election campaign. On immigration policy there was a degree of concurrence between Obama and Republican candidate John McCain and, even before the campaign began, some areas of agreement. These ranged from more stringent border control to reform legislation to regularize the status of millions of immigrants already in the United States. McCain, however, attenuated his reformist discourse under pressure from supporters on the right. In a recession, it would be naively optimistic to expect any great changes in U.S. policies on immigration from Latin America. The economical and financial crisis and other priorities, like health care reform, have undermined the importance of the migration issue in the political agenda. Results and concrete steps by the administration are yet to be seen.

Neither the United States nor Latin America has made successful proposals on the drug issue. There has been no serious U.S. analysis of the failed policies of the 1990s. The Latin American countries, for their part, seem mired in an examination of what happened and how to rectify things. It is more comfortable for everybody to bury their heads in the sand—an approach that is conducive to the issue's unwanted recurrence on the agenda. However, the new “drug czar,” former Seattle police chief Gil Kerlikowske, seems to have a new and more creative approach that could eventually open a new dialogue in this matter.

The free trade debate has spawned some divisions, but they are more apparent than real. Obama's suggestion that he would “revise” the North American Free Trade Agreement (NAFTA) has been significantly diluted. And both candidates, mid-campaign, agreed on approval of the free trade agreement with Peru. There are some specific pending issues (such as the trade accord with Colombia), but

they do not seem to be matters of principle and they are subordinate to the need to respond to the international financial crisis.

As regards Cuba, which has been handled as a domestic political issue for fifty years, there are indeed significant differences, apart from the announcement of the closure of the Guantánamo detention center. First are the steps already taken to liberalize restrictions on remittances and visits from the United States. Second is the possibility of giving some room to Cuba as a foreign policy issue and a matter of diplomacy, with a view to the delayed and necessary dialogue with the Cuban government. The steps already taken at the OAS facilitate this approach.

The Obama administration offers the region the chance to play a leading role as long as it does so in favor of multilateralism. For Latin America, as Ricardo Lagos has commented, the agenda is huge: trade, the international financial architecture, climate change, migration, renewable energy, drug trafficking, and the fight against organized crime. Latin Americans must be able to reaffirm the current process of growing autonomy and to create initiatives and substantive proposals in the new context. And the United States must be prepared to go along with and respect the range of options that arise in Latin America.

WAYS OUT OF THE CRISES OF DEMOCRACY

The recurrence of political crises in several Latin American countries indicates that the region is in a phase of its political and social history that goes beyond the mere sum of local crises. Some features are common to all of them. It is in the interest of the region and its peoples that these crises are surmounted through a deepening and widening of democracy, rather than authoritarianism. It is encouraging that the majority of the political crises have been channeled and resolved through available constitutional and institutional procedures. The repeated assumption of the presidency by vice presidents, when the heads of state have become embroiled in serious internal political polarization, indicates an institutionalization of constitutional procedures that has not been the norm in the region's political history. This hopeful sign highlights the legitimacy of the region's democratic systems, even in the face of enormous difficulties.

The current global crisis could bring change to political processes in the region. Though Latin American countries' reserves tripled in the period 2003 to 2008, the current deterioration in the terms of trade could cause balance-of-payments problems, especially in Central America and the Caribbean. Fiscal and monetary difficulties have some countries looking again at the international banking system as the only way to deal with balance of payments difficulties that could worsen. That means countries are giving international financial institutions a prominence that had been waning.

It remains to be seen what effects the global crisis will have on democratic processes in Latin America. The rise in raw material prices facilitated a 10 percent

increase in per-capita spending on government social programs between 2002 and 2005.¹² As prices fall and terms of trade worsen, resources for social programs will dwindle. The impact of the crisis on vital issues such as employment, inflation, and social programs will be a significant determinant of the direction and prospects for those political processes, perhaps leading to social unrest and/or a weakening of governments.

National political peculiarities will make it hard to foresee the course of events and could spur the inertial fluctuations that often prevail in times of crisis—favoring political movements distinct from those in office or that hold a parliamentary majority. Electoral democracy will be a crucial framework within which to define the interactions of political forces in the next two years.

¹²Hershberg, *op cit.*

U.S.-Latin America Relations Over the Last Decade

SERGIO AMARAL

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U.S.-Latin America relations have changed substantially over the last decade. Latin America has ceased to be important to the strategic concerns of the United States as it had been during the cold war, when it was relevant for the risks it presented rather than the opportunities it offered. It is enough to remember the Cuban Missile Crisis, probably the most serious threat of a nuclear clash between the two superpowers, or to consider the succession of military coups in Latin America—with U.S. support or, at least, complicity to overthrow regimes deemed sympathetic to the Soviet Union.

Today, Latin America no longer draws the same attention because, among the issues that most concern the United States, the region is neither a key to the problems nor to the solution. The roots of the debt crisis, which had threatened to destabilize the U.S. financial system, are not linked to Latin America. Furthermore, in the current War on Terror era, Latin America does not pose a security threat to the United States.

If the United States is less focused on Latin America, so, too, Latin America is less dependent upon the United States. Most countries of the region are consolidating their democracies, have accomplished relevant economic reforms, and are now engaged in resolving old social challenges. The region no longer counts on significant public financial inflows to promote growth. On the contrary, many countries have become surplus economies that have accumulated substantial reserves. Some countries have signed free trade agreements with the United States while others have seen their exports to the U.S. market decline. As a result, trade frictions seem to have diminished.

Latin American growth rates are higher, indebtedness is lower, and markets are more open to U.S. goods and services. Big corporations in the region have started to invest in the United States, namely a few Brazilian companies such as JBS (beef), Gerdau (steel), Coteminas (textile), and Embraer (aircraft).

The connection between the United States and Latin America is actually a series of diversified relationships. To a large degree, these ties are shaped by geography. But recent history also plays a role.

- In the 1960s and 1970s, under the constraints of the cold war, a series of military governments aligned Latin American countries with the United States in a common fight against the spread of communism.
- A few years later, widespread democratization restored convergence around common values. The region's debt crises, however, fostered tension and reinforced Latin American dependence on badly needed financing in order to promote growth in the region.
- In part, the economic reforms of the nineties were home-grown. But they also grew out of requirements set by Washington-based multilateral institutions. Those requirements sparked not only criticism but also rejection.
- The emergence of social movements at the turn of the century significantly affected the domestic political scene. These social movements also had a direct impact on many Latin American countries' foreign policy.

While changes were underway in Latin America, the United States underwent its own profound transformation, associated in many aspects with the transition from the cold war into the realities of the twenty-first century. Both the political scene and the economy of the lone superpower showed growing fractures. Under the impact of the 9/11 terrorist attacks in the United States, the administration of President George W. Bush resorted to unilateral action at the expense of multilateral negotiation, with a considerable cost to the U.S. image globally. Moreover, commitments to the environment and to human rights, two traditional priorities of U.S. foreign policy just decades earlier, were seen as diminishing.

A few years ago, forces of divergence seemed to prevail over those of convergence when it came to the United States' interaction with Latin America. More recently, however, prospects have taken a positive turn. Both sides agree on the need to face the challenges of the international agenda by means of coordination and multilateral negotiations. Latin American countries welcomed President Obama's commitment not to intervene in domestic conflicts in the region, such as the case of Honduras. Finally the leaders of the hemisphere worked together in the G20 and other forums to improve the democratic governance of financial institutions. Despite such concrete, positive steps, the United States and Latin America may never again share a relationship—whether warm or full of conflict—forged from extremes. Rather, shared values and a more pragmatic approach by both sides may help to identify areas for partnership and ways to mitigate natural differences. Such a development may represent a positive change in the quality of inter-American relations.

LATIN AMERICAN DIVERSITY

Latin America presents a considerable diversity. It comes from geography, as well as from history. Jointly, these factors have resulted in at least three quite different regions: Mexico; Central America and the Caribbean; Andean and Southern Cone countries.

Mexico, Central America, and the Caribbean have been closer to the United States thanks to geographic proximity and deeper economic ties. In recent years, economic links have become even tighter. The 2004 signing of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA), a decade after the ratification of the North American Free Trade Agreement (NAFTA), is progressively integrating the region into the North American economic space. The disadvantage of this closeness has been recurrent political interventions by the powerful neighbor to the north.

Trade plays a prominent role in the United States' relationship with the region. Exports to the United States represent 85 percent of Mexico's overall exports. For the Caribbean Community (CARICOM), the figure is 53 percent, and for DR-CAFTA, it is 40 percent. In the case of the Andean Group, U.S.-bound shipments represent 39 percent of total exports. For the Mercosur bloc, they are 15 percent. These percentages are in direct correlation to the intensity of the economic links with the United States. Take Mexico (85 percent) and compare its U.S. ties with those of Brazil (15 percent).

TABLE 1. EXPORTS TO THE UNITED STATES AS A SHARE OF TOTAL EXPORTS

Region/Country	World	United States	Export Share to the United States (Percentage)
MEXICO	249,960,546.00	212,131,773.00	85
ANDEAN GROUP	120,593,966.00	46,781,407.00	39
Bolivia	4,223,298.00	413,801.00	10
Colombia	24,390,975.00	9,948,230.00	41
Ecuador	12,727,796.00	6,824,753.00	54
Peru	23,764,897.00	5,707,487.00	24
Venezuela	55,487,000.00	23,887,136.00	43
DR-CAFTA	14,542,458.00	5,835,350.00	40
Dominican Republic	N/A	N/A	N/A
Costa Rica	7,254,866.00	3,080,219.00	42
Honduras	1,879,661.00	981,604.00	52
Guatemala	3,198,084.00	1,004,967.00	31

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Region/Country	World	United States	Export Share to the United States (Percentage)
El Salvador	1,451,205.00	415,539.00	29
Nicaragua	758,642.00	353,021.00	47
CARICOM	17,880,793.00	9,389,237.00	53
Antigua Barbuda	N/A		
Bahamas	375,880.00	291,398.00	78
Barbados	441,214.00	88,613.00	20
Belize	274,429.00	115,252.00	42
Dominica	41,473.00	1,882.00	5
Grenada	N/A		
Guyana	567,385.00	87,675.00	15
Haiti	N/A		
Jamaica	1,988,808.00	605,295.00	30
Montserrat	1,311.00	54.00	4
St. Kitts-Nevis	39,706.00	35,157.00	89
St. Lucia	93,746.00	19,268.00	21
St. Vincent & The Grenadines	38,107.00	1,886.00	5
Suriname	N/A		
Trinidad & Tobago	14,018,734.00	8,142,757.00	58
MERCOSUR	190,088,048.00	29,411,889.00	15
Argentina	46,423,170.00	4,034,274.00	9
Brazil	137,806,190.00	24,774,417.00	18
Paraguay	1,906,367.00	66,624.00	3
Uruguay	3,952,321.00	536,574.00	14

Source: Economic Commission for Latin America and the Caribbean (ECLAC)

U.S. foreign direct investment (FDI) in Latin America follows a similar pattern. FDI in Mexico, Central America, and the Caribbean accounts for 76 percent of overall U.S. investment in the region. South America receives 23 percent of the total. Investments in Mexico (20 percent) are double those of Brazil (10 percent).

TABLE 2. U.S. FDI TO LATIN AMERICA AND THE CARIBBEAN

		Percentage
WORLD TOTAL	1,788,911.00	
LATIN AMERICA & CARIBBEAN	304,023.00	17
MEXICO	61,526.00	20
South America	69,942.00	23
ANDEAN GROUP & OTHERS	28,273.00	9
Bolivia	375.00	0
Colombia	2,751.00	1
Ecuador	1,446.00	0
Chile	9,986.00	3
Peru	2,659.00	1
Suriname	23.00	0
French Guyana	9.00	0
Guyana	165.00	0
Venezuela	10,859.00	4
MERCOSUR	41,669.00	14
Argentina	11,026.00	4
Brazil	29,915.00	10
Paraguay	114.00	0
Uruguay	614.00	0
DR-CAFTA	4,295.00	1
Dominican Republic	860.00	0
Costa Rica	1,831.00	1
Honduras	270.00	0
Guatemala	294.00	0
El Salvador	779.00	0
Nicaragua	261.00	0
CARICOM & OTHERS	168,259.00	56
Antigua & Barbuda	88.00	0
Bahamas	8,816.00	3
Barbados	1,766.00	1
Belize	48.00	0
Bermuda	84,609.00	28

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		Percentage
British Virgin Islands	54,507.00	18
Dominica	49.00	0
Grenada	7.00	0
Guyana	165.00	0
Haiti	—	N/A
Jamaica	3,456.00	1
Montserrat	—	N/A
Netherlands Antilles	5,261.00	0
St. Lucia	—	N/A
St. Vincent & the Grenadines	6.00	0
Trinidad & Tobago	2,768.00	1
Others	6,714.00	2

Source: United Nations Conference on Trade and Development (UNCTAD).

Trade and investment are not the only engines driving North and Central American integration. Reciprocal cultural influences and an intense movement of migrants and tourists bring societies closer together. Of the 19 million registered immigrants in the United States, 68 percent come from Mexico and Central America, while 17 percent originate in the Caribbean. (Mexico alone provides nearly 56 percent of the registered immigrants in the United States.) South America accounts for a much lower 12 percent.

TABLE 3. REGISTERED U.S. IMMIGRANTS FROM LATIN AMERICA

Region/Sub-region/Country of Birth	2005	Percentage
All Countries (Total)	35,157	
AMERICAS		
	19,337	100
CARIBBEAN		
	3,211	16.60
Bahamas	21	0.10
Barbados	46	0.23
Cuba	948	4.90
Dominica	18	0.09
Dominican Republic	695	3.59
Grenada	48	0.24
Haiti	570	2.94
Jamaica	607	3.13
Trinidad & Tobago	181	0.93
Other Caribbean	76	0.39
MEXICO & CENTRAL AMERICA		
	13,192	68.20
Belize	44	0.22
Costa Rica	52	0.26
El Salvador	1,121	5.79
Guatemala	546	2.82
Honduras	379	1.95
Mexico	10,805	55.87
Nicaragua	181	0.93
Panama	65	0.33
Other Central America	—	
NORTH AMERICA (EXCLUDING MEXICO)		
	692	3.57
Bermuda	—	
Canada	674	3.48
Other North America	18	0.09
SOUTH AMERICA		
	2,241	11.58

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Region/Sub-region/Country of Birth	2005	Percentage
Argentina	145	0.74
Bolivia	58	0.29
Brazil	356	1.84
Chile	66	0.34
Colombia	479	2.47
Ecuador	339	1.75
Guyana	205	1.06
Peru	330	1.79
Uruguay	51	0.26
Venezuela	154	0.79
Other South America	59	0.30
OTHER AMERICAS		
	2	0.01

Source: Migration Policy Institute.

Note: Data comes from the U.S. Census Bureau Current Population Survey (CPS), March 2008 supplement. The CPS collects data on the civilian non-institutional population plus Armed Forces living off post or with their families on post.

U.S. tourist flows to Latin America also favor Mexico, Central America, and the Caribbean. Among U.S. tourists bound for Latin America, Mexico is the destination for 41 percent. Brazil, by comparison, receives only 4 percent of U.S. tourists traveling in the region.

TABLE 4. U.S. TRAVEL AND TOURISM TO SELECT LATIN AMERICA COUNTRIES
U.S. Tourism Receipts 2006 [\$mm]

Country/Region	Exports		Imports		Balance of Trade
	Total Travel & Tourism Receipts	Percentage	Total Travel & Tourism Receipts	Percentage	Balance of Trade
TOTAL (ALL COUNTRIES)	\$107,881		\$99,532		\$8,349
LATIN AMERICA AND OTHER WESTERN HEMISPHERE	\$27,037	100	\$26,785	100	\$252
Mexico, South and Central America	\$22,892	85	\$19,692	74	\$3,200
Argentina	\$870	3	\$622	2	\$248
Brazil	\$2,655	10	\$1,012	4	\$1,643
Chile	\$465	2	\$414	2	\$51
Mexico	\$9,265	34	\$10,904	41	-\$1,639
Venezuela	\$1,755	6	\$317	1	\$1,438
Other	\$7,882	29	\$6,423	24	\$1,459
Other Western Hemisphere	\$4,145	15	\$7,093	26	-\$2,948
Bermuda	\$53	0	\$284	1	-\$231
Other	\$4,092	15	\$6,809	25	-\$2,717

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

This remarkable network of reciprocal influences, economic interests, cultural exchanges, and movements of people raises a few political concerns relevant to inter-American relations. The first is a growing confusion between the diplomatic and the domestic agendas, or the so-called “intermestic issues” which, like immigration and drug trafficking, include challenges that are critical for both sides.

The second concern is that closer U.S. relations with Mexico, Central America, and the Caribbean unfold against a background characterized by strong historical

and cultural traditions in many countries, particularly Mexico. Since the U.S. presence is often overwhelming, Latin American countries seek to strengthen and to publicize their *latinidad* as a means to preserve their national identities. This, however, is not always understood in the United States, which often expects a more unambiguous response to the closer hemispheric links, nor is it understood in the rest of Latin America—particularly in Mercosur, which then misinterprets Mexico's move toward closer ties with South America as political rhetoric. The latter is one of the reasons that Mexico and Brazil, which represent roughly two-thirds of Latin America's GDP, have built only modest political and economic bridges between each other. Under these circumstances, stronger Mexico-Brazil economic cooperation is a pre-condition for Latin American integration.¹

Finally, North and Central American free trade agreements have constructed important building blocks toward a Free Trade Area of the Americas. Such an expansion met the resistance of a group of South American countries and split the region between countries favoring and those opposing hemispheric integration.²

SOUTH AMERICA

A few years ago, South America seemed to be separated by a new Tordesillas line dividing the Pacific countries, which were prepared to march in the direction of the FTAA, from the Atlantic or Southern Cone countries, which were more inclined toward South American integration.

More recently, such a political frontier was blurred. Ecuador, Bolivia, and Venezuela turned against U.S.-led hemispheric integration. On the Atlantic side, Uruguay and Paraguay appeared tempted to join the FTAA.³

In fact, both processes are paralyzed. For ideological or economic reasons, the FTAA is blocked in South America, except for support from countries like Chile, Peru, and Colombia. Some governments perceive it as a modern, economic version of the alignment Latin America had with the United States during the cold war. This is certainly the case with Venezuela, Bolivia, and Ecuador. Another group of countries resist the FTAA under the assumption that the proposed WTO-plus rules covering intellectual property rights will affect the economic prospects of fairly industrialized economies. Brazil and Argentina tend to share this view.

South American integration has slowed for different reasons, including the fact that South American countries do not share a common vision. Take the complexity of the Andean countries, where the economic and social integration of the indigenous communities remains a challenge. With the exception of Chile, and possibly

¹ Economic exchanges between Brazil and Mexico have seen consistent gains in recent years, largely behind a trade preference agreement signed in 2002. Improvements in political relations, however, remain modest.

² Until 2007, eleven of nineteen Latin American countries had joined Free Trade Area of the Americas (FTAA).

³ It is to be seen whether the new government of Paraguayan President Fernando Lugo will view the FTAA favorably.

Colombia, the political shifts that come with each election tend to reroute the country's direction, either toward a more open market economy or toward a centralized state capitalism.

That said, a few countries have endorsed the FTAA. On the one side, Chile and Peru have already joined. Colombia's participation is pending ratification by the U.S. Congress. On the other side, FTAA is countered by the so-called Bolivarian Integration, an anti-U.S. coalition spearheaded by Venezuela, Bolivia, and Ecuador and which also would include Cuba and Nicaragua.

Southern Cone countries, namely Brazil and Argentina, had envisioned South American integration as a merger between Mercosur and the Andean Group. The Andean Community, however, has been substantially debilitated by the withdrawal of Venezuela and the move of Peru and Colombia toward the FTAA.

The driving force for a sub-regional economic agreement was supposed to be the integration of South America's physical infrastructure. An ambitious program with that purpose, the Integration of South American Regional Infrastructure (IIR-SA), was launched by former Brazilian president Fernando Henrique Cardoso. The most promising sector for integration was energy, since one group of countries—Venezuela, Bolivia, and Ecuador—exports energy while another—Peru, Brazil, and Argentina—imports. But the initiative has stalled, partly because of a unilateral breach of energy contracts by Venezuela and Bolivia. Any foreign investment in a regional project with the participation of these countries seems unlikely.

Finally, Mercosur faces problems of its own. Trade within the bloc is increasing, but institutional progress is, at best, modest.⁴ What does Mercosur really want to be, a free trade agreement or a customs union? On paper, it is both: a free trade agreement with a growing number of exceptions and an incomplete customs union. Important sectors like informatics and capital goods, as well as specific products like sugar, are still outside the common external tariff (TEC). The eventual accession of Venezuela under Hugo Chávez would make any step forward more difficult. Finally, Brazil and Argentina have encountered increasing problems in coordinating their positions in trade negotiations, including the Doha Round.

Such differences among Latin American countries, as well as among distinct subregional integration processes, affect their foreign and trade policies. Such diversity explains why it is not possible for the United States to have a single policy for, approach to, or project with Latin America as it did in the past with such initiatives as the Pan American Operation, Alliance for Progress, or even the FTAA. One-size-fits-all initiatives do not seem to be possible for some time.

Likewise, policies by different Latin American countries with respect to the United States tend to diverge. Latin America is emerging from a long and complex

⁴ Brazil's volume of trade with Mercosur, for instance, increased by 154 percent between 2003 and 2007. Brazil's overall volume of trade increased by 148 percent during this same period of time. The figures show that Brazil's trade with Mercosur increased by a similar percentage to Brazil's overall trade.

transition toward the twenty-first century. Although the direction is convergent, the pace of change is different. It will take time for different national realities and perceptions to converge with more consistent visions of Latin American and inter-American relations.

WAVES OF CHANGE

Despite such important differences, Latin America tends to evolve in waves. Between 1962 and 1973, there were fifteen military coups in Latin America and the Caribbean that carried either the support or complicity of the United States. Some of the military leaders had been trained in the United States. The justification for overthrowing democratic governments was the need to contain leftist pro-Soviet movements. In the context of the polarization of the cold war, most new governments aligned themselves with the United States in matters of foreign policy. After the gunboat diplomacy of the first half of the twentieth century, the military coups of the 1960s and the 1970s represented what Henry Kissinger characterized, with respect to Chile, as the right of the United States to establish the “limits of diversity” in Latin America.⁵

TABLE 5. MILITARY COUPS IN LATIN AMERICA, 1962 TO 1976

Country	Date	Overthrown Government
Argentina	1962	Arturo Frondizi
Peru	1962	Manuel Prado y Ugarteche
Guatemala	1963	Miguel Ramón Ydígoras Fuentes
Ecuador	1963	Carlos Julio Arosemena Monroy
Dominican Republic	1963	Juan Emilio Bosch y Gaviño
Honduras	1963	Ramón Villeda Morales
Brazil	1964	João Goulart
Bolivia	1964	Victor Paz Estenssoro
Argentina	1966	Arturo Illia
Peru	1968	Fernando Belaúnde Terry
Panama	1968	Arnulfo Arias Madrid
Ecuador	1972	José María Velasco Ibarra
Honduras	1972	Ramón Ernesto Cruz Uclés
Chile	1973	Salvador Allende
Uruguay	1973	Juan María Bordaberry

Source: Leslie Bethell, *The Cambridge History of Latin América*. Vol. VI, Part 2, (Cambridge: Cambridge University Press, 1994).

⁵ Julia E. Sweig, *Friendly Fire*, (New York: Public Affairs, 2006), 9.

A few years later, partly as a result of the oil crises of the 1970s, the consequence of the sudden and substantial increase in interest rates in the United States, and bad management in Latin American countries, debt crises ravaged the region. In the 1980s, more than a dozen countries stopped payments and had to resort to the International Monetary Fund and the World Bank for financial relief and painful adjustment programs. Growth rates in Latin America decreased significantly in what was called the Lost Decade. The financial system was rescued, countries restored their creditworthiness and, a few years later, there was growth. Nevertheless, the recipe for adjustment, the so-called Washington Consensus, left scars. Since then, Washington financial institutions have been perceived by many segments of society and political sectors in the region as insensitive debt collectors that imposed on developing countries painful policies they could not afford to force on rich countries.

TABLE 6. DEBT CRISES

Country	Years ¹	IMF Programs ²	Paris Club Rescheduling ³
Peru	1978 to 1981 1983 to 1998	1984, 1993, 1997	1983, 1984, 1991, 1993, 1996
Bolivia	1980 to 1985 1986 to 1994	1986, 1988 to 1992	1986, 1988, 1990, 1992, 1995, 1998, 2001
Costa Rica	1981 to 1991	1985, 1991, 1992	1983, 1985, 1989, 1991, 1993
Dominican Republic	1981 to	1985, 1986, 1991 to 1993, 1998, 2003, 2004, 2005, 2006	1985, 1991, 2004, 2005
Ecuador	1982 to 1986 1999 to 2001	1984 to 1991, 1994, 2000 to 2003	1983, 1985, 1988, 1989, 1992, 1994
Mexico	1982 to 1991 1995 to 1996	1984 to 1992, 1995, 1999, 2000	1983, 1986, 1989
Argentina	1982 to 1994 1995 to 1996 2001 to	1985 to 1997	1985, 1987, 1989
Uruguay	1983 to 1988 1990 to 1992	1985, 1986, 1987	n/a
Brazil	1983 to 1995	1984, 1988, 1992, 1998,	1983, 1987, 1988
Chile	1983 to 1991	1984, 1989	1985, 1987
Panama	1983 to 1997	1984 to 1987, 1992 to 1998	1985, 1990

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Country	Years ¹	IMF Programs ²	Paris Club Rescheduling ³
Venezuela	1983 to 1989 1990 to 1991 1995 to 1998	1989 to 1991; 1996	N/A
Paraguay	1986 to 1993	N/A	N/A

Sources: IMF Working Paper WP/05/42, www.dse.unibo.it/seminari/manasse.pdf; ² www.imf.org/external/country/index.htm; ³ www.clubdeparis.org/en/countries.

Subsequent to the debt crises, and in part as a result of them, Latin America went through a far-reaching democratization process. A dozen countries chose their presidents in free elections during the 1980s. Relations with the United States tended to improve, opening the way for areas of convergence.

TABLE 7. DEMOCRATIZATION, 1979 TO 1990

Country	Election	First Elected President
Ecuador	1979	Jaime Roldós Aguilera
Peru	1980	Fernando Belaúnde Terry
Honduras	1982	Roberto Suazo Córdova
Bolivia	1982	Hernan Siles Zuazo
Argentina	1983	Raúl Ricardo Alfonsín
El Salvador	1984	José Napoleón Duarte
Uruguay	1985	Julio María Sanguinetti Cairolo
Brazil	1985	José Sarney
Guatemala	1986	Marco Vinício Cerezo Arévalo
Paraguay	1989	Andrés Rodríguez Pedotti
Panama	1989	Guillermo Endara Galimany
Chile	1990	Patricio Aylwin Azócar

Sources: Leslie Bethell, *The Cambridge History of Latin América*. Vol. VI, Part 2, (Cambridge: Cambridge University Press, 1994); Political Database of the Americas, Georgetown University (pdba.georgetown.edu).

Economic difficulties, however, remained for most of the 1980s and the 1990s. They were partially due to the heavy debt burden that curtailed the capacity to invest and to grow. Adjustment programs included the adoption of important economic reforms, including deregulation and an opening up of the economy that extended until the 1990s. After suffering through a series of external shocks, Latin America entered the new century with more convergent economic policies and more competitive economies.

TABLE 8. ECONOMIC REFORMS

Country	Year ^s	Administratio ⁿ	Political Part ^y
Chile	1985 to 1989	Augusto Pinochet Ugarte	Military Rule
Bolivia	1985 1993 to 1997 1997 to 2001	Víctor Paz Estenssoro Gonzalo Sanchez de Lozada Hugo Banzer Suárez	Movimiento Nacionalista Revolucionario (MNR) Movimiento Nacionalista Revolucionario (MNR) Acción Democrática Nacio- nalista (ADN)
Uruguay	1985 to 1990 1990 to 1995	Julio María Sanguinetti Cairolo Luis Alberto Lacalle Herrera	Partido Colorado Partido Nacional (Blanco)
Mexico	1988 to 1994	Carlos Salinas de Gortari	Partido Revolucionario Insti- tucional (PRI)
Argentina	1989 to 1999	Carlos Saúl Menem Akil	Partido Justicialista (PJ)
Venezuela	1989 to 1993	Carlos Andrés Pérez	Acción Democrática (AD)
Paraguay	1989 to 1993	Andrés Rodríguez Pedotti	Military Rule
Brazil	1990 to 1992 1995 to 2002	Fernando Collor de Mello Fernando Henrique Cardoso	Partido da Reconstrução Nacional (PRN) Partido da Social Democracia Brasileira (PSDB)
Peru	1990 to 2000	Alberto Fujimori	Nueva Mayoría / Cambio 90
Ecuador	2000 to 2003	Gustavo Noboa	Democracia Popular (DP)

Sources: *The Economist* (<http://www.economist.com>); Political Database of the Americas, Georgetown University (pdba.georgetown.edu); IMF (www.imf.org); BBC (www.bbc.co.uk).

By the turn of the century, Latin America had opened a new, profound and positive chapter of recent history marked by the emergence of social movements. It was not the generals, but the social movements parading in the streets that overthrew governments in Ecuador (2000), Peru (2000), Bolivia (2003 and 2005), and Argentina (2001). These governments were ousted not to make way for dictatorships but to promote new elections.

Social movements or left-wing parties were instrumental in electing governments in Venezuela (1998), Brazil (2002 and 2006), Argentina (2003 and 2007), Uruguay (2005), Chile (2006), Ecuador (2006), Nicaragua (2006) and, more recently, Paraguay (2008). Leftist leaders retained political clout even when they lost

presidential elections, as is the case of Ollanta Humala in Peru and Andrés Manuel López Obrador in Mexico.

The emergence of such movements was the result of democratization—which allowed for free elections and freedom of expression—and the modernization of the economy, which accelerated change and sparked migration to urban centers, where the population was outside the political control of traditional elites. The demands of these movements tend to be legitimate and reflect deep-rooted aspirations to overcome racial discrimination in Andean countries, expropriations in Bolivia, marginalization in Venezuela, social inequality in Brazil, and poverty in Argentina.

Legitimate demands and the absence of an adequate response explain the new wave of social movements. Where such movements met strong political institutions, demands were absorbed and channeled by the political parties. That is the case of Chile and Brazil. Where demands met weak political institutions and a fragile party system, they opened the door to populism, as in Venezuela and Bolivia.

Democratization, economic reforms, and the emergence of social movements are key to understanding Latin America today. From 2005 to 2009 the region has seen thirty five elections. They were reasonably free and fair, and the results were respected. Freedom of the press and of opinion are the rule, not the exception. Democratic institutions have the support of the majority of the people. Civil society participates actively in the most important sectors of public life. Corruption is being fought as never before.

Important economic reforms have been implemented. Economies have been opened to trade and investment. In many respects, Chile, Colombia, Mexico, and Brazil are less protectionist than their counterparts in the developed world, since they no longer have peaks, tariff escalation, or quantitative restrictions.

Latin America's approach to sensitive issues like the environment and human rights also reflects an effective turnaround. Despite the size of the challenge, many countries display a genuine commitment to environmental protection, to ending racism, and to improving the conditions of minorities and women. Flagrant income inequality is being progressively reduced as a result of economic growth, minimum-income policies, increase in wages, and expansion of credit.

Of course, there is still much to do. But it is difficult to deny that, with the exception of a few countries that lag behind (representing a temporary deviation from the general trend), Latin America for the first time in many decades seems headed in the right direction and firmly committed to appropriate policies.

The region is also more present, more significant, and more assertive than before in international fora. Latin American countries have not only expanded their relevance in the United Nations, but also on the global financial issues, on trade, on environmental issues, and in the arena of human rights. In the hemisphere, Latin America has become an important partner in identifying and implementing

more effective solutions to nagging problems like illegal immigration and drug trafficking. It also is a crucial player in the quest to meet new challenges, as in the global energy debate.

THE UNITED STATES

After the demise of the Soviet Union, the United States became the sole superpower. Its economy is the world's wealthiest, three times that of Japan. The presidential elections in 2008 reaffirmed the dynamism of the U.S. democracy. The country's technological advances are incomparable, and its military superiority is undeniable. The question is whether the United States is prepared to take a leading role in shaping the new international order, as it did after World War II.

Although U.S. democratic institutions remain strong, the country's social contract seems to be under stress. The combined effects of globalization, new production processes, and deregulation have intensified competition among companies as they push to keep consumers and attract investors. "The competition in turn pushes companies to cut costs. Since payrolls are the single largest cost, companies are under pressure to cut jobs and wages.... Consumers and investors gain power; citizens lose it."⁶

The recent economic slowdown unveiled fractures in the economy: losses in the financial markets, dependency on foreign liquidity, and the temptation of protectionism. This may be a temporary crisis, but it has become clear that the world no longer depends on the U.S. economy alone to fuel world growth.

Contrary to expectations, the United States seems not to possess the vision and determination needed to lead the world's post-cold war reorganization. Perhaps such a process was underway but aborted with the 9/11 terrorist attacks. Instead of promoting the values and institutions it forged after World War II, the United States has concentrated on the so-called War on Terror.

According to John Lewis Gaddis, the main ingredients of the new strategy—preemption, unilateralism, and hegemony—should not have surprised the international community, since those elements had been pillars of U.S. security doctrine since John Quincy Adams, the most influential American strategist in the nineteenth century.⁷

Such a doctrine was updated and revised by Franklin Delano Roosevelt after the Japanese strike against Pearl Harbor on December 7, 1941, and more recently by Bush after 9/11. The difference between the two, however, is that Roosevelt worked

⁶ Robert B. Reich, *Supercapitalism*, (New York: Alfred A. Knopf, 2007), 56.

⁷ Gaddis, *Surprise, Security and American Experience*, (Cambridge: Harvard University Press, 2004), 16. "The principal elements of that strategy were: preemption where marauders might exploit the weakness of neighboring states, or where that weakness might tempt stronger states to establish a presence; unilateralism, so that the United States need not rely upon any other state to guarantee its security; and, finally, hegemony over the North American continent, in order that the dominant international system there would reflect a preponderance of American power rather than a balance among several powers..." 37

to dismantle the unilateralist tradition that no longer served the interests of the United States in a twentieth-century world of diminished distances. After the German invasion in 1941, it was not just Great Britain's defense that was vital to U.S. security but that of the Soviet Union, as well. Hence the need for a Great Alliance, which prepared the way for a cold war cooperative multilateral framework designed to cope with the emergence of collective interests and of hegemony based on consent. Such reasons led the United States to resist the idea of preemption and its related nuclear era concept of preventive war.⁸

The 9/11 attacks, however, showed that the proliferation of unconventional weapons combined with persistent international terrorism had ended the relative invulnerability of the United States. This led to a redefinition of the defense strategy to protect the country against a surprise attack. The new doctrine resuscitated the ideas of preemption and unilateralism as a strategy to ensure hegemony. The underlying question is whether Bush's war on terror was a temporary switch from Roosevelt's internationalist and multilateral approach or whether it is a lasting revival of a period during which U.S. security was centered in North America and could be maintained by unilateral action. The latter does not seem consistent with the vision of a superpower or with the complexities of the twenty-first century's global world.

This sudden turnaround in the U.S. defense doctrine and the rush to war in Iraq in the absence of a "first shot" or a "smoking gun" left a new, vivid impression: "a growing sense throughout the world that there could be nothing worse than American hegemony if it was to be used in this way."⁹

The Bush approach put an emphasis on military power, at the expense of cooperation and public diplomacy. The government retreated from its concerns about the environment and human rights. Trade negotiations, such as those within the World Trade Organization, were paralyzed. The U.S. Congress approved the free trade agreement with Peru, as well as DR-CAFTA, with the barest majorities. In the first years of the new century, the United States seemed to backtrack, concentrating on a war that progressively alienated it from its allies and partners around the world.

Contrary to the fears of a unipolar world, however, recent political developments signal that multipolarity may be an inevitable trend. It can be construed as a new multilateralism that can help in the discussion, adoption, and implementation of policies that no single power or alliance of powers can put forward alone.¹⁰

Such an assessment is certainly realistic and timely. Richard Haass suggests a list of issues—nuclear proliferation, defense, the fight against terrorism, trade, and investment—that will require multilateralism à la carte, as he calls it. His proposal, however, raises questions. The multilateral framework would only include a limited

⁸ Ibid., 58.

⁹ Ibid., 101.

¹⁰ Richard N. Haass. "Vivendo em um mundo não-polar," *O Estado de São Paulo*, April 27, 2008.

number of issues. Who would select them? His proposal concentrates on multilateral cooperation to implement new policies. But which actors will take part in the decision-making process to formulate the policies? If such multilateralism à la carte would not imply further democratization of international institutions, the new approach would certainly reduce the capacity to engage exactly the countries it targets.

U.S.-LATIN AMERICA RELATIONS

U.S.-Latin America relations responded to important domestic transformations over the last decade, as well as to even wider, equally rapid, and surprising transformations of the global world. A few years ago, it would have been difficult to predict some of the developments that took place at the beginning of the twenty-first century.¹¹

- Who could have predicted that the basic deterioration of the terms of trade assumption by Raúl Prebisch, the Argentine economist known for his contribution to dependency theory and who influenced a whole generation of Latin American economists and diplomats, would be contested by the recent commodity boom?
- Who could have imagined that countries seriously affected by astonishing debt levels two decades ago would have become surplus economies that export capital to the developed world? Or that investment by sovereign wealth funds from emerging economies would be refused by fully industrialized and open economies?
- Who could have thought that remittances by migrants from the developing world would exceed development aid?
- Who would have foreseen that globalization, so feared by the developing countries, would now bite more strongly at developed economies? This is apparent when you look at the reaction to outsourcing in the United States. It is also evident in the convergence of low-income Eastern Europe and high-income Western Europe, a convergence that induces either wage reduction in Western Europe or the relocation of companies to low-wage economies, like China.¹²

¹¹ Fernando Henrique Cardoso, "Um mundo surpreendente," *Brasil globalizado: o Brasil em um mundo surpreendente*, ed. O. de Barros and F. Giambiagi, (São Paulo: Campus-Elsevier, 2008), 3-62. Cardoso provides a comprehensive analysis of the unexpected transformations that have taken place in the global economy, including a section on Brazil, during the twentieth century.

¹² Jose Pastore, *Industrial Relocation and Labour Relations: The Case of Eastern Europe*, (São Paulo: Business Institute Foundation of the University of São Paulo, 2007).

- Who could have believed that the economic slowdown in the United States could have been compensated by the demand coming from emerging economies?

The world has changed deeply and at a rapid pace. The United States and Latin America underwent profound transformations, and their relationship could neither remain the same nor follow the pattern of the past. The United States no longer has any reason or pretext to pursue an intrusive and sometimes interventionist policy like that which left so many scars and so much distrust in Latin America. And Latin America no longer depends on the United States to the extent it did in the past for security, investment, financing, or even trade.

Globalization offered Latin America new possibilities for cooperation with other regions of the world. The United States has always played on all chessboards; Latin America is starting to do likewise. This is good for both. The main market for Latin American commodities is the developing world. Europe is consolidating its traditional presence in the region and increasing its economic ties. China and India are increasingly relevant as trade and investment partners.

Globalization came together with a relative weakening of the state vis-à-vis a strengthened civil society. In the Americas today, the academic, economic, and cultural agents, the nongovernmental organizations, and the media play a more active role in forging the basis for integration than do diplomatic channels or government decisions. For Abraham Lowenthal, when it comes to U.S.-Latin American relations, Microsoft and Wal-Mart are more influential than the U.S. Marines. CNN is more important than Voice of America. Moody's has more impact than the CIA. Human Rights Watch vies for influence with the Pentagon.¹³

Such far reaching transformations suggest that it is time to turn the page on twentieth century U.S.-Latin American relations in order to shape a more mature and balanced relationship. The choice is no longer simply friends or foes. The two can adopt yet another option: effective partners.

The challenge ahead is to identify areas of common interest in order to set up an agenda or agendas with different countries or groups of countries. Such an agenda will not always converge. There are differences that should not be ignored or underestimated. Some issues, such as illegal immigration and drug trafficking, are sensitive because they belong to the so-called "intermestic agenda." To some extent, they are more relevant to Central America and the Caribbean than they are to Mercosur countries. They are difficult to solve because domestic constraints limit the capacity to acknowledge the shared responsibilities of the origin of the problem as well as its solution. They are complex issues because high domestic expectations prevent the adoption of progressive solutions. That may have been the case with

¹³ Lowenthal remarks at the inauguration of the Center for American Studies at FAAP, São Paulo, May 7, 2007.

U.S.-Mexico negotiations on a comprehensive immigration reform. High expectations and large disappointments remain a nagging irritant for bilateral relations.¹⁴

With respect to drug trafficking, it should be easier to find a common space at a moment when the interplay between drug trafficking and organized crime presents a worrisome threat for both the United States and Latin American countries.

But a U.S.-Latin American agenda should not concentrate only on problematic areas. There are other issues that are equally relevant and more promising.¹⁵ This is certainly the case for energy. It may include oil and gas as well as alternative sources of energy. It may comprise investment, production, and trade. As mentioned before, Latin America has a complementary energy landscape with energy exporters like Venezuela, Bolivia, and Ecuador and energy importers like Peru, Chile, and Argentina. Brazil is in a transition period and may become a significant exporter of both oil and bio-energy. This landscape should foster significant joint projects. There is energy to be supplied, there is demand, and there should be financing.

The missing link is the regulatory framework. Sometimes the licensing process is long, bureaucratic, and unpredictable. Other times the rules of the game are changed and affect ongoing projects. The international financial institutions have a role to play in working with interested countries to set up a more convergent and predictable regulatory framework so that they can join regional projects, not only as lenders but above all as complementary guarantors of foreign investments. Some agencies are already engaged in co-financing. However, the crucial contribution is not necessarily resources but rather the enhancement of the regulatory framework with a view to attracting private investment.

Bio-energy is also an area of great potential. After ethanol fever came an ethanol bashing. Neither approach is warranted. Ethanol from sugar cane is not a panacea. Indeed, only a few countries can afford to produce enough alcohol to promote flex-fuel cars. But a mix of ethanol with gasoline can considerably help reduce the dependence on oil and improve the environment, mainly in sugar-producing countries in Central America and the Caribbean. Development banks can make an important contribution in this respect by providing the scientific evidence that shows the comparative advantages of ethanol, and by designing conditions for supporting Latin American countries that may want to benefit from the ongoing bio-energy revolution.

In the United States, the increase in food prices has shown the limits of highly subsidized and protected ethanol from corn. Other U.S. sources—such as cellulosic ethanol—look promising. Anyway, it does not make sense to impose a high tariff on bio-energy when oil pays no import tariff at all. The effective participation of Latin

¹⁴ Pamela K. Starr. "Mexico under Calderon: Prospects for the Bilateral Relationship. U.S. Policy in Latin América," The Aspen Institute Eighth Conference. November 27 to December 2, 2007.

¹⁵ Peter Hakim presented a comprehensive list of areas for cooperation in his remarks at the inauguration of the Center for American Studies at FAAP, São Paulo, May 7, 2007.

American countries in the development of new alternative sources of energy would open the way for mutually beneficial cooperation in the hemisphere.

At a moment when Latin America is experiencing the emergence of social movements, the long overdue empowerment of the poor and successful efforts to reconcile growth with inclusion have set the stage for social issues to become a priority for the inter-American exchange of experiences and partnership. Education, health, sanitation, and social programs should be a priority for development banks. Some successful social programs, such as *bolsa-educação* (later called *bolsa-familia*), as well as community agents and family doctors, work from the experience of Latin American countries rather than from the expertise of development banks.

Environmental and human rights issues already have a significant space in the joint agenda. But they deserve a higher profile. Latin American countries finally understand that such issues are as relevant to their societies as they are to the success and predictability of their exports. Such a step forward opens the way for useful international cooperation.

A final and equally relevant point is the capacity of the players in the hemisphere to negotiate and mitigate their differences. Just as divergences are the essence of international relations, so should be the ability to negotiate them. As French president Nicolas Sarkozy said, friendship means the right to disagree. To the extent that Latin American countries are taken for granted, are expected to be unconditional partners, or perceive any step by the United States to be an attempt to restore influence or dominance, the normal exercise of diplomacy is jeopardized. The temptation to be intrusive or the secular feeling of dependence and distrust should be removed at a time when both no longer make sense.

CONCLUSION

A few years ago, the United States and Latin America diverged on most issues on the international agenda, including the United Nations, the environment, human rights, trade, and hemispheric integration. Today, differences remain, but a more objective approach seems to be in the offing. There is also a greater willingness to seek areas of understanding and cooperation.

New realities, concerns, and interests on both sides provide the raw material for partnership. The challenge lies in understanding more clearly what the United States and Latin America want from their relationship. Is trade the main thrust, as the FTAA seemed to indicate? Are we only seeking to mitigate some nagging and sensitive tensions like immigration and drug trafficking? Are we interested in setting up a wider agenda and engaging in an extended partnership? Or are we looking for a more ambitious goal, such as progressively building a long-standing and more integrated community of interests, as the European Community did?

The lower rungs of the ladder need goodwill and a more pragmatic approach. The upper rungs, however, require the capacity to transcend the narrow perspectives of the short term in order to forge the appropriate responses to the challenges of the new century—promoting a shared vision for the hemisphere. The consolidation of democracy in domestic policy as well as in inter-American relations, a shared prosperity, and an inclusive society are certainly goals our peoples share.

These were ideals the United States advocated when it emerged as a world leader. These were the principles that granted the new power widespread support. At the beginning of the twentieth century, U.S. leadership derived credibility from its proposal to promote “a community of interests among equal countries,” according to Joaquim Nabuco, a prominent Brazilian politician, intellectual, and Brazil’s first ambassador to the United States.¹⁶

Latin America and the United States are not equals in political power or in economic strength. But both would benefit from looking at each other as equals when it comes to the rules they write and the institutions they create.

We belong to the same hemisphere, share similar values, and can expand our partnership. It is in our hands to choose how far we want to go.

¹⁶ João Almino, “The Earthenware and the Iron Pot: Nabuco’s Utopia for the Two Americas,” Conference at the Centenary Commemoration (1908 to 2008), Sterling Memorial Library, Lecture Hall, Yale University, April 4-5, 2008.

The Development of Inter-American Relations in the Past Decade

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In February 1998, Michael Shifter published an article in *Current History* in which he acknowledged that inter-American relations had improved after the 1980s but averred “the potential for more productive engagement in the post-cold war period has not been realized.”¹ Eight years later, in an article in *Foreign Affairs*, Peter Hakim argued that “relations between the United States and Latin America today are at their lowest point since the end of the cold war.”² At the same time, the British historian Niall Ferguson maintained that since 1998, “there has been an inexorable erosion of U.S. influence south of the Rio Grande.”³

Shifter’s article revolved around the notion of a “moment not seized,” while Hakim’s indicated Latin America’s lack of importance “to the central concerns of U.S. foreign policy” and the George W. Bush administration’s lack of understanding of a region that, objectively, would be increasingly significant for the United States. Ferguson went further: His thesis is that, slowly but irremediably, Latin America has been escaping U.S. control.

These three articles synthesize the predominant views of how inter-American relations have developed in a little more than a decade, as those relations have passed through three different stages: intensification of a phase of cooperation and convergence that began in the second half of the 1980s and lasted until the end of 1997; an ambiguous period marked by the gradual dissolution of agreements and the loss of opportunities for cooperation (1997 to 2001); and the current stage that began in 2001 and is marked by a U.S. emphasis on security issues and by various Latin American expressions of opposition to and agreement with Washington.

From the mid-1980s to late 1997, the inter-American agenda featured uncommon levels of rapprochement. Some authors saw that period as a new phase of resurgence of the old “Western Hemisphere idea” that called on the peoples of the

¹ Michael Shifter, “United States-Latin American Relations: Shunted to the Slow Track,” *Current History*, November 1998, 97 (616), 49.

² Peter Hakim, “Is Washington Losing Latin America?” *Foreign Affairs*, January/February 2006, 8 (1), 39.

³ Niall Ferguson, “Who Lost Latin America?” *Los Angeles Times*, February 16, 2006.

Americas to integrate and cooperate.⁴ In those years, Washington's policy toward the region was hemisphere-wide and it favored multilateral actions. In political and economic terms, the policy was grounded on the promotion and protection of democracy and human rights, and on economic liberalization through the establishment of a hemispheric free trade area.⁵ The U.S. security agenda gave rise to an inter-American agenda that was shared by most Latin American countries. Its main themes were transparency and confidence-building, cooperation on defense matters, the preservation of democracy as the basis of collective security, the integration of the armed forces into democratic societies, the absence of weapons of mass destruction, and the fight against terrorism and organized crime.

In Latin America, the enlargement of democracy and the market was echoed in the expansion of liberal democracy, market reforms, and free trade agreements. Moreover, the end of the cold war seemed once and for all to bury many of the strategic options to which the region had resorted in the previous period (extra-hemispheric protection, collective unity, social revolution, and third-worldism).⁶ Some countries, such as Mexico under Carlos Salinas de Gortari and Argentina under Carlos Menem, were ready to "join the North."⁷ Others, such as Brazil under Fernando Henrique Cardoso, sought to safeguard areas of national autonomy while devising new forms of links with the United States. In short, Latin America's collective rapprochement with the United States (Cuba excepted), the regional democratization process, economic opening, and Latin America's relative stability from the U.S. perspective made it possible to establish and develop a general inter-American agenda with a tone that was mostly positive.

From the second half of the 1990s, this phase of inter-American rapprochement encountered several obstacles. Two events, one on the U.S. side and one on the Latin American, were emblematic turning points that led to a slow waning of the kind of relationship expressed by the "Western Hemisphere idea" in its 1990s incarnation. The first was the refusal of the U.S. Congress to give President Bill Clinton fast-track

⁴See Javier Corrales and Richard E. Feinberg, "Regimes of Cooperation in the Western Hemisphere: Power Interests and Intellectual Traditions," *International Studies Quarterly* 43, 1999, 1–36. The authors argue that this idea's other two peak moments were between 1889 and 1906, and between 1933 and 1954. The idea emerged in the second half of the eighteenth century and is founded on two assumptions: the existence of common values, interests, and goals among the two parts of the Americas; and a "special relationship" that would distinguish the countries of the Americas from the rest of the world.

⁵Jorge Domínguez defines this as a "state" policy. He argues that it had "started to become apparent during Reagan's second presidency, and it was built on and consolidated during the administrations of George H. W. Bush and William J. Clinton." See Jorge I. Domínguez, "Las relaciones Estados Unidos-América Latina: entre la ideología y el pragmatismo," in Ricardo Lagos (comp.), *América Latina: ¿integración o fragmentación?* Buenos Aires: Edhasa, 2008, 193.

⁶To simplify things, I use the same terms as Peter H. Smith in his *Talons of the Eagle: Dynamics of US-Latin American Relations*. New York: Oxford University Press, 2000, 353–370.

⁷*Ibid.*, 327–330. Again I use a category developed by Peter Smith, not only because it adapts itself perfectly to the substance that I give here to this strategic option, but also because the reader can consult Smith's work and compare it to the other four options that I mention in this same paragraph.

authority in November 1997. That revealed the weight of domestic factors in hindering the president's main strategy toward Latin America.⁸ According to Javier Corrales and Richard Feinberg, Clinton attended the 1998 Summit of the Americas in Santiago constrained by the lack of fast-track authority in an atmosphere that was much less enthusiastic about "hemispherism" than had been the case at the Miami Summit in 1994.⁹ The second turning point was in December 1998, when the presidency of Venezuela was won by a leader who was prepared to take up the cause of opposition to the United States. Similar opposition, albeit less strident, was soon after expressed by other governments and social forces in the region. A more diverse Latin America appeared, one that was more critical of neoliberal ideas and beleaguered by persistent social inequalities, indicating that the consensus and uniformity of the first half of the decade were either feeble or false.

In the second half of 2001, two other developments put an end to this uncertain interregnum and marked the start of the current phase. The first consisted of the terrorist attacks of September 11, which led Washington to arrange its relations with Latin America in terms of security and to undertake a profound redefinition of U.S. policy toward the region.¹⁰ The security issues of the 1990s disappeared or were downgraded, except for organized crime and drug trafficking, which were openly transformed into narcoterrorism. The chief priorities on the new U.S. agenda were state weakness, areas that were poorly governed or ungoverned, "radical populism" and the reconsideration of poverty, migration and energy in security terms.¹¹ Despite its internal differences, Latin America could not easily accept this ranking of priorities. The leading issues on the region's own list were the same as in the early 1990s and, thus, the formerly shared agenda turned into something more controversial.

At the same time, September 11 intensified Washington's tendency to separate Latin America into three security zones of declining preference: the area comprising Mexico, Central America, the Caribbean, Colombia, and Venezuela; the Andean region comprising Bolivia, Ecuador, and Peru; and the subregion consisting of Argentina, Brazil, Chile, Paraguay, and Uruguay.¹² The first zone tended to be divided into three parts ranging from the most well defined (Mexico's southern border) to the most diffuse (the southern borders of Colombia and Venezuela) and passing through an intermediate area that includes Central America and the Caribbean. This vast

⁸ See Michael Shifter, *op. cit.*, 49.

⁹ See Javier Corrales and Richard Feinberg, *op. cit.*, 30.

¹⁰ The first victim of this development was the ambitious agenda devised by George W. Bush and Vicente Fox in their February 2001 meeting in Guanajuato, Mexico.

¹¹ Among other documents, see United States Southern Command, "Command Strategy 2016. Partnership for the Americas," 2007, www.southcom.mil/AppsSC/files/0UI0I1177092386.pdf.

¹² For Washington, these three peripheries have porous borders and are partly overlaid by cross-cutting issues, especially the first two. On the particular features of these three peripheries for U.S. security interests, see Roberto Russell and Fabián Calle, "La periferia turbulenta como factor de la expansión de los intereses de seguridad de Estados Unidos en América Latina," in Monica Hirst (comp.), *Crisis del estado e intervención internacional*. Buenos Aires: Edhasa, 2009.

area covers the same territory that was at the heart of the strategic vision embodied in the notion of the “American Lake” or the “American Mediterranean.” That vision guided U.S. policy toward Latin America from the middle of the nineteenth century to 1933, when the good neighbor policy began.¹³ As then, this area has an increasingly high strategic interest for the United States.¹⁴

An adjunct to security matters, the political and economic agenda of the George W. Bush administration developed along similar lines. It became more specific and favored unilateralism; support for democracy was subordinated to other foreign policy goals; and the Free Trade Area of the Americas (FTAA) project decayed, to be replaced by successive agreements with individual countries and country groups. Of course, the abandonment of the FTAA based on hemisphere-wide consensus and a single undertaking, in favor of what was termed an “FTAA-light” marked by vague and shallow commitments, was not solely a decision of the Bush administration. With some measure of satisfaction, and in some cases with even a sense of triumph, the original project was formally buried at the Eighth Meeting of Trade Ministers in Miami in November 2003, which “gave a green light for everyone to do as they wished.”¹⁵ That development dealt a decisive blow to “hemispherism,” this time in the area of trade negotiations.

The second emblematic event that opened the way to the current phase was the decision of the Bush administration not to support Argentina when the country defaulted on its debt in late 2001. This dashed the Argentine government’s hopes that the United States would take a more understanding and tactful position. Moreover, the country was used as a guinea pig for what was then the new U.S. policy toward emerging countries in financial crisis.¹⁶ For its misfortune, Argentina ceased to be the exemplar of the economic reforms encouraged by the United States and the International Monetary Fund (IMF) in the 1990s, and became the test case for a new policy that, in any event, ultimately was not applied with the declared stringency in any other case.

Washington’s reading of the Argentine crisis was that the costs to U.S. interests would be small and that contagion would not spread to other emerging economies—as had happened in previous financial crises affecting Mexico, Southeast Asia, Russia, and Brazil. The reading in Buenos Aires and other Latin American capitals was that “bandwagoning” with the United States does not pay and that the Washington

¹³ On this strategic concept see John Child, “Latin America: Military-Strategic Concepts,” *Air Force University Review*, September–October 1976.

¹⁴ See, among others, John Cope, “A Prescription for Protecting the Southern Approach,” *Joint Force Quarterly* 42, 3rd Quarter, 2006, 18.

¹⁵ Roberto Bouzas, “No nos conviene el ALCA light,” *Clarín*, January 13, 2004. www.clarin.com/diario/2004/01/13/o-02701.htm. See also Ministerial Declaration of the Eighth Meeting of Trade Ministers, Miami, United States, November 20, 2003. www.ftaa-alca.org/Ministerials/Miami/miami_s.asp.

¹⁶ This policy is based on the idea that it makes no sense to lend U.S. taxpayers’ money to countries whose debt structure is unsustainable, or to bail out those that make bad investments in high-risk markets in a quest for a higher return.

Consensus had faded. Hugo Chávez and his sympathizers in Latin America, many of them among the newly elected Peronists, found unexpected arguments to heighten their criticism of the empire and neoliberalism.

It is no simple matter to explain the nature of the cycle of inter-American relations that began with the new century, nor is it possible to assign the responsibility solely to one party. The Iraq fiasco, the human rights abuses at Abu Ghraib and Guantánamo, and the violations (or even repudiation) of international law—to cite only the most obvious examples—deepened Latin America’s negative opinions about the international influence of the United States. At the same time, the Bush administration’s insistence on the free market and on business-friendly policies helped widen the differences with a region that was demanding a stronger role for the state and more social programs to alleviate its very high levels of poverty and marginalization.¹⁷ Washington’s involvement in an operation of the Álvaro Uribe government, which ended with the death of a leader of the Revolutionary Armed Forces of Colombia (FARC) on Ecuadorean territory in March 2008, added fuel to the flames. Many Latin Americans saw the operation as the introduction of the disputed “doctrine of preventive action” into the region.

In the meantime, the core of the debate in Latin America on the democratization process has shifted markedly. In the 1990s, the main issue was the strengthening of liberal democracy and the kind of political and economic reforms that should be undertaken in order to consolidate it. In the present decade, by contrast, liberal democracy is being rejected by significant numbers of people in some countries, while in others there is a debate about whether it is an appropriate system with which to tackle mounting social problems.¹⁸ Moreover, the region seems to be afflicted by political, economic, social, and ideological fissures both within and between countries, a circumstance that casts a shadow over key issues: democratic governability in some countries; the capacity of the region’s governments to deal with political and social problems; and the willingness and ability of Latin American countries to engage in collective political undertakings that have some prospect of bearing fruit. Hence there is a discussion today, both within and outside the region, as to whether the very concept of “Latin America” is of any practical use to refer to a group of countries that are increasingly diverse and, in some cases, ever more distant from each other.

In that context, the “Western Hemisphere idea” has again lost any basis (though it is still mentioned in the official U.S. discourse) and has been displaced

¹⁷ For its part, Washington confused democratization with elections. On this confusion see Stanley Hoffmann, “The Foreign Policy the US Needs,” in *The New York Review of Books*, August 10, 2006, Vol. 53, No. 13.

¹⁸ According to the Informe Latinobarómetro 2008, the countries where the highest percentages of the population have a poor regard for democracy are Guatemala (34 percent), Mexico (43 percent), Honduras (44 percent), Peru (45 percent), and Brazil (47 percent). The countries where there is strongest support for democracy are Venezuela (82 percent), Uruguay (79 percent), the Dominican Republic (73 percent), Bolivia (68 percent), and Costa Rica (67 percent). See the Informe Latinobarómetro 2008 at www.latinobarometro.org.

from center-stage by three other outlooks that have competed for several decades to explain inter-American relations: the notion that Latin America is of little importance to the United States; imperialist intent and practice; and the decline of U.S. hegemony, especially in South America.¹⁹

The simultaneous resurgence of these three ideas, each of them based on opposing viewpoints, has not aided in understanding the nature and recent development of inter-American relations, and it has not been conducive to thinking about future links. As mentioned earlier, the relationship has passed through three distinct phases in a little more than a decade. It is mistaken and simplistic to infer from those developments that there have been dramatic changes in levels of interest or attention, in the relative importance of the other party and, in the case of the United States, an irredeemable loss of influence and control. What is indeed correct is that Washington's interests have shifted focus and become more specific, and that Latin America's greater diversity and complexity have affected the region's relations with the United States and the rest of the world.

THE THREE OUTLOOKS AND THEIR MAIN DIFFICULTIES

The notion that Latin America is of little importance to the United States.

The notion that Latin America is not particularly important appears in two forms. The first, which might be termed the "low objective importance idea," holds that Latin America is a region of scant strategic, political, and economic interest to the United States. As the flipside of the prevailing anti-Americanism in Latin America, the extreme version of this thesis views the region as inept at good and free government and, above all, as a source of problems for the United States. Defining itself in terms of civilization or barbarism, this extreme version is purely dogmatic. Worse still, it is ignorant of the role that the United States has played in aggravating some of Latin America's problems.

The notion of low objective importance has two basic difficulties: it confuses priority with importance, and it is vague. The fact that other countries or regions are being accorded priority by Washington does not mean that Latin America is insignificant for the United States. Where do issues such as migration, drug trafficking, and energy feature in this ranking of priorities, or countries like Brazil, Mexico, and Venezuela? In 2008 these three countries were among the United States' fifteen top trading partners.²⁰ In the same year, Mexico and Venezuela were the third and fourth

¹⁹In the original Spanish version of this chapter I used the term "*visiones*" (translated here as "outlooks"), to which the Royal Spanish Academy assigns two definitions: a particular point of view on a subject or something imagined or fantasized that has no basis in reality but is taken to be true.

²⁰Mexico was in third place, Brazil tenth and Venezuela fifteenth. See U.S. Census Bureau, "Top Trading Partners, 2008," at www.census.gov/foreign-trade/statistics/highlights/top/top0812cm.html.

leading sources of U.S. oil imports after Canada and Saudi Arabia.²¹ In March 2007, the United States and Brazil concluded a strategic alliance to foster the development of biofuels.²² Additionally, the notion that Latin America is unimportant for the United States is a mere generalization since it is grounded on highly aggregated data. How does it apply to Mexico, Central America, and the Caribbean, whose functional integration with the United States will only intensify in the coming years?²³ How does it apply to Colombia, host to one of the biggest deployments of U.S. special forces and an important battlefield in the Bush administration's war on terrorism?²⁴

The second expression of this argument emphasizes subjective factors. Historically, it has been sharply critical of the policies (or non-policies) of U.S. governments on the grounds that relations with Latin America are important for U.S. national interests. The notion of "low subjective importance" is captured by the following formula: lack of subjective importance on the part of U.S. policy makers—growing objective importance of the region for the United States. The main problem with this idea is that it tends to lead to the false belief that the United States lacks active policies toward Latin America but does have such policies toward the rest of the world. There is no shortage of examples to illustrate the error here. Since the 1990s, Washington's trade strategy toward the region has been geared essentially to the conclusion of trade agreements, at first continent-wide agreements and later agreements with individual countries and country groups. Despite the difficulties, especially for domestic reasons in the United States, this strategy has allowed the country to act as the hub of a new generation of free trade agreements that cover most of the countries of Latin America. Moreover, objectively this strategy has been a source of division in Latin America: Today there is a line separating the countries that have or want a free trade agreement with the United States from those opposed to such accords.

Moreover, there is no lack of active U.S. policies in the area of security. There are specific plans for the region such as the Plan Colombia, as well as programs such as the Mérida Initiative for Mexico and the Anti-narcotics Initiative for the Andean Region, which is geared toward Bolivia, Brazil, Colombia, Ecuador, Panama, Peru, and Venezuela.²⁵ Apart from Iraq, Latin America is the world's leading recipient of

²¹ See Energy Information Administration, www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/current/import.html. The fifteen leading suppliers of oil to the United States include three Latin American countries: Ecuador, Brazil, and Colombia (in eleventh, twelfth, and fifteenth places, respectively).

²² The United States thereby seeks to implement a new energy policy, one essentially defined as a matter of high politics. This consists of developing alternative energies that lower U.S. dependence on oil and gas imports, which to a large extent come from hostile or politically unstable countries. On the reasons that led the Brazilian government to reach this agreement with the United States, see Monica Hirst, "¿Qué le ofrece Bush a América Latina?" *Clarín*, March 2007, 31.

²³ See Abraham Lowenthal, "Más allá de la idea del Hemisferio Occidental," *Foreign Affairs en Español* 6 (1), 2006.

²⁴ See Andrew Feickert, "US Military Operations in the Global War on Terrorism: Afghanistan, Africa, the Philippines, and Colombia," *CRS Report for Congress*, No. RL32758, February 4, 2005.

²⁵ Between 2000 and 2007, the United States invested about \$8 billion in Plan Colombia, the Andean Anti-narcotics Initiative, and smaller programs. To appreciate the scale of that amount, note that U.S. military aid to Pakistan, a key partner in the war against terrorism, was \$11 billion in the same period. www.ciponline.org/colombia/aidtable.htm.

U.S. military and police training.²⁶ During the Clinton administration, the United States set up bases called “cooperative security locations” in Comalpa (El Salvador), Manta (Ecuador), Reina Beatriz (Aruba), and Hato Rey (Curaçao).²⁷ The Southern Command, with an area of focus that includes all of Latin America and the Caribbean except Mexico, has a central base in Florida with a permanent staff of about 1,000, including military personnel, civilians, and contractors.²⁸ Its combat forces exceed more than 20,000 people in peacetime. It oversees a network of seventeen terrestrial radar bases: three fixed bases in Peru, four fixed bases in Colombia, and the rest secret mobile units in the Andean countries and the Caribbean. The United States undertook a military intervention in Haiti in 1994. The U.S. Department of Homeland Security was tasked with monitoring Mexico in 2003, and Mexico was included as part of the area of responsibility of the U.S. Northern Command in 2002. In 2006 the United States created a special intelligence division for Cuba and Venezuela as part of the Directorate of National Intelligence. And the number of diplomatic staff at the U.S. embassy in Bogotá grew to a level surpassed only by the number at the embassy in Baghdad.²⁹ In sum, it cannot be said that the United States has not dealt with Latin America, though it can be debated whether the dealings have been positive or negative and whether Washington should be even more closely involved.

The notion of imperialist will and practice.

According to this idea, the United States seeks to subjugate and divide Latin America in order to uphold its own security interests, its economic ambitions, and its thirst for power. Unlike the argument that Latin America is of little importance to the United States, in this view Latin America currently plays a central role on the U.S. agenda as a military rearguard, a market for U.S. exports, and an abundant source of natural resources.³⁰ Deeply rooted in the region’s political and academic circles, this thesis has gained wider acceptance in recent years because of the aggressive and unilateral policies of the Bush administration in other parts of the world, as well as

²⁶ For detailed information on this aid and on U.S. military and police assistance to Latin America, see “Below the Radar. US Military Programs with Latin America, 1997–2007.” Center for International Policy, March 2007. www.ciponline.org.

²⁷ These bases are in addition to those at Guantánamo (Cuba), Fort Buchanan and Roosevelt Roads (Puerto Rico), and Soto Cano (Honduras). The bases have small staffs and are ready to act as arrival points for forces that would be dispatched from the United States or from more important facilities known as “principal operating bases.” In addition to the aforementioned bases and the military advisers in Colombia, there have been about fifty U.S. troops in Mariscal Estigarribia, Paraguay, since the mid-1980s.

²⁸ Kathleen T. Rhem, “Stavridis to Southcom: Display Professional Qualities in All You Do,” American Forces Press Service, October 20, 2006. www.defenselink.mil/news/newsarticle.aspx?id=1732.

²⁹ See Juan Gabriel Tokatlian, “U.S.-Latin American Relations: The Shadow of Proconsulship,” in *Cartographies of Power. Hegemony and Responses*. CIP Yearbook 2005. Barcelona: CIP-Icaria, 2005. www.cipresearch.fuhem.es/pazyseguridad/docs/Doc%206%20US-LA%20relations.ENGLISH.pdf.

³⁰ A good summary of this thesis is provided by Atilio Borón, “La mentira como principio de la política exterior de Estados Unidos,” in *Foreign Affairs en Español* 6 (1), 2006, 61–68.

the political changes in Latin America that have undermined the fleeting uniformity of the 1990s.

For example, in late 2007 the presidents of Argentina, Venezuela, and Nicaragua leveled harsh accusations against the United States in a tone unheard since the 1970s. Cristina Fernández de Kirchner alluded to maneuvers by countries that “want only employees and subordinates” in order to harm Latin America’s efforts to establish unity. More directly, Hugo Chávez accused the “American empire” of being behind the forces in Bolivia encouraging greater autonomy from the central government. In a similar vein, Daniel Ortega claimed that “Yankee troops” have occupied Colombia not to fight against drug trafficking but to eradicate the guerrillas.³¹

These utterances reveal the chief mistakes made by those who uphold the thesis of imperialist intent and practice. First, they are unaware of or neglect to consider the complexity inherent in the U.S. decision-making process, and thus they grant Washington a clarity of purpose and a policy consistency that are wholly at odds with what actually happens. Take, for example, the role of Congress in determining U.S. policy toward Latin America on an issue that would be so dear to “imperialist forces”: the expansion of free trade agreements. In 2005, Congress approved the agreement with Central America and the Dominican Republic by a tiny margin, 217 votes to 215, and currently there are serious obstacles to ratification of the agreement with Colombia, the country that is politically closest to the United States. In that context, who are the subjects of this imperialist intent and practice? Which forces in Latin America are willing to defer to the United States or follow the empire because of a “false consciousness” or spurious interests? Was this the case of the Concertación government in Chile or of those Mexicans who supported negotiations for the North American Free Trade Agreement (NAFTA)? Can those Americans who opposed NAFTA and who still oppose new agreements with Latin America be regarded as anti-imperialist forces or, at least, non-imperialist?

The depiction of the United States—or rather, of U.S. imperialist forces—as rational, unified, and fundamentally wicked might be useful as a political tool for domestic purposes or as a fighting cause to underpin a strategy of confrontation. As often happens, moreover, it serves to mask Latin America’s share of responsibility for events in the region, or for its fractures and failures. It is clear that the United States has nothing to do with the Argentine-Uruguayan dispute over paper mills or the persistent problems in Mercosur. It is hard to believe that the current divisions in Bolivia are the result of convoluted imperialistic machinations. Finally, it is absurd to suppose that U.S. troops in Colombia are an occupying force; they are on Colombian soil with the consent of the government and the support of the majority of the population.

³¹ See Roberto Russell, “Sospechas injustificadas,” *Diario La Nación*, January 6, 2008. www.buscador.lanacion.com.ar/Nota.asp?nota_id=976669&high=Roberto%20Russell.

The second problem with this thesis is that by placing the emphasis on factors in the United States it dodges or relativizes the extent to which U.S. foreign policy is influenced by turbulence on the periphery that negatively activates Washington's security concerns. The latter, rather than imperial designs, are what basically explain the increased U.S. interest in certain Latin American countries during this decade.³² Hugo Chávez himself acknowledged this when he said "guerrilla war has passed into history" and then accused the FARC of having become "a pretext for the empire to threaten us all."³³ The main documents on defense and security that the U.S. government has drawn up since the end of the cold war show clearly that Latin America has become more important for Washington in security terms because the region is a "turbulent periphery."³⁴ A relatively peaceful region in the 1990s, plagued only by the scourge of drug trafficking, Latin America in the present decade has come to be defined as an area at a "strategic turning point."³⁵ Simply put, this notion indicates that U.S. security agencies perceive more and greater threats coming from Latin America and that the United States must be prepared to respond to them.

The notion of declining hegemony.

Not as old as the two preceding ideas, the argument that U.S. hegemony in Latin America is declining or collapsing has resurfaced with vigor in recent years. It has four main sources: the Bush administration's neglect of or failure to understand the region's main problems; the progress made by China and other countries in Latin America; the emergence of governments and social forces that are opposed to Washington; and U.S. reversals in the Middle East and Central Asia—seen as the first sign of imperial overstretch.

In 1976, Abraham Lowenthal published an article in *Foreign Affairs* titled "The United States and Latin America: Ending the Hegemonic Presumption," which summarized better than any other study the prevailing perception of inter-American relations in that decade.³⁶ Focusing on the Americas, the article echoed the arguments that were starting to be made about the waning of the age of U.S. hegemony, which would have lasted from the end of the Second World War to the late 1970s.

³² It is important to state that turbulence attracts U.S. attention to Latin America, increases U.S. interest in the region, and might compel Washington to act. Turbulence arises from endogenous factors but can be produced or worsened by U.S. policies.

³³ Chávez: "La guerrilla pasó a la historia," BBC Mundo.com, August 20, 2008. news.bbc.co.uk/hi/spanish/latin_america/newsid_7443000/7443091.stm.

³⁴ On the "turbulent periphery," see Roberto Russell and Fabián Calle, *op. cit.*, 29–36.

³⁵ See John Craddock and Barbara Fick, "The Americas in the 21st Century. The Challenge of Governance and Security," *Joint Force Quarterly*, 3d quarter, 2007, p. 11. www.dtic.mil/doctrine/jel/jfq_pubs/4208.pdf. Also Quadrennial Defense Review, Department of Defense, 2006. www.globalsecurity.org/military/library/policy/dod/qdr-2006-report.html.

³⁶ See A. Lowenthal, "Two Hundred Years of American Foreign Policy. The United States and Latin America: Ending the Hegemonic Presumption," in *Foreign Affairs* 55 (1) November 1976.

Lowenthal used the following indicators: the rise of Latin American governments that were willing to exercise international influence and expand their foreign relations in order to increase their autonomy; the nationalization of U.S. investments, especially in mining and energy; the diversification of arms purchases and sources of technology transfer; the growing opposition to Washington in the United Nations; the relative decline in the importance of the United States in regional trade; and the fall in the share of U.S. investment relative to that of other countries, especially European nations and Japan. With some small additions appropriate to the current era, the thesis of declining U.S. hegemony today refers to the same indicators. Afghanistan and Iraq are put in the place previously occupied by Vietnam as an illustration of imperial overstretch, while China has replaced Europe and Japan as a new economic rival to the United States in Latin America. Stress is also placed on the emergence of new areas of independence for Latin America in the face of a U.S. lack of interest (or, in any case, the country's interest in and concern about other regions and countries where circumstances are becoming increasingly uncontrollable). The financial crisis that broke out in the United States at the end of the Bush administration has simply reinforced this thesis.

It is striking that a country which until very recently was regarded almost unanimously as a new Rome in all its imperial splendor is now supposedly at the start of an irreversible decline. U.S. power has not changed so drastically as to place the country in such a position, and the country's willingness to exercise its power and influence in international affairs has not changed abruptly. It is too early to celebrate or mourn the end of the "new American era" that began with the collapse of the Soviet Union, and certainly too early to extend the diagnosis to Latin America.

It is right to speak of hegemonic decline as long as such decline is placed in the context of a long-term process that was identified clearly in the 1970s. The conclusion that Lowenthal reached in those years is now more valid than ever: "The United States will face serious difficulties in a hemisphere in which it remains very powerful, but in which it is no longer unquestioned."³⁷ The thesis is mistaken and hasty if it prompts a belief that Washington, as it has become fashionable to say, is "farther than ever" from Latin America. Not many people think like that in Colombia, Mexico, Central America, or the Caribbean. It is true that the United States now has less presence and influence in other parts of the region, but that is nothing new.

THINKING ABOUT THE FUTURE OF INTER-AMERICAN RELATIONS

The views summarized above have some elements of truth, but they tend to simplify a relationship whose current richness and complexity demand more specific and rigorous analytical frameworks. The "Western Hemisphere idea" is unfeasible and

³⁷ *Ibid.* 23

outdated. Three structural factors run counter to it: the huge power asymmetry between the United States and its southern neighbors, which hampers the convergence of interests; differences among the Latin American countries, which make it hard to forge hemisphere-wide consensus; and globalization, which once and for all has dismantled the notion of a “special relationship.” In any case, it is geographic proximity that gives a certain Western Hemisphere specificity to matters on the global agenda, such as migration, free trade agreements, and organized crime networks. It was not geography, however, that underpinned the “Western Hemisphere idea” for more than two centuries. On the contrary, the supposed singularity of the Americas derived from shared histories, values, interests, and purposes that would make possible a new form of relationship between countries, one remote from the rivalries and practices of power politics.

In practice, however, inter-American relations would not show differences with the European models that the idea sought to overcome. They have been marked by divisions and even opposition for long periods. Nonetheless, the shared values and, to some extent, the shared goals underlying the “Western Hemisphere idea” should not be disregarded as the idea’s fiercest critics tend to do. In theory, it is an important factor in cooperation and in fostering convergence, albeit in more limited spheres. In practice, common interests and aversions confront the United States and Latin America with new challenges that call for new forms of cooperation.³⁸ The clearest and most dangerous challenge today stems from criminal violence, especially that related to drug trafficking, a scourge that afflicts all the countries of the hemisphere, albeit to different extents.

Of course, Barack Obama’s assumption of the U.S. presidency in January 2009 opens a new window of opportunity, one unforeseen just a few months earlier, for Washington to tackle the issues on the inter-American agenda in a fresher and more mature manner—for example, by ending outdated practices (the embargo on Cuba), revising U.S. anti-drugs policies, and abandoning simplistic cold-war perspectives on political processes that involve profound social transformation. Nobody in Latin America expects the new U.S. administration to make drastic changes, but there is an expectation of a new style and a more refined understanding of conditions in Latin America, expressed in policies that can make inter-American relations more robust.

Latin America, for its part, has serious problems and divisions, but it also has a historical record of inter-state peace and security, as well as of collective action, with which few regions of the world can compete. No less important, such extensive and repeated behavior is not the result of mere pragmatic and selfish calculations. It unfolds against a shared historical, cultural, and sociological backdrop that is crucial to the construction of strong societal links among a set of states. Despite the setbacks to

³⁸ For example, in recent years Argentina, Brazil, Paraguay, and the United States have successfully developed quadripartite cooperation on the triple border to control possible transnational terrorism in that area of South America.

integration processes, Latin American countries and subregions are becoming more interdependent, and thus the arena of their common interests and aversions is expanding. Similarly, progress on democracy, though uneven and in some cases uncertain, is a variable that favors regional coordination and cooperation.

The idea that Latin America is unimportant to the United States is vague and deceptive. Mexico, Central America, the Caribbean, Colombia, and Venezuela are increasingly important on the U.S. agenda. Because of their geographic proximity to the United States and their strategic significance, these countries and subregions cannot be discounted in U.S. security interests. Despite the priority attention they now receive, countries such as Iraq and Afghanistan comprise a periphery in which the United States might or might not decide to maintain a constant presence. In Mexico, Central America, the Caribbean, Colombia, and Venezuela, the United States cannot make such a choice. They comprise an area of increasing functional integration with U.S. security interests. That integration is part of a broader and deeper process of growing economic and social interdependence between the two sides.

The Andean countries to the south of Colombia and Venezuela, as well as the countries in the Southern Cone, call for a different degree of attention and action in the security field. Because of the drug problem, the United States will maintain a high level of interest in Bolivia, Ecuador, and Peru and will try to impose Washington's view of the best way to tackle the issue. Because of Bolivia and Ecuador's actual and potential links with Cuba and Venezuela, the former two will be accorded a higher place among U.S. security priorities. Both countries combine the turbulence emerging from state policies that are opposed to Washington with the transnational threat of drug trafficking. The Southern Cone is the subregion that will have least impact on U.S. security interests. Its geographic distance and relative calm make it less strategically important, offering it greater autonomy to tackle its own security problems. Only a severe worsening of stability in that area would lead to greater U.S. engagement. In any case, it is hard to imagine that such engagement would take the form of unilateral and coercive action.

Finally, relations between the United States and Brazil will be increasingly important, evincing various degrees of collaboration, obstruction, and resistance. Brazil's ambition to lead South America and to exercise influence beyond the region demands that the country distance itself from Washington in order to be regarded as a power in the area, but also to move closer so that the United States can facilitate Brazil's international ascent.³⁹ Moreover, Brazil and, to a lesser extent, Argentina and Chile are viewed by the United States as important countries in the defense of democracy and political stability in South America. Barack Obama has acknowledged that role explicitly in his conversations with the leaders of the three countries.

³⁹ On the model of foreign policy followed by Brazil toward the United States, see Roberto Russell and Juan Gabriel Tokatlian, "Resistencia y cooperación: opciones estratégicas de América Latina frente a Estados Unidos," in Lagos, *op cit.*, 220–1.

The notion of imperialist will and practice is simplistic and vague. The propensity of the United States to become involved in Latin America is a complicated outcome of the way the international system works, of Washington's global position of power, of domestic conditions in the United States, and of factors within Latin America that can activate the classic pattern of defensive imperialism.

Rather than define inter-American relations as the link between an empire hungry for markets and resources, and a group of countries subjected to that power by their ruling class, it would be more appropriate to explain the relationship in terms of its sharp asymmetries. In more classical terms, it is a relationship between a great power and a diverse and changing area of influence, a relationship in which geography still plays a crucial role. The United States has exerted greater control—including the use of direct and indirect force—over Mexico, Central America, and the Caribbean. Its sway over South America, by contrast, has been less and has mainly taken the form of economic and diplomatic pressure. That historical pattern will continue to prevail, albeit in a context where all the countries of the region will seek to increase their autonomy, diversify their external relations, and restrain Washington's power and influence.

This latter consideration, finally, raises the question of declining hegemony. The return of this thesis is spurred by the same arguments used in the United States during the academic debate of the 1960s between the so-called "declinists" and "triumphalists." The sheer age of the debate about the process leading from hegemony to decline should serve as a warning to those who predict the swift waning of Latin America, especially South America, as an area of U.S. influence. The declinist thesis, founded on the belief that the United States is politically, economically, militarily, and even morally overstretched, is more than thirty years old. In that time, Washington won the cold war and expanded its global power. Hence it is not clear that the phase of U.S. extension (or over-extension) in the Bush years, or the current economic crisis affecting the United States, finally indicates the onset of the true decline.

For Latin Americans, especially South Americans, it is more important to understand that the United States, whether it is declining or not, lacks the power to exert much control over what is done in the region or what Latin Americans would like to do. We should also consider the significant likelihood that Washington will give growing space to some South American countries so that they can assume the responsibilities warranted by their relative power or prestige, accorded by their geography. This process is likely to entail a still-ambiguous transition toward a new kind of relationship between much of South America and the United States.

1998 to 2007: A Decade Of Energy In Latin America. What Next?

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In matters of energy, Latin America, like every other world region, has a distinct reality. Proof of this is revealed by comparing Latin America's energy mix with those of other regions.

ENERGY MIX (2007, PERCENT)

	Oil	Gas	Coal	Nuclear	Hydro	% of World Total
North America	40.0	25.7	21.6	7.6	5.1	25.6
South & Cent. Am.	45.6	21.9	4.0	0.8	27.7	5.0
Europe & Eurasia	31.8	34.8	17.9	9.2	6.3	26.9
Middle East	51.1	46.9	1.1	0	0.9	5.2
Africa	40.1	21.9	30.7	0.9	6.4	3.1
Asia-Pacific	31.2	10.6	49.9	3.2	5.1	34.2
% of World Total	35.6	23.8	28.6	5.6	6.4	100.0

Source: *BP, Statistical Review of World Energy*, June 2008.

Because of the lack of reliable data, the above table does not consider other energy sources. Perhaps the most important of those not taken into consideration are firewood, waste, and manure, which are associated with hard-core poverty and which, in an economically backward country like Haiti, can account for as much as two-thirds of the energy mix. In addition, a dearth of relatively complex data series makes it impossible to quantify with precision the contribution of non-conventional renewable energies (NCRE)—solar, wind, geothermal, or modern biomass. However, we know that on a global level they exhibit two characteristics: They are the fastest-growing source of energy, and their contribution to total global energy is very low, making their role marginal at least through the next two decades. While

investment in NCRE grew 30 percent in 2007 alone, with emphasis on wind energy and solar panels, they are estimated to have represented only 1.5 percent of world energy during the same year. NCRE are analyzed in detail at the end of this chapter.

The preceding table shows that the Central and South America region consumes 5 percent of world energy and its energy mix has distinctive traits. The region's hydroelectric energy dependency is four times the world average. Still, oil stands as the single largest component of Latin America's fuel pool—only the Middle East's energy portfolio relies on a greater percentage—and proportionately exceeds that of countries defined as “oil-addicted.” The natural gas contribution, in contrast, falls close to the world average of 24 percent. Two fuels, coal and nuclear, play a negligible role; the region's coal component is one-seventh the world average and nuclear is less than one-sixth.

OIL

Where oil is concerned, there is not one America but three, each facing different realities and challenges. South America's production meets its own needs and leaves a significant exportable surplus. Central America and the Caribbean show a deficit and must import most of their needs. Finally, North America is a vulnerable region where oil is concerned.¹

In 2007, South and Central America and the Caribbean as a region had 9 percent of proven oil reserves and accounted for 8.5 percent of world production, which compared favorably with its 6.4 percent share of world consumption. The region was a net exporter, with shipments of 1.14 million barrels per day (bpd) in 2007. In terms of conventional world reserves, the region's share was also favorable. It accounted for 9 percent, as compared with 5.6 percent for North America, 9.5 percent for Africa, 11.6 percent for Europe and Eurasia, and 3.3 percent for Asia-Pacific. Of course, it could not compete with the Middle East, which accounted for 61 percent of reserves.

South America

A look at exportable surpluses clearly reveals that most leading South American countries are in satisfactory condition. However, a comparison of surpluses in 1996 and in 2007, eleven years later, reveals that the situation in South America, in spite of an initially favorable balance, exhibits some weaknesses.

¹Unless otherwise stated, all figures in this chapter are from *BP Statistical Review of World Energy*, 2007 and 2008.

SOUTH AMERICA: OIL PRODUCTION AND CONSUMPTION (1996 AND 2007)
*(Difference between Production and Consumption,
 Measured in Thousand Barrels Per Day)*

	1996	2007
Venezuela	2,711	2,017
Ecuador	268	339
Colombia	367	333
Argentina	391	206
Peru	-34	-31
Brazil	-794	-359
Total C. and S. America	1,862	1,140

Source: BP, *Statistical Review of World Energy*, 2007 and 2008.

The most important—and, perhaps, the only significant—headway was made by Brazil, which in the early nineties accounted for 60 percent of overall regional oil imports. By 1996 it imported only half of its oil needs; in 2008, it became self-reliant. Its production rose from 807,000 bpd in 1996 to more than 1.83 million bpd in 2007, when Brazil struck oil in the pre-salt Santos Basin and announced it was getting ready to join the exclusive club of oil-exporting countries, expecting to produce 4.15 million bpd of oil and gas by 2015.² Some observers felt high costs and falling prices might push these plans to the back burner (some pre-salt deposits lie at depths of 6,000 meters and beyond) but, in late 2008, Brazil confirmed its commitment to the investment plan formulated when oil prices stood above \$100 a barrel. What’s more, state oil company Petrobras said that new calculations had increased its planned investment to \$175 billion through 2013. Of this amount, 60 percent will be allocated to exploration and development.

The biggest declines, on the other hand, are accounted for by two large producers, Argentina and Venezuela. Lower production and higher domestic consumption have caused a non-trivial drop in their exportable surpluses.

In Argentina, production fell 20 percent from 890,000 bpd in 1998 to 698,000 bpd in 2007, leading local observers to note that “after becoming self-reliant in 1988 and a full-fledged exporter in 1992, Argentina is now about to turn into an importer...”³ Reports indicate that unless new deposits are discovered, Argentina’s reserves will run out in ten years.

In Venezuela, the situation as to reserves is very different. The country has the world’s sixth-largest reserves. With this asset Venezuela could increase production

² Petrobras, *Relatorio Anual 2007, Mensagem do Presidente*. Other figures are from BP *Statistical Review of World Energy*, 2007 and 2008.

³ Antonio Rossi, “Energía: dos años para vivir con la capacidad al límite,” *Diario Clarín*, Sept. 3, 2006.

without depleting the resource. But both Venezuelan production and exportable surpluses continue to drop. According to British Petroleum data (among the most favorable for the Venezuelan oil industry), average production fell from 3.29 million bpd in the four-year period from 1997 to 2000 to 2.61 million bpd in 2007. Other sources estimate that 2007 production stood at no more than 2.45 million bpd.⁴ The Venezuelan government claims to have rebounded to 2001 production levels of about 3.1 million bpd, but this is untrue. On the contrary, in early 2009 Venezuela may have produced one-third less oil than in early 1998. In addition, local demand has shot up due to economic growth (51 percent in 2002 to 2008), a 49 percent increase in the number of vehicles on the road, and the price of gasoline remaining fixed at 14 cents per gallon even as consumer prices rose 222 percent during the period. The resulting price differential (20-30 to 1) with respect to neighboring countries has expanded contraband, especially to Colombia. Falling production and rising domestic consumption and contraband have caused the Venezuelan exportable surplus to shrink by 40 percent relative to 1998. Objectively, Venezuelan President Hugo Chávez's oil policy has produced deplorable results for the country.

Other major South American producers include Colombia and Ecuador and—provided recent announcements of new discoveries are proven—Peru, which currently is a net importer. In 2005 to 2007, Colombian production declined one-third from its 1999 peak of 840,000 bpd. By boosting public safety and bringing down kidnappings, sabotage and extortion by guerrilla forces and paramilitary vigilantes, Colombia is trying to avert the risk that it will cease to be an oil-exporting country. It has also halved oil taxes and royalties and negotiated a 70/30 arrangement favoring private partners in state-owned Ecopetrol's exploration contracts. In addition, it transferred Ecopetrol's regulatory role to a new National Oil and Gas Agency and sold 20 percent of Ecopetrol stock in the open market.

At first glance, Ecuador's industry appears in good condition; production has risen from 390,000 bpd in 1996 to 520,000 bpd in 2006, a 25 percent increase. However, reserve levels are vast enough to withstand a more substantial increase without risk of early depletion. Ecuador has three times the reserves of Colombia but produces the same amount. With two-and-a-half times Argentina's reserves, it produces 25 percent less. Ecuador faces serious difficulties in the organization of its oil industry, especially the way it manages state-owned PetroEcuador.

The South American countries seriously dependent on imported oil are Chile and Uruguay.

⁴International Energy Agency, *Oil Market Report*, March 2008.

Central America and the Caribbean

Central America and the Caribbean represent a reality entirely different from that of South America. Here we have 23 countries with an energy deficit, namely Haiti, the Dominican Republic, and Cuba, plus the seven Central American nations—Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama—and thirteen of fourteen CARICOM members. Only two of these countries, Guatemala and Cuba, produce some oil, although not enough to meet demand. Trinidad and Tobago is alone with an exportable surplus, mostly natural gas. In nations such as Costa Rica, Cuba, the Dominican Republic, Jamaica, and Panama, oil accounts for upward of 70 percent of the energy mix. The region, despite its scant economic significance, has geopolitical importance because of its population, proximity to the United States, and voting muscle in multilateral bodies, especially within the inter-American system.

North America

No review of the oil situation in the Americas can fail to consider the United States. Latin America is the largest exporter to that country. The most likely scenario for energy partnerships in the hemisphere involves South America and Mexico's excess inventory and the United States' strong deficit.

NORTH AMERICA: OIL PRODUCTION AND CONSUMPTION (1996 AND 2007) (Difference Between Production and Consumption, Measured in Thousand Barrels Per Day)

	1996	2007
Mexico	1,611	1,453
Canada	662	1,006
United States	-10,014	-13,819
Regional Balance	-7,741	-11,360

Source: BP, *Statistical Review of World Energy*, 2007 and 2008.

The first conclusion suggested by the evolution of exportable surpluses in the region is that North America has one very sick man (United States) and two healthy ones (Mexico and Canada). There is no doubt about the first assertion: The oil sector in the United States will continue to face difficulty as a result of relentless declines in production, which fell from 8.3 million bpd in 1996 to 6.88 million bpd a decade later. More optimistic is the situation with proven reserves, which have remained constant at about 30 billion barrels. However, at current pumping rates, they will run out in twelve years.

From an energy standpoint, Mexico appears as weak as the United States or more. Proven reserves have dropped dramatically, from 48.5 million bpd in 1996 to 12.2 million bpd ten years later. No other producer in the world has undergone such a strong decline. At current pumping rates, and barring new discoveries, Mexican oil will be depleted in ten years. Unsurprisingly, production is following suit. After peaking at 3.82 million bpd in 2004, it slipped to 3.48 million bpd in 2007. State-owned PEMEX recently acknowledged a production decline of more than 9 percent over 2007, the worst in six decades.

At the root of Mexico's oil plight is PEMEX, a state monopoly and fiscal cash cow of seventy years' standing for which long-term growth has often taken a back seat to patronage and corruption. President Felipe Calderón said a central theme of his government would be energy reform addressing the causes of the current decline of the Mexican oil industry. Reform aims included improving PEMEX's corporate governance; giving it a freer hand in managing profits in order to avert low investment levels; relaxing a restrictive legal framework that hampered involvement by and partnerships with foreign companies, both public and private (a crucial requirement to not only increase investment levels but also obtain access to new or better technology); keeping its business and regulatory roles apart; and allowing private sector involvement in ownership. After a lengthy debate in Congress, against the backdrop of a conflict played out on the streets, the reforms were enacted. However, they were too timid—a case of too little, too late. In general their objectives were pointed in the right direction, but the measures were too inconsequential to have any real impact.

Canada appears the most solid of the three actors, but North America remains the world region where oil shortages are most evident, as shown by a comparison of reserve/production ratios.

RESERVE/PRODUCTION RATIO*

North America	12.0
South and Central America	41.2
Europe and Eurasia	22.5
Middle East	79.5
Africa	32.1
Asia-Pacific	14.0
World Total	40.5

(*)To determine how long reserves can last at current pumping rates, BP divides production by proven reserves in a given year.

Oil in the Coming Decade

IN THIS CONTEXT, WHAT CAN WE EXPECT IN LATIN AMERICA IN THE COMING DECADE?

We will see a reduction in oil's share of the energy mix. This will be the result of energy efficiency policies, although the leading cause will be government efforts to diversify the fuel pool. Production from hydroelectric, coal, nuclear, ethanol, geothermal, and wind sources will rise, as should cellulosic ethanol production late in the decade.

Oil production in South America and Mexico risks stagnating and probably falling unless Mexico, Argentina, Colombia, Ecuador, and Venezuela make an effort to increase sector efficiency. Depending on the particular country, this includes legal reforms, better regulatory frameworks, more investment latitude for state-owned companies, and harmonization of domestic and export prices. Against the current regional political climate—discredited privatizations of the past and natural resource nationalism—attempts to reform state-owned companies are more likely than further privatizations to achieve efficiency gains. The Petrobras experience will likely be discussed and replicated in the region.

A review of Venezuela's future development as an oil nation requires a distinction between its oil potential and the wider country situation. After several decades of political decadence, Venezuela is rightly labeled a classic case of the "natural resource curse." The Chávez government does not represent a reversal of this tendency but, rather, just another—although worse—stage in the erosion of institutions and democratic life and an economy increasingly less diversified and more focused on oil revenues. In spite of this, Venezuela will remain a key world oil industry player for two reasons: It owns massive reserves and, in spite of the degradation of democratic rule, Venezuela's political system still has a degree of insecurity similar to or even slightly better than other major reserve owners such as Iran, Iraq, Kazakhstan, Libya, Nigeria, Russia, and Saudi Arabia. But if Venezuela wants to develop its oil industry, one of the biggest hurdles will be the growing destruction of efficiency and technical and managerial capacity at state-owned PDVSA, a company beset by corruption, patronage, destruction of technical staff, and unacceptably low investment levels. Sooner rather than later, Venezuela will be forced to go back to working with international private enterprises.

Opportunities for oil cooperation between Latin America and the United States will increase. Mexico and Venezuela are the United States' second- and third-largest crude suppliers, accounting for one-third of U.S. imports. Declining exportable surpluses in Venezuela, and especially Mexico, plus the growing oil deficit in the United States, will add to pressures on regional and world markets. At the same time, this reality will provide opportunities for greater energy cooperation. Ramón Espinasa, an energy consultant to the IDB and former chief economist of PDVSA, says North

American imports will tend to rise significantly as domestic reserves run out. Facing the opposite situation are South American Andean countries—especially Venezuela, Colombia, and Ecuador—where vast reserves could double oil production and multiply exports by two-and-a-half times through 2020. Naturally, increases of this scale can only be achieved if a number of conditions are present, including the political will on the part of these nations to crank up production, improved state-owned company efficiency by allowing private sector collaboration or partnerships, and substantial increases in sector investment.⁵ A new range of opportunities for such collaboration between the United States and Brazil has opened up possibilities for financing the investments needed to develop the pre-salt oil fields. Entry into operation of these vast resources would allow Brazil to increase its share of the U.S. market while the United States would find a way to reduce imports from more distant and unstable regions such as the Middle East.

Facilitating the use of oil as an instrument of power is the asymmetry between states, where one owns oil in abundance and others do not. South America is one of the regions least suited for “oil diplomacy.” The role of petropolitics in Venezuela, since its exportable surpluses will shrink, at least through the next five years, and the role of petropolitics in South America will be made harder by the region’s relative oil self-reliance. Central America and the Caribbean, where large producers coexist with a plethora of nations that are net crude importers, are a different story altogether. Oil dependence is higher here than anywhere else in the region, and so are the opportunities for petropolitics. For this reason, Central America and the Caribbean should be addressed by policies designed to help ensure their energy security. These should consider Venezuelan oil commitments and add new ones from the United States, Mexico, Colombia, and multilateral bodies. Such a Central America and Caribbean initiative would have ample precedent, including the San José and Caracas agreements and, more recently, PetroCaribe. These arrangements, which demonstrate interest in boosting relations through assistance in solving the energy issue, have been supported, either in partnership or competition, by the United States, but also by Mexico, Venezuela, and more recently, Colombia.⁶

In the near future, statements and threats notwithstanding, the United States will remain a leading destination for Venezuelan oil. The essential reason for this is that the use of oil as a political instrument also depends on the quality and type of oil. Light sweet crude is a commodity in high demand and is traded competitively by a wide range of actors whose demands and supplies set prices transparently. But heavy, especially ultra heavy, and acid crudes require complex refineries—of which there is a limited supply—and are traded in restricted markets at prices that are

⁵ Ramón Espinasa, “Seguridad Energética del Hemisferio Occidental: Oportunidades y Retos,” presentation to the Club of Madrid, November 2007.

⁶ There is a very good article by Anthony T. Bryan, “PetroCaribe and CARICOM: Venezuela’s resource diplomacy and its Impact on Small State Regional Cooperation,” draft manuscript, May 21, 2008.

not set automatically. Venezuelan crude is closer to the second type, resulting in a symbiotic relationship with the United States; Venezuela produces heavy crudes while the United States has adequate refining plants that are not easy to find in other regions.

Finally, at the hemispheric level, special attention should be paid to so-called “non-conventional” or “tough” oils such as Canada’s tar sands or the ultra heavy oils of the Venezuelan Orinoco Basin. Once development of these products makes commercial sense and the technical issues are dealt with, these countries could be “the equivalent of two Saudi Arabias.”⁷

NATURAL GAS

Natural gas production and consumption figures are not easy to interpret. Part of the gas is oil-associated and is neither exported nor used domestically. As to proven reserves, Latin America and the Caribbean have 4.4 percent of the world total. Of this, Venezuela accounts for 2.9 percentage points, i.e. 65 percent of the total. Since Venezuela produces no commercial gas, all its output is oil-associated, making it a net gas importer. Other countries with significant reserves have negligible shares of world reserves: Bolivia 0.4 percent; Trinidad and Tobago 0.3 percent; and Argentina, Brazil, and Peru 0.2 percent each.

Most gas exchanges between countries proceed via pipelines or, more recently, in the form of liquefied natural gas (LNG). Therefore, a country lacking links to international pipelines or without liquefaction plants will have no exportable surpluses. Its production will be equal to its domestic consumption.

Pipelined Natural Gas

The pipelined gas market is not highly competitive, since it involves a relationship between a single seller—the exporting country—and a single buyer—the receiving country. It is a monopoly and a monopsony all at once. As such, prices are not driven by supply and demand but settled by negotiation between the parties or companies concerned. In a relationship of this type, the producer may be tempted to “shut off the spigot” and terminate or reduce the flow of gas to its supplier, causing it serious harm. Of all forms of energy, some hold that this is the one that can lead to the most dependence of a state upon its supplier.

South America’s gas trade is small.⁸ The region produces 5.1 percent of world gas but accounts for only 3 percent of the world trade. It produces 151 billion cubic meters (bcm) but only 14.5 bcm are traded between countries, exclusively through

⁷Paul Isbell, “Energy for the Hemisphere: Reflections on the Energy Aspects of the Draft Declaration of Commitment, Fifth Summit of the Americas,” Inter-American Dialogue and FOCAL, 2009.

⁸BP *Statistical Review of World Energy*, 2007 and 2008.

pipelines. Venezuela has South America’s largest proven gas reserves. Colombian production meets domestic demand and generates a surplus that is exported to Venezuela through the recently inaugurated Transguajiro pipeline. Central America and the Caribbean have no pipelines. Although Trinidad and Tobago is a world-class producer, it exports in LNG form only to the United States, Spain, and to a much lesser extent, Puerto Rico and the Dominican Republic.

The regional gas market, rather than a South American reality, is restricted to Bolivia and the Southern Cone countries that are linked by a pipeline network, mostly in Argentina, designed to supply Chile and to a lesser extent, Brazil and Uruguay. The second export network is in Bolivia, serving Brazil and, to a much lesser extent, northern Argentina. Brazil exports no gas. Thus, pipelined gas flows are limited to those exported by Bolivia and Argentina to Brazil, Chile, Argentina, and Uruguay.

The two largest natural gas buyers are Brazil and Chile. Although Argentina exported 4.34 bcm in 2006, it was expected to become a net importer in 2009.

	Suppliers (*)	
	Argentina (bcm)	Bolivia (bcm)
Consumers		
Argentina	–	1.80
Brazil	0.46	9.00
Chile	5.56	–
Uruguay	0.12	–

(*) BP figures are based on existing contracts. Actual flows may be less.

Through 2008, supplying gas in the Southern Cone was the sole preserve of Bolivia, owner of both the second-largest proven reserves in the region and vast exportable surpluses. However, as we shall see later, this situation is undergoing significant change.

In South America, pipeline development is made difficult by the vast distances between producer and consumer countries, compounded by the fact that these pipelines in many cases must cross jungles such as the Amazon and mountain ranges such as the Andes. This drives up costs and brings strong objections from environmental groups. Experts agree that for distances greater than 3,000 kilometers, the cost of pipeline transportation may be higher than LNG chain costs. This was one of several objections to Chávez’s now-abandoned Southern Gas Pipeline project, which needed to clear from 8,000 to 12,000 kilometers at an estimated cost of more than \$20 billion.

Liquefied Natural Gas

No LNG market exists in South America, to the extent that as recently as 2007 not one cubic meter had ever been traded. This stands in contrast to the reality in the rest of the world where there is clear interest in LNG trade, which has been growing 13 percent a year and represents one-third of total international gas exchanges.

Unlike pipelined natural gas, LNG is a competitive market populated by multiple buyers and sellers; prices are set by the market. Dependence between states is less because importers can buy from other suppliers and producers can divert their output to other buyers. Chances for using it as a foreign policy instrument are limited.

Until recently, obstacles to developing an LNG market, especially in Latin America, included the low price of pipelined gas. Prior to the Evo Morales government, Bolivia sold gas to Argentina and Brazil at very low prices thanks to the degree of vertical integration in the industry—the same companies that produced gas were the ones controlling exports—or the different relative weight of Argentina and Brazil with respect to the Bolivian economy. In 2006, Argentina agreed to pay Bolivia \$5.08 per million BTU triggering negotiations with Brazil that also resulted in significant price increases. As a result, Argentina hiked its price to Chile, under the reasonable argument that it could not buy from Bolivia at \$5 per million BTU and sell to Chile at prices that ranged from \$2.8 to \$3.4 per million BTU. In October 2007, Bolivia increased the price to Argentina to \$6 per million BTU.

These price increases are not a Latin American phenomenon but part of a world trend. They have had the effect of taking pipelined natural gas prices to a level where LNG becomes competitive. A price series comparison of Japanese LNG and U.S. natural gas (Henry Hub)⁹ shows that while LNG prices in the nineties were more than 40 percent higher, they are almost equal now. In 2006 and 2007, Japanese LNG prices were 6 percent and 11 percent higher, respectively. Pipelined gas still holds a certain advantage, but it makes sense for a country to pay extra for LNG in exchange for a safer supply. And technological advances are reducing LNG industry costs. Since the early nineties, industry costs have dropped an estimated 30 percent, chiefly due to development of more efficient liquefaction equipment.¹⁰

⁹ “The Henry Hub is the largest centralized point for natural gas spot and futures trading in the United States. The New York Mercantile Exchange (NYMEX) uses the Henry Hub as the point of delivery for its natural gas futures contract...Many natural gas marketers also use the Henry Hub as their...price benchmark for spot trades of natural gas.” U.S. Energy Information Administration, “U.S. Natural Gas Markets: Relationship Between Henry Hub Spot Prices and U.S. Wellhead Prices,” U.S. Energy Information Administration, <http://www.eia.doe.gov/oiaf/analysispaper/henryhub/>.

¹⁰ Robert Skinner, “Final Report V General Assembly and Annual Conference of the Club de Madrid: The Challenges of Energy and Democratic Leadership,” Club de Madrid, 2006, http://www.clubmadrid.org/img/secciones/Mar07_Final_report_VGA.pdf.

Natural Gas in the Coming Decade

WHAT WILL HAPPEN IN THE COMING DECADE?

From the perspective of natural gas production, there are several relevant issues. One is commercial development of natural gas in Venezuela. As noted, Venezuela has the largest reserves on the continent, second only to the United States and five and eight times larger than Bolivia's and Trinidad and Tobago's, respectively. However, Venezuela not only exports no gas, but it will be importing gas from Colombia for the next seven years. Still, with the Southern Gas Pipeline project abandoned and the industry on its feet, Venezuela should become a major LNG supplier, with the United States, Mexico, Brazil, Chile, or Central America as potential markets. Senior executives of Venezuela's state-owned oil company, PDVSA, have said that by 2014 the company will be exporting LNG from the Mariscal Sucre Reserve off the coast of Venezuela.

On the natural gas front, Brazil also has good news. Production, which climbed from 7.2 bcm per day in 2000 to 11.3 bcm in 2007, is expected by Petrobras to almost double current Bolivian production by 2012. To the south of Brazil's large finds, Uruguay has announced the discovery of major gas fields.

Not just a possibility but a reality is Peruvian gas. Camisea's vast resources will be destined for both domestic consumption and LNG export, with Peru becoming the first country in the region to enter the market as a supplier. The Peru-LNG consortium, led by Hunt Oil, which controls a 50 percent stake, will mean a total \$3.8 billion investment with plans to start shipping by the end of the first half of 2010. Once operating at capacity, exports from Camisea will be worth an estimated \$800 million to \$1 billion a year. Another part of the output will go to meet domestic demand, which has been undergoing explosive annual growth: 84 percent in 2005 when compared with a year earlier, 17 percent in 2006, and 51 percent in 2007. Electricity generation accounts for two-thirds of the domestic consumption total.

The issue that threatens this remarkable Peruvian achievement is pricing policy. The government is keeping the price at \$2 per million BTU, "the world's cheapest."¹¹ That is causing serious distortions in the energy market by encouraging strong thermal plant growth to the serious detriment of hydroelectric plants, which are a resource Peru has in abundance.

Brazil and Peru are natural gas success stories, but Argentina is the opposite. Over the past thirty-five years, hydrocarbons have accounted for 90 percent of the country's energy mix. In 1970, oil accounted for 70 percent and gas for 20 percent; nowadays these shares stand at 45 percent each, giving Argentina the region's largest

¹¹ ENERSUR General Manager Patrick Eckelers, September 2008.

per-capita gas consumption at 928 cubic meters a year.¹² While consumption soared, production stagnated. In 2007, they met halfway when production stood at 44.8 bcm and consumption at 44.1 bcm. Argentina has ceased to be a gas exporter. The consequences have been dramatic for Chile, bringing gas integration between the two nations to an end and causing its economy significant damage, as evidenced in the fact that its gas consumption fell 44 percent in 2006 to 2007.

Although the Chile-Argentina gas issue primarily affects those two countries, it will have a negative effect on total pipeline trade in the region. In addition to idling the costly pipeline infrastructure joining both territories, it will force the industry to evaluate more carefully new pipeline construction or expansion projects. Just as Argentina's flawed gas policy (with artificially low domestic prices, strong encouragement of domestic consumption, diminishing producer company profits and investment rates, and a regulatory framework crisis) had a serious impact on Chile, a flawed Bolivian policy could hurt Brazil and Argentina.

Also likely are tensions in the region's largest pipeline gas trade, between Brazil and Argentina as consumers and Bolivia as supplier. The tensions may take two contradictory forms, depending on whether Brazilian production rises significantly or remains in status quo. Until now, about 7 percent of Bolivian production has gone to meet domestic demand, 75 percent has been shipped to Brazil, and 18 percent has gone to Argentina. But, as domestic needs begin to outstrip production, Argentina has placed increasing pressure on Bolivian gas. In 2006, the two countries agreed to increase Argentine purchases to 7 million cubic meters in 2007, 16 million in 2008 to 2009 and 27 million in 2010 to 2026.¹³ Certainly, unless it increases production by a fifth, Bolivia simply is not able to ship 16 million cubic meters a day to Argentina. So, unless significant investments are made—excluding gas pipelines and considering only exploration and development, these are estimated at some \$2 billion—tension between Argentina and Brazil over this source of hydrocarbons will be inevitable. Tensions appear all the more likely after recent reports critical of Bolivian gas policy: Drilling has plummeted and reserves are drastically down due to factors such as “lack of investment, falling well pressure in the San Alberto, San Antonio, Margarita, and Itaú megafields, and the lack of data certifying originally estimated reserves.”¹⁴ These developments have lent credence to the perception that actual proven reserves stand at 17.5 trillion cubic feet (tcf) rather than 26.13 tcf. That means they are somewhat above Argentina's but below Trinidad and Tobago's,

¹²Roberto Kozulj, “La industria del Gas Natural en América del Sur: Situación y Posibilidades de la Integración de Mercados,” *Natural Resource and Infrastructure Series*, No. 77 (ECLAC: Santiago, December 2004). While Venezuelan consumption is higher, it uses mostly oil-associated gas.

¹³PFC Energy, “Argentina: an Overview of the Energy Crisis and its Implications,” Feb. 19, 2007.

¹⁴Robert M. Speiser, “Energy Security and Chile: Policy Options for Sustainable Growth,” working paper (USAEE, 2008); Peter DeShazo, Sarah Ladislaw and Tanya Primiani, “Natural Gas, Energy Policy and Regional Development: Brazil and the Southern Cone,” Policy Papers on the Americas (CSIS Americas Program, Volume XVIII, Study 1, 2007), http://csis.org/files/media/isis/pubs/070430_conference_report.pdf (accessed February 5, 2010).

leaving Bolivia unable to honor existing contracts with Argentina and Brazil, much less serve the future needs of both these countries. Adding to this is mismanagement at state-owned YPF which, with the ouster of Santos Ramírez on corruption charges, has had five presidents in three years.

In late 2008, Brazil reported that it was ready to cut back on purchases from Bolivia since it was in a position to substitute imports with its own production. This prompted meetings between the two governments; supplier Bolivia appeared as the weaker party, pleading with buyer Brazil to keep current import levels. It is not unthinkable that in the future Bolivia should want to break the Brazilian monopsony. It should think about becoming an LNG supplier to sell its resources to a range of markets rather than solely to those linked to it by gas pipelines.

Because of these circumstances, a new development has emerged: the birth in 2008 of a South American LNG market. Chile's state-owned ENAP started construction of South America's first regasification plant. Brazil followed suit with a deliquiefaction plant in Rio de Janeiro and another further north in Pecem. British Gas reports that four other plants are planned, including one in northern Chile, one in Argentina, one in Uruguay and another in southern Brazil. Speculation has it that Chile might leverage the seriously underutilized pipeline network to sell surplus gas from its Quinteros plant to Argentina. As to suppliers, there are two in the region: Trinidad and Tobago and, soon, Peru with the Camisea gas fields. Canada, Oman, Qatar, the United Arab Emirates, Algeria, Egypt, Libya, Nigeria, Australia, Brunei, Indonesia, and Malaysia operate an additional eighteen liquefaction plants.

As noted, the chances that the fuel supply will be used as an instrument of pressure by one state over another are particularly strong in the case of pipelines. On the world scene, a paradigmatic case is Vladimir Putin's Russia, which tried or threatened to use gas pipelines to pressure the countries of the former Soviet Union and the nations of Europe. In South America, threats to use gas for political ends have played a major role in inhibiting construction of new pipelines. A case in point is former Bolivian president Carlos Mesa's "gas for sea" policy, which was instrumental in the Chilean decision to go with LNG. Concern over the use of gas as a political weapon grew in 2007, after Venezuela's Chávez proposed creation of a South American cartel, the Organization of Gas Exporting Countries of the South, to regulate production and prices. The initiative had a number of incongruities, not the least of which was that the charter members proposed by Chávez were Brazil, Venezuela, Argentina, and Bolivia. None of those countries, except Bolivia, met what should be the basic requirement for membership in a body of this kind, namely that they are a major gas exporter. A natural gas cartel is considered more aggressive than its oil equivalent, OPEC. The reason is that producer and consumer are inextricably linked by a pipe. If the cartel reduced production, the consumer would have no option but to accept the cuts. The above considerations may lead the region to consider—as is

being discussed nowadays by Russia, Europe, and the Caucasus states—an energy security convention designed to preclude these forms of pressure.

Greater dynamism in LNG development means construction of new networks will be attempted. In addition to planned expansion of Southern Cone gas pipelines, and depending on gas development in Colombia, the Puebla-Panama Plan may provide the framework for a pipeline connecting Mesoamerica.

COAL

References to fossil fuels often distinguish between noble fuels, such as oil and gas, and the ignoble fuel, common coal. Coal is “indeed a particularly unattractive energy source. Compared with oil and gas, coal is less convenient to transport, store and use. It produces up to twice the amount of carbon dioxide for the same useful heat, and this is by no means its only undesirable environmental effect. A large coal-fired power station can produce enough ash in a year to cover an acre of ground to the height of a six-storey building...”¹⁵

There have been periods in the long history of coal when consumption increase was thought limitless because it was equated with the inevitable progress of humankind. At other times, as in the mid-twentieth century, conventional wisdom held that its importance would disappear, superseded by the dizzying increase of oil, gas, and nuclear energy. But these predictions failed to materialize, as proven by the fact that through 2007 coal has been the world’s fastest-growing fossil fuel for five straight years. Not only that, but among the five largest sources of energy, coal is the only one growing its share of the global energy mix. Oil and nuclear energy’s shares have declined while those of natural gas and hydroelectricity remain stagnant.

Coal’s enduring relevance, even at a time when concerns about climate change make it more undesirable, is explained by several historical facts: It has been a relatively cheap fuel; it is found across all continents and in more countries than most other energy sources; and its price has been more convenient, as evidenced by the fact that in 2006, while oil and gas prices rose 19.5 and 7.5 percent, respectively, coal’s price fell 2.5 percent.¹⁶

However, coal is essentially a Chinese and U.S. affair, with those two countries combined accounting for 60 percent of world consumption. The United States consumes slightly more than 18 percent and China 42 percent. India (6.5 percent) and Japan (3.9 percent) round up the figure to 70 percent of total consumption.

¹⁵ Godfrey Boyle, Bob Everett, and Janet Ramage, *Energy Systems and Sustainability*, (Oxford, England: Oxford University Press, 2004), p. 157.

¹⁶ Christof Rühl, “BP Statistical Review of World Energy June 2007,” 2007, *BP Statistical Review of World Energy* (June 12, 2007), http://www.bp.com/liveassets/bp_internet/bp_korea/bp_korea_korean/STAGING/local_assets/downloads_pdfs/bp_Statistical_Review_of_World_Energy_report_2007_christof_ruhl_speech_and_slides.pdf.

In 2007, global consumption rose 4.5 percent over the year before. But increases in the United States (1.2 percent) and Europe and Eurasia (0.2 percent) were well below average; most growth was driven by Central and South America (7.3 percent) and Asia-Pacific (7 percent). However, these rates had very different contexts. Coal's share of the energy mix is 50 percent in Asia-Pacific, yet only 4 percent in Central and South America.

A more detailed look at the coal situation in Latin America clearly shows that Brazil, Chile, and Colombia account for a combined 87 percent of the regional total. Colombia is the region's largest coal producer, with 85 percent of the total. Although Colombia and Brazil have similar reserves (0.8 percent of the world total each), Colombia's coal (anthracite and bituminous) is of good quality while Brazil's (sub-bituminous and lignite) is inferior.

There is a tendency to think that the minor role Central and South America play in the worldwide coal industry takes the edge off the strong increase in consumption and coal's role in the rise in greenhouse gas emissions. But this short-term view overlooks disquieting developments. First, the largest increase in consumption involves Brazil, which saw a rise of 8.3 percent in 2007 when compared to the year before; it would be unfortunate if that vast, dynamic economy were headed toward replication of the energy patterns of China and India, where coal has a fundamental place in the mix. The trend in Chile is also troubling and illustrates the plight of a country which, facing an acute energy shortage and with growing difficulty or opposition to the development of alternatives to hydrocarbons, decides to increase the share of coal in its energy pool both in the north (Power Grid of the Greater North, SING) and the south (Central Power Grid, SIC).

CHILE: SHARE OF SOURCES IN ITS ENERGY MIX (PERCENT)

	YEAR GAS	COAL	DIESEL	HYDRO	OTHER
SING 2008	58.6	33.5	7.5	0.4	
2015	42.7	51.0	6.0	0.3	
SIC 2008	25.0	10.0	9.0	53.0	3.0
2015	14.0	29.0	7.4	48.0	1.6

Source: Government of Chile. National Energy Commission (CNE).

Of the ten largest electrical generation projects under construction and scheduled to go on stream in Chile by 2015, half are coal-based and will contribute 55 percent of the energy to be produced by all of them. The remainder will be evenly divided between hydroelectric dams and run-of-river plants. While an efficient response by Chile to its serious energy difficulties, it comes at the price of doubling coal usage and, thus, increasing carbon dioxide emissions. This approach may well be adopted

in Central American and Caribbean countries that are in similar circumstances and are looking at Colombian coal with growing interest.

NUCLEAR ENERGY

Worldwide, from 1973 to 1990, nuclear energy growth rates were dramatic, in excess of 15 percent a year. But this trend came to an abrupt end after the accidents at Three Mile Island in 1979 and Chernobyl seven years later. The effects on the industry were dramatic: from 1990 to 2000 nuclear energy grew only 2.5 percent and several countries, including Belgium, Germany, Italy, Spain, and Sweden, removed it from their development programs.

In the past three years a surprising resurgence has placed nuclear energy back at the top of the agenda. The cause is climate change. Electricity generated by nuclear plants emits no sulfur, no mercury, and above all, no greenhouse gases. The economy is also a factor, since nuclear energy is cheaper than renewables such as wind, and of course, solar energy. Although fossil fuels, especially coal, may carry a price advantage, they are dirtier and contribute the most to the greenhouse effect. In addition, for Europe and the United States, nuclear energy has the appeal of reducing oil dependence.

In Latin America, nuclear energy has an interesting history. Running parallel for a time were the idea of a nuclear-weapon-free zone and, in the decades of the seventies and eighties, a competition by Argentina and Brazil to develop nuclear weapons.

The Argentine and Brazilian Nuclear Weapons Programs in the Seventies and Eighties

In the seventies, the two most powerful military establishments in the region, Brazil and Argentina, had political control of their governments. Those countries were in the grip of militarism and the delusion of becoming world powers in possession of atomic weapons.

Interest in a nuclear program in Argentina started at the end of World War II, but large-scale development did not come until the seventies. In 1978, the Argentine military committed to a nuclear program that had both a public and a secret component. The public part was the Ezeiza Plant, designed to extract and reprocess plutonium. It was presented as a civilian facility to research and develop plutonium to fuel energy-producing reactors. Parallel to this, also in 1978, the military launched a secret project: construction of the Pilcaniyeu Plant. This clandestine uranium enrichment facility was made public by the armed forces only in the days leading up to the inauguration of Raúl Alfonsín, the civilian president who began the transition to democracy.

Brazil, under the military government also aspiring to become a nuclear power, implemented its double plan—part public and part secret. The public portion, under control of the Brazilian Nuclear Enterprise, involved creation of a nuclear energy program based on imported equipment and technology, especially from West Germany. This 1975 initiative respected the supervision and norms established by the International Atomic Energy Agency (IAEA). In parallel, there was a project installed in 1979, under the direction of Army and Navy agencies and the National Nuclear Energy Commission (CNEN). Its centerpiece was a high-speed uranium-enrichment centrifugal plant based at the University of São Paulo's Nuclear Energy Institute. In 1991, it was revealed that while the Brazilian Navy sought to produce enriched uranium, the Army had tried to produce plutonium.

The goal of creating nuclear weapons was clear for both countries and both allocated vast resources to the effort. When the Argentine military was forced to make the Pilcaniyeu program public, several Brazilian military authorities came out to say that they would be in a position to build their own bomb by 1990. Moreover, three years later, Army Science and Technology Secretary General Haroldo Ericksen said: "Building an atomic bomb is not our goal, but we will do it if necessary... If we have the resources, we can do it in two years."

The installation of Alfonsín, followed by the inauguration of Brazil's first elected civilian president in twenty years, Tancredo Neves (who died soon after his inauguration and was succeeded by his vice-president, José Sarney), brought confidence-building measures intended to ensure that the facilities of both countries had no offensive purposes and that they would be dismantled. In 1985, Alfonsín and Sarney met in Foz de Iguazu to sign an agreement committing their countries to undertake nuclear development only for peaceful purposes. In December of that year, Brazil allowed Argentine technicians to visit the nuclear facilities at the University of São Paulo. In July 1987, Alfonsín personally escorted Sarney to the Pilcaniyeu plant as a symbol that both countries had achieved transparency in their nuclear programs.

Presidents Carlos Menem and Fernando Collor de Melo, the successors to Alfonsín and Sarney, continued to collaborate. A few years later, the legislatures of both countries authorized creation of the Brazilian-Argentine Agency for Accounting and Control of Nuclear Materials and ratified their commitments to bilateral facility inspection. That same year, they signed a quadripartite agreement between the agency, Argentina, Brazil, and the IAEA to ensure international facility inspection.

The Struggle to Establish a Nuclear-Weapon-Free Zone

The missile crisis of 1962, when the U.S.S.R. attempted to install atomic weapons in Cuba, gave rise in Latin America to an initiative designed to turn the region into a nuclear-weapon-free zone. Under Mexican leadership with support from Chile,

Bolivia, and Ecuador, these efforts helped launch the process that would crystallize in the Treaty of Tlatelolco, signed in 1967. This committed the countries of the region to refrain from building, testing, or acquiring nuclear weapons, and most importantly, from accepting the deployment or installation of weapons of this kind within their territories.

Tlatelolco recognizes the full oversight of the IAEA over the nuclear activities of its members and established the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL). It was responsible for inspecting, at the request of any of the parties, activity by any of the signatories that was suspected of infringing upon treaty clauses. There also were two complementary protocols. One required countries from outside the region but with territories in it (France, Holland, the United Kingdom, and the United States) to respect treaty norms. The second protocol, ratified by China, France, the United Kingdom, Russia (the former U.S.S.R.), and the United States, committed countries possessing nuclear arms not to use or threaten their use against treaty members.

Yet, the treaty was out of sync with the times. Central and South America were overrun by military dictatorships in the sixties and seventies. Against that historical context, Tlatelolco became more dream than reality. Three nations—Argentina, Brazil, and Chile—signed the treaty but either did not ratify it or imposed clauses making it inapplicable to them. Cuba did not sign. The reasons were obvious: Cuba was immersed in the cold war conflict. Argentina and Brazil were committed to a nuclear weapons race, and Chile, although economically too small to afford a nuclear program of any significance, absurdly wanted to keep that option open.

In 1994, more than twenty-five years later, Argentina and Brazil ratified the Treaty of Tlatelolco. Chile and Cuba followed suit. As of that moment, Latin America became a leader in the commitment against nuclear proliferation.

The Resurgence of Nuclear Energy in the Region

Nuclear energy production began in Argentina in 1974, followed by Brazil ten years later, and Mexico in 1989. Development has remained modest; in 2006, the three nations together accounted for a mere 1 percent of nuclear energy worldwide. Individually, nuclear energy's contribution to their energy mix is 2 percent in Argentina, 1.2 percent in Brazil, and 1.7 percent in Mexico.

However, starting in late 2006, nuclear energy found itself touted as a necessary energy alternative, driven by factors such as climate change, high oil and gas prices, the setting of a price on carbon emissions, declining hydrocarbon reserves and production, and hurdles to building large dams for production of hydroelectric power. It is also argued that, since nuclear energy stands for only 0.8 percent of

the regional mix, versus 5.6 percent worldwide, Latin America has ample room to expand and diversify its fuel pool.

The first sign of nuclear energy reactivation came from Argentina. In August 2006, it announced plans to complete the Atucha II plant so it could become operational in 2010 and to extend the life of the existing Embalse plant, which many believed destined to disappear. Soon after, in November, Atomic Energy of Canada Limited and the Argentinean Nuclear Electricity Enterprise, Nucleoeléctrica Argentina, signed an agreement to overhaul the Embalse plant and conduct a feasibility study for an additional 700-megawatt reactor using Canadian Deuterium Uranium technology (CANDU). The reactor should go on stream in about 2015.

In 2007, the government of Luiz Inácio Lula da Silva in Brazil announced completion of the construction of the 1,350-megawatt Angra 3 nuclear plant, which had been mothballed since 1985, and proposed building six to eight additional nuclear plants to generate a combined 8,000 megawatts through 2030.

In Mexico, concern over declining oil reserves and production has led to calls for increased nuclear energy production. And Chile's energy shortage prompted the government to create a commission to review installation of nuclear energy plants. The work was completed but President Michelle Bachelet chose not to make it public, keeping a campaign promise that her government would not entertain initiatives of this type. In November 2008, Uruguayan President Tabaré Vázquez created a multiparty commission to look into the possibilities of nuclear energy in the country.

Nuclear Energy In The Coming Decade

Foreseeable developments in this field are hard to predict, but some trends can be identified. Argentina, Brazil, and Mexico will remain committed to nuclear energy. Chile may follow suit. Venezuela might entertain such plans in the future, mostly to cut domestic crude oil demand and boost its exportable surplus. In the case of Uruguay, the report of the multiparty commission appointed by the president should be awaited with interest.

It is likely that Brazil's nuclear programs (except those involving electricity production) will cause increasing noise. Targets are likely to be uranium enrichment in Resende and construction of a nuclear submarine, which has led to a cooperation agreement with France. Brazil should be careful to ensure that these two programs have no military objectives. That means accepting greater transparency and facilitating strict international inspector activity in compliance with the Nuclear Non-Proliferation Treaty that it has signed.¹⁷

¹⁷ Sharon Squassoni, senior associate at the Carnegie Endowment for International Peace, statement to Inter-American Dialogue's *Latin America Advisor*, April 8, 2009.

Playing in favor of nuclear development will be the institutionality of the inter-American system; the Treaty of Tlatelolco and its complementary protocols; the existence of OPANAL, which should be beefed up, always under IAEA supervision; and the fact that the countries of the region have signed the Nuclear Non-Proliferation Treaty.

The United States and Canada will tend to encourage nuclear development in some countries in the region. The reasons include the above-mentioned regulatory framework, the fact that development facilitates the flow of oil from South America and Mexico to the United States, and because it opens up an interesting market for the sale of nuclear equipment and technology by U.S. and Canadian industries.¹⁸

Latin America will be the stage for controversial debate between those interested in nuclear energy development, mostly the political and economic establishments, and those opposed, including environmental and peace groups. The supporters will argue that, notwithstanding their disapproval of nuclear weapons and their condemnation of their use as a crime against humanity, they stand by their countries' right to produce nuclear energy for peaceful purposes. They will say that the goal should not be to block developing nations from producing electricity from nuclear energy but to prevent the development from becoming a way to obtain fuel that could be used for nuclear weapons. The opponents will cite the risk of nuclear accident and the impossibility of ensuring that enriched plutonium or uranium will not fall into the hands of rogue states or terrorists. Many of the objections could be addressed through cooperation between nuclear fuel provider and consumer countries, including requirements that the former sell to consumers at reasonable prices and collect reactor waste. While nuclear energy is cleaner, it leads to the "existential dilemma" described by Carlos Pascual: on one hand, there is the menace of climate change, and on the other hand, the very policies designed to fight climate change are accelerating civilian use of nuclear energy. The latter could lead to a second menace: making it easier for nuclear technology and materials to fall into the hands of rogue states or terrorists which, in an extreme scenario, could lead to the devastation of cities and nations.¹⁹

In the context of concerns over global warming, the nuclear energy debate will tend to be conflated with the debate over new large hydroelectric dams, expansion of coal as fuel, and development of non-conventional renewable energy.

¹⁸ It is interesting to note that the Council on Foreign Relations recommends "establishing a formal working group with Brazil, Argentina, and Mexico to discuss matters associated with nuclear energy expansion, in accordance with International Atomic Energy Agency regulations...." Recommendation in Council on Foreign Relations, *U.S.-Latin America Relations: A New Direction for a New Reality*, (Washington: Council on Foreign Relations Press, (2008), 62.

¹⁹ Carlos Pascual, "The Geopolitics of Energy: From Security to Survival," paper presented at the Club of Madrid, 2008, http://www.brookings.edu/~media/Files/rc/papers/2008/01_energy_pascual/01_energy_pascual.pdf.

HYDROELECTRIC POWER AND TRADITIONAL BIOMASS

In addition to energy sources already discussed—oil, gas, coal, and nuclear—there are other energy products. They include hydraulic, traditional biomass, and non-conventional renewable energy. This section addresses the latter.

Hydroelectric Power

The table at the beginning of this chapter shows the energy mix in various regions of the world, revealing that South and Central America form the quintessential hydroelectric region. Hydroelectric power use in the region multiplies the world average by four and is second only to oil.

In places such as the United States and Central and Western Europe, hydroelectric energy has nowhere to grow, either because there are no new rivers to dam or because the remaining ones are precluded by strict environmental considerations from damming their waters. Northern Africa lacks hydroelectric resources and most Asia-Pacific nations have a limited supply. Therefore, hydroelectric energy is more closely associated with countries such as Norway and Russia, in Europe and Eurasia; Canada in North America; and China (the world leader in this field by far), India, Japan, Pakistan, New Zealand, and Australia, in Asia-Pacific. But association with an entire region happens only in Latin America. Hydroelectric energy is important in Mexico and Central and South America. In eleven countries of the region, hydroelectric energy represents more than 50 percent of total electricity produced. In Paraguay and Uruguay, all electricity is hydroelectric. The percentage is 80 percent in Peru, Costa Rica, and Brazil; 75 percent in Colombia; and 67 percent in Venezuela. Besides having the largest share of this resource in the energy mix, Latin America is also the region where hydroelectric energy has the most room to grow.

Around the world, hydroelectric energy is losing relative importance.

HYDROELECTRIC POWER (PERCENT GROWTH BETWEEN DECADES) (*)

	1976/66	1986/76	1996/86	2006/96
North America	50	23	17	-8
South and Central America	90	137	58	34
Europe and Eurasia	23	32	10	11
Asia-Pacific	44	39	48	62
Asia-Pacific minus China	35	21	27	25
Total	46	39	26	19

(*) *BP, Statistical Review of World Energy* June 2007. Hydroelectricity Consumption. Million Tons Oil Equivalent. Growth rates for Africa and Middle East not considered due to size (under 4% of the world total in 2006).

Worldwide, there is a clear down trend. Growth has dropped from an annual rate of 46 percent from 1966 to 1986 to 19 percent during ten years ending in 2006, with a clear decline from decade to decade. The downswing is strongest in developed regions, specifically in North America and the countries of Europe. Excluding South and Central America, the only region posting a sustained rise is Asia-Pacific, where growth over the past two decades has surpassed the world average. However, if the region is considered without China, its results strongly resemble the world total. In other words, the vast hydroelectric power increase in Asia over the past two decades is, in essence, a Chinese phenomenon.

In Latin America, hydroelectricity has enjoyed spectacular growth over the past forty years. While in 1996 the region barely produced 4.5 percent of world hydroelectric power, it multiplied its share to 15.1 percent over the succeeding two decades. Although now declining, growth rates over the past two decades have still doubled the world average. There are suggestions that Latin America's golden era of large dams may be coming to an end. Dam projects funded by the Inter-American Development Bank (IDB) over the past four decades illustrate the rise and subsequent fall of sector investment.

IDB-APPROVED DAMS (1960 TO 1999)
(US\$ Million)

1960 to 69	1970 to 79	1980 to 89	1990 to 99
183	1,932	3,397	1,657

Source: Jaime Millán, "The Future of Large Dams in Latin America and the Caribbean: IDB's Energy Strategy for the Region," July 1999.

The reasons for the decline are hard to understand. From a resource point of view, many of the best rivers, and within them, the best sites, are already being used. The remaining ones are less important and profitable. However, as opposed to Western and Central Europe or the United States, Latin America's hydroelectric potential remains enormous, so much so that less than 50 percent of available resources are being effectively used.

Price considerations also seem to contradict the decline. In a region where too many countries labor under heavy energy bills, hydroelectricity remains a cheap source of energy. Even after considering the magnitude of the initial investment required to build a dam, it is cheaper than hydrocarbons, including coal, and of course, cheaper than nuclear energy. At least in their present stage of development, wind and solar energy remain too expensive.

For countries concerned about dependence on foreign energy sources, hydroelectricity, if produced within their territory, means complete security. Electricity

generated abroad and transported by transmission lines creates the opposite situation: a high dependency, similar to what happens with pipelined gas, where at one end of the line there is a single supplier and at the other a single consumer.

The key advantage of hydroelectric energy is its climate change footprint, among the smallest of all sources of energy. It is a renewable energy that emits no greenhouse gases.

However, the fight against construction of large dams in the region has generated a more active and militant movement than has opposition to other energy sources with environmental effects that are more harmful and contaminating; the strength of the opposition is comparable only to that of nuclear plants. The roster of recent conflicts illustrates this.²⁰ In Guatemala, there is powerful opposition to construction of three hydroelectric plants on the Hondo River. In Mexico, the large Parota Dam in the State of Guerrero is facing difficulties from groups opposing completion of construction. Also in Mexico, a hydroelectric project on the Papagayo River is under fire. In Brazil, about a hundred nongovernmental organizations strongly oppose construction of two power stations on the Madeira River, one of the largest Amazon tributaries. These facilities could start producing 3,100 megawatts starting in 2013. In Chile, friction centers around four large dams in Patagonia that will generate 2,400 megawatts. In Central America, an announcement by Honduras and El Salvador about plans to build El Tigre dam in the Lempa River basin led to a protest movement that forced the Honduran government to state that the initiative has no priority.

Rather than purely local, the anti-dam movement is part of a Latin American and even global phenomenon. Worldwide, actors such as International Rivers—active in Latin America, China, Africa, and South and Southeast Asia—work closely with Friends of the Earth, another intercontinental organization. Perhaps the most active actor is the Latin American Anti-Dam Network (REDLAR), with the motto: “REDLAR for Rivers, their Communities and the Water.” The anti-dam network brings together about a hundred—or several hundred—national and local groups, communities, NGOs, peasant associations, monitoring centers, and citizen committees with assorted names and purposes.

These organizations have spawned a movement that is social in nature, not purely intellectual or publicity seeking nor exclusively environmentalist, against hydroelectric dams. Its ideological component and political strategy is interesting because it is a variegated and sometimes contradictory mix of ideas, perceived threats, interests, and projects. Dam opponents’ arguments are only partially based on the need to protect the environment; they are aware that hydroelectric power has no negative effects on climate change. Even more, as we shall see below, it is clear to

²⁰Diego Cevallos, “Latin America: Wave of Opposition Hits Hydroelectric Dams,” Inter Press Service News Agency, April 18, 2008.

many of the opponents that the greater cleanliness of Latin America's energy mix, when compared with other regions of the world, is largely a function of the leading contribution of hydroelectric power. As is inherent to any form of energy production, hydroelectricity does have a negative environmental impact in that by flooding vast expanses of land, dams can harm the ecosystem, negatively impacting flora and fauna. But it is hard to be in absolute opposition, given the possibility of mitigation measures. In some cases, opposition centers on the forced relocation of small villages and individuals belonging to native groups, but such cases are a minority—although, of course, they should be given special consideration. The most potent driver of opposition to dams is love of the wild, watercourses, and landscapes of great natural beauty, like the Amazon and Patagonia, unsullied by the hand of man. The dilemma such opposition poses for countries is not a trivial one. It will be briefly examined in the final part of this chapter.

Traditional Biomass

The oldest source of energy is obtained from traditional biomass, such as firewood, farm waste, and manure used for heating, lighting, and cooking.

This energy resource is largely associated with poverty, to the extent that at the onset of the twenty-first century, some 1.6 billion people still have no access to electricity and more than 2 billion only have firewood and manure for cooking and heating. The lack of electricity is associated with the lack of schools and hospitals and of the energy capable of running the machinery and factories that create jobs and increase labor productivity. The use of traditional biomass entails a type of poverty that is rural and female in nature, since women and children have to spend long hours gathering firewood and stay in enclosed spaces filled with smoke from open hearths used for both cooking and heating. As a result, they are subject to deleterious health effects that reduce the life expectancy of minors under age five. However, it would be a mistake to conclude that energy poverty is a purely rural phenomenon. It is also urban, usually affecting slum dwellers who either have no energy or hook up illegally to the power grid.

In Latin America, an estimated 60 million people have no electricity and 100 million only have biomass for their basic energy needs. Several institutions have called attention to the fact that, as offensive as this type of poverty is, it garners no special consideration from world public opinion, multilateral bodies, or government energy programs. This is alarming because, while it is true that energy is not a direct social demand on the order of education, food, or employment, it will not be possible to eradicate extreme poverty, improve primary education and rural health care, or increase labor productivity in shops and micro- and small enterprises without an increase in the energy available to the most vulnerable. These considerations have

led to proposals that basic access to modern energy sources should be considered a public good, in other words, a basic right that states must guarantee to all individuals by reason of their mere existence.

The use of firewood—the most distinctive form of traditional biomass—is hard to quantify. According to Economic Commission for Latin America and the Caribbean (ECLAC) data, it accounts for a major share of the energy mix in poor Central American nations, including 56 percent of the energy supply in Haiti, 42 percent in Nicaragua, 30 percent in Honduras, and 24 percent in El Salvador.²¹ In such cases, firewood depletes forests, erodes arable land, and causes desertification. As such, it contributes to global climate change. Yet, firewood can be used wisely in countries with extensive forests, large forest industries, and the technology to process farm waste. Sweden and Finland, where biomass accounts for 20 percent of primary energy, are examples.²² That should be the model replicated by Brazil, Chile, or Uruguay, where firewood accounts for about a tenth of the energy mix.

NON-CONVENTIONAL RENEWABLES AND ENVIRONMENTAL POLICY

In the past ten years, NCRE—wind, solar, geothermal, and nontraditional biomass such as sugar cane and corn-based and cellulosic ethanol—have taken center stage in the world debate, especially because of their connection to environmental policy, carbon dioxide emissions, and climate change.

If all energy sources contaminated to the same degree and manner, had the same production costs, and were equally safe, then it would not matter which is promoted. But safety, contamination, and price differences are enormous. As such, these factors are valued and weighted differently, depending on prevailing priorities and policy considerations.

For about two hundred years, and perhaps until the previous decade, the leading objective of most countries was to obtain cheap energy that could contribute to accelerated economic growth. This was the golden era of fossil fuels; coal dominated for a century and a half, oil emerged in the second decade of the twentieth century, and natural gas began to make a significant contribution in the last third of the century. It was the reign of what journalist and author Thomas Friedman called “the Dirty Fuel System.” But this is no longer an option. Humankind has reached consensus that the planet, our civilization, and human life will not survive unless the share of fossil fuels in the energy mix is quickly reduced and, hopefully, made irrelevant.

Safety and security of supply present another consideration. A secure supply cannot be guaranteed for any form of energy. It could be said that all are safe enough if produced from locally available natural resources, be they wind, sun, water, gas,

²¹ ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, (Santiago, Chile: ECLAC, 2007), p. 330.

²² Godfrey Boyle (ed.), *Renewable Energy*, (Oxford: England: Oxford University Press, 2004), p. 109.

coal, or oil. This is not the case with imported sources. Some of them, such as crudes, especially if light, LNG, and coal are traded in competitive markets. Others, such as pipelined natural gas, are governed by relationships that are monopolistic, monopsonistic, or both at the same time. In general, government policies have not been oriented toward self-sufficiency, with all sources of energy produced domestically. Rather, they have sought diversification of the fuel pool across several sources, both domestic and imported, with the latter coming from several different countries and regions. Pushed into a corner, governments have even defined the matter as “a national security issue,” as U.S. President Jimmy Carter did in January 1980 when he stated that the flow of oil from the Persian Gulf was a matter of “vital interest” to the United States and that his government reserved the right to “use all means necessary, including military force” to guarantee supplies. Safety and security of supply are more of a market or, alternatively, a diplomatic or military issue than an attribute of any one energy source.

The reason why there is a universal movement toward development of NCRE is not related to price or safety. It is ecological in nature. NCRE is cleaner than fossil fuels and some NCRE, although not all, compete on that field with nuclear or hydroelectric energy, albeit not always successfully. Corn-based ethanol, for example, contaminates more than nuclear or hydroelectric. Public opinion, academe, governments, and international organizations consider NCRE as one of the instruments for achieving a world energy mix compatible with reduced carbon dioxide emissions. However, NCRE development is not trouble-free, as a brief inventory of their characteristics shows.

The first characteristic and the cause of their appeal is that they are cleaner, albeit to varying degrees. Production of one hundred units of corn-based ethanol requires seventy-four units of fossil fuels²³ and creates collateral effects, such as the displacement of crops destined for human or animal consumption, which contribute to the world food crisis. Relative to traditional fuels, greenhouse gas emissions from various types of ethanol are also very different: 20 to 40 percent lower for corn-based and 70 to 90 percent lower for cellulosic ethanol.²⁴ Photovoltaic cells do not contaminate, but detracting from this advantage are substantial emissions from solar panel construction. A table of externalities to ascertain the contamination costs incurred by different energy sources in generating 1 kilowatt-hour ranked them starting with the dirtiest ones: coal and fuel oil (9.2¢ and 9¢ per kilowatt hour); followed by gas (0.8¢); photovoltaic (0.7¢); geothermal (0.6¢); nuclear (0.4¢); wind (0.1¢), and hydroelectric, including both large and small plants (0.01¢).²⁵

²³Robert Henson, *The Rough Guide to Climate Change*, (London: Rough Guides Ltd., 2006), p. 307.

²⁴Suzanne Hunt and Janet Sawin with Peter Stair, “Cultivating Renewable Alternatives to Oil,” *The Worldwatch Institute, 2006 State of the World*, (New York: W.W. Norton & Co., 2006), p. 69.

²⁵ECLAC, “Towards lower GHG economies: mainstreaming sustainability in carbon markets and in investment environments,” Regional Workshop in Santiago, Chile, September 13–14, 2005.

The second characteristic of NCRE is strong expansion rates,²⁶ leading many to conclude that, in a reasonable amount of time, NCRE will play a key role in the world energy mix. NCRE are growing at very high rates, especially solar energy, which grew 50 percent in both 2006 and 2007. In fact, through the past decade, solar energy has grown 36 percent a year, which means that the installed capacity doubles every two years. Wind energy has enjoyed only slightly lower growth rates, averaging 28.5 percent in the past decade. While ethanol grew 15 percent over the past five years and 28 percent in 2007, expansion could slow as countries worry about the potential impact on food production. Biodiesel enjoyed a 40 percent average annual growth rate from 2002 to 2006. With expansion on the order of 2 percent a year, geothermal electricity is the slowest growing of the NCRE. In contrast, small power plants are expanding 6 percent a year.

Excitement over such spectacular expansion should moderate after taking into account a third characteristic: The NCRE starting point is so low that their actual contribution to world production remains negligible. Considering only electricity, 67 percent is produced by oil, gas, and coal; 15 percent by hydroelectric plants; 14 percent by nuclear energy; and only 3 percent is produced by NCRE. That means NCRE can only be considered a medium-term solution to a dramatically urgent problem, climate change.

The fourth consideration is that these energies are expensive. Production costs are higher than for large dams and fossil fuels such as coal and gas. How much higher is hard to say, as changes in technology and production processes are constantly lowering energy costs. This is true both for NCRE and traditional sources, making comparison more difficult. Just as LNG chain costs have dropped 30 percent in recent years, so have wind and solar energy costs. That said, the difference between them can be enormous.

²⁶Unless otherwise shown, all capacity increase data in this section are from REN21 Renewable Energy Policy Network, *Global Status Report 2007* (Spanish version) and *BP Statistical Review of World Energy, 2008*.

NCRE CHARACTERISTICS AND COST (I)
(Power Generation in ¢/kWh)

Large Hydroelectric	3–4 (*)
Small Hydroelectric	4–7 (**)
Land-Based Wind	5–8 (***)
Ocean-Based Wind	8–12 (+)
Roof-Mounted Solar Panels	20–80 (++)
Solar Concentrators	12–18 (+++)

() Plants from 10 to 18,000 MW. (**) Plants from 1 to 10 MW. (***) 60–100 m blade size. (+) 70–125 m blade size. (++) Costs depend on latitude: 50–80¢ in higher latitudes, for example, Northern Europe; 30–50¢ in intermediate latitudes, for example, Southern Europe; and 20–40¢ in latitudes closer to the equator. (+++) Considers 50–500 MW collectors; cost drops as plant size increases.*

(1) REN21, Renewable Energy Policy Network, Global Status Report 2007, Spanish version.

A fifth characteristic is that production is concentrated in a small group of countries. Ninety percent of ethanol is produced by just two economies: the United States (46 percent) and Brazil (44 percent). Of total solar energy, 91 percent is produced by three of the richest nations in the world: Germany (50 percent), Japan (30 percent), and the United States (11 percent). Seventy-two percent of wind energy is produced by five nations: Germany (24 percent), the United States (18 percent), Spain (16 percent), India (8 percent), and China (6 percent). As to geothermal energy, the United States (mainly California) leads (30 percent), followed by the Philippines (20 percent), Mexico (10 percent), and Indonesia and Italy (8 percent each) to account for 76 percent of world production.

A look at the five largest producers of the leading components of the world energy mix shows that while concentration remains very high with 43 percent of the oil and 52 percent of the natural gas and hydroelectricity, this is a consequence of natural resource distribution. In contrast, concentration of nuclear energy production—where the five largest producers account for 68 percent—is not a consequence of natural resource availability but of the political and technological capacity of producer countries. Wind and sun are available throughout the planet, but concentration results from the high cost of production technologies and the fact that, at their present stage of development, they cannot compete with oil, gas, coal, or water unless massively subsidized. It is their high cost that explains why efforts to increase the NCRE share of the energy mix are only having significant results in more industrialized nations, while countries such as China or India, in spite of significant increases in some NCRE, are unable to tip the energy balance away from sustained fossil fuel growth.

In matters of NCRE, what can Latin America and the Caribbean expect in the coming decade? Action on this issue should emphasize policies for specific sources in each nation, in accordance with their respective comparative advantages.

At a sectoral level, Brazil's sugar cane ethanol has the only NCRE development policy in Latin America that has had a world impact. However, this remarkable success should not obscure the fact that this effort has taken more than thirty years under several governments and has gone through a difficult process of trial and error. At a time when ethanol (although not Brazil's sugar-cane based ethanol) is blamed for taking over farmland formerly used for food crops, it is hard to know whether the phenomenon will spread to other countries. That said, the Colombian experience provides a basis for optimism.

As to geothermal energy, although it may be the slowest-growing NCRE, the success story is El Salvador, where one quarter of all electricity consumed comes from this resource. Also interesting are achievements in Costa Rica and the potential of Nicaragua. The world's third-largest geothermal producer, Mexico, is worth noting. Meanwhile, state-owned ENAP has joined with private partners to develop geothermal resources in northern and central Chile.

Wind power generation is growing fast in South and Central America. In 2007 and 2006, it rose 46 percent and 103 percent, respectively. But its starting point is low, so marginal megawatt increases sound very high in percentage terms. As noted, wind power has been growing 28 percent a year at the global level, but such increases have had no impact in Mexico, the Caribbean, and South and Central America, which account for a combined 0.7 percent of global installed capacity. Together, the ten Latin American and Caribbean nations with installed capacity produced not more than 670 megawatts in 2007; the 46 percent growth reported in 2007 came almost entirely from a 161-megawatt increase in Brazil.

WIND POWER IN LATIN AMERICA AND THE CARIBBEAN (2007)
Total Installed Capacity (MW)

Brazil	392
Mexico	86
Costa Rica	79
Argentina	30
Jamaica	21
Chile	20
Colombia	19
Guyana	13
Ecuador	3
Other	4
TOTAL	667

Source: Based on data from the World Wind Energy Association and the BP, *Statistical Review of World Energy*, 2008.

The contribution of photovoltaic solar energy in Latin America is even smaller than that of wind power. It is so small that studies from both the International Energy Agency and British Petroleum contain no data for the region save for a reference to Mexico, which accounts for three-hundredths of world production.

South American countries with rich forest resources should keep an eye on new technologies capable of making cellulosic ethanol commercially viable, since its development could have a significant impact. The government of Chile and leading universities and forest companies have started to look into producing cellulosic ethanol from farm and forest waste.

In addition to sector policies targeted at specific forms of energy, the region should set global targets for NCRE contribution to the energy mix. A realistic goal is a 15 percent contribution to the energy mix over the next twenty years. That is quite ambitious since it represents three times the current contribution of coal, one-third the contribution of oil, and 15 times the contribution of nuclear energy. This is a tough challenge to meet. In addition, over the next twenty years, energy consumption in the region will grow about 60 percent. This means that if NCRE contribute three units out of 100 consumed in 2007, they should contribute 24 out of 160 in 2027. This is truly a vast undertaking for relatively poor countries, since expansion of almost all NCRE presupposes either subsidies, which can become a heavy fiscal burden for the country, or hikes in energy prices to levels detrimental to public well-being and economic growth. Already laboring under heavy oil bills and social demands, Latin American and Caribbean countries facing energy shortages are un-

likely to allocate large sums to these purposes. An NCRE development program with undefined costs and funding sources will never be more than a pipe dream.

These considerations underline a compelling issue: If Latin American energy policy seeks to help cut carbon dioxide emissions worldwide, NCRE development alone will not suffice. Energy demand in Latin America and the Caribbean will grow strongly over the next twenty years. Such growth cannot be met by NCRE, not even under the most optimistic of scenarios. That means the issue to address is the region’s overall energy mix.

Public policy must begin by considering that Latin America’s climate change situation is comparatively better than other world regions’ because Latin America is not as dependent on fossil fuel consumption. Its total contribution of coal, oil, and gas stands at 71 percent. That compares well with Africa and the Middle East, where it accounts for 93 and 99 percent, respectively.

ENERGY MIX 2007 (PERCENT)

Coal		Coal+Oil		Coal+Oil+Gas	
Middle East	1.1	S. & C. America	49.6	S. & C. America	71.5
S. & C. America	4.0	Europe & Eurasia	49.7	Europe & Eurasia	84.5
Europe & Eurasia	17.9	Middle East	52.2	North America	87.3
North America	21.6	North America	61.6	Asia-Pacific	91.7
Africa	30.7	Africa	70.8	Africa	92.7
Asia-Pacific	49.9	Asia-Pacific	81.1	Middle East	99.1
World Total	28.6		64.2		88.0

Source: BP, *Statistical Review of World Energy*, 2008.

The lower fossil fuel contribution is explained by hydroelectric power in Latin America for which, as noted earlier, growth stands at four times the world average. Under these circumstances and assuming 60 percent growth in energy consumption over the next twenty years, these policy objectives seem reasonable:

- First, preserve the current share of hydroelectric power in the energy mix. That implies increasing production from the current 153 million tons of oil equivalent to 245 million.
- Second, keep and, ideally, reduce coal’s share. Ensure that it stays at 5 percent or less, which is no easy task since demand will be fueled by lower prices relative to oil and gas, and especially to NCRE. And do not increase natural gas and oil shares.
- Third, increase the NCRE contribution from the 3 percent estimated at present to 15 percent in 2027.

When considering only three key areas—hydroelectric power, fossil fuels (coal, oil, and gas), and NCRE—the aforementioned objectives could lead to two scenarios through 2027, both based on 60 percent energy demand expansion in the region by 2027.

The first scenario assumes that hydroelectric energy maintains its production in absolute terms (i.e., no new large dam construction in the next twenty years); absolute NCRE production not only increases but it does so in such a way as to increase to 15 percent from 3 percent of the energy mix; and fossil fuels stand for the portion not accounted for by hydroelectric energy and NCRE.

SCENARIO ONE

	Total Production	Hydro	NCRE	Fossil
2007 Production	570	153	17	395
Percent:		27	3	70
2027 Production	885	153	133	599
Percent:		17	15	68

In this case, the vast effort involved in multiplying NCRE production nearly eight times brings minimal results in reducing the fossil fuel share of the energy mix, just two points in twenty years.

The second scenario assumes that hydroelectric production rises so as to maintain its present percentage share of the mix (i.e., it substantially increases current generation levels; as in the preceding table, that NCRE increases its share to 15 percent; and that fossil fuels stand for the portion not accounted for by hydroelectric energy and NCRE.

SCENARIO TWO

	Total Production	Hydro	NCRE	Fossil
2007 Production	570	153	17	395
Percent:		27	3	70
2027 Production	885	239	133	513
Percent:		27	15	58

In this case there are significant reductions in contaminating gas emissions, since the fossil fuel share of the energy mix, despite a 60 percent increase in total energy consumption, drops 12 percentage points—a significant achievement.

Finally, a candid review of the environmental implications of energy cannot fail to consider that atomic energy is a clean source, because it emits no carbon dioxide or other contaminating gases. A Latin American energy mix that is friendlier to climate change policies should also consider increasing nuclear energy's share. Nuclear energy raises many objections of other kinds, as discussed earlier, but a policy that prevents the current relative weight of hydroelectric energy from being maintained while refusing to contemplate nuclear development will have disastrous environmental effects. A policy rejecting both is simply unacceptable. Given the urgent need to address climate change, what a country cannot do is relinquish both dam and nuclear energy, much less the countries of South America, which have a vast hydroelectric potential.

Challenges for Latin America in the Global Economy

LUIS MIGUEL CASTILLA

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In recent decades, Latin America not only experienced one of its longest periods of growth, but it also benefited from very favorable external conditions that have partly contributed to its substantial accumulation of external assets. Probably the main determinant of the improvement in Latin American countries' external accounts, especially in South America, has been the significant increase in international raw materials prices. This has spurred a substantial export boom and an attendant external surplus. In the period 2003 to 2006, the region's exports grew at an average rate of 22 percent, some 60 percent of which was the result of trends in international prices for raw materials. The export boom has given rise to an average current account surplus of about 1.1 percent of GDP in the last five years and international reserves of about \$400 billion. At the global level, the external surpluses of emerging economies—including the Latin American economies—are financed in part by the significant current account deficits of some industrialized countries, such as the United States.

Another factor, one that has aroused much interest, also helps explain the increase in capital flows to some Latin American countries: remittances from Latin American migrants overseas. A fifth of all remittances sent through official channels go to Latin America, making it the world's leading recipient region. They account for almost 40 percent of international financial flows to Latin America. In some countries remittances are the main source of external revenue.

This chapter considers whether the boom in raw materials exports and the increase in remittances have offset the region's relative loss of share in international trade—which has been apparent for several decades—and its relative decline as a recipient of foreign direct investment (FDI) and official development assistance (ODA), made up of donations and official transfers to developing countries. From the mid-1990s to the start of the present decade, there was a clear decline in Latin America's share of international trade, FDI, and ODA relative to other regions. In the areas of international trade and foreign investment, the region has been supplanted by the

Asian economies, particularly China. As regards development aid, which includes loans from multilateral banks, Africa is the main recipient region.

An analysis of Latin America's insertion into the global economy is appropriate for two reasons. First, the region remains substantially dependent on external financing to maintain high levels of investment. Though Latin America now has a current account surplus, historically it has posted deficits and has been a net debtor to the rest of the world. Moreover, domestic savings rates remain low (in certain cases the rates are half of those in some Asian economies) and they are insufficient to finance the high levels of investment required to sustain economic growth. More resources are certainly needed to boost domestic savings, but the importance of external savings in the region's development is not to be disregarded.

Second, the long period in which the region faced a very favorable external environment seems to have ended. The extent of the slowdown in global growth is uncertain, and thus far Latin America has been relatively immune to contagion from the international financial crisis. It is likely, however, that future conditions will be less propitious in terms of the impetus provided by external demand, broad access to international liquidity, and protectionist pressure in some industrialized economies. In this context, it seems opportune to assess the changes that have taken place in the region's insertion into international trade and financial flows. This chapter describes the patterns involved, identifies the reasons for the changes, makes recommendations on how such trends might be reversed, and suggests how the region might take greater advantage of incoming resources.

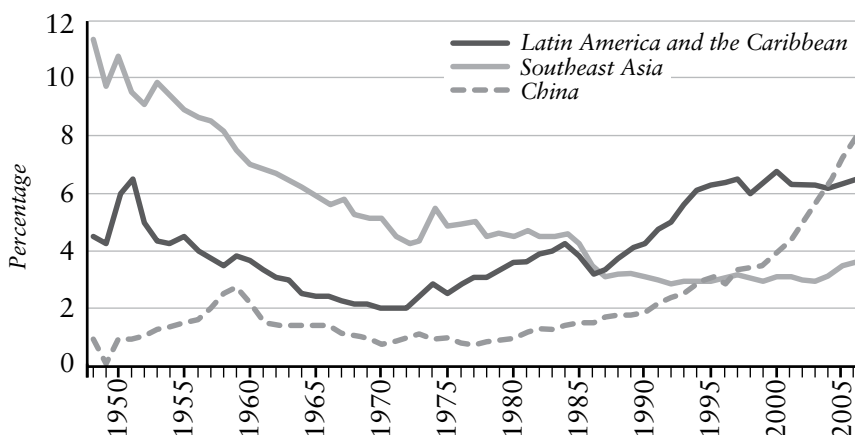
INTERNATIONAL TRADE

In recent decades, globalization has prompted a closer interaction among countries through trade in goods and services. World exports as a share of GDP have doubled in the past forty years, and almost half of that growth has taken place in the past decade. Latin America's international goods trade has also grown substantially and fast, especially following the reforms of the 1980s.¹

Despite the efforts made to consolidate economic opening, however, the region's share of world trade has declined. Figure 1 shows that while the shares of China and East Asia have grown, Latin America's share has contracted. It is now less than the shares of the former two and less than half of the region's share forty years ago (CAF, 2005). Countries such as Chile and Mexico have managed to increase their share of international trade, but there is a significant gap between the region as a whole and the rest of the world.

¹The region's trade openness index has increased from 28 percent in the 1970s to 46 percent today.

FIGURE 1. SHARE OF WORLD EXPORTS



Source: Prepared by the author on the basis of WTO data (2007).

Since 2003, as a result of the significant increase in international prices for raw materials, Latin America’s share of world trade has grown. But the share of countries such as China has grown faster in the same period. Latin America’s share of world goods exports rose to 3.5 percent in 2006, from 2.9 percent in 2003, while China’s increased to 8 percent from 5.8 percent.

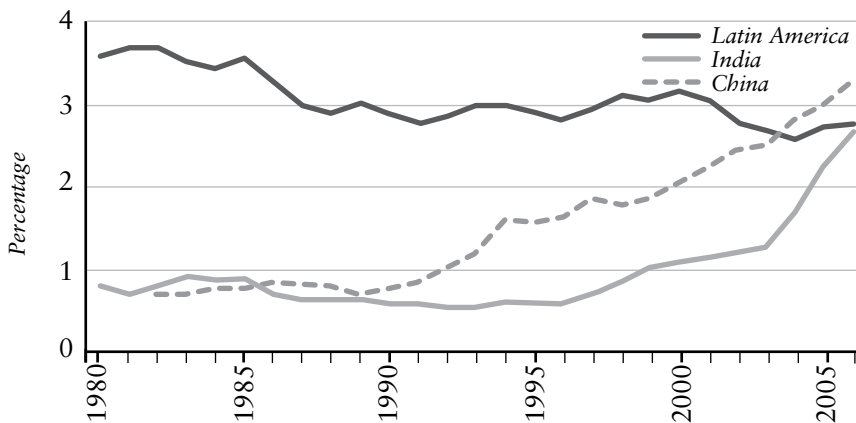
The substantial dynamism of the region’s trade in recent years has been driven by the surge in raw materials prices. In the period 2003 to 2006, Latin America’s exports grew by an average of 22 percent, the result of a 9 percent increase in export volumes and a 13 percent rise in export prices. Hence, 60 percent of the positive performance of Latin American exports in the past four years has been determined by the movement of prices. This is in contrast to what happened in the 1990s, when about 90 percent of export growth stemmed from an increase in volume.

Latin America’s goods exports have grown in the context of an expansion of world trade, in which China and the countries of Southeast Asia have been prominent. A detailed review of the performance of those countries reveals that their export growth has been driven, above all, by the dynamism of manufactured exports. By contrast, Latin America continues mainly to export primary products, and that has become more pronounced in recent years. To a large extent, these patterns reflect each region’s comparative advantages and the fact that China and other countries of Southeast Asia have managed to integrate themselves effectively into global production chains.

As regards trade in services, developing countries have become important players. In 1999, nine of the twenty-five world leaders in services trade were developing countries, especially the Asian countries and most particularly China and India (DTI, 2000). Although Latin America, India, and China have a similar share of

world services exports (3 percent), the trends have differed very significantly among the regions (Figure 2). Indian services exports grew at an annual average rate of 14 percent in the 1990s and have risen by 18 percent annually in the present decade; Chinese services exports have grown by 20 percent and 14 percent, respectively, in the same periods. Latin America, however, has been less dynamic. Though the growth of Latin American services exports was by no means insignificant in the 1990s (7.2 percent), in the first half of the present decade the growth rate was just 3.4 percent. The upshot is that the region lost about 1.5 percentage points of the world export market from 1980 to date.

FIGURE 2. SHARE OF WORLD SERVICES EXPORTS



Source: Prepared by the author on the basis of WTO data (2007).

A significant constraint on the market penetration of Latin American exports of goods and services has been the persistence of trade barriers, which remain high despite worldwide trade liberalization. The reduction (and possible elimination) of those barriers is a crucial component of the region's strategy to increase access to external markets.

At the multilateral level, both the industrialized countries and the developing economies lowered their tariffs significantly and have eliminated many of their non-tariff barriers. Moreover, a substantial number of regional and bilateral agreements have helped extend trade liberalization further.

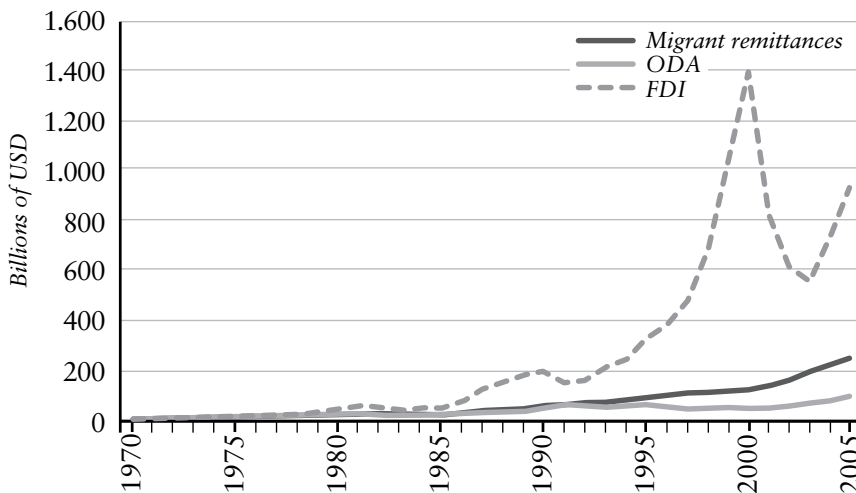
Despite vigorous tariff reduction and the dismantling of many non-tariff barriers, Latin American countries continue to face significant constraints on market access for their exports. Both kinds of barriers persist not only in the developed markets of the region's traditional trade partners—the United States and the European Union—but also in the potential markets of other developing countries and even in markets within the region itself. Like other developing economies, moreover, Latin

American countries face competition arising from the domestic support that the members of the Organization for Economic Cooperation and Development (OECD) grant to their agricultural sectors. It is regrettable that the Doha Round has made such little progress on this point and that pressure for greater protectionism has arisen in several industrialized countries—to the detriment of further non-discriminatory liberalization and of greater even-handedness in the application of trade rules. This issue is discussed in more detail later in the chapter.

FINANCIAL FLOWS

The globalization and liberalization of the world economy has been accompanied by a significant upswing in financial flows, especially FDI,² remittances from migrants, and ODA. Rising FDI flows were a prominent feature of the 1990s. Despite the decline in such flows between 2000 and 2003, they are still substantially greater than in earlier decades. A point worth noting about current world financial flows is the growing share of remittances and ODA (Figure 3).

FIGURE 3. WORLD FINANCIAL FLOWS



Source: Prepared by the author on the basis of World Bank (2007) and UNCTAD (2007) data.

To a large extent these high levels of financial flows have gone to developing countries, where they comprise an important source of external resources. As with international trade, however, since the 1990s Latin America has lost ground to other developing economies as a recipient of such flows, specifically in the area

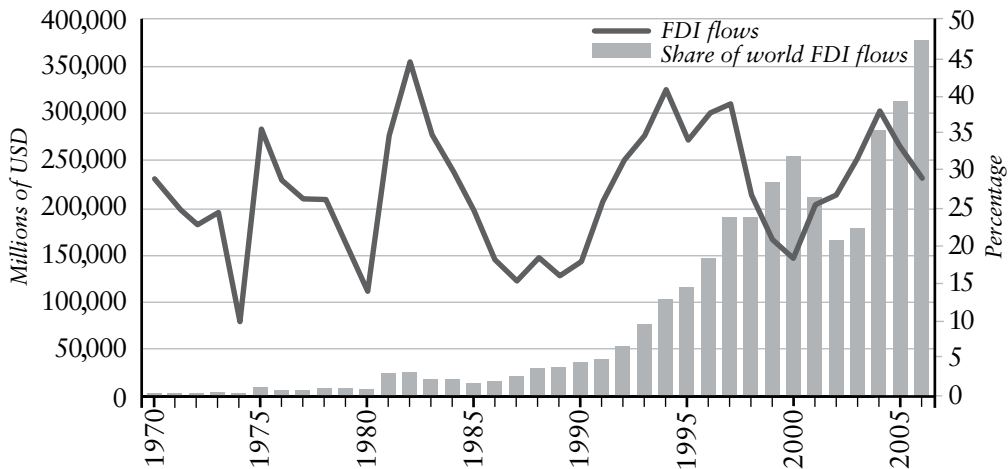
² It should be noted that there are other private financial flows, including short-term investments and private foreign debt. Under analysis here, however, is foreign investment since that accounts for the biggest share of private flows.

of FDI and ODA. By contrast, Latin America's share of the remittances going to the developing world has grown substantially in the current decade. The region is now the leading recipient of remittance flows. This part of the chapter examines the performance of flows of FDI, ODA, and remittances to Latin America relative to other developing economies.

Foreign direct investment

FDI flows to developing countries grew at an unprecedented rate in the 1990s, the result of economic opening and liberalization in those countries, as well as the boom in mergers and acquisitions on which multinational companies embarked. FDI flows to developing countries in the 1990s were seven times greater than flows in the previous decade, and those countries' share of world FDI flows rose from 14 percent in 1980 to 41 percent in 1994 (Figure 4).

FIGURE 4. FDI FLOWS TO DEVELOPING COUNTRIES



Source: Prepared by the author on the basis of UNCTAD data (2007).

In this context of greater international capital mobility, FDI flows to Latin America quadrupled in the second half of the 1990s (Table 1). Even taking into account the decline in FDI flows to the region (and to the world as a whole) between 2001 and 2003, the average for the period 2000 to 2006 was still four times higher than the average for 1990 to 1994.

TABLE I. FDI FLOWS TO LATIN AMERICA (MILLIONS OF USD)

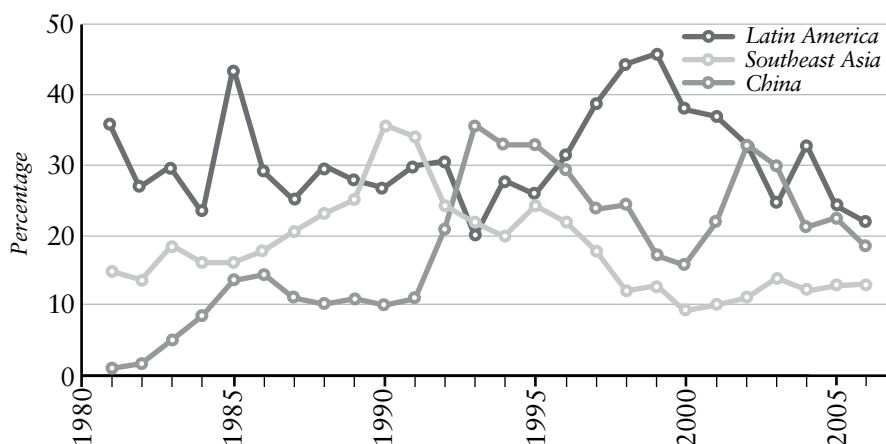
	1990-1994*	1995-1999*	2000-2006*
Latin America and the Caribbean	16,509.4	67,591.3	75,551.5
South America	9,147.3	44,613.8	39,585.6
Argentina	3,026.8	10,599.3	4,398.6
Bolivia	107.7	738.4	340.4
Brazil	1,518.6	18,324.8	19,137.8
Chile	1,510.2	5,303.1	5,428.7
Columbia	818.2	2,795.8	4,064.4
Ecuador	302.9	638.9	1,396.2
Guyana	68.6	61.9	57.4
Paraguay	92.3	185.0	70.2
Peru	801.0	2,350.3	1,869.9
Suriname	-3.2	0.5	175.7
Uruguay	68.2	163.8	533.5
Venezuela	835.5	3,449.0	2,104.1
Other	0.6	3.5	9.5
Central America and the Caribbean	7,362.1	22,977.5	35,965.8

* Annual averages.

Source: Prepared by the author on the basis of UNCTAD data (2007).

The region has been one of the leading recipients of FDI directed at developing countries. Figure 5 shows that in the period 1997 to 2001, Latin America received an average of 41 percent of FDI flows to the developing world. As a recipient, the region was only surpassed by China in the period 1993 to 1995 and in 2003. Since 1999, however, the region's share has declined; in 2006 it received just 22 percent of FDI flows to the developing world. This comes despite the upturn in flows to the region from 2004 onwards—the result of economic prosperity and high raw materials prices, which induced significant investment in the region's primary sectors.

FIGURE 5. SHARE OF FDI FLOWS TO DEVELOPING COUNTRIES, BY REGION



Source: Prepared by the author on the basis of UNCTAD data (2007).

Though FDI flows to China and India have risen continuously since the early 1990s, the stock of FDI in Latin America reached \$909 billion in 2006. This is triple the level of stock in China (\$295 billion) and eighteen times higher than the level in India. China amassed more FDI than Latin America between 1990 and 1997 but, since then, the situation has been reversed, albeit not in all sectors.³ Thus, although China and India have gained importance as recipients of investment, Latin America remains a significant destination for FDI. Moreover, there is evidence to suggest that there is no substitution effect between FDI flows to China and India and those to Latin America. Rather, there is complementarity, even in the case of China’s manufacturing sector (Saggi, 2006).

Three quarters of the total FDI received by Latin America was concentrated in the region’s biggest economies (Brazil, Mexico, and Argentina) in the period 2000 to 2006. But when FDI is considered relative to the size of the economy, a different picture emerges. The countries of Central America and the Caribbean, for example, recorded high levels of FDI relative to the size of their economies in the period 2000 to 2004—partly because some of those countries are significant tax havens and receive large volumes of financial inflows. The pattern of source countries has been steady since 1996. The United States has strengthened its position as the leading investor, providing almost 40 percent of the FDI in Latin America. Spain, which became an important source of investment during the boom of the 1990s, has lagged somewhat but remains the second main source of FDI. It is worth noting that Latin America has begun to attract FDI from China and India, especially in the natural resources sector. The figures do not yet reflect this significantly because it is a recent development.

³U.S. FDI in manufactures, for example, has grown more in China than in Latin America since 1997.

As regards the economic activities targeted by FDI, since the 1990s Latin America has experienced an increase in flows to the services sector, as has the rest of the world. According to UNCTAD data for 2004, FDI in the services sector accounted for 43.4 percent of total flows to the region, followed by FDI going to manufactures or intermediate goods (28.6 percent).⁴ This pattern does not seem to have changed substantially since the 1990s. FDI from the main European investor countries has gone largely to the services sector, especially to telecommunications and energy, as well as to the financial system and retail trade (Calderón, 1999). FDI from the United States has been concentrated in the manufacturing sector, although in recent years it has diversified into services, mainly telecommunications and financial services.

Official development assistance

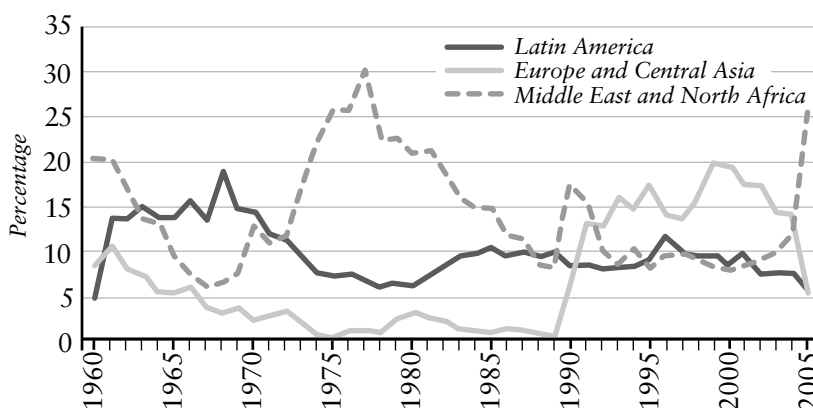
ODA flows consist of grants, technical cooperation assistance, and credits (of which more than 25 percent comprise a grant element) from official agencies to foster economic development in recipient countries. Since 1990, ODA flows have been growing at an annual average rate of 4 percent (World Bank, 2007), and in 2005, worldwide flows totaled \$106 billion. Latin America receives a relatively smaller share of ODA. Flows to the region have grown by 1.4 percent a year since 1990, amounting to \$6.3 billion in 2005. That is 5.9 percent of the total world flows, far from the share captured by regions such as sub-Saharan Africa (30.7 percent) or the Middle East and North Africa (25.3 percent). This is in sharp contrast to the situation that prevailed 35 years ago when Latin America's share of ODA was similar to that of these other two regions, accounting for 14.6 percent of the world total in 1970 (Figure 6). This pattern is unsurprising since development aid is granted in inverse proportion to the recipient countries' levels of per capita income. As the per capita income of Latin American countries has increased relative to that of other developing regions, ODA has declined.⁵

Data for 2005 show that the Latin American countries that receive most ODA are the poorest in the region. Prominent are Nicaragua (which takes 13.8 percent of total flows to Latin America), Honduras (12.7 percent), Bolivia (10.9 percent), and Haiti (9.6 percent). Substantial shares of ODA also go to some countries with average income for the region; these include Colombia (9.5 percent) and Peru (7.4 percent). Indeed, ODA to Colombia has increased significantly, from \$89 million in 1990 to \$511 million in 2005, making Colombia the Latin American country that has experienced the greatest relative increase in aid during the past fifteen years.

⁴The composition of FDI in the services sector is even more pronounced at the global level. In 2002, some 59.2 percent of world FDI was in services, 33.1 percent in manufactures, and 6.1 percent in primary products.

⁵Note also that some industrialized countries have reduced their levels of ODA. U.S. ODA, for example, fell from 18 percent of GDP in 1962 to 2.2 percent of GDP in 2006.

FIGURE 6. SHARE OF OFFICIAL DEVELOPMENT ASSISTANCE



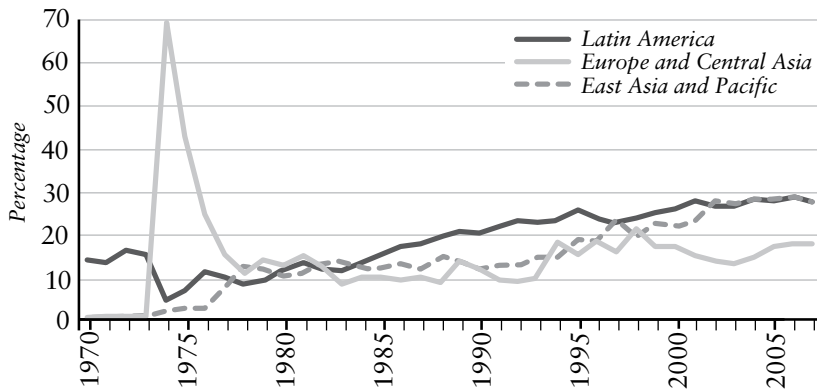
Source: Prepared by the author on the basis of World Bank data (2007).

Remittances

According to recent estimates from the World Bank (2008), remittances to developing countries amounted to \$221 billion in 2006 and an estimated \$240 billion in 2007. The latter represents accumulated growth of 151 percent relative to 2001 flows, and is 671 percent higher than flows in 1990. It has been estimated that international remittances in 2006 accounted for 1.9 percent of total income in emerging economies (World Bank, 2008). In short, remittances from migrants have become a significant source of external income for developing countries in terms of both their scale and their rate of growth, and in recent years they have exceeded flows of ODA and private capital in a substantial number of countries. Today they account for a third of total financial flows to the developing world.

A fifth of all remittances sent through official channels go to Latin America (\$57 billion in 2006 and an estimated \$60 billion in 2007), making Latin America the leading recipient region at the global level (Figure 7). Remittances account for 39 percent of total financial flows to the region. Some 44 percent of them go to Mexico, while 30 percent go to the countries of Central America and the Caribbean (World Bank, 2008). In countries such as Honduras, Haiti, Jamaica, and El Salvador, remittances exceed 18 percent of GDP. In Mexico, the world's third-leading recipient country in absolute terms (\$25 billion in 2007) after India and China, such flows represent 2.9 percent of GDP. In South America, the target of 26 percent of remittances to the region, the main recipients in absolute terms are Colombia and Brazil (\$4.6 billion and \$4.5 billion, respectively, in 2007). Relative to GDP, however, remittances are a much more important source of income in Ecuador (7.2 percent of GDP), Bolivia (5.5 percent), and Paraguay (4.7 percent).

FIGURE 7. SHARE OF REMITTANCES TO DEVELOPING COUNTRIES



Source: Prepared by the author on the basis of World Bank data (2007).

There are no precise data on the source countries of these remittances. Nonetheless, a recent estimate by the World Bank (2008) of the matrix of bilateral remittances in 2005—based on the stock of migrants and the income levels of the migrants’ home and host countries—reveals that 74.9 percent of remittances to Latin America come from the United States, 5.5 percent from other countries of the region, 5.3 percent from Spain, and 2.5 percent from Japan.

The large increase in remittances is closely related to higher levels of migration. It has been estimated that in 2005 a total of 28.4 million Latin Americans—5.2 percent of the region’s population—were living abroad (World Bank, 2008). In absolute terms, Mexico is the leading source of migrants (11.5 million people), followed by Colombia (2 million), Cuba (1.3 million), Brazil (1.1 million), and El Salvador (1.1 million). The countries with the highest migration rates (that is, the ratio between the stock of migrants abroad and the population at home) are small Caribbean countries with rates that surpass 50 percent. As regards the countries in which Latin American migrants are living, 63.8 percent are in the United States, 11.7 percent in other countries of the region, and 6.5 percent in Spain.

HOW CAN LATIN AMERICA REGAIN GROUND AND MAXIMIZE THE BENEFITS OF ITS PARTICIPATION IN THE INTERNATIONAL ECONOMY?

As mentioned earlier, Latin America’s role in the world economy has waned in recent decades, specifically as regards flows of trade, FDI, and ODA. The increase in raw materials prices has helped bring about a marginal increase in Latin America’s share of world trade in the past three years. But this has happened against the background of an expansion of world trade and, thus, has been insufficient to offset the region’s sustained decline over four decades.

On the other hand, Latin America is the leading recipient region of remittances, which account for a third of financial flows to the region. Nonetheless, remittances are only one form of participation in the world economy. Latin America faces great challenges posed by increasing globalization, obliging the region to rethink its growth strategy. Its relative loss of importance in the international economy is a clear warning that the public policy agenda should be redefined. A series of policy recommendations follows for each of the areas examined in this chapter: international trade, FDI, and remittances.

International trade

The countries of Latin America have to devise a coherent negotiating strategy based on the many trade options available but geared to the overall goal of furthering multilateral opening. Latin America's expanded participation in international trade requires a strategy that uses means of insertion best adjusted to the specific circumstances of the region's economies, as well as to their comparative advantages and the balance among their particular interests. There are many complementarities among these different means of insertion, whether multilateral, bilateral, or regional. There is a specific correlation between each country's need for greater trade liberalization and the available options for economic insertion.

There is no single route (or set of routes) to take. The choice must be made with a full understanding of the costs and benefits of the various alternatives for international insertion. Therefore, countries must assess the aggregate and sectoral effects of these trade options, as well as their social and territorial effects. The latter impacts are important in view of policymakers' growing interest in identifying the real effects of international opening on key variables such as employment, income distribution, and poverty indices. The evidence generally shows that, depending on the characteristics of each trade agreement, trade liberalization has a positive economic and social impact on participating countries.

As regards potential complementarities among the different negotiating forums, the aggressive liberalization pursued in bilateral agreements between Latin American countries and their main industrialized trading partners could overcome the inertia evident in some regional integration schemes. Indeed, many commitments that countries have assumed in these accords could be adopted by the subregional groups, with a view toward furthering the internal process of integration and policy harmonization. Although the multilateral approach through the World Trade Organization seems likely to offer the greatest benefits for each country, regional agreements can give small economies more bargaining power and prepare them for more demanding and more significant commitments at the multilateral level.

Naturally, trade liberalization cannot be the only pillar of an integration project. Such an endeavor should include activities in areas directly or indirectly related to trade, such as air and maritime customs services, customs transit and technical norms, and greater policy coordination and harmonization. In that respect, further progress on trade facilitation could widen Latin American countries' access to international markets. Such measures might seem obvious, but improvements in the logistics platform often entail investments that the countries are unable to make in the short term. The successful cases, however, show that in the medium and long term, the benefits exceed the initial implementation costs.

Capturing new markets is neither the only nor the most important challenge facing Latin American exports. Just as urgent is the need to significantly improve domestic productivity. That would give the countries greater export potential, make them more competitive, and open new options. Since 1980, Latin America's productivity has fallen substantially relative to that of the United States. This is in contrast to what has happened in more developed nations, such as Finland and Ireland, as well as countries in East Asia, where productivity relative to the United States has risen consistently. The relative decline of Latin America's productivity has further widened the gap between the region and the emerging Asian and European countries.

Efforts to sustain dynamic rates of economic growth and to extend the region's international insertion, with a view to enhancing its benefits, might be fruitless without the support of complementary measures to boost productivity. Regrettably, the results are not particularly encouraging for Latin American countries, which are considered among the least competitive in the world. If it is to achieve competitive development, the region's competitive advantages—low wages and abundant natural resources—should be replaced by high value-added products that require a skilled workforce and related value chains. That underscores the need for skilled human capital and strengthened incentives structures that consolidate the virtuous circle of competition, thereby improving efficiency, spreading knowledge, and disseminating technology. From a more macro perspective, the tasks still pending include a greater effort to improve the quality of institutions, foster an investment-friendly business climate, close the infrastructure gap, maintain macroeconomic stability, and deepen financial development and the capital market.

Foreign investment

As mentioned earlier, FDI has become an important source of financing for developing countries. Unlike bank and portfolio investment, FDI is part of a long-term investment strategy and is linked to productive activities controlled directly by investors. FDI thus tends to be more stable than other private capital flows, the movements of which are determined by short-term interests and are subject to herd behavior and sudden stops.

Though an increase in volume is important, a mere increase in relative share will not necessarily have a significant development impact. The key factor for Latin American countries is not only to increase the volume of FDI but also to improve its quality, which entails taking advantage of FDI to enhance the capacity to add value and foster productivity increases. Properly channeled, FDI promotion can lead to sustained productivity increases in the region's economies and, thus, is a means for strengthening and diversifying the export sector. FDI can boost productivity in two ways: directly and through the externalities that it creates.

Multinational companies generally have better technology than local firms. Therefore, the entry of multinationals entails a direct improvement in productivity. In this regard, the evidence supports the view that multinationals are deeply involved in international technology transfer. Domestic absorption capacity, however, largely determines the effectiveness of technology transfers in bringing about productivity improvements in recipient countries. Absorption capacity is determined by such factors as the human capital stock, infrastructure, policies of economic opening, and the depth of financial systems. The impact of FDI can also depend on the specific sector in which the investment is made.

Apart from its direct impact, FDI can generate positive externalities for domestic companies through production chains, more efficient means of production, and the dissemination of technology (spillover effect). These, however, are highly specific to the context in which the investment is made. The factors that determine whether or not there are spillover effects include the way in which multinational companies link up with local firms, the kind of chains that are created, the nature of the investment technology, the capacity of local industry to develop downstream or upstream connections with foreign firms, and domestic absorption capacity.

Despite only limited evidence in the region, lessons can be learned from cases in which the presence of multinationals has led to a sustained productivity increase through the transfer and dissemination of technology and greater diversification in the production and supply of exportable goods. Mexico's automotive and vehicle parts sector and Costa Rica's microprocessor sector are emblematic examples. On the other hand, there are many cases in which FDI has led to sectoral enclaves that have little impact on other sectors. Examples include mining enclaves in the Andean region devoted to the extraction and export of minerals, which have few linkages to local businesses, and some *maquila* activities in the Caribbean and Central America.

As the Asian experience has shown, inclusion in global production chains might be desirable in order to facilitate local firms' access to international markets. But the decisions that multinationals make about the stages of the process that will lead them to establish a presence in emerging markets conform to several factors and international market signals that might be sector-specific. As domestic markets improve their absorption capacity and their competitiveness, local firms will have more

opportunities to engage in activities that offer a greater prospect of innovation in the production chain. That will provide substantial space for public policies to play an important role in improving domestic absorption capacity.

Remittances

Last but not least, remittances are now an important source of income for Latin American countries and, potentially, could become an engine of development for the region. In principle, remittances have been much more stable than other financial flows, such as FDI (Fajnzylber and López, 2008). Moreover, international remittances have improved social conditions and have lowered poverty levels in several Latin American countries. For example, there is evidence that recipient families tend to increase their spending on education, health care, and durable goods (Adams, 2005; Fajnzylber and López, 2008). Remittances can also alleviate families' credit constraints, fostering the creation of microenterprises (Woodruff and Zenteno, 2007).

Remittances, however, are not a panacea. The migration that precedes the sending of remittances is not without cost and, for emotional and economic reasons, can seriously affect the well being of families and countries. Moreover, it should be stressed that remittances are private transfers between family members. Hence, countries should resist the temptation to engage in the public expropriation of the funds (for example, by levying taxes on the transfers) and should create incentives for greater formality in the transfer of those funds. Additionally, collateral effects reduce the positive impact of remittances on the recipient countries. For example, it has been found that in some countries remittances have brought about a slight increase in inequality (Acosta et al, 2008). Remittances from family members abroad can also create disincentives to work, reducing the labor force in certain areas (Hanson, 2005). There is also potential that remittances can affect the exchange rate, leading to currency appreciation and effects related to Dutch disease (Acosta et al, 2007).

The public policy agenda in this area is broad. It has been found that the countries that derive the most benefits from remittances are those with robust institutions and a stable macroeconomic environment that stimulates higher flows and fosters their use for investment in physical and human capital. At the same time, the competitiveness challenges attendant on the potential reduction of the labor force and currency appreciation might require corrective responses by means of fiscal and/or monetary policy. Finally, an improvement in the regulatory framework, one that seeks to boost competition in the transfer of remittances, allows countries to reduce the costs of the transfers and increase future flows.

In summary, apart from the need to ensure the free flow of goods, services, and finance among countries (companies and people), as well as market access, the public policy agenda in the region should seek to create the conditions needed to ensure that the benefits of international economic insertion materialize. In the case of international trade, FDI, and remittances, a common denominator is the adoption of an internal competitiveness agenda, especially one that focuses on higher productivity. Two key elements on this agenda, geared to enhancing the region's attractiveness, are an improvement in the skills of the labor force—through investment in more and better human capital—and investment in infrastructure and high-quality logistics. Progress on these fronts would doubtless help the region to regain the place it should occupy in the international order, as well as to tackle the international economic cycle more effectively.

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Two Generations of Social Movements and Democracy in Latin America

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Social movements have assumed a more important and visible position in Latin American politics since electoral democracy was reinstalled in the late 1970s and early 1980s. This has occurred parallel to economic crises, a declining confidence in representative institutions, and deep governance troubles in many countries of the region. This chapter explores the role of social movements in Latin America over the last three decades, using existing social science literature on the subject. The opening section analyzes how a first generation of social movements contributed to the transition and consolidation of newborn democracies in the 1980s and 1990s. During this phase, a myriad of social actors engaged in innovative social protest aimed at expanding citizenship; protecting and enhancing human rights; recognizing ethnic, gender, and identity claims; and presenting new ways to understand development and democracy. The appearance of social movements coincided with a moment of democratic consolidation in Latin America, which came in the midst of economic and governance problems. These social movements added new dimensions to politics, autonomous from political and state actors. They also activated interesting forms of cultural politics that focused on democratizing not only the formal aspects of the political system but also everyday authoritarian social relations. The result was new spaces for citizen participation.

The next part of the chapter looks at a second wave of social mobilization emerging since the mid and late 1990s around agendas linked to the anti-globalization movement. This period was marked by a variety of social protests against unpopular governments; these “street politics” contributed to the formation of electoral majorities capable of winning elections and taking over national and local governments. The chapter explores the connections between social mobilization in the 1990s and the so-called turn to the left in Latin America as well as the process of differentiation by social, political, and state actors around shared political ideological agendas.

Finally, the chapter examines the uneasy relationship between social movements and political parties in the region, and the tensions between social mobilization and

representative politics. The conclusion discusses the ways in which civil society participation has deepened or undermined democracy over the last three decades.

An understanding of the role played by social movements in Latin America cannot be divorced from the currents of interpretation and the academic projects that have accompanied the mobilization of those movements. This chapter's approach links both. In the case of first generation social movements, the debate between old and new repertoires of social protest dominated a view in which social mobilization was geared toward identity politics and new forms of representation. With second generation social movements, however, the Latin American Council of Social Sciences' (CLACSO) approach gave social protest a wider anti-globalization and anti-capitalist scope. In both cases, sociological interpretations and political processes converged to define a common realm for political action and academic understanding.

As a warning, I should acknowledge that a Latin American approach may obscure national dynamics and particular cases. In each Latin American country, the story of social movements and their contribution to democracy depicts specific traits that a regional perspective is unable to grasp. As a result, this chapter emphasizes moments of regional significance while omitting important national experiences. That should explain the importance attributed to cases such as the *Zapatista* movement or Porto Alegre's First Social Forum, both examples of social mobilization experiences with regional implications. But actions such as peace mobilizations in Colombia, despite their national importance, were tied to exclusive national demands or problems. Any regional approach will have this limitation.

Likewise, this chapter does not explore the interesting connections between social movements and hemispheric or world actors. For sure, Latin American civil society has been an active participant in international trends and transnational networks. The indigenous, women's, and ecology movements are clear examples of civil society transnationalization. International assistance by both multilateral and nongovernmental organizations has also been a critical ingredient of social mobilization in the region. Many trends can only be explained by the fact that local groups benefited from important technical and financial cooperation with North American or European governments or civil society groups, not to mention the contribution of multilateral organizations such as the World Bank, United Nations agencies, or the Inter-American Development Bank. Because an analysis of this phenomenon would have merited an article in itself, I decided not to take a specific account of it.¹

This chapter includes as part of civil society the organized social groups that act within a specific arena different from the economic and the political realm. This definition excludes other patterns of social and political agency, such as parties

¹For an analysis of international assistance to Latin American social movements by multilateral organizations, see César Montúfar, "Sociedad Civil y los Equívocos de la Participación" in *Gobernabilidad y Participación* (Quito: Fundación Diagonal, 2004).

that belong to the political sphere and cannot be considered as part of civil society proper.² On the other hand, the chapter puts an emphasis on new forms and repertoires of social mobilization appearing in Latin America during the period of democratic transition and consolidation. Little attention is paid to traditional social actors like trade unions, which saw their importance after the 1980s diminish in favor of innovative forms of social mobilization and protest. This occurred as a generalized trend throughout the whole region, despite, again, particular national cases.

FIRST GENERATION SOCIAL MOVEMENTS IN THE CONSOLIDATION OF NEW DEMOCRACIES

The debate on democratic transitions, dominant since the early 1980s, assigned civil society an important role in the dismantling of authoritarian regimes in Latin America. Nevertheless, once the transition processes were completed, civil society actors receded from their central position. In their place, political and academic interests focused on the institutional variables of democratic consolidation: presidentialism or semi presidentialism; electoral systems and political parties; the role of the Congress; and the relationship of the executive and legislative branches of government (Hagopian, 2007: 17-18). This underestimation of civil society was part of the analytical sequence presented by transition theories (O'Donnell, Schmitter, and Whitehead, 1986). These theories maintained that civil society had a role to play in the struggle against authoritarian governments but, once the elected governments were in place, conventional politicians and political parties should replace society actors. In other words, social groups and civil society leaders should leave their space to political leaders and parties, transforming themselves into simple voters.

In spite of this methodological premise, the 1980s saw important academic efforts geared toward demonstrating that Latin American civil society had not disappeared and, in fact, had preserved its political initiative. Overall, the irruption of a multiplicity of social actors like the Madres de la Plaza de Mayo, indigenous and women's rights activists, environmentalists, youth, Afro-Latin American activists rockers, Caribbean Rastafarians, and so forth showed an active civil society expressing itself through new manifestations of collective action and sociocultural production.

This unexpected emergence of social mobilization and protest in Latin America in the 1980s was a result of multiple social and institutional factors. The transformation of the developmentalist-populist state, as well as the transition to democracy and the crisis of political parties and conventional mechanisms of representation (Calderón, 1986), opened the door to a new type of relationship between state and society, a relationship in which social mobilization had an important role to play.

²This paper is based upon the definition of civil society provided by Jean Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge: The MIT Press, 1992), 2-4.

Latin American societies were changing, and the change went far beyond what transition theorists anticipated. In that sense, the appearance of social movements signaled a new and much more complex society with political, cultural, and economic demands that could not be automatically accommodated by existing institutions. Latin American states and their newly born democracies were simply unable to respond to a wave of social initiatives that could not be intermediated by political parties or traditional organizations. Emerging social movements challenged the existing channels of representation and demanded the establishment of new forms of mediation between state and society (Calderón, 1995). As social demands exceeded institutional capacities, tension between the state and society grew.

There was uneasy interaction between social movements and political parties, political caudillos, and state institutions. Unlike earlier social organizations, which were easily co-opted by the state, first generation social movements made a strong demand for autonomy and the establishment of new mechanisms of representation. Several authors contended that, in the midst of the debt crisis and economic adjustment, a mosaic of new forms of collective action showed the resistance and struggle of numerous social actors in the face of prevailing notions of democracy and development (Escobar and Álvarez, 1992a: 1-2). In other words, this active society in the 1980s brought forward innovative dynamics of political mobilization. They were different from conventional political and social actors, such as political parties and trade unions, and they contributed to the generation of new social identities and repertoires of mobilization. They posed alternative ways of conceiving social and economic change and of understanding the relationship between the state and society (Fals Borda, 2001).

Three important regional and collective volumes established the debate on social movements in this first moment: David Slater's edited volume on social movements and the state in Latin America; Fernando Calderón's edited book exploring the responses of social movements to the 1980s economic crisis; and Arturo Escobar and Sonia Álvarez's co-edited book studying the interplay of identity, strategy, and democracy in the emergence of new social movements in the region.³ This body of literature stressed that the irruption of multiple social movement initiatives in the 1980s contradicted the view that Latin American civil society was silent and that only traditional social and political actors had roles to play.⁴

At this initial moment, the study of social movements occurred within the debate between two dominant approaches. On the one hand, resource mobilization theories focused on the organizational resources of social protest. On the other hand, the new social movement approach stressed the cultural and symbolic dimensions of

³ Slater, ed., *New Social Movements and the State in Latin America*, (Amsterdam: CEDLA, 1985); Calderón, ed., *Los Movimientos Sociales ante la Crisis* (Buenos Aires: CLACSO, 1986); Escobar and Alvarez, eds., *The Making of Social Movements in Latin America: identity, strategy and democracy*, (Boulder: Westview Press, 1992).

⁴ For the debate in Portuguese, see Ilse Scherer-Warren and P. Kruschke, eds., *Uma Revolução no Quotidiano?: Os Novos Movimentos Sociais na America do Sul*, (São Paulo: Brasiliense, 1997).

people mobilization. Both perspectives noticed the appearance of multiple social and political struggles over material and cultural resources—material struggles over basic needs and cultural struggles over meaning, identity, and social recognition—not considered in the agendas of conventional actors. To be sure, the study of these new dimensions of social protest and mobilization called attention to innovative ways of doing politics and renovated mechanisms for representing popular interests at the moment when most Latin American countries were trying to consolidate newly born structures of representation (Escobar and Álvarez, 1992b, 318-320). At the same time, social movements affirm new conceptions of the political space. These are not solely limited to the struggle for the state or the confrontation between the bourgeoisie and the proletariat over political and material demands. They also challenge unequal social relations, identity, and self-affirmation issues, and they renew notions of democracy and development. Indeed, several authors pointed to social movements as important forces in the democratization of authoritarian social relations in everyday life. The mobilization of feminist, gay, racial, and ethnic groups impacted the ways in which conservative societies conceived alternative identities and minority rights. In that way, as Scott Mainwaring contended for the Brazilian case, social movements in Latin America could contribute positively to the quality of democracy, prompting the inclusion of new topics and problems on the public agenda (Mainwaring, 1987: 132).

Another important feature of Latin American social movements was their enormous symbolic power, even if they involved a relatively small number of participants. Social movements of the 1980s were not necessarily huge social mobilizations, like those of grand labor or peasant organizations. Rather, they were the agency of small actors with specific and well-circumscribed agendas. This was clearly the case with movements addressing human rights, women's rights, and environmentalist issues. They showed enormous capacity for pressing institutional actors for crucial policy reformulations and for the widening of political discourses. All these experiences, from the Madres de la Plaza de Mayo in Argentina to indigenous mobilizations in Ecuador, Guatemala, and Bolivia, showed interesting routes of non-elite access to public influence and policymaking. Although these actors were not militant members of a political party, they held strong political positions and advocated for their right to participate and to have their claims and identities recognized. They pointed out that their demands should be taken into account not because they claimed to represent the will of a majority, although they could represent large segments of society, but because they were right, because they proclaimed an ethical posture for the consolidation and deepening of democracy (Escobar and Álvarez, 1992b: 328-329). By the end of the 1980s, social movements had made a mark in most newly born Latin America democracies. Simply stated, they could not be excluded from the improvement of development and democracy itself. They became crucial agents

in broader processes of cultural and identity self affirmation and the widening of sociopolitical citizenship.

In the early 1990s, the role played by social movements in Latin American societies was clarified by further contributions to the debate. The debate escaped from the old-new movements dilemma, and resource or identity claims, and focused on specific areas of social mobilization important for democratic consolidation, such as human rights, social responses to the impact of neoliberal reforms, civil society activism in the public sphere, and sociocultural production of new political meanings and social identities.

In the mid 1990s, a collective volume co-edited by Elizabeth Jelin and Eric Hershberg showed different and concrete experiences of Latin America's human rights movements, which had performed a critical role in the deepening of democracy. This volume made the point that demands for justice and human rights were central not only during the transition but all along the period of democratic consolidation in the 1980s and 1990s (Garretón, 1996). In that sense, social struggles for human rights and indigenous, gender, and other identity claims became critical elements enhancing the quality of democracy in several Latin American countries (Jelin and Hershberg, 1996: 53-54). Jelin posed that there was a crucial distinction to make between the formal aspects of citizenship and many other dimensions in which people interacted with state institutions. Conventional approaches to Latin American authoritarian transition and democratic consolidation had only paid attention to the former, leaving aside the everyday aspects of democracy. Jelin claimed that the analysis of Latin American democracies should develop a wider perspective of state-society relations and consider the obstacles precluding the full extension of citizenship and human rights to all citizens, for which social mobilization and protest had produced a critical contribution (Jelin, 1996: 111-114).

Another effort pointing in a similar direction was the "new politics of inequality" approach, presented in the 1997 book edited by Douglass Chalmers. The point made in this volume was that 1980s neoliberal reforms had produced important changes in state-society relations in Latin America, thus producing the opportunity for the emergence of new social actors and identities. The reduction of state intervention in the economy had eroded traditional mechanisms of mediation built during the developmentalist period. This has promoted the appearance of new forms of representation of popular interests, based on new associative networks, which differed from traditional clientele and corporatist and populist mediations (Chalmers, Martin, and Piester, 1997: 545). These new mechanisms of representation transcended conventional mechanisms of political participation, such as elections, and have generated alternative forms of negotiation of interests and demands, providing new content for political action. Political parties and unions ceased to be the only mediating structures between state and society, for there had appeared a myriad of

new associative networks coming from social movements, grassroots organizations, civil associations, NGOs, and so forth (Chalmers, 1997: 578-581). In that sense, the “new politics of inequality” have changed the horizon of the Latin American democratization process. A vibrant activism of numerous social groups and social movements implied a vigorous democratic struggle from a popular standpoint, which reflected contents and practices beyond the classical liberal notions of citizenship. According to Carlos Vilas, conventional approaches to Latin American democratization were not apt to understand the diversity of forms of mobilization and social protest occurring in the region after the authoritarian transitions took place and, moreover, after structural adjustment policies gained centrality. Their elite bias and excessive concern with democratic governance left aside the study of other dimensions of democratization coming from alternative and popular forms of collective action (Vilas, 1997: 8-10).

The debate on social movements was also nourished by the discussion of civil society and the public sphere (Avritzer, Olvera, Peruzzotti, 1994). Based on case studies in Brazil, Mexico, and Argentina, these authors called attention to the enormous democratic potential of social movements in the public sphere, both at institutional and cultural levels.⁵ Leonardo Avritzer studied the role of popular participation and social movements pro democratization in the three aforementioned countries and argued that social strength in provoking new forms of collective action in the public sphere had allowed for numerous possibilities of social innovation, which had positively influenced public decision making and critical processes of democratic institutionalization (Avritzer, 2002: 3-5). Thereby, democratization in Latin America should imply not the limitation of social mobilization and protest, as conventional modernization and democratic theories recommend, but the inclusion of their democratizing potentials in the political arena through participatory institutional designs (Avritzer, 2002: 165-170).

At the end of the 1990s, cultural struggles put forward by multiple social movements appeared as a critical democratic innovation in the political landscape of Latin America. Arturo Escobar, Sonia Álvarez, and Evelina Dagnino revisited the role of social movements at the end of the 1990s. They contended that social protest and mobilization in Latin America had given new meaning to received notions of democracy and citizenship, representation, and participation and, therefore, highlighted the contribution of cultural politics over social and political change (Álvarez, Dagnino, and Escobar, 1998: 1-2). Therein, the rediscovery of the public space provided new meaning to democracy and participation, putting culture at the center of political transformation. In that sense, cultural practices were seen as a terrain for and source

⁵ Leonardo Avritzer, “Modelos de Sociedade Civil: Uma Análise da Especificidade do Caso Brasileiro;” Enrique Peruzzotti, “Sociedade Civil e Constitucionalismo na Argentina;” Alberto Olvera, “A Sociedade Civil no México: Realidade, o Projeto o Mito” in Leonardo, ed., *Sociedade Civil e Democratizacao* (Belo Horizonte: Del Rey Editora, 1994).

of political action. Since the early 1980s, social movements have enacted very productive repertoires of cultural politics that have questioned and gone beyond formal liberal democracy and institutional notions of citizenship. In Latin American social movements, culture, then, had acquired a political dimension capable of redefining social power and political culture in many countries of the region. This was the case not only with the so-called new or cultural social movements (i.e. indigenous, gender, gay, human rights, etc.), but with all social movements in general (Álvarez, Dagnino, and Escobar, 1998: 6).

Citizenship and culture, therefore, could not be separated when thinking and struggling for democracy in Latin America during the first generation of social mobilization. In Latin American social movements, there is a constitutive link between politics and the construction of cultural identities. Participation conceived as the right of having rights (Dagnino, 1998) or the construction of citizenship for marginalized actors had gained an enormous importance in the context of consolidating democracies in the middle of neoliberal reforms (Dagnino, 1998: 51). All in all, first generation social movements presented a dimension of political action which transcended the elitist channels of representative politics and put forward critical “interpretation struggles” about democracy, citizenship, ethnicity, identity, gender roles, nature, and human rights. The cultural politics carried on by social movements had, thus, produced an enormous democratizing impact over dominant political cultures (Álvarez, Dagnino and Escobar, 1998: 8).

In sum, the experience of social movements in Latin America during the 1980s and 1990s went beyond the affirmation of rights to represent, from different perspectives and in diverse scenarios, a line of opposition to and transformation of authoritarian political practices. This social irruption of a multiplicity of actors questioned the traditional premises not only of transition theories but of democratic theory in general. The monopoly of political action by traditional actors was clearly expanded by the vibrant contribution of civil society and social movements.

In Latin America, despite their distrust of formal representative organizations, social movements’ values, interests, and demands presented no threat to democratic institutionalization. In the late 1970s and early 1980s, social groups and NGOs were central in the struggle against authoritarian regimes, especially in the Southern Cone. That continued with the human rights movement, the women’s and gay movements, and the indigenous and black movements, which were important in the 1980s and 1990s. Their different social initiatives conveyed innovative forms of political action that expanded minimalist conceptions of the state and democracy and stressed the importance of economic, social, and cultural practices, but represented no threat to democratic stability. Moreover, their action implied a strong and vigorous demand for the expansion and a deepening of democracy through the inclusion of important underrepresented groups.

First generation social movements put forward the issue of social, cultural, and political change but within the institutional framework of the newly established democracies. They constituted a critical democratizing force contributing to small everyday life and cultural spaces of resistance as well as redefining state policies and national institutional arrangements. In short, their political and cultural project aimed to deepen established democracies, widen citizenship, and affirm new political identities and cultural claims. The experience of social movements in the region revealed several democratizing routes that were produced with the creation of public spaces for social challenges to the traditional frontiers of the political realm (Slater 1998: 381-383).

During this moment, the contribution of social mobilization to democracy and democratization was particularly important to several national experiences. In Mexico, for instance, different groups in society mobilized during the 1990s in a bid to dismantle the authoritarian regime. According to Alberto Olvera, this was the result of multiple experiences of civil associativism by which civil society groups questioned populist and authoritarian arrangements. In particular, Olvera mentions the critical role played by proto-democratic social movements like *Alianza Cívica*, which set in motion new repertoires of citizen participation: public consultations to society over topics of general interests, citizens' monitoring of elections, and social accountability of public officials. Very importantly, these mechanisms for citizens' direct participation were geared toward influencing public policies as well as creating a democratic culture in society (Olvera, 2002: 401-402).

A similar conclusion can be drawn by the action of human rights movements, especially in Argentina, and other social actors that, through the implementation of legal strategies and street demonstrations, have pressed democratic institutions for the protection of citizen rights, transparency, and the rule of law (Saba, 2003: 154-155).⁶ In these experiences, the construction of a democratic public sphere, from which social actors can influence state institutions and elected representatives, was a key element in the construction and deepening of democracy (Peruzzotti, 2003: 109-111). At stake was not only the issue of controlling state power or provoking social revolutions but the consolidation of a plural public sphere capable of enhancing citizens' rights and impacting social conceptions and practices.

First generation social movements did not present any totalizing standpoint. Rather they sparked a diverse and plural landscape of participatory struggles from which new social and political identities or, in the words of Calderón, new "historical subjects" emerged (Calderón, 1995: 122). This was very important since first generation social movements in Latin America proclaimed their autonomy from the state and other conventional actors such as political parties. In the view of social

⁶One of those innovative repertoires of social protest are Scratches, public demonstrations that take place at the homes of the people accused of human rights violations. Scratches were invented by human rights activists in Argentina and, later, reproduced elsewhere in Latin America for many other purposes.

movements during the 1980s and 1990s, there was a need to maintain a clear separation between the state and political actors and civil society. They even interpreted state co-optation as a threat to their democratizing potential. By proclaiming a sharp differentiation between state and society, social movements presented a very different position from previous arrangements sought by populist and developmentalist states, arrangements in which co-optation and differentiation was the unavoidable and desirable route.

However, the isolation of social movements and their fragmentation into multiple repertoires of protest placed doubt on their real transformative potential at the local, national, and international levels. This can be said in spite of their impact upon everyday social relations and the expansion of the political space, far beyond the limits set by the liberal conception of representative democracy and citizenship. Moreover, there was a risk that their rejection of grand discourses, totalizing models of paradigmatic shifts in history, as the labor or revolutionary peasant movements raised in the past, would obstruct the emergence of national actors capable of promoting transformations at macro structural levels. One can argue that the movements' struggles to expand citizenship rights and pose identity and cultural demands fell short in producing grand processes of social and political change, and that their emphasis on democratizing everyday life politics left national structures of domination untouched.

SECOND GENERATION OF ANTI-NEOLIBERAL GLOBALIZATION SOCIAL MOVEMENTS

A second generation of social movements emerged in Latin America linked to the worldwide anti-globalization movement that drew international attention in the context of the Seattle protest against free trade in November 1999 and, later, in the appearances of networks of social actors opposed to financial liberalization, global investments, U.S. hegemony, and multilateral institutions like the World Bank, the International Monetary Fund, the World Trade Organization, the Organization for Economic Co-operation and Development (OECD), and the Davos Economic Forum. Coinciding with this international trend, the end of the 1990s saw a significant rise in the cycle of social protest in all of Latin America. According to CLACSO's OSAL (*Observatorio Social de América Latina*), which produced a database of social conflict in nineteen countries regionwide between 2000 and 2002, social conflicts in the region increased 180 percent (Seoane, Taddei, and Algranati: 2006: 228-229). This continued for the next few years, indicating a trend of social conflict markedly different from the patterns of social mobilization that prevailed in previous decades. In short, a new wave of social mobilization appeared in Latin America in the late 1990s. It came in opposition to the Washington Consensus and just as neoliberal

reforms were exhausted. This new cycle of protest and conflict was linked to the emergence of the worldwide anti-globalization movements and proclaimed a role for international social actors in the reconfiguration of national and transnational public policies.

Different from the national or sub-national scope of first generation social movements, the issues raised by this new wave of social protest addressed global issues, including world capitalism and free trade, global public goods, and U.S. hegemony and military power around the world. Under the umbrella of a global agenda, second generation social movements promoted an international convergence of social actors from both the North and the South. They included labor movements in developed countries and human rights, indigenous, and gender rights organizations from the periphery. While global political and economic elites discussed the “end of history” and the undisputable triumph of liberal democracy and free trade, a myriad of social actors, through the establishment of global networks of ideas and coordinated initiatives, questioned capitalism, liberal democracy, and U.S. global power. They proclaimed that the dominance of neoliberal ideology precludes a comprehensive vision of history and social change in which “another World could be possible.” Neoliberal ideology, according to Emir Sader, had triumphed throughout the world thanks to a huge propaganda apparatus. The appearance of anti-globalization social movements implied a global struggle against neoliberalism and, thus, the building of anti-hegemonic alternatives from below (Sader, 2006: 93).

The conceptualization of second generation social movements was part of a huge academic project led in the late 1990s by CLACSO, which went on to establish OSAL to monitor social conflicts and social movement initiatives throughout the region. At the same time, CLACSO sponsored research projects, conferences, international study groups, books, online courses, and publications to promote the study and dissemination of social movements’ ideas and proposals in connection with the worldwide anti-globalization movement born in Seattle. This academic effort set the theoretical framework for future studies of civil society and social movements throughout the region. CLACSO succeeded in establishing the framework of the academic debate on social movements in Latin America, eclipsing all other interpretation frameworks of social mobilization. It created the theoretical links between global mobilizations against neoliberalism and the dynamics of Latin American social movements. CLACSO ignited an academic and political project that sought to provide an intellectual and political direction to social mobilization in Latin America. In comparison with previous academic efforts aimed at studying Latin American social movements, the intellectual and material resources invested by CLACSO were overwhelmingly superior. Since the late 1990s, its approach has outdistanced any other attempt at interpreting social movements in the region.

According to this theoretical framework, a new wave of social mobilization started in Mexico with the irruption of the *Zapatista* movement in the mid-1990s. More precisely, in 1996, the EZLN (*Ejército Zapatista de Liberación Nacional*) convened an International Conference for Humanity and Against Neoliberalism in Chiapas. The aim was to denounce “neoliberal globalization.” The *Zapatista* discourse was built upon a simple polarization: humanity versus neoliberalism. Its program demanded the construction of a new global social order, different from the one neoliberalism has imposed in which “all the worlds can fit in.” The *Zapatistas* see democracy and democratization as central to their political project, but do not interpret it as rule of the majority. Rather, they view it as the construction of a broad social and inclusive consensus. They proclaim a new democracy based on equality for all; their aim is not the acquisition of state power but the transformation of society and power relations. The *Zapatistas* conceive of their mobilization as the world’s first anti-neoliberal revolution. The revolution they propose, therefore, is global, not local. Its scope transcends Chiapas or the south of Mexico and projects itself on the whole world (Ceceña, 2002: 13).

Another breaking point in the new trend of social mobilization was the so-called Water War in Cochabamba, Bolivia, in April 2000. This event was not only a local protest in defense of a natural resource for a community, but it addressed a conflict with global implications in the sense that it proposed a different approach to the distribution of wealth and natural resources in opposition to privatization policies. It put into question the very premise of capitalism and market-based globalization as the Bolivia social organization, *Coordinadora de Defensa del Agua y de la Vida*, succeeded in blocking the privatization of a water company in Cochabamba. Later, the *Coordinadora* evolved into a powerful nationwide social movement that articulated several initiatives in opposition to the U.S.-backed coca eradication policy. In 2003, it played a crucial role in the so-called Gas War protesting the privatization of gas (Lewis, 2004: 162-170). The *Coordinadora* was also a central actor in the social protest that numerous Bolivian actors developed to oust President Gonzalo Sánchez de Lozada and his neoliberal policies. It also developed close personal and political links with political parties, especially Movement toward Socialism (MAS). In 2005, MAS won the presidency of Bolivia with Evo Morales, leader of the *cocalero* movement, which was also part of the *Coordinadora*.

The Bolivian experience shows the power and unprecedented influence of social mobilization in Latin America against neoliberalism and global capitalism. In fact, Bolivian social movements claim that their protest stopped neoliberalism at the national level and that their actions represent a victory of people’s mobilization over the grand interests of corporate globalization (Shiva: 2004: xi).

The Bolivian experience of mobilization and protest offered a renewed vision of democracy and democratization in the Latin American context. In a book that

narrates his experience as activist, Oscar Olivera, leader and spokesperson of the *Coordinadora*, details electoral democracy's limitations in representing the interest of the poor. "How, then, are ordinary working people represented politically in the age of neoliberal privatization?" he asks, clearly accepting that Bolivian question as, obviously, valid for the rest of Latin America. His answer is that politics for ordinary working people should transcend the electoral market and become a process of "collective discussion, decision making, and implementation of solutions for our common problems" (Olivera, 2002: 20-21). In that sense, political participation at the national level should not be reduced to the act of voting in a ballot box but, rather, expanded to the day-to-day struggle against oppression and exploitation. In the Bolivian perspective, the privatization of water and gas were common problems that merited direct social intervention by the people in order to recuperate for them the nation's natural resources (Olivera, 2002: 8-15).

The initiative of the *Zapatistas* and the Bolivian social movements like the *Coordinadora* influenced multiple social movements in Latin America. In that way, a vigorous anti-globalization movement consolidated in Latin America in the late 1990s. This movement crystallized at the First Social Forum in Porto Alegre, Brazil, in January 2001. The forum was considered a significant step toward developing a regional social response to free trade, privatization of state-owned companies, private exploitation of natural resources, and militarization of international relations. Apart from proclaiming that human beings and life are not commodities, the Porto Alegre Declaration called for active participation by multiple social actors from the North and the South, from social and political arenas, in future anti-capitalist globalization mobilizations (First Social Forum, 2001: 202-204).

Despite their diversity and previous fragmentation, from Porto Alegre on, the region's political organizations and social movements voiced a unified anti-neoliberal agenda. In that new regional context, many first generation social movements, like those involving women's rights, the environment, indigenous rights, etc., converged with second generation movements to present a unique posture toward future mobilizations. The First Social Forum was expression of a wide social convergence, regional and global. In a common line, peasant and indigenous movements like the Landless Movement of Brazil (MST), the Ecuadorian indigenous movement, the Chapare coca producers in Bolivia, the Chilean Mapuches, and other indigenous peasant initiatives in Colombia and Central America mobilized against transnational capitalism's impact on rural areas and demanded a collective appropriation of natural resources such as land, water, oil, minerals. Likewise, there was an important surge of urban movements demanding rights for workers, the unemployed, and urban poor. The *Piqueteros* in Argentina are an example of a social actor—in this case, unemployed workers—who sought to transform power relations and reverse neoliberal hegemony in Argentine society. Something similar can be said of the public workers'

organizations that became critical agents of opposition to privatization initiatives in several countries and, in general, to the application of structural adjustment policies. Public workers, in that sense, presented within the state a strong opposition to neoliberalism and its agenda of deregulation and decreased state intervention.

While raising opposition to a global model of international capitalism development and liberal democratization, several social movements presented alternatives for a collective appropriation of the social space as well as production of autonomous systems of productive self-management and autonomous self-government. This trend can clearly be seen in proposals made by the *Zapatistas*, the Brazilian MST, the Ecuadorian indigenous movement, the Bolivian *Coordinadora*, among others (Seoane, Taddei, and Algranati, 2006: 242). In that sense, several second generation social movements confronted neoliberalism not only at a level of discourse but by producing new models of social, economic, and political organization. That was a response to the weakening of the state produced by neoliberal policies, problems of bureaucratization, and manipulation of the state apparatus. These experiences of self-organization of society developed through the implementation of assembly-type mechanisms of political participation and collective decision-making. At this level, second generation social movements claim that direct or semi-direct mechanisms of political participation are much more democratic than representative institutions and, therefore, should be extended beyond the local realm to national processes of decision making (Seoane, Taddei, and Algranati, 2006: 243).

Indeed, the use of referenda, public consultations, and other mechanisms of direct participatory democracy had been systematically proposed by second generation social movements. Civil society groups in Uruguay, Costa Rica, Bolivia, and Ecuador used national referendums to block the implementation of market reforms and structural adjustment policies. They argued for a model of political participation that presents a direct challenge to representative institutions and representative democracy in general. Furthermore, the civil society groups tend to promote the creation and development of direct arrangements of participative democracy, both within their own organizations and at the level of national politics.

Linked to this point is the direct connection of social actors with political and state actors. In contrast to previous notions of autonomy and differentiation of state and society, second generation social movements accept the fusion of social and political dynamics in ways that do not resemble either previous corporatist or clientele arrangements. There are good examples: the *Zapatistas caracoles*, Brazilian Workers Party (PT) participatory budgeting in local governments, Bolivian MAS multicultural democracy.⁷ With all of them, direct democracy arrangements were established

⁷The *Zapatistas* proposed creation of autonomous municipal governments, self ruled and based upon principles of solidarity and community resistance. Those experiences were called *caracoles* and were detailed by Pablo González Casanova, "Los "Caracoles" Zapatistas: Redes de Resistencia y Autonomía" in *Observatorio Social de América Latina*, (Buenos Aires: CLACSO, 2003), 16-17.

to transcend representative institutions so as to address substantive issues linked to redistribution of state resources. These movements contend that social and political struggles need not be isolated; they put into practice a new vision of political participation not circumscribed by elections or representative politics but directed toward the construction of hegemonic political projects that serve as alternatives to the neoliberal project (Sader, 2006: 96).

Brazil's participatory experience led by the PT government in Porto Alegre and Belo Horizonte is viewed a paradigmatic model of such synergy among a social organization, a political party (the PT), and a state bureaucracy (Sader, 2006: 96). Portuguese sociologist Boaventura de Sousa Santos regards the PT experience of participatory budgeting as an effective example of social co-administration of public resources and, moreover, as a process of democratic reinvention that institutionalized open public decision processes in a way that allowed citizens and social movements to achieve substantive gains (Sousa Santos, 2004: 25, 82-83). Avritzer contends that participatory budgeting in Brazil contradicts conventional assumptions in democratic theory, in particular the notion that there is an unavoidable contradiction between social mobilization and democratic institutionalization. According to this author, the story of social participation in Porto Alegre and Belo Horizonte shows that participation and institutionalization can produce a better democracy if the former comes from collective action in the public sphere. It is a Latin American democratic innovation that should not be undervalued (Avritzer, 2002: 515-516). What seems significant in the Brazilian experience of participatory budgeting is the unity between the social actors' quest to acquire access to decision-making processes within the state and the PT political party's platform. This unity occurs because both the social and the political organizations in control of the local government share a political and ideological agenda. In this context, the differentiation and autonomy among state, political, and social actors seems no longer valid.

Indeed, the idea of constructing anti-hegemonic models, as second generation social movements proclaim, requires a non-liberal notion of civil society, one not opposed to the state but aimed at sharing with political and state actors a common agenda of social, economic, and political transformation. If the aim is to transform the political, economic, social, and cultural basis of neoliberalism, then social and political movements should act together and change state policies and social, cultural, and economic relations. The Bolivian political experience, expressed in the MAS government led by Morales, is probably the clearer expression of the radical differentiation of state, party, and social movements in contemporary Latin America. For that purpose, previous institutions have to collapse before new institutions can be born and that does not happen without enormous unrest and conflict. Nonetheless, what seems at stake is the attempt to reconstruct the institutional basis of democracy from below, from the very influx of a multiple net of social movements, in ways that

transcend the parameters of representative democracy in the monocultural and liberal state (Tapia, 2006: 71-98).

For Theotonio Dos Santos, the appearance in Latin America of this new wave of social mobilization has implied a shift from defensive social movements concerned with particular demands in the national context to a much more offensive cycle of social protest carrying not only national but global demands (Dos Santos, 2004: 74). Offensive social movements have included new forms of mobilization strategies, leading to the generation of broad processes of consensus building and, even, the creation of electoral majorities. That has been the case with resistance movements that, in different urban contexts, generated impressive street demonstrations that first contributed to the end of several elected governments and, later, promoted the election of anti-neoliberal governments. Examples are found not only in Ecuador, Bolivia, and Argentina, countries where “street politics” became an important component of social struggles, but also in Brazil, where the social mobilization of urban and rural workers was decisive in the presidential triumph of Luiz Inácio Lula da Silva. Over the last years, social mobilization and protest against neoliberalism have transformed the political scenario and public opinion in Latin America. Several governments that have taken office in the region have emerged either from conditions created by social movements or from within social movement themselves (Zibechi, 2006: 226). In different ways, the decline of neoliberal policies throughout the region and the triumph of left-oriented governments have been the products of this wave of social protest.

This has been possible due to a general de-legitimization of neoliberal policies, free trade, financial liberalization and, even, representative democracy institutions. The political and ideological impact of social protests has been enormous in terms of redirecting state policies and the ideological landscape of the region toward an emerging anti-capitalist globalization consensus. One can argue that, to a great extent, the Washington Consensus put forth by national and international elites in the 1980s and 1990s, is now leaving its space to a new common sense brought about by a wave of social protest opposed to neoliberal policies and capitalist globalization trends. Never before in contemporary Latin America have political systems been so profoundly altered by the action of social actors. Social movements have been solidly established as a determinant force in Latin American politics.

Since the late 1990s and the early 2000s, there has been in Latin America a convergent trend of social mobilization, different from the past because of its extension and its radical agenda in opposition to the perceived global project of economic and political domination by the industrialized world (Seoane and Taddei, 2001: 119). The issue of sovereignty and the defense of natural resources constituted one of the critical fuels mobilizing trade unions, peasant organizations, urban actors, and

new social organizations. A radical opposition to U.S. military policies in the region helped extend the social mobilization front.

Second generation social movements represent a new internationalism emerging from a process of national and international convergence (Seoane and Taddei, 2001: 123). This process has promoted formation of a huge alliance of multiple actors, both social and political, not only Latin American but from periphery regions and developed countries. In fact, Porto Alegre's First Social Forum saw an important representation of developed countries' organizations. The convergence of Third World and First World social movements was part of the trend begun in Seattle in 1999 when people from different parts of the world came together with a common view of the miseries created by global capitalism and proclaimed that a "new world is possible."

Second generation social movements present an anti-elitist claim, a critique to representative democracy, and an argument in favor of direct democracy. For Atilio Boron, social movements are presenting a new political agenda directed at a post-liberal society ruled by subaltern classes. What really is at stake is a radical project that reinvents democracy away from the parameters of liberal politics and its elitist prejudices, in a moment when the contradiction between capitalism and democracy cannot be overcome by timid expressions of electoral democracy (Boron, 2006, 301, 290, 296).

Second generation movements generally proclaim a left-oriented politico-ideological standpoint from which they construct their social and political interventions. Their political projection is based upon an ideological radicalization that transcends the liberal institutional and citizenship discourse. According to Sader, the very notion of differentiation between state and society is part of the liberal ideology that needs to be overcome. This vision, dominant since civil society actors struggled against Southern Cone dictatorships in the late 1970s and early 1980s, is viewed as presenting a Manichean notion of a negative state and a virtuous civil society in which all social groups and market actors are seen alike (Sader, 2006: 95-96). Second generation social movements reject any sharp separation and autonomy of state and civil society actors. In their vision, such a liberal standpoint needs to be eliminated in order to produce social and political actors capable of transforming the social, political, and economic life far beyond the limited scope of traditional parties and social organizations.

CONCLUSION: SOCIAL MOVEMENTS AND DEMOCRACY IN LATIN AMERICA

Despite their differences and rhetorical emphasis, there is no total rupture between first and second generation social movements. Nor can the second wave of social mobilization be seen as a simple continuation or evolution of the first. In the 2000s,

many movements coming from the first generation brought their initiatives and mobilization to the agendas posed by the second. However, first and second social movements act in different political contexts and seek distinct political objectives. In the 1980s, Latin American countries moving from authoritarian regimes struggled to consolidate democratic institutions in the midst of severe economic crises and governance troubles. By contrast, at the end of the 1990s, Latin America was home to wide social discontent at a time when neoliberal policies were unable to produce wealth and redistribution of resources and when confidence in liberal democratic institutions declined everywhere. First generation social movements put emphasis on citizens' rights, cultural recognition, and the institutionalization of electoral democracy; second generation social movements mobilized against neoliberal policies and capitalist globalization and even put in question representative democracy.

Different from first generation social movements, second generation actors include other variables and discourses. They seek to present a politico-ideological program and call for convergence with political and state actors in the process of dismantling neoliberalism. Furthermore, second generation movements see no problem in promoting a fusion of social and political agendas to produce distributive outcomes and to create a new democratic framework of direct participation. Another distinction between the first and the second generations of social movements has to do with their scope. While the first sought to influence national institutions, the second places its initiatives in national and global contexts. First generation movements developed multiple repertoires of cultural politics without grand narratives of social transformation, while second generation actors pursue broad transformation narratives of not only national but also global scope.

The differentiation of the social and political within the dynamics of second generation social movements is problematic since it tends to erode representative institutions much more than it sets in practice direct mechanisms of participation that might strengthen them. There is a tension between direct participation and representative democracy. If the former ends up replacing the second, some of the basic principles of representative government, such as the autonomy of civil society and the principle of political equality, can be threatened (Montúfar 2007: 237-238). That is a paradox that social mobilization and protest in Latin America has not been able to escape. Despite good news pointed out by Sousa Santos and Avritzer in the case of participatory budgeting experiences, other examples of fusion between social movements and political projects have ended with the collapse of the rule of law and representative institutions (Sousa Santos 2004; Avritzer 2002).

This raises pressing questions regarding the relationship between democracy and social movements in Latin America. Can social movements exert indirect influence over democratic institutions without succumbing to the temptation of becoming part of a party agenda or the dynamics of a state bureaucracy? It seems that civil

society in Latin America confronts an unavoidable dilemma: Social actors converge with political parties in shared political projects that can produce significant transformations but erode civil society autonomy, or they can maintain their differentiation with political society and the state while risking the possibility of producing a real transformation of society. Is the state the only arena of transformation or can civil society focus on the democratization of social relations, leaving the state to traditional representative actors?

Finally, the understanding of social movements cannot be separated from the intellectual and political agendas of specific academic groups. First generation social movements were studied within transition and consolidation theories that, by several means, aimed at the expansion of democracy and its institutions. Although there were different approaches, the study and conceptualization of first generation social movements noted their potential for deepening democracy and voicing the demands of under-represented groups. In addition, theorists of first generation social movements like Escobar, Álvarez, Hershberg, and Jelin wrote from the standpoint of a solid commitment to the democratization of everyday social relations as well as recognition of the political and cultural claims of actors such as human, indigenous, afro, and women's rights activists.

Second generation social movements, in contrast, come from distinct interpretative tools and aim at distinct political objectives. Broad national and global agendas opposed to neoliberal globalization established a new political interpretation of social mobilization and protest in Latin America. The key issue is the link, both at the conceptual and the political levels, between the initiatives of second generation movements and a political agenda of broad anti-globalization actors. The work of CLACSO was crucial for the regional dominance of this new interpretation of the trend. Its influence over contemporary Latin American social sciences has almost obliterated other perspectives for studying the endless richness and ingenuity of social protest and mobilization in the region.

In short, first and second generation social movements have not developed a simple and univocal relationship with democracy. Social mobilization and protest in Latin America has innovated democratic life at some junctures and challenged existing democratic institutions at others. Over the last three decades, social movements have created spaces for the extension of rights and the expansion of citizenship; they have been a factor in political tension and instability as well. In all cases, they have emerged as determinant force in the construction and transformation of Latin American democracies, a force that can be neither ignored nor overplayed to the point that it could erode democratic institutions.

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